

NAOS Emerging Opportunities Company (NCC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

AUGUST 2015

KEY CHARACTERISTICS

1. Genuine Exposure to Undervalued Emerging Companies

Regardless of market capitalisation and/or liquidity, NCC seeks to provide investors with exposure to high quality emerging companies in a transparent and concentrated long/short structure.

2. Focus on Quality of Companies not Quantity of Companies

Our primary focus is on developing a deep understanding and appreciation of the companies in our portfolio. We believe the best way to do this is to focus on a select (target 0-15) number of high quality ideas. By developing a solid understanding of these companies we believe we are well positioned to capitalise on our 'information advantage'.

3. Focus on Meaningful Long Term Performance

We target an Internal Hurdle Rate of 20% p.a. over a rolling three year period for all our investment holdings.

4. Constructing the Portfolio utilising a Benchmark Unaware Approach

Being benchmark unaware means we are not forced holders of stocks that we are not convinced are attractive investment propositions.

5. Demonstrating a Significant Alignment of Interests with Shareholders

NAOS employees/directors own >\$10m NCC shares providing shareholders with a significant alignment of interests.

Net Tangible Asset Value Breakdown as at 31st August 2015

Pre Tax NTA:	\$1.04
Post Tax & Pre Unrealised Gains Tax:	\$1.04
After Tax NTA:	\$1.05

Investment Portfolio Performance to 31st August 2015

The NCC investment portfolio produced a negative return of -5.77% for the month of August. The portfolio's benchmark, the XSOAI (Small Ordinaries Accumulation Index), fell by -4.87% over the same period, outperforming its larger counterpart the XAOAI (All Ordinaries Accumulation Index), which fell by -7.30%.

Since the portfolio's inception on 26th February 2013 (30 months), the relative outperformance of the portfolio versus the benchmark is +51.63%.

	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	Inception (p.a.)	Inception (Nom.)
NCC Investment Portfolio Performance*	-5.77%	-7.74%	-7.83%	-7.41%	+4.79%	+15.27%	+42.83%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	-4.87%	-10.89%	-9.08%	-9.62%	-1.44%	-3.61%	-8.80%
Outperformance Relative to Benchmark	-0.90%	+3.15%	+1.25%	+2.21%	+6.23%	+18.88%	+51.63%

*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.

As equity markets experienced a significant pull back over the course of the month (much of which was linked to the Chinese adjusting their currency peg against the USD and the release of weaker than expected economic data, resulting in a meltdown in local equity markets, a failed attempt at market intervention by the Chinese Government and global fear contagion spreading to markets such as the US, Europe and Australia) we thought it worthwhile to revisit the investment strategy and objective for the Company and provide an update on how the top 5 investments in the portfolio (accounting for ~65% of the portfolio's NTA) reported during August's Reporting Season.

The NCC investment portfolio adopts a concentrated, stock specific approach to generating positive absolute returns. With this in mind, we seek to invest in companies which present strong franchises, significant potential for earnings growth, balance sheets that embody inherent value and proven management teams with a clear alignment of interests to that of shareholders. Investment opportunities are assessed with the view that they should attain an average return of 20% p.a. over a rolling three year period.

Overall we were pleased with the results delivered by our key holdings during August's Reporting Season. Across the board, contrary to the performance of the portfolio, the underlying performance of NCC's 'Top-5' investments was solid, with Enero Group (EGG), Lindsay Australia (LAU), MyNetFone (MNF), Armidale Investment Corporation (AIK) and BSA Limited (BSA) all reporting earnings growth for the year. MNF and BSA were notable stand-outs in this regard, posting earnings growth of >+20% YOY. Balance sheet strength was also evident across the 'Top-5' group, with the likes of BSA and EGG reporting net cash balances of \$19 million and \$26 million respectively.

Investment Thesis & Reporting Summary – NCC 'Top-5'

Enero Group Limited (EGG)

Enero is a boutique network of marketing and communications businesses. The Company owns the following agency brands: BMF, Frank, Hotwire, TDE, Naked, The Leading Edge, Dark Blue Sea, CPR, Precinct, Bmedia, Corporate Edge and Jigsaw.

