

NAOS Small Cap Opportunities Company (NSC)

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 >\$100 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. NSC can also hold up to 100% cash. It has been proven that holding cash offers the 'best hedge' during times of crisis.

5. Significant Alignment of Interests with Shareholders

NAOS directors and employees (including related parties) own over 1.3 million NSC shares, 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 April 2018

Pre Tax NTA:	\$0.95
Post Tax & Pre Unrealised Gains Tax NTA:	\$0.91
Post Tax NTA:	\$0.90
Share Price:	\$0.87

Investment Portfolio Performance & Market Insight

The NSC Investment Portfolio produced a return of -3.35% for the month of April, compared to the Benchmark S&P/ASX Small Ordinaries Accumulation Index ('XSOAI') which returned +2.75%. After finally gaining some significant outperformance in March, frustratingly all of this plus more was given back in April. The negative performance can be attributed in the main to the following three positions; MNF Group (ASX: MNF) -1.46%, MotorCycle Holdings (ASX: MTO) -0.93% and Japara Healthcare (ASX: JHC) -0.41%. The only positive to come from the above was that there was no stock specific news on any of these holdings, yet all managed to close at their monthly trading range lows at the end of April. Whilst short-term fluctuations in share price to the downside are disappointing, we take comfort from the fact that we do not believe any of the fundamental drivers to our valuations of these businesses have changed.

The Investment Portfolio now comprises 12 positions, all of which the investment team now consider to be core long term positions. One position which has developed into a core position more recently is MTO. MTO is the largest distributor of new & used motorcycles in Australia, in addition to providing wholesale and retail distribution for parts and accessories, and also services and repairs through its distribution network. MTO listed in mid-2016, but was originally founded in 1989 with the current Managing Director David Ahmet co-founding the business with the acquisition of their first site.

MTO has been a classic example of what was initially a market darling business with strong short-term growth aspirations, which fed into an over-inflated P/E multiple which at one stage reached over 21 times back in FY17. Since then the share price has fallen from around \$5.20 to \$3.15 without the release of a formal profit downgrade. We believe several factors have driven this decrease in share price, including: a softer nationwide motorcycle sales backdrop, weaker Harley Davidson sales led by poor take-up of new product releases, and finally we believe MTO will not be a significant acquirer of businesses over the short to medium term as they focus on the integration of the recent Cassons acquisition. However, taking a long-term view, we believe that a highly aligned and proven management team which recently acquired a significant amount of shares, a dominant position across much of the motorcycle sales industry, and finally the fact that the business has historically produced significant free cash flow should ultimately lead to dividend and capital growth for shareholders over a 3-5 year view.

	1 Month	3 Month	Inception (nom.)
NSC Investment Portfolio Performance*	-3.35%	-3.65%	-3.49%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	+2.75%	+0.44%	+3.08%
Outperformance Relative to Benchmark	-6.10%	-4.09%	-6.57%

* Investment Portfolio performance is post all operating expenses, before fees, taxes and interest. Performance has not been grossed up for franking credits received by shareholders. Inception performance (p.a. and nom) is from 1 December 2017.

Positive Stock Contribution Analysis

(Contribution is what has attributed to NSC's performance since 1 December 2017)

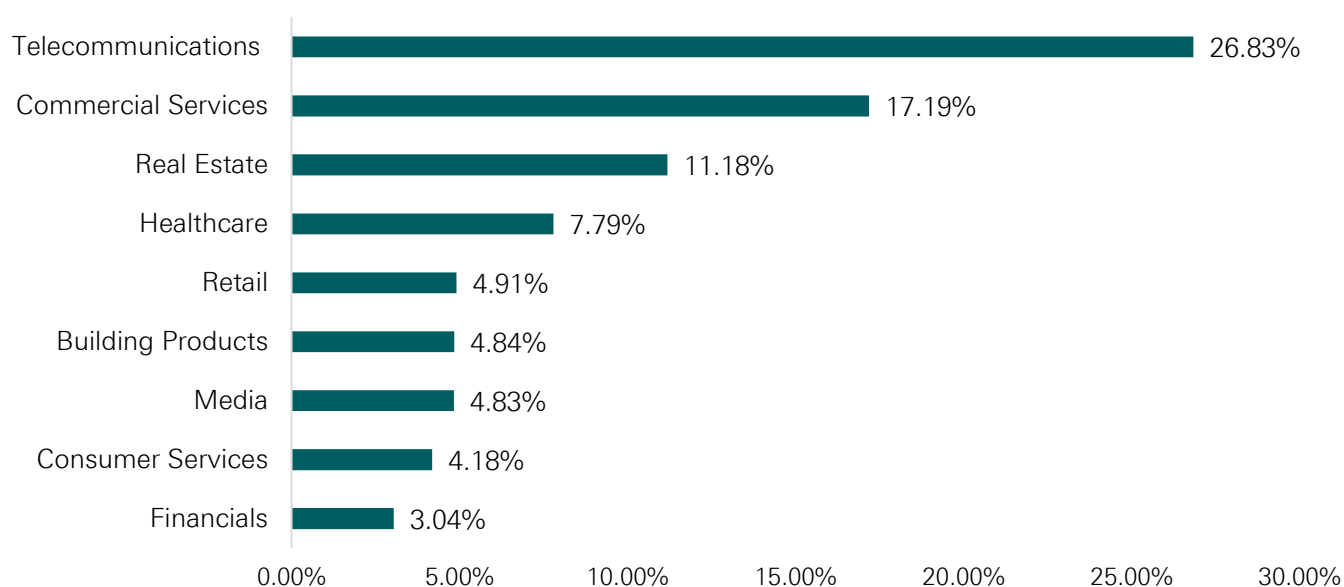
The table below lists the top positive contributors to NSC's total return since 1 December 2017. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio of investments that is generally limited to 0-30 securities at any one time. We will disclose securities in which NSC has a current substantial holding, or when we have exited the position.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
Service Stream Ltd	+1.51%	Australian Ethical Investment Ltd	+0.19%
360 Capital Group Ltd	+0.74%	Pro Medicus Ltd	+0.13%
Over The Wire Ltd	+0.34%	Enero Group Ltd	+0.12%
360 Capital Total Return Fund	+0.30%	Oceania Healthcare Ltd	+0.03%

