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

N A O S

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 31 MARCH 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
$0.58	$0.62	$0.66	$0.415	(28.45%)	9.64%

Register for the NAOS COVID-19 Update Investor Webinar, Wednesday (tomorrow) 8th April 2020 11am (AEST)

MARKET INSIGHT

For the month of March, the NSC Investment Portfolio produced a negative return of -18.50%, compared to the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which fell by -22.38%. March saw a savage sell-off, with the market at one stage falling by over -30% as investors initially tried to digest how the government-enacted restrictions to control the spread of COVID-19 would affect businesses. The economic outlook was complicated further by a significant deterioration in the global oil market and finally with numerous fiscal and monetary stimulus packages being announced as a response to COVID-19. Clearly such a large negative drop in one month is a very poor outcome for ourselves and all shareholders, however, to put some perspective around these figures the FY20 portfolio return to date is -10.56%, compared to the XSOAI which is down by -23.87%. From a stock contribution perspective there was just one company that generated a significant positive contribution, MNF Group Limited (ASX: MNF), which outperformed the benchmark by more than 40%. The significant detractors to performance for March were Consolidated Operations Group (ASX: COG), Enero Group (ASX: EGG), and to a lesser extent BSA Limited (ASX: BSA). As a substantial amount of commentary around the recent market dynamics and subsequent portfolio strategy was in the Letter to Shareholders released just last week the commentary below will focus purely on stock specific themes.

INVESTMENT PORTFOLIO PERFORMANCE MONTHLY RETURNS*

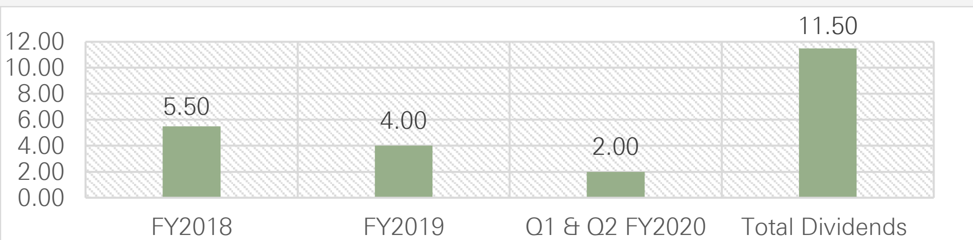
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FY Total Return
FY20	-0.18%	+12.91%	+8.10%	+0.17%	-1.80%	-0.57%	+2.50%	-10.15%	-18.50%				-10.56%
FY19	-0.60%	+4.07%	-1.34%	-7.61%	-3.04%	-3.21%	+4.16%	-3.88%	+1.14%	+0.69%	-5.17%	+1.33%	-13.29%
FY18						+1.11%	-0.93%	-0.57%	+0.25%	-3.35%	-1.16%	+1.24%	-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.

COG was the single largest detractor to performance, and towards the end of March released two important announcements. The first of these was that the equipment leasing business would be scaled back, with a focus placed on cash generation. In this case, as with any loan book, if previously written loans are of sound credit profile relative to the interest rate charge, then a significant cash balance should build up as no capital is recycled into writing new loans. Based on the current value of COG's loan book we believe that >$20 million can be realised over the next 3 years. Outside of COG we believe this is a noteworthy announcement for many other finance companies. Clearly management do not believe that continuing to write new loans in this environment, coupled with the uncertainty around funding security, is the best use of shareholders capital over the next 12-24 months from a risk-return perspective. Considering the sheer volume of loans that have been written to SME's and consumers in the past 2 years, the current conditions suggest many finance businesses may experience significant issues with regard to repayments as the COVID-19 crisis plays out.

FULLY FRANKED DIVIDEND PROFILE (CENTS PER SHARE)

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



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

The second announcement was that COG management intend to vote their 17.4% stake in CML Group Ltd (ASX: CGR) in favour of the Scottish Pacific scheme of arrangement. At the current bid price this values COG's holding in CGR at circa $23 million. Interestingly, COG also stated that their broking network, which is the largest in Australia, has seen a significant uptick in enquiries from SME's looking to take advantage of recent federal government stimulus packages.

Finally, as mentioned above, MNF outperformed the wider benchmark index (XSOAI) by more than 40%. In our view, this has been driven by a significant shift to people working from home, which has led to businesses looking for high quality voice and video services, such as Skype for Business and Zoom, to ensure they can run their businesses with minimal disruption in these unprecedented times. These services enable the user to make a video call from a mobile app to one or numerous people who may be using a computer. This requires the software provider to partner with a firm such as MNF, who has a national voice network together with a development capability, to build the API (Application Programming Interface) to work seamlessly with their own internal software. Based on comments made by Telstra and other voice providers we believe demand or usage on traditional networks is up >30%, so for a next generation software provider such as MNF we believe they may well be seeing usage through their network increasing by an even greater volume. Over the longer term, as more businesses subscribe to services such as Skype for Business and/or Zoom and embed as part of their day to day operations, we believe this should lead to a larger recurring revenue base for MNF as these software providers will require more cloud-based phone numbers for their customers.

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)
Service Stream Limited (ASX: SSM)	1.07%
MNF Group Limited (ASX: MNF)	1.00%
Over The Wire Holdings Limited (ASX: OTW)	0.89%
360 Capital Total Return Fund (ASX: TOT)	0.64%
360 Capital Group Limited (ASX: TGP)	0.31%

INVESTMENT PORTFOLIO PERFORMANCE

	1 MONTH	6 MONTHS	1 YEAR	2 YEARS (P.A.)	INCEPTION (P.A.)	INCEPTION (Total Return)
NSC Investment Portfolio Performance*	-18.50%	-26.59%	-13.46%	-13.39%	-11.66%	-25.11%
S&P/ASX Small Ordinaries Accumulation Index	-22.38%	-26.17%	-21.02%	-8.59%	-7.29%	-16.18%
Performance Relative to Benchmark	+3.88%	-0.42%	+7.56%	-4.80%	-4.37%	-8.93%

* 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	$163.7 million
Number of Holdings	10 Long Positions
Cash Weighting	1.20%
Standard Deviation of Returns (NSC)	18.99%
Standard Deviation of Returns (XSOAI)	19.40%
Downside Deviation (NSC)	13.83%
Downside Deviation (XSOAI)	16.03%
Percentage of Positive Months (NSC)	43%
Percentage of Positive Months (XSOAI)	50%
Shares on Issue	159,284,641
NSC Directors Shareholding (Ordinary Shares)	2,194,412

NAOS

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

Chief Financial/ Operating Officer
Richard Preedy

Business Development Manager
Julia O'Brien

Compliance Officer
Julie Coventry

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