EGG reported EBITDA growth of 2.22% YOY. The effect of some significant European contract growth came through in the second half of FY2015, adding +15% to overall growth for the period. Looking forward into FY2016, of primary focus for the business is the ability to maintain a flat revenue line which should lead to margin growth of between 100 and 250bps. Even though revenue fell by -7.77% over the FY2015 period, margins increased from +7.53% to +8.34%. In addition to earnings growth from further margin expansion, we continue to see inherent future value in EGG, as the enterprise value remains just \$32.5 million, taking into account the \$26 million of net cash. The business has also hit some key business development targets over the period, such as winning the Ebay Europe contract to manage all social media and online content.

Broadcast Services Australia (BSA)

BSA owns and operates a range of communications, technical services and contracting solutions. Recognised brands operating as part of BSA include Triple M, a HVAC and Fire systems related business, Allstaff Air-conditioning, Mr Antenna and M Alarms.

BSA reported one of the strongest results across the portfolio with underlying EBITDA of \$18.4 million compared to \$13.5 million the previous year. The most pleasing part of the result was the excellent cash conversion, with operating cash flow of \$19.6 million resulting in a net cash position at the end of the year of \$18.4 million. Management has been able to make significant progress on its commitment to margin expansion with an EBITDA pre corporate costs margin of over +4.70% which, in the second half, was closer to +5.66%. All of this was topped off with revenue growth of +10.60%. With a market capitalisation of \$70 million, the market will be looking to see how BSA can further diversify its revenue base with further margin expansion, in particular how it can leverage its expertise into its work with NBN Co. as well as into other sectors such as health and aged care services. BSA is in a unique position of having a significant franking balance together with a large tax loss position and we would expect some sort of capital management initiatives to be announced at the FY2016 half year result. It is also worth noting that BSA now has over \$300 million in recurring revenue that continues to rise YOY.

My Net Fone (MNF)

MNF is Australia's largest provider of hosted voice and data communications services, including VoIP Phone and DSL internet for residential and commercial businesses.

MNF is the most recent addition to the Company's core holdings. We have been following MNF for some time, attracted to its ability to beat market expectations for past 3 consecutive years whilst developing its own intellectual property in the managed services space within voice over internet applications (VOIP). For FY2015, MNF reported EBITDA growth of circa 35% with little to no contribution from the recent acquisition of the TNZI network. This result equates to circa \$3m EBITDA growth from the domestic business alone, with domestic EBITDA margins increasing from 15.10% to 18.40% over the year. The company has stated that they expect a circa \$4 million EBITDA contribution from TNZI in FY2016. If we assume a similar growth rate for the domestic business of \$3 million EBITDA (based on lead indicators released in the presentation) and adding in TNZI's contribution, the base EBITDA level for FY2016 will be \$19.2 million. This figure does not include any uplift from further TNZI growth, which we believe is achievable, any future announcements of any further acquisitions and any further domestic growth due to increased demand for MNF products within Australia from TNZI's customers. With this in mind, we believe an EBITDA figure of \$21-\$23 million is reasonable for FY2016, equating to YOY growth of circa >30% at the EBITDA level.

Armidale Investment Corporation (AIK)

Armidale Investment Corporation is a Listed Investment Company with just 2 investments. As such we believe AIK presents a unique investment opportunity.

