

MONTHLY INVESTMENT REPORT AND NTA UPDATE AS AT 31 MAY 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 |
|-------------|---|--------------|-------------|--------------------------------------|------------------------------|
| \$0.89 | \$0.89 | \$0.95 | \$0.795 | (10.67%) | 9.12% |


MARKET INSIGHT

For the month of May, the Investment Portfolio produced a positive return of +8.70%, slightly underperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which increased by +10.59%. To put this in context the XSOAI has now recouped ~90% of its losses since the market correction that started in late February. This brings the inception return of the investment portfolio to +9.29% p.a. or +90.51% on a total return basis, outperforming the XSOAI which has increased by +4.83% p.a. or +40.80% over the same period. Despite the strong monthly performance of the portfolio, it is worth noting that two of the top five holdings registered negative returns for the month. Due to the current unprecedented environment, it was no surprise that a number of NCC investments provided market updates during May, including Saunders International (ASX: SND), Wingara Ag (ASX: WNR), Enero Group (ASX: EGG), and BTC Health (ASX: BTC).


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 

INVESTMENT PORTFOLIO PERFORMANCE MONTHLY RETURNS*

| | JUL | AUG | SEP | OCT | NOV | DEC | JAN | FEB | MAR | APR | MAY | JUN | FY Total Return |
|------|--------|--------|--------|--------|--------|--------|---------|--------|---------|--------|--------|--------|-----------------|
| FY20 | +6.85% | +2.86% | +6.56% | -3.56% | -0.04% | +4.11% | +11.11% | -8.57% | -28.25% | +5.39% | +8.70% | | -1.84% |
| FY19 | -2.42% | +3.94% | +2.88% | -6.09% | -6.12% | -2.92% | -0.24% | +4.96% | -1.80% | -3.54% | -1.43% | +0.20% | -12.51% |
| FY18 | +3.43% | +4.94% | -1.24% | +2.32% | +2.39% | +0.14% | -0.77% | -1.52% | +0.43% | -1.49% | -1.89% | +0.44% | +7.13% |
| FY17 | +4.63% | +6.48% | +3.65% | -0.49% | -0.45% | +1.92% | +0.08% | -1.93% | +0.82% | -3.69% | +0.70% | +0.44% | +12.39% |
| FY16 | +2.28% | -5.77% | +0.86% | +3.72% | +1.10% | +4.56% | -3.26% | +4.96% | +1.57% | +4.67% | +5.31% | +2.97% | +24.77% |
| FY15 | +2.30% | +3.58% | -1.51% | -2.39% | +0.58% | +0.46% | +0.58% | +2.81% | -2.59% | -0.18% | +2.37% | -4.27% | +1.43% |
| FY14 | +9.19% | +7.64% | +2.80% | +5.11% | -4.84% | -3.57% | +4.76% | +3.87% | +2.91% | -0.70% | +0.85% | +0.67% | +31.54% |
| FY13 | | | | | | | | +0.03% | +3.81% | +3.03% | +4.48% | -0.99% | +10.67% |

*Investment Portfolio Performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions. Performance has not been grossed up for franking credits received by shareholders.

SND continued its recent run of significant news flow, this time releasing guidance for FY20 as well as FY21, a rarity for a contracting business. In regard to FY20, revenue guidance was downgraded to \$66-\$70 million from the prior \$70 million with an EBIT margin of 1.8% – 2.3%; whilst FY21 revenue guidance of \$100 million was provided, with an EBIT margin of 3.75% - 4.75%. Overall, we view revenue guidance as very positive as FY21 is potentially the largest revenue year on record, although we view the FY21 EBIT margin guidance as disappointing, and still some 8-10% off from the historical margins that SND has achieved on numerous occasions. With SND's two main competitors both in significant financial distress and after a number of years of implementing efficiency improvements we would expect margins to be significantly higher in FY21 and FY22. If this does not eventuate then in our view this brings into question not only the prices at which SND is bidding on work, but the SND Boards expected return hurdles on shareholders' funds (relative to the risk taken). The latter point is particularly pertinent considering the SND board has a non-independent majority and has seen limited board renewal over the years.

FULLY FRANKED DIVIDEND PROFILE (CENTS PER SHARE)



MARKET INSIGHT CONTINUED

WNR released their FY20 accounts as they have a 31 March financial year-end, which was a somewhat messy and complicated result due to the significant sale of property and associated land for a substantial gain in the early part of FY20. Removing this, there were a number of positive trends which provide comfort for FY21, including the hay business achieving a record half-year output for 2H FY20, and net debt continuing to reduce, finishing the year at \$3.90 million. WNR also disclosed a revenue run rate of \$7.5 million for Q4 FY20, which if the business can maintain over the longer term, gives us confidence FY21 EBITDA can be significantly higher than the \$3.30 million achieved in FY20.

