

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 30 APRIL 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
\$1.02	\$1.05	\$0.96	\$0.79	11	\$0.1725	6.01%

The above NTA figures are exclusive of the 1.25 cents per share fully franked Q3 FY21 dividend, which went ex-dividend on 30 April 2021 and will be paid on 26 May 2021.

Market Insight

The NSC Investment Portfolio returned +6.33% for the month of April, outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which increased by +4.98%. The performance for the month of April was driven by a number of the core investments such as Big River Industries (ASX: BRI), Over The Wire (ASX: OTW) and COG Financial Services (ASX: COG), but importantly there were no significant detractors to portfolio performance. From a news flow perspective April was a relatively quiet month with only COG providing an update of any significance. We continued to add to two new investments which we mentioned last month and continued searching for any significantly mispriced opportunities that may eventuate from the recent structural rotation within the wider stock market. Over the past few months there has been no shortage of such businesses with examples such as Nuix (ASX: NXL) which just 10 months ago raised >\$1 billion and was considered one of the highest quality businesses to list on the ASX, yet today sits well under its IPO price. Another example is Service Stream (ASX: SSM) which has been a great investment across our portfolios in prior years but has recently seen its share price decrease from ~\$2.80 to ~\$1.00 as a result of a significant transition in its earnings profile yet may present a sound longer term opportunity.

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%	+6.33%			+47.59%
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.

As mentioned above COG provided a trading update for Q3 FY21 and reported Q3 NPATA of \$4 million, and \$14.1 million YTD which is close to 3 times the YTD NPATA produced in FY20. Clearly COG is a direct beneficiary of the significant investment from many Australian businesses expanding or upgrading their current asset base. Even though the absolute profit figures for COG have increased significantly, we would argue that the quality of the earnings has also increased at a greater rate. COG now generates most of its revenue through originating finance for its customers, insurance broking to these customers, and in a few cases even providing finance to these customers, albeit not through their own capital base but via their Managed Investment and Debenture Schemes. This sets COG apart from the general finance industry as it is a very capital light model and more akin to the broking and distribution businesses of Steadfast (ASX: SDF) and Mortgage Choice (ASX: MOC).

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

Interestingly, MOC recently received a takeover offer from leading digital business REA Group (ASX: REA) at a significant premium to the last traded price. For us this highlights the true value of any financial services business that has the power of distribution as opposed to capital intensive financial products. Looking forward, COG will continue to acquire brokers and cement its position as Australia's largest finance broking and aggregation business with the short-term goal of ~30% market share. From an earnings perspective we believe the organic growth potential within the business has never been stronger, mainly due to the potential to grow the insurance broking revenue. With a dedicated executive now in place to drive this strategy the potential for insurance broking earnings to top that of finance broking earnings over the next 5-years is not out of the question. When you consider that finance brokers are the trusted advisors for many large and successful small to medium businesses there will be no time lag to develop customer relationships, but success will be heavily dependent on COG's insurance offering and service levels. However, if COG can successfully execute on this strategy, then the wider market may value every \$1 of profit from insurance broking at >20 times as is the case with SDF, as opposed to the <11 times at which it currently values COG's finance broking profit.

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*	+6.33%	+37.75%	+72.13%	+20.61%	+9.52%	+7.20%	+26.77%
S&P/ASX Small Ordinaries Accumulation Index	+4.98%	+21.44%	+39.78%	+10.07%	+9.10%	+8.92%	+33.88%
Performance Relative to Benchmark	+1.35%	+16.31%	+32.35%	+10.54%	+0.42%	-1.72%	-7.11%

*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	\$194.9 million
Cash Weighting	0.70%
Standard Deviation of Returns (NSC)	18.98%
Standard Deviation of Returns (XSOAI)	20.06%
Downside Deviation (NSC)	11.94%
Downside Deviation (XSOAI)	13.60%
Shares on Issue	154,327,899
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.



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