

ASX: NSC

NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED

ABN 47 107 617 381

NSC generally invests in small-cap industrial companies with a market cap of \$100m-\$1b

MONTHLY INVESTMENT REPORT & NTA UPDATE

AS AT 31 MARCH 2021

Net Tangible Asset Value Breakdown

Pre Tax NTA	Post Tax & Pre Unrealised Gains Tax NTA	Post Tax NTA	Share Price	Number of Holdings	Cumulative Fully Franked Dividends	Fully Franked Dividend Yield
\$0.96	\$0.99	\$0.92	\$0.755	14	\$0.16	5.96%

Market Insight

The NSC Investment Portfolio returned +4.51% for the month of March, outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which increased by +0.79%. March was a significantly less eventful month relative to February which brought with it half year reporting for the entire investment portfolio. There were no significant negative detractors to portfolio performance in March, and four investments contributed more than 1% to the monthly return. The only notable event across the portfolio was the addition of two new investments which we believe in time could become core holdings, albeit they are both currently small positions due to liquidity constraints. The first quarter of CY21 has been highly volatile, not in terms of overall index movements, but more so due to the significant industry and style rotation we have seen recently. We would argue that this volatility has led to the mispricing of some businesses which we believe can generate significant compounding returns over the long term, and with substantially less downside risk than many of their counterparts.

Investment Portfolio Performance Monthly and FY Returns*

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY Total Return
FY21	+1.53%	+3.17%	-0.09%	+2.38%	+6.19%	+3.79%	+1.05%	+11.30%	+4.51%				+38.80%
FY20	-0.18%	+12.91%	+8.10%	+0.17%	-1.80%	-0.57%	+2.50%	-10.15%	-18.50%	-1.65%	+8.22%	+7.77%	+2.59%
FY19	-0.60%	+4.07%	-1.34%	-7.61%	-3.04%	-3.21%	+4.16%	-3.88%	+1.14%	+0.69%	-5.17%	+1.33%	-13.29%
FY18						+1.11%	-0.93%	-0.57%	+0.25%	-3.35%	-1.16%	+1.24%	-3.44%

*Investment Portfolio Performance is post all operating expenses, before fees, interest, taxes and capital raising costs. Performance has not been grossed up for franking credits received by shareholders.

In the case of the first of the new positions we have added to the portfolio, we believe this opportunity has arisen for two main reasons; the first of these is due to a founding shareholder selling a part of their holding at a sharp discount, and secondly the business being caught up the wider technology selloff despite having a maturity profile similar to other technology businesses that have operated in Australia for over 20 years. Regarding the second investment we have added, this opportunity has arisen in part for more directly company specific issues. The business acquired another listed entity in an all-scrip deal approximately 12 months ago, which resulted in a significant amount of new shareholders entering the register who may not have been keen to remain as shareholders of the new merged entity. To make matters worse the investment strategy of the business has not been as high conviction and simple/transparent as in previous years. This has arguably provided shareholders with enough motivation to leave the larger merged entity regardless of whether or not the business was over or undervalued at the time. Hopefully over the next few months we can add significantly to these investments and provide more detailed commentary on both positions.

Fully Franked Dividend Profile (Cents Per Share)

NSC aims to deliver shareholders a sustainable growing stream of fully franked quarterly dividends.



Conviction. Long Term. Aligned

NAOS

Investment
Beliefs



Value with
Long Term Growth



Quality over
Quantity



Invest for the
Long Term



Performance v
Liquidity Focus



Ignore the Index



Pure Exposure
to Industrials



Environmental,
Social and
Governance (ESG)



Management
Alignment



Constructive
Engagement

Market Insight Continued

In the previous investment update we spoke in detail about three of our core investments and their respective 1H FY21 results. One of the businesses which we did not touch on was Eureka Group Holdings (ASX: EGH) which was been one of the best performing NSC investments with a total return (including dividends) of +180% in 24 months. Clearly the market has re-rated EGH from what we have said for some time were undervalued levels based on basic metrics such as FCF yield and asset capitalisation rates. Even after this re-rating we firmly believe that the future for EGH has never been more promising, and hence we expect EGH to remain a core part of the NSC portfolio going forward. The asset class in which EGH operates remains one of the last real-estate sub-classes that has not been institutionalised. This provides EGH with a significant first mover advantage from an industry consolidation perspective to acquire and build new assets, and potentially the opportunity to implement a scalable strategy such as the funds management model employed by large real-estate players such as Dexus and Charter Hall, to generate scale in an efficient manner. If EGH can execute on such a model, then in our view the runway for future growth could last for at least another 5-7 years.

