

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 DECEMBER 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
\$1.12	\$1.11	\$1.03	\$0.885	11	\$0.1975	5.65%

Market Insight

For the month of December, the NSC investment portfolio produced a positive return of +3.89%, outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index return of +1.41%. From a contribution perspective it was a relatively benign month with the top contributors being COG Financial Services (ASX: COG) and Gentrack Group (ASX: GTK), both of which contributed >1% to portfolio performance. The only detractor of any significance was again BSA Limited (ASX: BSA) but as with COG and GTK there was no news flow of any significance. Importantly, a number of new investments have been made over the past few months, which we discuss below.

Investment Portfolio Performance Monthly and FY Returns*

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY Total Return
FY22	-0.68%	-0.18%	-0.77%	+4.15%	-2.17%	+3.89%							+4.14%
FY21	+1.53%	+3.17%	-0.09%	+2.38%	+6.19%	+4.25%	+1.05%	+11.30%	+4.51%	6.33%	+6.52%	+0.32%	+58.40%
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%

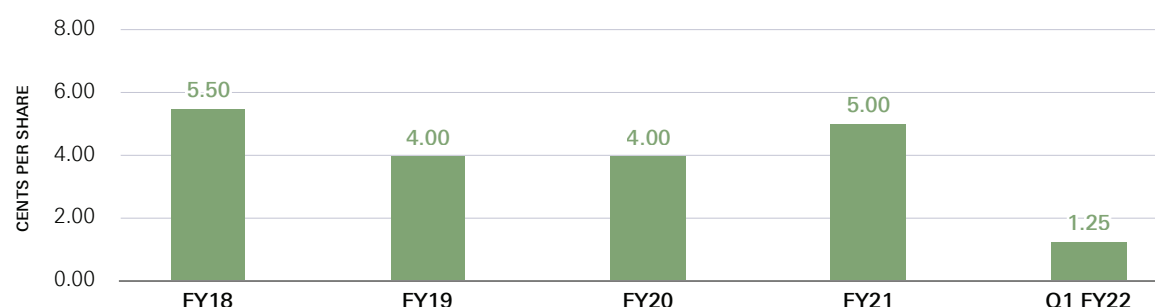
*Investment Portfolio Performance is post all operating expenses, before fees, interest, taxes and capital raising costs. Performance has not been grossed up for franking credits received by shareholders.

MXI was added to the NSC Investment Portfolio in December after being on our watchlist for several years. MXI was originally a manufacturer of truck trailers and over time has built up a parts distribution business to support the client relationships that had been developed via selling trailers. More recently the underperforming and highly capital-intensive trailer manufacturing business was divested with the proceeds split between paying a special dividend to shareholders as well as supporting the MaxiParts business, which would remain as a listed entity. We believe that over the next 3-5 years the prospects for MXI to grow at a reasonable rate are excellent as the market is highly fragmented with the three largest players holding ~30% market share. There should also be significant potential for MXI to grow its margins as it gains scale and diversifies, and the demand prospects for truck parts should also be relatively healthy given the global shortage of new trucks due to supply chain constraints. The investment is not without risk, but as fellow listed truck and bus part distributor Supply Network Ltd (ASX: SNL) has shown, if MXI can execute on their strategy then the valuation outcome could be significant.

Move Logistics (NZX: MOV) became the first solely New Zealand listed business to be part of the NSC investment portfolio, and is already a core investment within the portfolio. What most attracts us to the MOV investment proposition is the highly aligned executive team, some of whom are very highly regarded following their >15 years of experience in the early days of Mainfreight (NZX: MFT). MOV has the scale and market position to be a much more efficient and profitable business than it is today, and we believe with a degree of expansion the business could look rather different and over time command a richer valuation multiple. We will expand on this investment thesis over the next few months.

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

There are not too many businesses listed on the ASX where you can say that you use their product/service frequently because you believe the product/service is best of breed. For us STP fits that bill and is a business we have been analysing and getting to know in more detail ever since it considered listing 6 or so months ago. Within the last 5 years STP has gone from virtually \$0 in revenue to potentially ~\$75 million in annual sales of men's underwear, mainly in Australia and the UK. The business listed in November at an issue price of \$1.53 with the shares soaring to \$3.00 shortly after issue. Following a company update that revenue growth would be 1-5% higher than the prospectus forecast of 19.9% for FY22, the shares fell back to the IPO price. The share price reaction to the trading update suggested that the guided growth figures were well below the markets very bullish expectations (despite still being ~25% p.a.). We initiated the STP investment post the trading update and believe that via geographic and product expansion STP will continue to grow at a reasonable rate over the coming years.

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*	+3.89%	+4.14%	+39.08%	+19.16%	+18.35%	+8.90%	+41.69%
S&P/ASX Small Ordinaries Accumulation Index	+1.41%	+5.54%	+16.90%	+12.98%	+15.71%	+9.71%	+46.03%
Performance Relative to Benchmark	+2.48%	-1.40%	+22.18%	+6.18%	+2.64%	-0.81%	-4.34%

*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	\$197.4 million
Cash Weighting	0.31%
Standard Deviation of Returns (NSC)	17.86%
Standard Deviation of Returns (XSOAI)	18.56%
Downside Deviation (NSC)	11.06%
Downside Deviation (XSOAI)	12.57%
Shares on Issue	148,359,054
NSC Directors Shareholding (Ordinary Shares)	2,393,033
NSC Options Closing Price (ASX: NSCOA)	\$0.040

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.

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