EGG announced the appointment of Brent Scrimshaw as CEO effective from 1 July 2020. Interestingly, the major part of Brent's experience is on the client side of the advertising and PR industry, as opposed to agency side. Brent held positions at Nike for almost 19 years until he left in 2012 where he was the Vice President and GM for Nike in Western Europe. As EGG is a holding company this role will be very different to his prior role at Nike where he oversaw 4,000 employees. In our view, the key will be to focus on the successful execution of EGG's medium-term strategy and how it can add the most value to the leaders of its respective agencies. This also needs to be overlaid with effective capital management, namely whether or not acquisitions will assist this strategy going forward, or if other forms of capital management are a better use of shareholders' funds.

Finally, BTC updated the market with regard to potential demand for their medical device and consumable products, which had slowed significantly post the government decision to halt the majority of elective surgeries. With the recent easing of restrictions around elective surgery BTC have seen demand pick up in May and we expect to see a return to normality moving into FY21.

STOCK CONTRIBUTION ANALYSIS

The table below lists the top 5 positive stock contributors to the investment portfolio since inception, February 2013. The stocks listed below may or may not be current holdings within the portfolio.

| TOP 5 POSITIVE CONTRIBUTORS | CONTRIBUTION TO RETURN (%NAV) |
|-----------------------------------|-------------------------------|
| BSA Limited (ASX: BSA) | 19.00% |
| Calliden Group Limited (ASX: CIX) | 13.00% |
| Capitol Health Limited (ASX: CAJ) | 12.64% |
| Enero Group Limited (ASX: EGG) | 11.04% |
| CML Group Limited (ASX: CGR) | 10.67% |

INVESTMENT PORTFOLIO PERFORMANCE

| | 1 MONTH | 1 YEAR | 3 YEARS (P.A.) | 5 YEARS (P.A.) | 7 YEARS (P.A.) | INCEPTION (P.A.) | INCEPTION (Total Return) |
|---|---------|--------|----------------|----------------|----------------|------------------|--------------------------|
| NCC Investment Portfolio Performance* | +8.70% | -1.64% | -2.60% | +4.31% | +7.91% | +9.29% | +90.51% |
| S&P/ASX Small Ordinaries Accumulation Index | +10.59% | -2.91% | +7.51% | +6.58% | +6.69% | +4.83% | +40.80% |
| Performance Relative to Benchmark | -1.89% | +1.27% | -10.11% | -2.27% | +1.22% | +4.46% | +49.71% |

* Investment Portfolio Performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions. Performance has not been grossed up for franking credits received by shareholders. Since inception (P.A. and Total Return) includes part performance for the month of February 2013. Returns compounded for periods greater than 12 months.

KEY METRICS – SUMMARY DATA

| | |
|---|------------------|
| Weighted Average Market Capitalisation of the Investments | \$68.6 million |
| Number of Holdings | 9 Long Positions |
| Cash Weighting | 0.90% |
| Standard Deviation of Returns (NCC) | 16.68% |
| Standard Deviation of Returns (XSOAI) | 16.84% |
| Downside Deviation (NCC) | 11.73% |
| Downside Deviation (XSOAI) | 10.84% |
| Percentage of Positive Months (NCC) | 63% |
| Percentage of Positive Months (XSOAI) | 56% |
| Shares on Issue | 61,784,395 |
| NCC Directors Shareholding (Ordinary Shares) | 4,289,990 |
| NCC Options Closing Price (ASX: NCCOB) | \$0.025 |

OUR TEAM

Chairman

David Rickards (Independent)

Directors

Warwick Evans

Sebastian Evans

Sarah Williams (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

Marketing & Communications

Manager

Angela Zammit

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Important Information: This material has been prepared by NAOS Asset Management Limited (ABN 23 107 624 126, AFSL 273529) (NAOS) as investment manager of the listed investment company referred to herein (Company). This material is provided for general information purposes only and must not be construed as investment advice. It does not take into account the investment objectives, financial situation or needs of any particular investor. Before making an investment decision, investors should consider obtaining professional investment advice that is tailored to their specific circumstances. Past performance is not necessarily indicative of future results and neither NAOS nor the Company guarantees the future performance of the Company, the amount or timing of any return from the Company, or that the investment objectives of the Company will be achieved. To the maximum extent permitted by law, NAOS and the Company disclaims all liability to any person relying on the information contained herein in relation to any loss or damage (including consequential loss or damage), however caused, which may be suffered directly or indirectly in respect of such information. This material must not be reproduced or disclosed, in whole or in part, without the prior written consent of NAOS. This announcement has been authorised for release to the ASX by the Board of Directors of NAOS Emerging Opportunities Company Limited.