

NAOS Small Cap Opportunities Company (NSC)

ABN 47 107 617 381

NAOS

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 >\$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 1.4 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 31 May 2018

Pre Tax NTA:	\$0.94
Post Tax & Pre Unrealised Gains Tax NTA:	\$0.92
Post Tax NTA:	\$0.91
Share Price:	\$0.785

Investment Portfolio Performance & Market Insight

The NSC Investment Portfolio produced a return of -1.16% for the month of May, compared to the Benchmark S&P/ASX Small Ordinaries Accumulation Index ('XSOAI') which returned +3.70%. There were no new positions added to the Investment Portfolio over the course of the month, and we have an expectation that the portfolio will remain very stable for the foreseeable future. The Investment Portfolio continues to maintain a cash position slightly over 10%.

There were two notable company announcements from our investee companies in May, the first being from the 360 Capital Total Return Fund (ASX: TOT) and the second being from Japara Healthcare (ASX: JHC). The two main detractors from a performance point of view for the Investment Portfolio were once again MNF Group (ASX: MNF) and JHC, which had a combined negative contribution to the monthly performance of -1.26%. It was pleasing to see one of our core holdings being Motorcycle Holdings (ASX: MTO) contribute +0.82% after its shares rose over 15% in the month, despite no stock specific news. Even though short-term movements can influence investor psychology, it remains our view that over the long term our core holdings will revert to what we believe is fair value, though this may only occur once the market can simply understand what that is.

TOT announced early in the month that it has made one of its largest investments to date, being a \$36 million senior loan facility for the construction of a 162 room 4-star hotel in the Melbourne CBD. The interest rate and line fee is 11% and 2% respectively, with a minimum term of 9-months and the hotel due for completion in November 2018.

Pleasingly, JHC announced that the facilities recently acquired through the Riviera Health acquisition have received full accreditation from the Aged Care Quality Agency (ACQA). This accreditation is significant as it was removed under the old ownership of Riviera Health, which then led to the sales process. JHC also released a presentation to the market later in the month which in our view highlighted a number of key points including: a focus on the integrated care model which includes assisted living, senior living, home help and residential aged care; further granularity on the development pipeline for the next 3-years and finally further discussion on the strategy to provide choice and quality for clients. If management can execute on this business plan we believe it should lead to a more sustainable return profile for JHC over the longer term.

	1 Month	3 Month	Inception (nom.)
NSC Investment Portfolio Performance*	-1.16%	-4.23%	-4.62%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	+3.70%	+4.11%	+6.89%
Outperformance Relative to Benchmark	-4.86%	-8.34%	-11.51%

* 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)

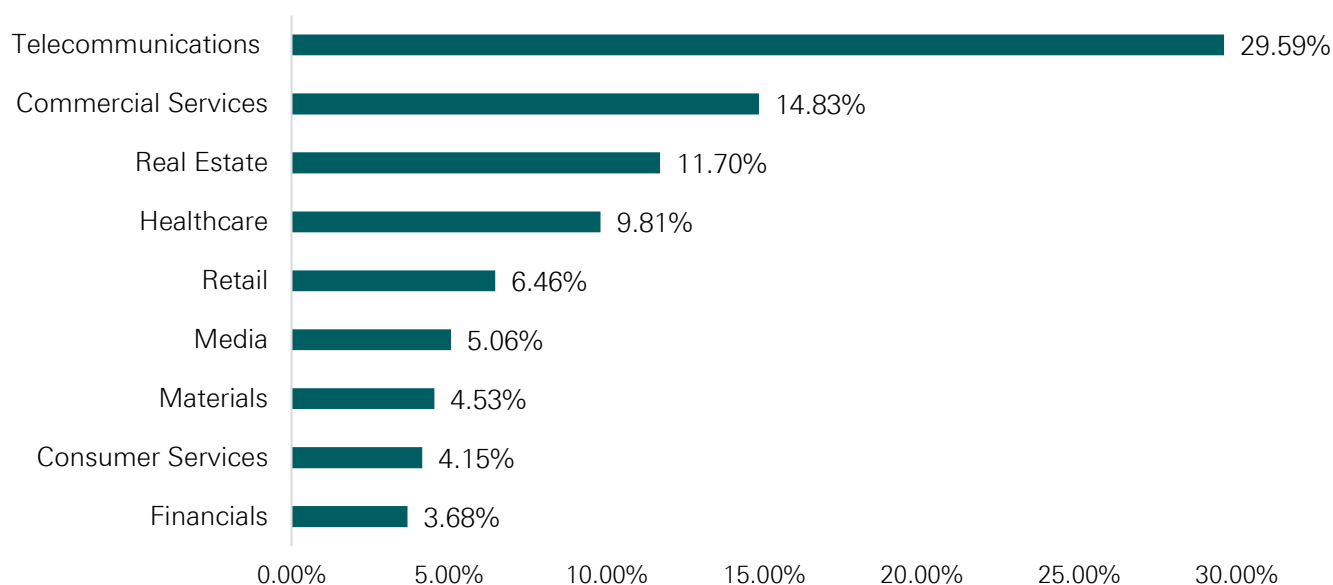
The table below lists the top positive contributors to NSC's total return since 1 December 2017. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated 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	+1.57%	Australian Ethical Investment Ltd	+0.19%
360 Capital Group Ltd	+0.68%	Enero Group Ltd	+0.17%
Over The Wire Ltd	+0.50%	Pro Medicus Ltd	+0.13%
360 Capital Total Return Fund	+0.40%	Oceania Healthcare Ltd	+0.03%

