

## MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 31 AUGUST 2018

## NET TANGIBLE ASSET VALUE BREAKDOWN

PRE TAX NTA	POST TAX & PRE UNREALISED GAINS TAX NTA	POST TAX NTA	SHARE PRICE	PREMIUM/ (DISCOUNT) TO NTA (PRE TAX)	FULLY FRANKED DIVIDEND YIELD
\$0.96	\$0.97	\$0.94	\$0.875	(8.85%)	6.29%

The above NTA figures includes the 3.0 cents per share fully franked FY18 final dividend, which went ex-dividend on 3 September 2018 and will be paid on 19 September 2018.

## MARKET INSIGHT

The end of August brought with it the end of the first full year reporting season since NAOS began as investment manager of NAOS Small Cap Opportunities Company (ASX: NSC). It was pleasing to see a number of core holdings which we have accumulated over the past 9 months report ahead of market expectations, which resulted in the investment portfolio producing a monthly return of +4.07%, outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which continued its elevator like rise, increasing by +2.49% in August.

The most important point to come out of reporting season was that none of the NSC investments provided a significantly negative update, meaning no position produced any meaningful negative impact on performance over the month. On the flip side there were several investments that provided not only positive full year results, but results that were also ahead of wider market expectations. We will expand on a couple of these investments below.

The clear standout performer by share price movement in August was Over The Wire (ASX: OTW). The share price of OTW increased by over 25% to finish August at \$4.69, which is no mean feat when you consider OTW listed at \$1.00 just over 4 years ago and is a business that competes in an industry where many of its competitors have seen their earnings come under pressure over the same time period. OTW has a strong cultural focus of providing customers with quality solutions and best-in-class customer service, and this once again led to their business generating over 20% in organic revenue growth. More impressively, OTW also provided guidance detailing a further 20% organic revenue growth for FY19. The market dynamics of many Australian SMEs looking for a quality one-stop service provider for all of their cybersecurity, data network, cloud managed services and telecommunication needs is a clear point of difference for OTW, and one we believe will allow them to grow both organically and through acquisitions to further complement their current product offering for a number of years.

The other standout result came from integrated advertising & communication services firm Eneo Group (ASX: EGG). EGG reported an EBITDA increase of over +29% as its long-term strategy of slimming down the business, focusing on service offerings that are not commoditised; and providing long-term value to the end client started to bear fruit. As was evident from the full year result, the 2<sup>nd</sup> half of FY18 was exceptionally strong and we believe this provides EGG with the platform to again grow earnings significantly in FY19. This should allow the valuation multiple to increase as the market starts to gain a greater understanding of the EGG portfolio of businesses, and the opportunities provided by many of their clients being large multinational firms. As was the case with OTW, EGG also produced excellent cash flow generation which leaves the balance sheet in a net cash position in FY19 and provides flexibility to re-invest in their own business or supplement this through internally funded acquisitions.

## INVESTMENT PORTFOLIO PERFORMANCE

	1 MONTH	3 MONTH	6 MONTH	INCEPTION (NOM.)
NSC Investment Portfolio Performance*	+4.07%	+4.73%	+0.30%	-0.10%
S&P/ASX Small Ordinaries Accumulation Index	+2.49%	+2.53%	+6.75%	+9.60%
<b>Outperformance Relative to Benchmark</b>	<b>+1.58%</b>	<b>+2.20%</b>	<b>-6.45%</b>	<b>-9.70%</b>

\* 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.

## INVESTMENT BELIEFS

VALUE WITH LONG  
TERM GROWTHQUALITY OVER  
QUANTITYINVEST FOR THE  
LONG TERMPERFORMANCE V  
LIQUIDITY FOCUS

IGNORE THE INDEX

PURE EXPOSURE TO  
INDUSTRIALSENVIRONMENTAL,  
SOCIAL AND  
GOVERNANCE (ESG)MANAGEMENT  
ALIGNMENT

## FY18 DIVIDEND PROFILE (CENTS PER SHARE)

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



## STOCK CONTRIBUTION ANALYSIS

The table below lists the top 5 positive stock contributors to the investment portfolio since inception.

TOP 5 POSITIVE CONTRIBUTORS	CONTRIBUTION TO RETURN (%NAV)
Over The Wire Limited (ASX: OTW)	+2.91%
Consolidated Operations Group Limited (ASX: COG)	+1.74%
Service Stream Limited (ASX: SSM)	+1.51%
Enero Group Limited (ASX: EGG)	+1.19%
360 Capital Total Return Fund (ASX: TOT)	+0.92%

## KEY METRICS – SUMMARY DATA

Weighted Average Market Capitalisation of the Investments	\$232.4 million
Number of Holdings	11 Long Positions
Cash Weighting	4.33%
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	\$101.05
Shares on Issue	168,995,806
NSC Directors Shareholding (Ordinary Shares)	1,893,880

## INVESTMENT PORTFOLIO PERFORMANCE MONTHLY RETURNS\*

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
FY19	-0.60%	+4.07%										
FY18						+1.11%	-0.93%	-0.57%	+0.25%	-3.35%	-1.16%	+1.24%

\* 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.

NAOS

## OUR TEAM

Chairman

Trevor Carroll (Independent)

Directors

Warwick Evans

Sebastian Evans

David Rickards (Independent)

Company Secretary/

Senior Legal Counsel

Rajiv Sharma

Chief Investment Officer

Sebastian Evans

Portfolio Managers

Robert Miller

Ben Rundle

Investment Analyst

Rachel Folder

Chief Financial/

Operating Officer

Richard Preedy

Business Development

Manager

Julia Stanistreet

Communications

& Marketing

Megan Walker

Distribution &

Sales Manager

Scott Hildebrand

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