



NAOS Small Cap Opportunities Company

- Unsecured 4.95% Fixed December 2024

September 2020

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Issuer Overview

NAOS Asset Management Ltd is a specialist fund manager providing investors with exposure to Australian listed industrial companies outside of the ASX-50. NAOS launched its first listed investment company (LIC) in 2013 with 400 shareholders and today NAOS manages three LIC vehicles with close to 7,500 shareholders:

- NAOS Small Cap Opportunities Company generally invests in up to 30 small-cap ASX listed companies with a target market cap in the range of \$100m-\$1bn
- NAOS Emerging Opportunities Company generally invests in up to 15 micro-cap ASX listed industrial Companies with a target market cap of less than \$250million
- NAOS ex-50 Opportunities Company generally invests in up to 20 mid cap ASX listed companies with a target market cap of \$400m- \$1bn.

The NAOS Small Cap Opportunities Company (NAOS), an LIC listed on the Australian Securities Exchange (ASX: NSC) holds strategic equity investments in a range of Small-Cap Company investments divided amongst the Telecommunications, Human Resources, Engineering, Agriculture, Information Technology, Finance, Retirement, Construction Materials and Tourism sectors. NAOS obtains funding for those investments from equity investors and bond holders.

NAOS currently has one fixed rate issue totaling \$27million unsecured, unsubordinated bonds carrying an interest rate of 4.95% with a 5-year maturity date (original) of December 2024.

The fair value of Financial Assets, being the investments held by NAOS as of 30 June 2020, totaled \$134million. This reflects a gearing level of approximately 20% which indicates that despite the fall in the market across most of the investments in the portfolio, NAOS remains in a strong financial position.

The NAOS investment portfolio returned a positive contribution of 1.53% in July and 3.17% in August. These contributions provide a positive outlook for the portfolio with all holdings, apart from one, releasing their FY20 financial results, and in some cases providing a broad outlook for FY21. The most notable positive contributors to performance for August were Consolidated Operations Group (ASX: COG), which announced a maiden dividend; Eureka Group Holdings (ASX: EGH) which surpassed market expectations and resumed its earnings growth momentum; and Over The Wire (ASX: OTW) which announced an acquisition and reported a strong trading result for 2HFY20.

ISIN	AU3CB0268845
Minimum amount	\$10,000
Denominations	\$1,000
Retail / Wholesale	Wholesale clients only
Coupon type	Fixed
Rate	4.95%
Coupon payment frequency	Semi-Annually
Issue date	December 2019
Maturity date	December 2024
Type / Rank	Unsecured
Domicile	Australia
Currency	AUD
Amount issued / outstanding	\$27m/\$27m
Aust. Withholding Tax exempt	Yes
Issuer / Bond credit rating	N/A
Guarantor / Credit Wrapper	Unsecured No

Key Information

The primary assets of the issuer comprise holdings in ASX listed entities. As of 30 June 2020, total debt to total tangible assets stood at approximately 20%. Loan to value coverage with just \$27million of debt compared with a current portfolio value (comprising ASX listed securities) of circa \$134million equates to a strong asset coverage of approximately 5 times.

Bond holders also benefit from a Negative Pledge, such that whilst any bonds are outstanding, NAOS cannot create or permit to subsist any security interest upon the whole or any part of its present or future assets other than up to \$1m in a Permitted Security Interest.

In addition, NAOS has entered into Financial Covenants such that whilst any bonds are outstanding, NAOS must ensure the Loan to Value Ratio (LTV) does not exceed 45.0% at the close of business on any Business Day. Moreover, NAOS must not incur any new financial indebtedness or refinance, amend and restate or extend any financial indebtedness, other than Permitted Financial Indebtedness of \$27million including the bonds, and not make a dividend distribution to equity holders if doing so would cause the LTV Ratio to exceed 35.0% immediately after such distribution.

Risks

NAOS is subject to the prevailing equity market conditions. The value of the portfolio of investments may fluctuate due to several factors, all of which may change for a variety of reasons. The Small-Cap investments held by NAOS are, by their nature, somewhat illiquid. However, given the debt to assets ratio of approximately 20%, bond holders need not be

overly concerned about the asset backing behind the bonds until there is a 30% - 40% decline in the price of small-cap investments.

Bond holders are exposed to a variety of risks include small companies risk, liquidity risk, concentration risk, market risk, equity investment risk, economic risk, regulatory risk, investment strategy risk, reputational risk, industry risk, key person risk, interest rate risk and a number of general market risks.

In addition, bond holders are exposed to early redemption risk and transferability risk.

Summary

NAOS offers clients exposure to a diversified range of small-cap businesses. The risks associated with the investment are currently being compensated for in the return.

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