Portfolio Positioning as at 31 May 2018

As at 31 May 2018, the portfolio's net equity exposure was 89.81% with a subsequent cash weighting of 10.19%. As at month end, the portfolio was comprised of 12 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:

- Berkshire Hathaway Inc (BRK US)
- Twilio Inc (TWLO US)
- 8x8 Inc (EGHT US)
- AMA Group Ltd (AMA AU)
- Australian Finance Group Ltd (AFG AU)
- Over The Wire Holdings Ltd (OTW AU)
- MotorCycle Holdings Ltd (MTO AU)
- Homeloans Ltd (HOM AU)
- Helloworld Travel Ltd (HLO AU)
- Beacon Lighting Group Ltd (BLX AU)

Portfolio Characteristics – Summary Data as at 31 May 2018

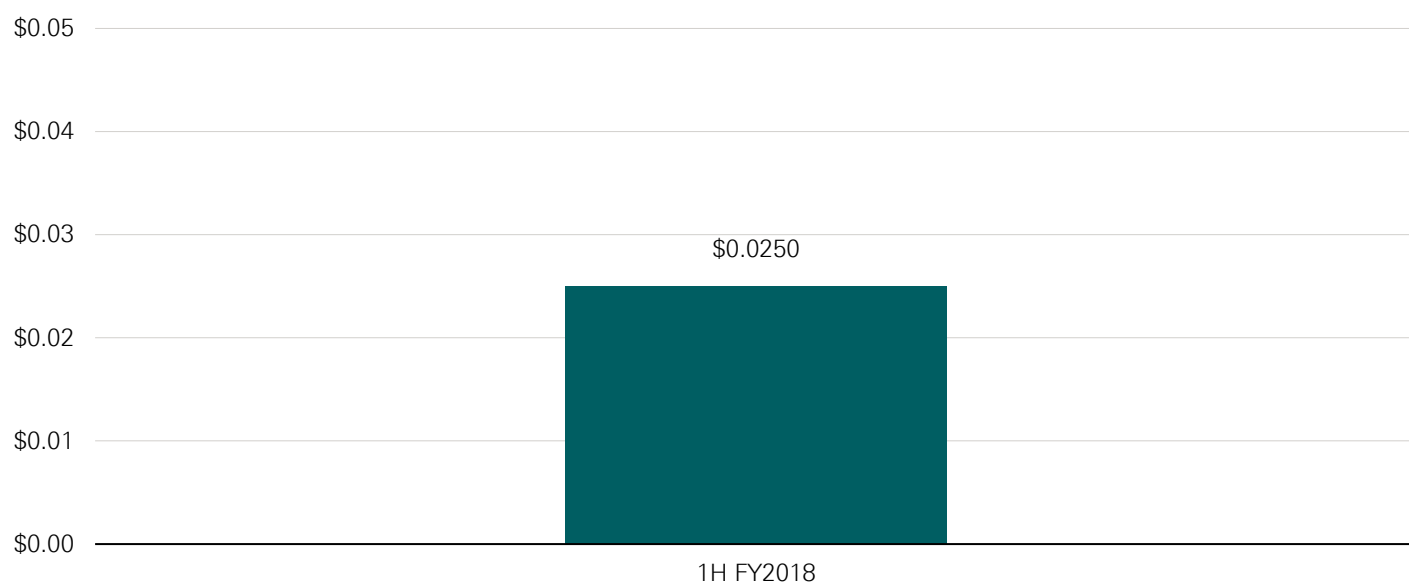
Below are a number of historical portfolio risk measures calculated from 1 December 2017. Our aim in providing these metrics is to demonstrate to investors how NSC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and to also preserve investors' 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	\$291.5 million
Percentage of Positive Months (NSC)	33%
Percentage of Positive Months (XSOAI)	67%
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)	0.21

Capital Structure – Summary Data as at 31 May 2018

Share Price	\$0.785
Premium/(Discount) to NTA (Pre-Tax)	(-16.49%)
Shares on Issue	168,995,806
NSC Directors Shareholding (Ordinary Shares)	1,444,880
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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