

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 31 MAY 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
\$1.09	\$1.11	\$1.02	\$0.875	9	\$0.1725	5.43%

Market Insight

The NSC Investment Portfolio returned +6.52% for the month of May, outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which increased by just +0.27%. From an investment portfolio perspective this brings the NSC performance to +8.96% p.a. and pleasingly the portfolio has outperformed the benchmark XSOAI over 1 year, 2 year, 3 year and inception time periods for the first time since its inception. The main contributors to monthly performance were Big River Industries (ASX: BRI) and COG Financial Services (ASX: COG) which increased by ~+27% and ~+13% respectively, the main detractor was Eneo Group (ASX: EGG), which fell by ~-14% in the month. From a news flow perspective Over the Wire (ASX: OTW) announced they have become a tier 1 voice carrier network, and we significantly reduced our holding in EGG.

Investment Portfolio Performance Monthly and FY Returns*

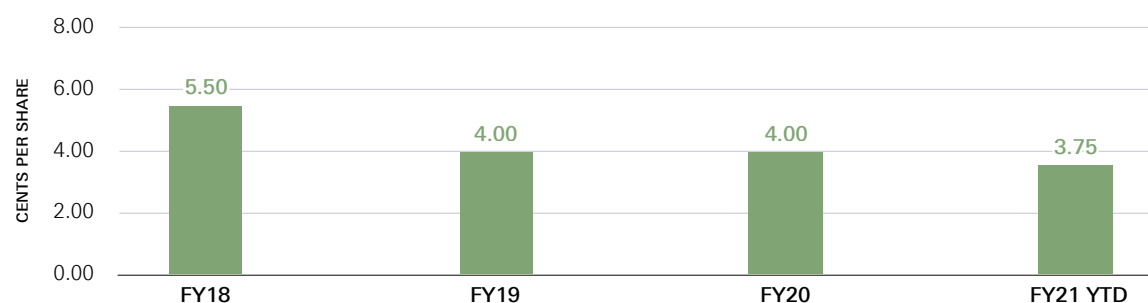
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY Total Return
FY21	+1.53%	+3.17%	-0.09%	+2.38%	+6.19%	+3.79%	+1.05%	+11.30%	+4.51%	6.33%	+6.52%		+57.20%
FY20	-0.18%	+12.91%	+8.10%	+0.17%	-1.80%	-0.57%	+2.50%	-10.15%	-18.50%	-1.65%	+8.22%	+7.77%	+2.59%
FY19	-0.60%	+4.07%	-1.34%	-7.61%	-3.04%	-3.21%	+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.

NSC sold a significant portion of its holding in EGG, which has been one of our best returning investments since inception of the investment portfolio and has been a holding across NAOS portfolios for over 8 years. As an NSC investment the EGG share price has appreciated from roughly \$1.00 to \$2.80 and has also paid over 20cps of fully franked dividends. Over recent times EGG has seen its profitability margins rise to levels that are almost unheard of in the world of advertising agencies and completed 3 complementary and well-run acquisitions in Australia, US and the UK. We would argue that people are the ultimate drivers of these businesses, and they tend to feed off the momentum that they currently have. From a momentum perspective it would be hard for EGG to be in any better place as they have a fantastic group of clients across numerous geographies and business units. Having said that, over the past 12-18 months a significant amount of key staff churn has occurred with the Chairman, CEO and CFO all departing the business. EGG has also been the beneficiary of a very low tax rate coupled with a significant net cash balance sheet which has allowed it to internally fund acquisitions. Going forward we believe EGG will have fully utilised their tax losses which will provide an earnings headwind at the NPAT level and the ability to internally fund acquisitions that can move the dial on a larger EBITDA base has also reduced. As such, we believe from a risk reward perspective the outcome is balanced at best and even though we believe the short-term prospects for the business are sound, in the world of advertising and PR things can change at very short notice.

Fully Franked Dividend Profile (Cents Per Share)

NSC aims to deliver shareholders a sustainable growing stream of dividends, franked to the maximum extent possible.



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

OTW announced they have become a nationwide tier 1 voice carrier network, a significant milestone which puts OTW alongside Telstra, Optus, TPG, Vocus & MNF Group as a tier 1 network carrier. Given the high barriers to entry in becoming a tier 1 voice carrier and large addressable market, we believe this has increased OTW's overall competitive advantage.

Having their own network has the potential to provide OTW with numerous strategic benefits. Firstly, OTW could shift their existing customers' traffic from other networks onto their own network and enjoy cost savings. Secondly, opportunities exist for revenue synergies through the customer base of their Fonebox/Zintel division as the majority of these 9,000 customers currently buy voice traffic from other providers. Thirdly, the global shift to VoIP will open up new short/medium/long customer opportunities that were potentially not available beforehand, namely amongst the high growth UCaaS, CPaaS and CCaaS companies who look to partner with best of breed voice networks to host their voice traffic.

Core Investment Portfolio Examples

		
Over The Wire ASX: OTW	Eureka Group ASX: EGH	Big River ASX: BRI
<p>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.</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>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.</p>

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*	+6.52%	+38.18%	+69.42%	+27.81%	+12.28%	+8.96%	+35.03%
S&P/ASX Small Ordinaries Accumulation Index	+0.27%	+10.42%	+26.73%	+10.92%	+7.89%	+8.78%	+34.24%
Performance Relative to Benchmark	+6.25%	+27.76%	+42.69%	+16.89%	+4.39%	+0.18%	+0.79%


*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	\$178.7 million
Cash Weighting	8.63%
Standard Deviation of Returns (NSC)	19.00%
Standard Deviation of Returns (XSOAI)	19.82%
Downside Deviation (NSC)	11.83%
Downside Deviation (XSOAI)	13.46%
Shares on Issue	153,944,459
NSC Directors Shareholding (Ordinary Shares)	2,285,956

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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