Core Investment Portfolio Examples



Over The Wire
ASX: OTW

Over The Wire is a founder led B2B provider for IT & telecommunication systems. OTW's purpose is to simplify technology to empower business through service offerings such as a national voice network, public cloud, PaaS/IaaS, cyber security services and on demand cloud connectivity.



Eureka Group
ASX: EGH

Eureka Group is a provider of quality and affordable rental accommodation for independent seniors within a community environment. EGH owns 30 villages and manages a further 9 villages with a total of 2,147 units across Queensland, Tasmania, South Australia, Victoria and New South Wales.



Big River
ASX: BRI

Big River is a large distributor of building material products as well as a manufacturer of high value niche timber products. Big River is an integrated Australian timber products business that operates across the full continuum from procurement of raw materials through to sale of finished products to end users which are then distributed across 21 sites across Australia and New Zealand.

Investment Portfolio Performance

	1 Month	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Inception (p.a.)	Inception (Total Return)
NSC Investment Portfolio Performance*	+4.51%	+32.63%	+59.21%	+17.37%	+6.09%	+5.42%	+19.22%
S&P/ASX Small Ordinaries Accumulation Index	+0.79%	+16.20%	+52.15%	+9.62%	+8.32%	+7.57%	+27.53%
Performance Relative to Benchmark	+3.72%	+16.43%	+7.06%	+7.75%	-2.23%	-2.15%	-8.31%

*Investment Portfolio Performance is post all operating expenses, before fees, interest, taxes and capital raising costs. Returns compounded for periods greater than 12 months. Performance has not been grossed up for franking credits received by shareholders. Inception performance (P.A. and Total Return) is from 1 December 2017.

Key Metrics – Summary Data

Weighted Average Market Capitalisation of the Investments	\$188.4 million
Cash Weighting	0.47%
Standard Deviation of Returns (NSC)	18.97%
Standard Deviation of Returns (XSOAI)	20.18%
Downside Deviation (NSC)	12.06%
Downside Deviation (XSOAI)	13.75%
Shares on Issue	154,462,253
NSC Directors Shareholding (Ordinary Shares)	2,269,338

NAOS Asset Management Giving Back

NAOS Asset Management Limited, the Investment Manager, donates approximately 1% of all management fees to the following charities.



Important Information: This material has been prepared by NAOS Asset Management Limited (ABN 23 107 624 126, AFSL 273529) (NAOS) as investment manager of the listed investment company referred to herein (Company). This material is provided for general information purposes only and must not be construed as investment advice. It does not take into account the investment objectives, financial situation or needs of any particular investor. Before making an investment decision, investors should consider obtaining professional investment advice that is tailored to their specific circumstances. Past performance is not necessarily indicative of future results and neither NAOS nor the Company guarantees the future performance of the Company, the amount or timing of any return from the Company, or that the investment objectives of the Company will be achieved. To the maximum extent permitted by law, NAOS and the Company disclaims all liability to any person relying on the information contained herein in relation to any loss or damage (including consequential loss or damage), however caused, which may be suffered directly or indirectly in respect of such information. This material must not be reproduced or disclosed, in whole or in part, without the prior written consent of NAOS.

Our Team

Chairman

Trevor Carroll
(Independent)

Directors

Warwick Evans
Sebastian Evans
David Rickards
(Independent)

Chief Investment Officer

Sebastian Evans

Portfolio Manager

Robert Miller

Chief Financial/ Operating Officer

Richard Preedy

Business Development Manager

Nina Dunn

Head of Legal and Compliance

Rajiv Sharma

Marketing & Communications Manager

Angela Zammit

Enquiries

(02) 9002 1576

enquiries@naos.com.au

www.naos.com.au

NAOS