

NAOS Small Cap Opportunities Company Limited

ABN 47 107 617 381

MONTHLY INVESTMENT REPORT AND NTA UPDATE



KEY CHARACTERISTICS

1. Concentrated Small Cap Exposure with a Long Term Value Focus

NSC seeks to provide investors with exposure to high quality, undervalued small cap companies (market capitalisation generally >\$20 million to <\$1 billion) with an industrial bias in a concentrated structure.

2. Sustainable Growing Dividend Stream

NSC aims to deliver shareholders with a sustainable growing stream of dividends franked to the maximum extent possible over the longer term.

3. Focus on Quality of Companies Not Quantity or Size

Our primary focus is on developing a deep understanding and appreciation of the companies in our portfolio. We believe the best way to achieve this is to focus on a select number (target 0-30) of high quality investment ideas, in order to capitalise on our 'long term knowledge & liquidity advantage'.

4. Portfolio Flexibility with a Benchmark Unaware Approach

This means we are not forced holders of stocks with large benchmark/index weightings that we are not convinced are attractive investment propositions.

5. Significant Alignment of Interests with Shareholders

NAOS Directors have established initial shareholdings in NSC and intend to create meaningful positions, providing shareholders with a significant alignment of interests.

6. Environmental, Social and

Governance (ESG) NAOS adopts an ESG screen across its investments.

Net Tangible Asset Value Breakdown as at 31 December 2017

Pre Tax NTA:	\$1.04
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.00
Post Tax NTA:	\$0.97
Share Price:	\$0.935

Investment Portfolio Performance & Market Insight

The month of December marked the first month of operations for the NAOS Small Cap Opportunities Company (ASX: NSC). For the month of December, the fund returned +1.09% compared to the Benchmark Small Ordinaries Accumulation Index (XSOAI) which finished up +3.20%.

As at the end of December the NSC Investment Portfolio held 20 individual positions with a net equity weighting of 59.79% and a cash weighting of 40.21%. In the previous months Investment Report three new investment positions were touched on. Below we will touch on one new core position being the 360 Capital Total Return Fund (ASX: TOT).

A core position in TOT was established in December 2017. NSC also has a holding in the funds management business 360 Capital Group (ASX: TGP) which is the investment manager for TOT. Over the past 12 months TOT has been implementing a strategy of providing short to medium debt funding packages for a select group of property development projects. This opportunity has arisen due to regulatory change effecting the Big-4 banks willingness to fund any particular type of property development project regardless of the economics or security. We expect TOT to benefit as the Big-4 banks retreat from this space, namely due to TOT's liquid funding reserves as well as management ability to uncover high quality deal flow with industry players who have developed property for many years and not just in the most recent cycle.

To minimise any risk of permanent capital loss TOT is taking the following steps; firstly, a focus on developments with large land banks is preferred (such examples include land sub-divisions and multiple freestanding home developments), secondly, TOT will often have a first mortgage position as well as Director guarantees over any of the assets of the development and finally TOT will often lend at loan to value ratios (LVR) that are much less than 80%. Over the next 6 months we would expect TOT to have all their surplus funds fully utilised, which will then lead to an increase in earnings especially for FY19. As disclosed to the market, TOT has recently entered into three funding arrangement with rates of return anywhere between 12-15% p.a. We believe TOT should have a distribution yield of greater than 12% in FY19.

Investment Portfolio Performance to 31 December 2017

	1 Month
NSC Investment Portfolio Performance*	+1.09%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	+3.20%
Outperformance Relative to Benchmark	-2.11%

*Investment Portfolio Performance is post all operating expenses, before fees and taxes. Performance has not been grossed up for franking credits received by shareholders. Since inception (p.a. and nom). Returns compounded for periods greater than 12 months.

Positive Stock Contribution Analysis
 (Contribution is what has attributed to NSC's performance since 1 December 2017)

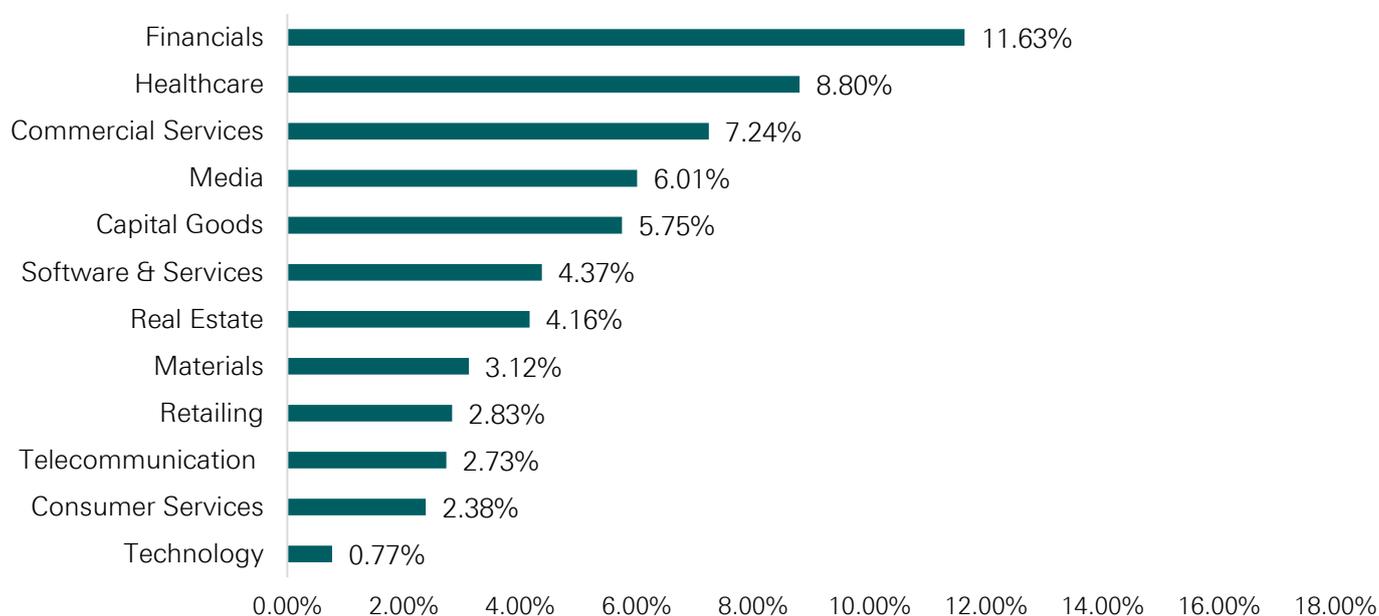
The table below lists the top positive contributors to NSC's total return since 1 December 2017. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio of investments that is generally limited to 0-30 securities at any one time. We will disclose securities in which NSC has a current substantial holding, or when we have exited the position.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
Enero Group	+0.36%	360 Capital Group	+0.13%
Pro Medicus Ltd	+0.23%	Tox Free Solutions Ltd	+0.13%
360 Capital Return	+0.22%	Over The Wire Holdings	+0.13%
Motorcycle Holdings Ltd	+0.18%	Gentrack Group	+0.12%
Lifestyle Communities Ltd	+0.17%	Helloworld Travel Ltd	+0.12%

