

NAOS – Small Cap Opportunities Company Ltd (ASX:NSC)

Ethical Survey, as voted by members of the Ethical Advisers Co-Op



Poor | Disappointing | Average | Appealing | Excellent

As voted by Ethical Adviser Co-op members. Find a specialised ethical adviser near you: www.ethicaladviserscoop.org/find-an-adviser.html

Fund Overview

This is an actively managed listed investment company (LIC) that holds a relatively concentrated portfolio of small-cap (\$100million - \$1 billion) Australian industrial companies. NAOS employs an ESG screen across the portfolio along that includes both negative and positive screen elements.

Ethical Concerns

Investments

- ✘ Some investments in the Fund may be problematic for ethical investors, such as:
 - Diversified technical services contracting business BSA holds fire systems and ventilation maintenance contracts at 3 Department of Defence sites across NSW & VIC. Maintenance division revenue (which includes health, education, retail, commercial & defence) accounts for less than 23% group revenue overall.
 - Tourism related environmental impacts: Experience Co Ltd (EXP) – travel company providing rainforest and great barrier reef tours, which have potential links to environmental damage.
 - Potential exposure to logging: Big River Industries (BRI) – provides timber building and flooring products with a focus on energy efficient and sustainable features. While much of Big River’s product is supplied from plantation timber, a material portion of product is supplied from regrowth hardwood (which the company claims is harvested on a long term rotational and sustainable basis).

Other concerns

- ✘ While NAOS is clearly committed to incorporating ESG into their investment process, there is only a relatively succinct explanation of this [process](#) provided on their website.
- ✘ Despite comprehensive range of negative screens, underlying investee companies provide clear secondary exposure to certain excluded activities for ethical investors (as mentioned above).

Good Points

- ✓ Fund excludes investment in tobacco, gambling, nuclear and uranium, controversial weapons, coal mining operations and oil and gas production.
- ✓ Fund employs a positive screen for involvement in ESG activities including biodiversity, combating climate change, reducing GHG emissions, promoting human rights and equality in the supply chain and board diversity.
- ✓ Above screening highlights a strong commitment to responsible investment process.
- ✓ Commitment to transparency by being [UNPRI](#) signatory.
- ✓ NAOS actively engage and raise ESG concerns with investee company management and/or boards, and conducts company ESG questionnaires to identify potential areas of concern or positive ESG contributions.
- ✓ NAOS disclose a complete list of LIC holdings every August via Annual Reports and are willing to provide these upon request.
- ✓ NAOS are willing to provide shareholder voting history upon request. However, due to the small-cap (industrial) nature of underlying investee companies, there are unlikely to be any contentious holdings targeted by ACCR or Market Forces.
- ✓ Approximately 1% of recurring income from NAOS Asset Management Limited is donated to [charitable organisations](#).

About the 'Ethical Survey'

About the Ethical Advisers Co-Op

The Ethical Advisers Co-op is a group of 35 financial advisers who are passionate about ethics and finance. The Co-op was established as a not-for-profit over 10 years ago to enable likeminded financial advisers to work together to represent the voice of the consumer. We work to shift the super and investment industry into being more ethically aligned with their clients' objectives. The Co-op's nationwide membership of ethical financial advisers help over 3,300 Australians make financial decisions and invest in line with their ethical values.

How the Leaf-System Works

The ethical rating is voted by Australian financial advisers who specialise in ethical investments (Co-op members). The advisers assess if fund ethics suit their average ethical client, and if it matches with the average client's expectations and objectives. The advisers consider how successful the fund is at; 1) removing industries and stocks harmful to the environment and society 2) including companies with environmental or social benefits, and 3) providing evidence of actions from the fund which benefit society and/or the environment. The quality of information the fund provides on its ethical policies, companies invested in, and proxy voting is important in assessing if a fund is as ethical as claimed. The final rating is an average of these votes.

Financial advisers are voluntarily participating to help ethical consumers gain a quick understanding of how the clients of a group of industry professionals view the ethics of each fund. The Co-op and the advisers do not receive any form of remuneration or reward for participating.

Further Research

Does your fund walk the talk?

The Australasian Centre for Corporate Responsibility (ACCR) – a not-for-profit shareholder advocacy organisation – pushes for transparency around whether your super fund 'walks the talk' on issues such as climate and human rights. You can find details on your super fund [here](#).

Is your fund investing in fossil fuels?

Market Forces is a not-for-profit delivering transparency on fossil fuel lending, insuring and investing within super funds, banks and insurance companies. You can see how exposed your super fund, bank or insurance company is to the fossil fuel industry [here](#).

If the fund is certified by the Responsible Investment Association Australasia (RIAA)

You can find more ethical and investment information for certified funds [here](#).

More information on this fund

For exact details of the fund's claimed ethics, costs and legal details see the fund's Product Disclosure Statement - available on their website.

Vote based on information last updated 20th May 2020