

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 31 JANUARY 2020

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
\$0.87	\$0.90	\$0.87	\$0.69	(20.69%)	5.80%

MARKET INSIGHT

For the month of January, the NSC Investment Portfolio produced a positive return of +2.50%, compared to the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which increased by +3.38%. As at the end of January the Investment Portfolio was made up of 8 long positions, with a portfolio weighted average market capitalisation of \$193.8 million. Following on from December, which unexpectedly was a month filled with significant news flow from several of our investments, January also saw a number of significant announcements. From a performance perspective two positions, Big River Industries (ASX: BRI) and Enero Group Ltd (ASX: EGG), each saw a share price gain of more than 10% over the month contributing the majority of the positive return. We look forward to the February reporting season, when all of the NSC investments will be releasing their 1HFY20 results which will provide us with a more detailed understanding of their respective prospects going forward.

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



INVESTMENT PORTFOLIO PERFORMANCE MONTHLY RETURNS*

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FY Total Return
FY20	-0.18%	+12.91%	+8.10%	+0.17%	-1.80%	-0.57%	+2.50%						+22.14%
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.

One of the more significant releases in January was that BSA Chief Executive Officer (CEO) Nick Yates announced he will step down in early 2020. Nick has been leading BSA for over 6 years and over this period we have seen the business significantly de-risked both from a financial and operational standpoint, leading to the share price re-rating from ~\$0.10 in 2014 to \$0.41 at the end of January. Pleasingly, Nick will remain a Director of BSA as well as a part-time consultant. Nick will be replaced by the BSA Deputy CEO Tim Harris who has been part of the BSA team for ~3 years. We believe Tim is an excellent choice to replace Nick as throughout his time at BSA, and more specifically his time within the Connect and Build divisions, Tim has demonstrated astute operational ability to drive profitable growth as well as expanding the business into adjacent opportunities.

The other major announcement in January came from Consolidated Operations Group (ASX: COG) who announced that they had acquired a 17.36% interest in CML Group (ASX: CGR). COG had initially put a merger proposal forward to the Directors of CGR which was recommended to their shareholders, though more recently this has been overshadowed by a potential all cash bid for CGR of \$0.60 per share by private equity owned Scottish Pacific Group. Clearly this gives COG a significant stake in CGR and one which will have a significant say as to how the future unfolds.

FULLY FRANKED DIVIDEND PROFILE (CENTS PER SHARE)

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



MARKET INSIGHT CONTINUED

In our view, COG did a poor job of communicating sufficient detail to the market about the substantial upside that the merged entity may generate. We believe this resulted in the COG share price gaining little traction following the announcement of the proposed merger, and ultimately led to the door being left open for a competitor to offer a more enticing bid. Following COG acquiring a significant stake in CGR we believe there are now 3 scenarios that may occur. The first of these is that Scottish Pacific (SCO) increase their bid to a level that COG do not see value in competing with, and therefore accept the bid; the second is that COG raise their bid and more effectively communicate the benefits of the merged entity for all shareholders; and the last scenario is that SCO proceed with their potential bid at the current price which leads to a potential stalemate and a protracted and drawn out process, which in our view does benefit any party. Arguably there is a very low probability of a fourth event unfolding, which would be SCO or another party seeing the benefits of the merged entity and acquiring both. Whatever occurs it will no doubt keep the market interested until there is a conclusion.

Finally, even though we have not yet entered reporting season we have already seen some significant downgrades from several notable businesses. These include women's retailer Mosaic Brands Ltd (ASX: MOZ), geospatial mapping business Nearmap Ltd (ASX: NEA), and finally two of Australia's largest engineering businesses, CIMIC Group Ltd (ASX: CIM) and Downer (ASX: DOW); all of whom saw substantial stock price falls over the month. The businesses blamed company specific issues, but with the market near all-time highs it is clear that any company that does not meet market expectations will be de-rated significantly.

STOCK CONTRIBUTION ANALYSIS

The table below lists the top 5 positive stock contributors to the investment portfolio since inception, December 2017. The stocks listed below may or may not be current holdings within the portfolio.

TOP 5 POSITIVE CONTRIBUTORS	CONTRIBUTION TO RETURN (%NAV)
Enero Group Limited (ASX: EGG)	7.19%
Broadcast Services Australia Limited (ASX: BSA)	4.82%
Over The Wire Holdings Limited (ASX: OTW)	2.52%
Eureka Group Holdings Limited (ASX: EGH)	1.69%
Service Stream Limited (ASX: SSM)	1.47%

INVESTMENT PORTFOLIO PERFORMANCE

	1 MONTH	6 MONTHS	1 YEAR	2 YEARS (P.A.)	INCEPTION (P.A.)	INCEPTION (Total Return)
NSC Investment Portfolio Performance*	+2.50%	+22.36%	+14.90%	+1.04%	+1.04%	+2.27%
S&P/ASX Small Ordinaries Accumulation Index	+3.38%	+2.76%	+18.84%	+7.34%	+8.04%	+18.25%
Performance Relative to Benchmark	-0.88%	+19.60%	-3.94%	-6.30%	-7.00%	-15.98%

* 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 Total Return) is from 1 December 2017.

KEY METRICS – SUMMARY DATA

Weighted Average Market Capitalisation of the Investments	\$193.8 million
Number of Holdings	8 Long Positions
Cash Weighting	2.49%
Standard Deviation of Returns (NSC)	13.87%
Standard Deviation of Returns (XSOAI)	11.66%
Downside Deviation (NSC)	6.65%
Downside Deviation (XSOAI)	7.14%
Percentage of Positive Months (NSC)	46%
Percentage of Positive Months (XSOAI)	54%
Shares on Issue	160,734,859
NSC Directors Shareholding (Ordinary Shares)	2,078,554

OUR TEAM

Chairman

Trevor Carroll (Independent)

Directors

Warwick Evans

Sebastian Evans

David Rickards (Independent)

Chief Investment Officer

Sebastian Evans

Portfolio Managers

Robert Miller

Ben Rundle

Investment Analyst

Rachel Cole

Chief Financial/

Operating Officer

Richard Preedy

Business Development

Manager

Julia O'Brien

Compliance Officer

Julie Coventry

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