

# NAOS Small Cap Opportunities Company Limited

ABN 47 107 617 381

## MONTHLY INVESTMENT REPORT AND NTA UPDATE

NAOS

### KEY CHARACTERISTICS

**1. Concentrated Small Cap Exposure with a Long Term Value Focus**  
NSC seeks to provide investors with exposure to high quality, undervalued small cap companies (market capitalisation generally >\$20 million to <\$1 billion) with an industrial bias in a concentrated structure.

**2. Sustainable Growing Dividend Stream**  
NSC aims to deliver shareholders with a sustainable growing stream of dividends franked to the maximum extent possible over the longer term.

**3. Focus on Quality of Companies Not Quantity or Size**  
Our primary focus is on developing a deep understanding and appreciation of the companies in our portfolio. We believe the best way to achieve this is to focus on a select number (target 0-30) of high quality investment ideas, in order to capitalise on our 'long term knowledge & liquidity advantage'.

**4. Portfolio Flexibility with a Benchmark Unaware Approach**  
This means we are not forced holders of stocks with large benchmark/index weightings that we are not convinced are attractive investment propositions.

**5. Significant Alignment of Interests with Shareholders**  
NAOS Directors have established initial shareholdings in NSC and intend to create meaningful positions, providing shareholders with a significant alignment of interests.

**6. Environmental, Social and Governance (ESG)** NAOS adopts an ESG screen across its investments.

### Net Tangible Asset Value Breakdown as at 30 November 2017

Pre Tax NTA:	\$1.03
Post Tax & Pre Unrealised Gains Tax NTA:	\$0.99
Post Tax NTA:	\$0.97
Share Price:	\$0.92

### Investment Portfolio Performance & Market Insight

Over the past six or so weeks the investment team of NAOS Asset Management Limited has been focused on consolidating the NSC investment portfolio into a concentrated group, of what we believe are undervalued small and micro-cap companies with an industrial bias. Pleasingly, the number of listed positions within the portfolio has been reduced to 23 positions with a cash balance of approximately 46%. First and foremost, it is the investment team's prerogative to protect our fellow shareholders capital and following this, as adequate investment opportunities arise that we believe offer excellent long-term risk adjusted returns we would expect the cash balance to reduce.

For investors to gain a greater understanding of the makeup of the NSC investment portfolio, we have detailed three new investments which are listed below. The purpose of this is to allow shareholders to gain an understanding of the type of business that NAOS invests in, and to also add further information around our investment thesis. The three new positions that we will elaborate on that were acquired in November are 360 Capital Group (ASX: TGP), Over the Wire (ASX: OTW) and Japara Healthcare (ASX: JHC). Two of these companies are very much value focused positions, whilst the other represents more of a sustainable growth position.

TGP is a real estate focused business that sold the majority of its funds management business in FY2017. TGP now has a focus on building a property funds management business, with the significant cash & liquid asset reserves (approximately \$220 million) they now have, but with lower capital risk due to the prices within the property asset class. TGP has initiated on this strategy through commencing lending activities within the property space, an opportunity that has arisen due to reduced competition from the banks and traditional lenders. TGP are also investing further funds into the listed property trust 360 Capital Return Fund, which will invest in strategic unlisted and listed opportunities. TGP also exhibits many of the hallmarks that NAOS looks for, such as a solid net cash balance sheet, significant alignment of interests with shareholders (the Managing Director owns approximately 29% of the issued capital), and finally an excellent track record of generating strong shareholder returns, which the TGP management team has demonstrated over recent years through tax effective distributions.

