

NAOS Small Cap Opportunities Company (NSC)

ABN 47 107 617 381

MONTHLY INVESTMENT REPORT AND NTA UPDATE

NAOS

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 >\$100 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. NSC can also hold up to 100% cash. It has been proven that holding cash offers the 'best hedge' during times of crisis.

5. Significant Alignment of Interests with Shareholders

NAOS directors and employees (including related parties) own over 1.5 million NSC shares, 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 30 June 2018

Pre Tax NTA:	\$0.95
Post Tax & Pre Unrealised Gains Tax NTA:	\$0.92
Post Tax NTA:	\$0.92
Share Price:	\$0.765

Investment Portfolio Performance & Market Insight

The NSC Investment Portfolio produced a return of +1.24% for the month of June, outperforming the Benchmark S&P/ASX Small Ordinaries Accumulation Index ('XSOAI') which returned +1.06%. There were a couple of notable events within the portfolio with MNF Group Ltd (ASX: MNF) and 360 Capital Total Return Fund (ASX: TOT) providing significant updates to the market.

Firstly, the largest holding within the NSC portfolio, MNF Group, announced the acquisition of a Singapore-based business and also provided a guidance update for FY18, sending the share price up +5.85% over the course of the month. Although small in financial terms, we believe the acquisition of the Singaporean based Superinternet is very significant from a strategic point of view as this gives MNF the infrastructure to offer their wide range of software capability to a much larger client base in Singapore, and over time to more regions within South East Asia. This strategy builds on what MNF have achieved in Australia and a number of other countries post the acquisition of TNZI in 2015. MNF also reiterated the guidance given at their half year result, clarifying that the core business continues to grow organically and the start-up losses in Pennytel are within guidance, whereas the market may have expected worse. We believe the FY18 result in August will allow the market to once again focus on the strong organic growth opportunities of the business, that is supported by a Tier-1 client list that is now expanding overseas. MNF also has the ability to continue to internally fund further bolt on acquisitions due to their high cash flow generation and net cash balance sheet, which may increase the earnings growth in FY19 and FY20 above the current expectations of the market.

The 360 Capital Total Return Fund (ASX: TOT), another of the larger positions in the NSC portfolio, provided guidance for the next 12-months, announcing an expected distribution for FY19 of 12cps, with the earnings of the business expected to exceed this figure. TOT provides short term loans to mainly commercial developments, and by effectively allocating surplus funds from previous divestments to a select group of loans, TOT has been able to announce an effective distribution yield of at least 9.50%. TOT also owns 50% of AMF Finance, the Company responsible for all deal origination opportunities to date. This Company is effectively valued at \$0 by the market, though as the commercial lending space continues to disintermediate more investors will require verified quality deal flow, which we believe makes a business such as AMF Finance valuable over the long term.

	1 Month	3 Month	6 Month	Inception (nom.)
NSC Investment Portfolio Performance*	+1.24%	-3.29%	-4.49%	-3.44%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	+1.06%	+7.67%	+4.67%	+8.02%
Outperformance Relative to Benchmark	+0.18%	-10.96%	-9.16%	-11.46%

* 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 nom) is from 1 December 2017.

Positive Stock Contribution Analysis

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

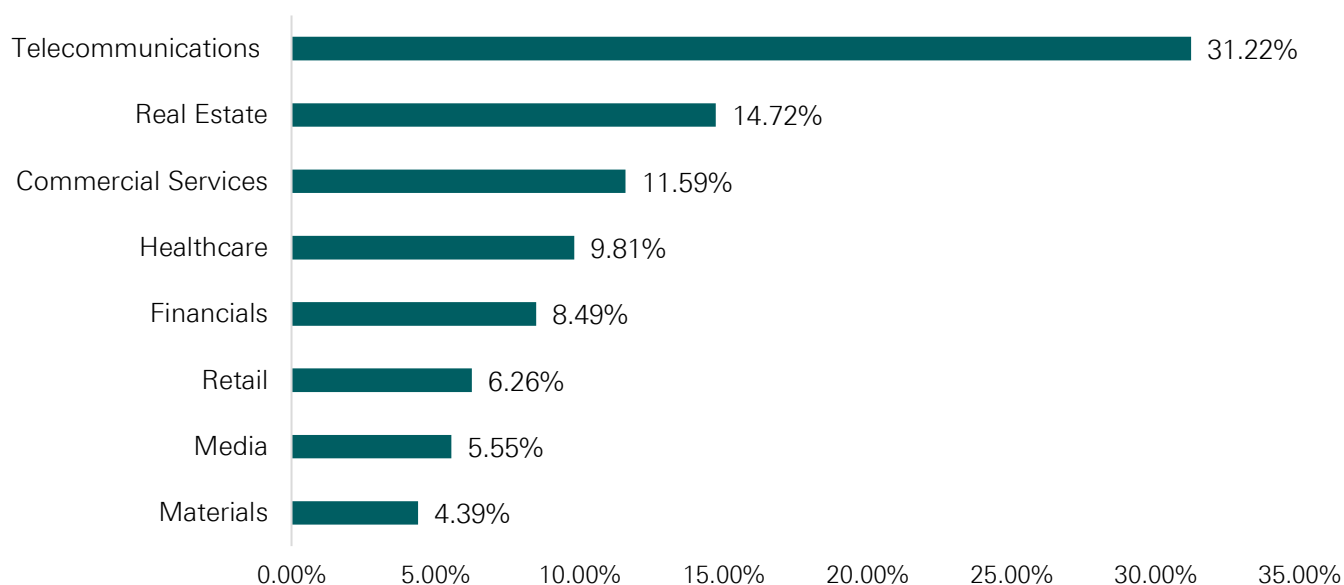
The table below lists the top positive contributors to NSC's total return since 1 December 2017. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated 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)
Service Stream Ltd	+1.33%	Enero Group Ltd	+0.49%
360 Capital Total Return Fund	+0.91%	Australian Ethical Investment Ltd	+0.19%
Over The Wire Ltd	+0.79%	Pro Medicus Ltd	+0.13%
360 Capital Group Ltd	+0.76%	Oceania Healthcare Ltd	+0.03%