Portfolio Positioning as at 30 April 2018

As at 30 April 2018, the portfolio's net equity exposure was 84.79% with a subsequent cash weighting of 15.21%. As at month end, the portfolio was comprised of 12 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:

- MotorCycle Holdings Ltd (MTO AU)
- RedFlow Ltd (RFX AU)
- 360 Capital Group Ltd (TGP AU)
- People Infrastructure Ltd (PPE AU)
- Helloworld Travel Ltd (HLO AU)
- Audinate Group Ltd (AD8 AU)
- AMA Group (AMA AU)
- Enero Group Ltd (EGG AU)
- MNF Group Ltd (MNF AU)
- Freedom Insurance Group Ltd (FIG AU)

Portfolio Characteristics – Summary Data as at 30 April 2018

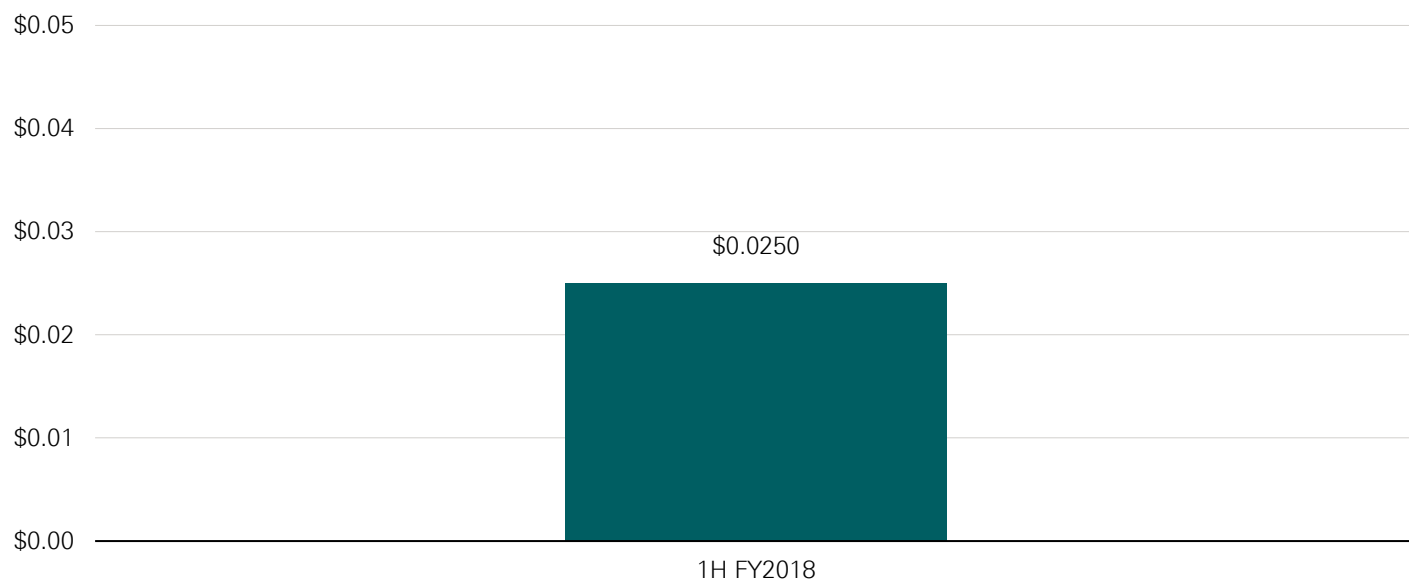
Below are a number of historical portfolio risk measures calculated from 1 December 2017. Our aim in providing these metrics is to demonstrate to investors how NSC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and to also preserve investors' 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.

Average Market Capitalisation of the Portfolio's Equity Holdings	\$342.5 million
Percentage of Positive Months (NSC)	40%
Percentage of Positive Months (XSOAI)	60%
Standard Deviation of Returns (NSC)	-
Standard Deviation of Returns (XSOAI)	-
Correlation of Returns to XSOAI	-
Sortino Ratio	-
Downside Deviation (NSC)	-
Downside Deviation (XSOAI)	-
Current Estimated Portfolio Beta (6 Month Historical)	0.22

Capital Structure – Summary Data as at 30 April 2018

Share Price	\$0.87
Premium/(Discount) to NTA (Pre-Tax)	(-8.42%)
Shares on Issue	168,995,806
NSC Directors Shareholding (Ordinary Shares)	1,344,880
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	\$100.00

Dividend Profile – Fully Franked Dividends (Cents per share)



A Description of Statistical Terms/Glossary

Average Market Capitalisation of the Portfolio's Equity Holdings – The sum of, the percentage of each individual position relative to the total value of all Equity Holdings multiplied by each company's respective market capitalisation (Cash and Income/Debt securities are excluded).

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 (S&P/ASX 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 – S&P/ASX Small Ordinaries Accumulation Index

Important Information:

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Sebastian Evans (Director)

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