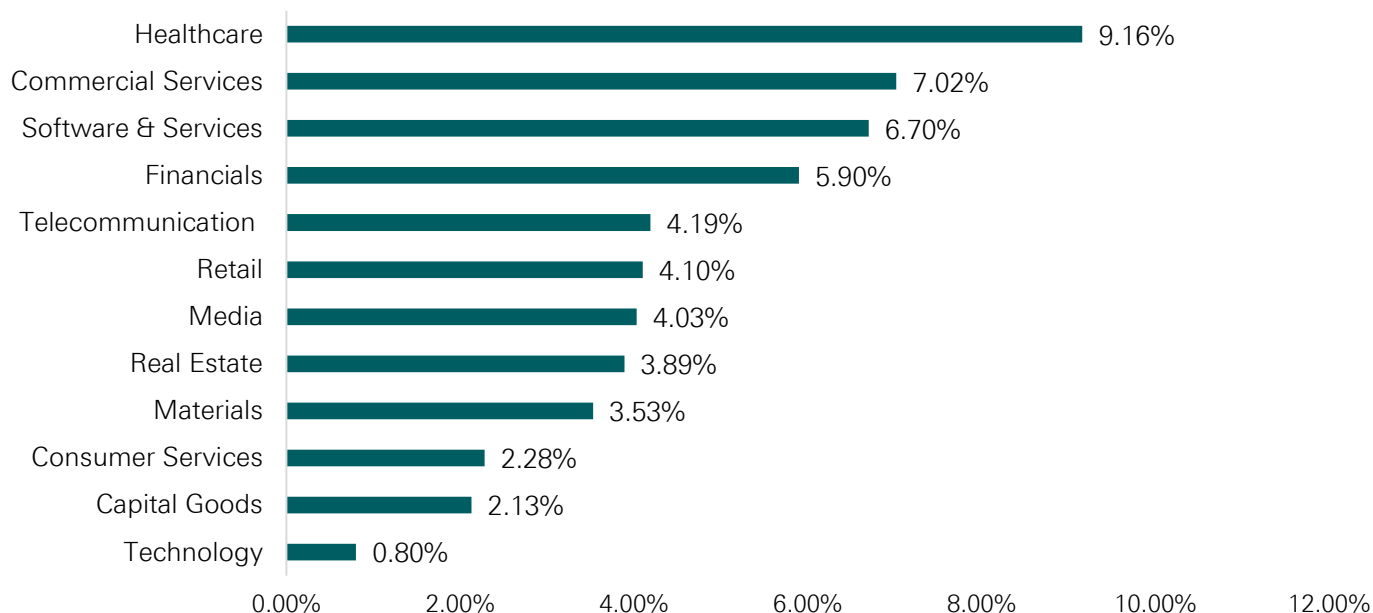
OTW is a telecommunications business with a core focus on providing data networks, cloud and managed services products, together with voice services to the small to medium business market that require a high level of customer support. OTW has a number of similar characteristics to MNF Group (ASX: MNF); it owns and operates its own voice and data network around Australia, it focuses on the SME space and the two founders own approximately 60% of the total issued capital. We see an opportunity in their ability to grow market share due to their customer centric offering in this space, coupled with a move away from traditional voice services.

Finally, JHC is one of Australia's largest private operators within the aged care and retirement industry. The aged care industry has gone through a significant amount of regulatory change over the past 24 months, which in turn has significantly affected the earnings base of many, if not all of the operators within the industry. What has not changed though is the industry tailwind, being that a increasing portion of the population will be moving into some form of aged care living over the next 10 years. JHC has little gearing and a significant development pipeline which can be funded internally, which we believe could provide meaningful earnings growth, albeit on a long-term investment horizon.

### Portfolio Positioning as at 30 November.

As at 30 November 2017, the portfolio's net equity exposure was 53.73% with a subsequent cash weighting of 46.27%. As at month end, the portfolio was comprised of 23 long positions and no short positions.