Portfolio Positioning as at 30 June 2018

As at 30 June 2018, the portfolio's net equity exposure was 92.03% with a subsequent cash weighting of 7.97%. As at month end, the portfolio was comprised of 11 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:

- Imdex Ltd (IMD US)
- Nearmap Ltd (NEA AU)
- Integral Diagnostics Ltd (IDX AU)
- Stream Media (Unlisted)
- Onevue Holdings Ltd (OVH AU)
- Gentrack Group Ltd (GTK AU)
- 360 Capital Group Ltd (TGP AU)
- Hub24 Ltd (HUB AU)
- SRG Ltd (SRG AU)
- Pacific Smiles Group Ltd (PSQ AU)

Portfolio Characteristics – Summary Data as at 30 June 2018

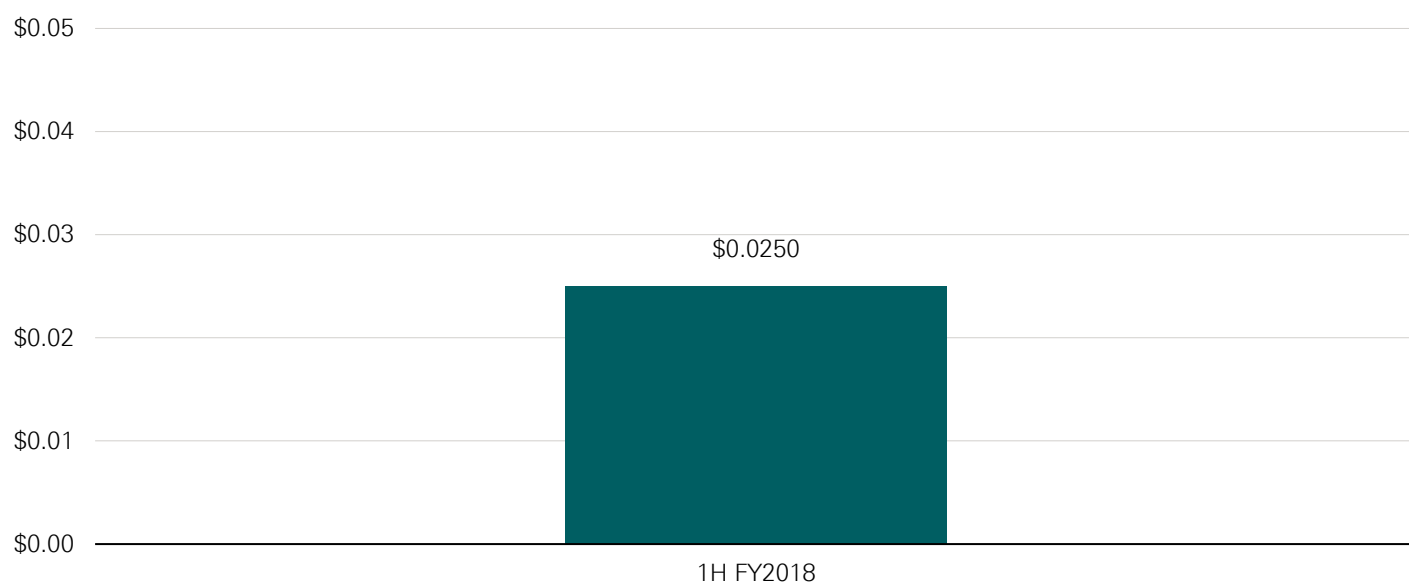
Below are a number of historical portfolio risk measures calculated from 1 December 2017. Our aim in providing these metrics is to demonstrate to investors how NSC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and to also preserve investors' 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	\$258.9 million
Percentage of Positive Months (NSC)	43%
Percentage of Positive Months (XSOAI)	71%
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)	0.14

Capital Structure – Summary Data as at 30 June 2018

Share Price	\$0.765
Premium/(Discount) to NTA (Pre-Tax)	(-19.47%)
Shares on Issue	168,995,806
NSC Directors Shareholding (Ordinary Shares)	1,594,880
Convertible Notes on Issue (NSCG)	265,000
Convertible Note Price	\$100.50

Dividend Profile – Fully Franked Dividends (Cents per share)



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 (S&P/ASX 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 – S&P/ASX Small Ordinaries Accumulation Index

Important Information:

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