Portfolio Positioning as at 31 December 2017

As at 31 December 2017, the portfolio's net equity exposure was 59.79% with a subsequent cash weighting of 40.21%. As at month end, the portfolio was comprised of 20 long positions and no short positions.

Net Industry Exposure



Company Meetings

The NAOS investment philosophy is based around the belief that for a small-cap company to succeed and generate strong returns for shareholders it must be led by a motivated, proven and experienced management team. This is why the NAOS Investment Team has direct contact with many listed and unlisted emerging companies across a wide range of industries. A selection of the companies the team had contact with during the month were as follows:

- HUB24 Ltd (HUB AU)
- Apiam Animal Health Ltd (AHX AU)
- Webster Limited (WBA AU)
- Service Stream Ltd (SSM AU)
- Austock Group Ltd (ACK AU)
- Consolidated Operations Group (COG AU)
- Fiducian Group Ltd (FID AU)
- 360 Capital Group (TGP AU)
- Motorcycle Holdings Ltd (MTO AU)
- Capitol Health Ltd (CAJ AU)

Portfolio Characteristics – Summary Data as at 31 December 2017

Below are a number of historical portfolio risk measures calculated from 1 December 2017. Our aim in providing these metrics is to demonstrate to investors how NSC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and to also preserve investors' capital. A glossary of the terms used below and the method used for calculating them can be found on the last page of this report.

Average Market Capitalisation of the Portfolio's Equity Holdings	\$279.40 million
Percentage of Positive Months (NSC)	100%
Percentage of Positive Months (XSOAI)	100%
Standard Deviation of Returns (NSC)	-
Standard Deviation of Returns (XSOAI)	-
Correlation of Returns to XSOAI	-
Sortino Ratio	-
Downside Deviation (NSC)	-
Downside Deviation (XSOAI)	-
Current Estimated Portfolio Beta (6 Month Historical)	0.11

Capital Structure – Summary Data as at 31 December 2017

Share Price	\$0.935
Premium/(Discount) to NTA (Pre-Tax)	(-10.10%)
Shares on Issue	168,995,806
NSC Directors Shareholding (Ordinary Shares)	471,400
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	\$101.60

A Description of Statistical Terms/Glossary

Average Market Capitalisation of the Portfolio's Equity Holdings – The sum of, the percentage of each individual position relative to the total value of all Equity Holdings multiplied by each company's respective market capitalisation (Cash and Income/Debt securities are excluded).

Standard Deviation of Returns – A historical analysis of the volatility in monthly returns also known as historical volatility.

Correlation of Returns – A statistical measure of how two variables move in relation to each other. In this case the two variables are NSC and XSOAI. If the correlation is 1 then the two securities should have the same monthly returns and if the correlation is -1 and XSOAI had a return of -1.00% then NSC would be expected to have a return of +1.00%

Sortino Ratio – A modification of the Sharpe ratio that differentiates harmful volatility from general volatility by taking into account the standard deviation of negative asset returns, called downside deviation. A large Sortino Ratio may potentially indicate that there is a low probability of a large capital loss. Returns less than that of the benchmark (Small Ordinaries Accumulation Index - XSOAI) are classified as negative asset returns.

Downside Deviation - A measure of downside risk that focuses on returns that fall below a minimum threshold or minimum acceptable return (MAR). For our calculations, we use returns negative to zero for the calculation of portfolio downside deviation.

Portfolio Beta – A measure of the volatility, or systematic risk of a portfolio or security. A beta of 1 indicates a portfolio/security's price will move with the market. A beta of less than 1 indicated that a security/portfolio should be less volatile than the market.

XSOAI – Small Ordinaries Accumulation Index

Important Information:

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Adrian Fitzpatrick (Director)
Ken Poutakidis (Director)
Warwick Evans (Director)
Sebastian Evans (Director)

Company Secretary

Rajiv Sharma

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