

# MONTHLY INVESTMENT REPORT & NTA UPDATE

## AS AT 31 AUGUST 2020

### 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
\$0.71	\$0.75	\$0.75	\$0.58	10	\$0.135	6.90%

The above NTA figures are exclusive of the 1.00 cent per share fully franked Q4 FY20 dividend, which went ex-dividend on 31 August 2020 and will be paid on 16 September 2020

### Market Insight

The NSC Investment Portfolio returned +3.17% for the month of August, compared to the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which posted a positive monthly return of +7.24%, well above its larger counterpart the S&P/ASX 200 Accumulation Index (XJOAI) which returned +2.83%. August was particularly informative with all holdings of the NSC investment portfolio apart from one releasing their FY20 results, and in some cases providing a broad outlook for FY21.

The most notable positive contributors to performance for August were Consolidated Operations Group (ASX: COG), which finally announced a maiden dividend; Eureka Group Holdings (ASX: EGH) which surpassed market expectations and resumed its earnings growth momentum; and Over The Wire (ASX: OTW) which announced an acquisition and reported a very strong trading result for 2HFY20. These three positions provided a total positive contribution of over +5.50%. Offsetting these gains were BSA Limited (ASX: BSA) and MNF Group (ASX: MNF) which had a combined negative contribution of -3.50% for the month. Although the monthly performance could have been better it was pleasing to see that all positions reported sound results with no significant negative events or disappointing outlook statements for FY21. Importantly, all investments reported strong liquidity positions which we believe will further improve going forward or provide the necessary flexibility for capex requirements or potential acquisitions.

### 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%											+4.74%
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%

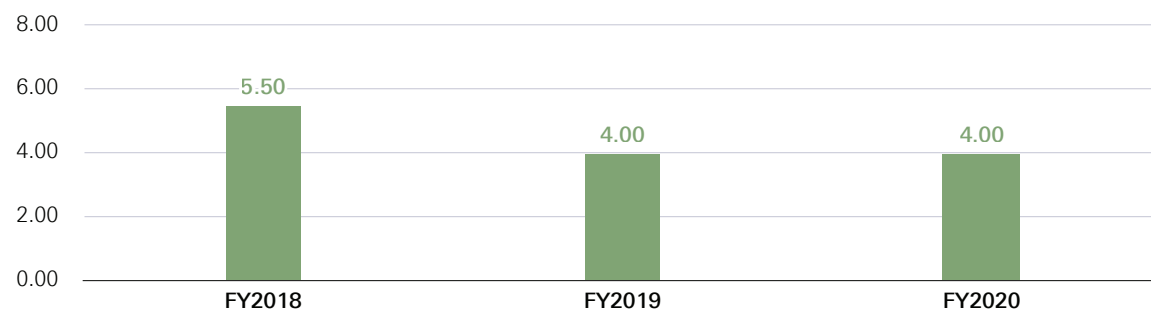
\* Investment Portfolio Performance is post all operating expenses, before fees, taxes and interest. Performance has not been grossed up for franking credits received by shareholders.

Potentially the most notable announcement in August came from OTW. They announced the acquisition of the Australian and New Zealand voice businesses of J2 Global Inc (NASDAQ: JCOM), together with their FY20 results which confirmed the business had continued to grow organically and that EBITDA margins had recovered post their dip in 1HFY20.

The acquired J2 Global assets are strategic for OTW for one notable reason, in that they offer inbound voice services, whereby the current OTW voice offering is predominantly outbound. Theoretically, if you have a relationship selling inbound voice services to a corporation it should be easier to additionally secure the outbound services by leveraging the long-standing relationship via the sticky inbound services. To quantify this opportunity OTW is bringing on another 9,000+

### 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

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

customers in addition to their existing customer base of 5,000+ customers, and will include the likes of Officeworks in their expanded client list. As OTW becomes a larger business their ability to continually grow organically at 10-15% p.a. will depend on successfully managing both larger clients and an expanded client portfolio, and capitalising on cross-selling opportunities to this expanded client base. Even though this acquisition is accretive from day one we believe the true potential will only be known in 2-3 years' time as to whether OTW can continue to grow at 15% annually whilst maintaining >20% EBITDA margins.

From a share price perspective, BSA delivered the most negative outcome of the reporting season. In our view the result was reasonable, and BSA also stated they expect to grow earnings into FY21, without stating at what rate. We believe BSA has significant potential going forward and is presently being valued by the market on a forward EV/EBIT multiple of just 3 times. For a business that has 80% of its revenue as recurring, together with a net cash balance that is equal to over 25% of the market cap, we believe BSA is significantly undervalued. In our view, the catalysts that will help realise this value could include a long-term extension of the NBN OMMA agreement, large client wins with businesses such as Telstra, successful entry into the mobile/wireless industry, and further capital management initiatives.

## Core Investment Portfolio Examples

			
<b>MNF Group</b> ASX: MNF	<b>Over The Wire</b> ASX: OTW	<b>Eureka Group</b> ASX: EGH	<b>BSA</b> ASX: BSA
<p>MNF is a founder led software company, which specialises in proprietary digital network infrastructure for voice communications. With 'next generation' networks in Australia, NZ and Singapore, MNF provides voice carriage and value-added software services to some of the world's largest software companies and wants to expand further into the APAC region.</p>	<p>Over The Wire is a founder led B2B provider for IT &amp; 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.</p>	<p>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.</p>	<p>BSA is a solutions focussed technical services organisation. BSA assist clients in implementing their physical assets, needs and goals in the areas of Building Services, Infrastructure and Telecommunication. BSA clients include National Broadband Network (NBN), Aldi Supermarkets, Foxtel and the Fiona Stanley Hospital.</p>

## Investment Portfolio Performance

	1 Month	6 Months	1 Year	2 Years	Inception (p.a.)	Inception (Total Return)
<b>NSC Investment Portfolio Performance*</b>	+3.17%	-2.08%	-4.66%	-5.09%	-3.77%	-10.03%
<b>S&amp;P/ASX Small Ordinaries Accumulation Index</b>	+7.24%	+4.58%	+2.07%	+1.50%	+4.52%	+12.93%
<b>Performance Relative to Benchmark</b>	-4.07%	-6.66%	-6.73%	-6.59%	-8.29%	-22.96%

\* Investment Portfolio Performance is post all operating expenses, before fees, taxes and interest. 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	\$180.9 million
Cash Weighting	1.25%
Standard Deviation of Returns (NSC)	19.12%
Standard Deviation of Returns (XSOAI)	21.29%
Downside Deviation (NSC)	12.99%
Downside Deviation (XSOAI)	14.94%
Shares on Issue	157,905,631
NSC Directors Shareholding (Ordinary Shares)	2,213,910

## NAOS Asset Management Giving Back

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

		
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**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. This announcement has been authorised for release to the ASX by the Board of Directors of NAOS Small Cap Opportunities Company Limited.

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(Independent)

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Sebastian Evans

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### Chief Financial/ Operating Officer

Richard Preedy

### Business Development Manager

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