#### Net Industry Exposure



### Company Meetings

The NAOS investment philosophy is based around the belief that for a small-cap company to succeed and generate strong returns for shareholders it must be led by a motivated, proven and experienced management team. This is why the NAOS Investment Team has direct contact with many listed and unlisted emerging companies across a wide range of industries. A selection of the companies the team had contact with during the month were as follows:

- Over The Wire Ltd (OTW AU)
- Nearmap Ltd (NEA AU)
- Fiducian Group Ltd (FID AU)
- Ive Group Ltd (IGL AU)
- AMA Group Ltd (AMA AU)
- Service Stream Ltd (SSM AU)
- Big River Industries (BRI AU)
- Japara Healthcare (JHC AU)
- BSA Limited (BSA AU)
- RXP Services Ltd (RXP AU)

### Portfolio Characteristics – Summary Data as at 30 November 2017

Below are a number of historical portfolio risk measures we will provide, beginning from our monthly investment report for December 2017. Our aim in providing these metrics is to demonstrate to investors how NSC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and to also preserve investors' capital. A glossary of the terms used below and the method used for calculating them can be found on the last page of this report.

Portfolio Weighted Average Market Capitalisation	\$297.9 million
Percentage of Positive Months (NSC)	N/A
Percentage of Positive Months (XSOAI)	N/A
Standard Deviation of Returns (NSC)	N/A
Standard Deviation of Returns (XSOAI)	N/A
Correlation of Returns to XSOAI	N/A
Sortino Ratio	N/A
Downside Deviation (NSC)	N/A
Downside Deviation (XSOAI)	N/A
Current Estimated Portfolio Beta (6 Month Historical)	0.32

### Capital Structure – Summary Data as at 30 November 2017

Share Price	\$0.92
Premium/(Discount) to NTA (Pre-Tax)	(-10.68%)
Shares on Issue	168,995,806
NSC Directors Shareholding (Ordinary Shares)	155,400
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	\$100.10

### A Description of Statistical Terms/Glossary

**Portfolio Average Market Capitalisation** – The portfolio weight of each individual position multiplied by each company's respective market capitalisation.

**Standard Deviation of Returns** – A historical analysis of the volatility in monthly returns also known as historical volatility.

**Correlation of Returns** – A statistical measure of how two variables move in relation to each other. In this case the two variables are NSC and XSOAI. If the correlation is 1 then the two securities should have the same monthly returns and if the correlation is -1 and XSOAI had a return of -1.00% then NSC would be expected to have a return of +1.00%

**Sortino Ratio** – A modification of the Sharpe ratio that differentiates harmful volatility from general volatility by taking into account the standard deviation of negative asset returns, called downside deviation. A large Sortino Ratio may potentially indicate that there is a low probability of a large capital loss. Returns less than that of the benchmark (Small Ordinaries Accumulation Index - XSOAI) are classified as negative asset returns.

**Downside Deviation** - A measure of downside risk that focuses on returns that fall below a minimum threshold or minimum acceptable return (MAR). For our calculations, we use returns negative to zero for the calculation of portfolio downside deviation.

**Portfolio Beta** – A measure of the volatility, or systematic risk of a portfolio or security. A beta of 1 indicates a portfolio/security's price will move with the market. A beta of less than 1 indicated that a security/portfolio should be less volatile than the market.

**XSOAI** – Small Ordinaries Accumulation Index

#### Important Information:

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#### CORPORATE DIRECTORY

##### Directors

Trevor Carroll (Independent Chairman)  
Adrian Fitzpatrick (Director)  
Ken Poutakidis (Director)  
Warwick Evans (Director)  
Sebastian Evans (Director)

##### Company Secretary

Rajiv Sharma

##### Registered Office

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19 Martin Place  
Sydney NSW 2000

##### Share Registry

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##### Investment Manager

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19 Martin Place  
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(AFSL: 273529)

##### Investment Team

Sebastian Evans (Chief Investment Officer)  
Jeffrey Kim (Portfolio Manager)  
Robert Miller (Portfolio Manager)  
Ben Rundle (Portfolio Manager)  
Chadd Knights (Investment Analyst)

##### Chief Financial/Operating Officer

Richard Preedy

##### Senior Legal Counsel

Rajiv Sharma

##### Communications & Marketing

Megan Walker

##### Business Development Manager

Julia Stanistreet

#### ENQUIRIES

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