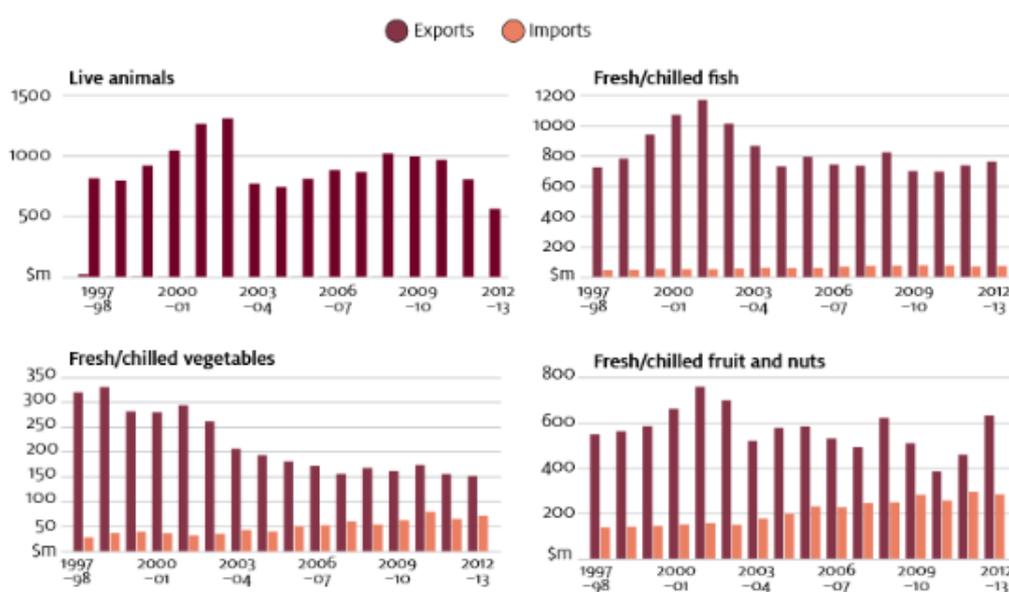
The main investment of AIK, Hal Data Services, makes up 70% of AIK's 14cps NTA. Hal Data Services specialises in equipment leasing. AIK's investment in Hal Data Services is valued once a year using a discounted cash flow methodology. The main inputs of this method being the discount rate used, the value of the book/cash flows and finally the cost of funding, which has significant impact on the cash flow generation of the book. As per AIK's Annual Report, the discount used to value Hal Data Services is 21%. For every 1% fall in the discount rate applied, the effect in valuation uplift for AIK is circa \$0.005. Comparative leasing books in such low interest rate environments are valued using discount rates ranging between 8% and 12%, such a change would result in minimum \$0.045 uplift. AIK has also stated that it is in the final stages of discussion to arrange funding with financial institutions to reduce the cost of funds from the current level of >10%. Any reduction in the cost of funds would have a significant impact to the valuation of the book. Finally, with new business originations for FY2015 up to \$25.2 million from \$12.0 million we would expect the book to grow significantly from the current size of \$56.5 million, as the old tail of book runs off. With the above in mind, we believe the NTA for AIK could move to 20-25cps over the next 12-24 months.

Lindsay Australia (LAU)

Lindsay is an integrated transport, logistics and rural supply company. The group’s major activities focus on road transport, logistics and warehousing services as well as specialist services to rural supplies, with a focus on the horticultural industry.

FY2015 was a big year for LAU. The Company established a new logistics facility in Adelaide, set up its inaugural Lindsay Fresh Logistics division (LFL) within the Brisbane market (LFL specialises as a one stop shop for the exporting of fresh fruit and vegetables direct from the farmer to the plane) and replaced Aurora with Visy for a new 5 year packaging deal for their Rural division. The Company’s result at the EBITDA level grew by +7.43% which, with a revenue line that was relatively flat, was a good result. Behind the headline numbers we saw that the key transport division’s gross margin grew by almost 70bps to 9.15%, even with a significant amount of Lindsay Fresh start up costs expenses within the period. Looking forward, there are a number of tail winds for LAU. Firstly, as per the chart overleaf, we can see that exports for fresh vegetables and fruit from 1997 have been flat, mainly due to the significant currency headwind. As the currency has fallen by ~30% in recent times, the export market to Australian fruit and vegetable growers has opened once more. LAU’s recent investment in its unique and hard-to-replicate export related infrastructure will, we believe, put LAU in a strong position to capitalise. Secondly, LAU should benefit from the new deal with Visy for its Rural division which was a \$1.5 million drag at the GP line in FY2015. Looking forward, with the start-up costs of LFL reducing, together with increased fruit and vegetable volume, we believe FY2016 and FY2017 will shape up to be significant years for LAU. We would expect EBITDA growth for LAU to reach in excess of 15% for both FY2016 and FY2017, if not considerably higher.

FIGURE 20 Australian food exports and imports, by sector, 2012–13 dollars



Source: Australian Bureau of Statistics

Positive Stock Attribution Analysis (1st March 2013 to 31st August 2015)

The table below lists the top positive contributors to NCC’s total return since 1st March 2013. The purpose of the chart 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 highly concentrated portfolio of investments that is often 0 -15 securities at any one time. We will disclose securities that the Company has a substantial holding in or when we have exited the name. All of the below may either of been a long or short position in the portfolio at some point in time.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
Calliden Group Limited	+10.46%	Sirtex Medical Limited	+5.49%
Capitol Health Limited	+10.17%	Lindsay Australia Limited	+5.48%
Armida Investment Corporation	+6.23%	Broadcast Services Australia Limited	+6.06%
Tamawood Limited	+5.82%	RHG Limited	+4.75%
Village Roadshow Limited	+5.51%	Gage Roads Brewing Limited	+4.17%

Portfolio Positioning as at 31st August 2015

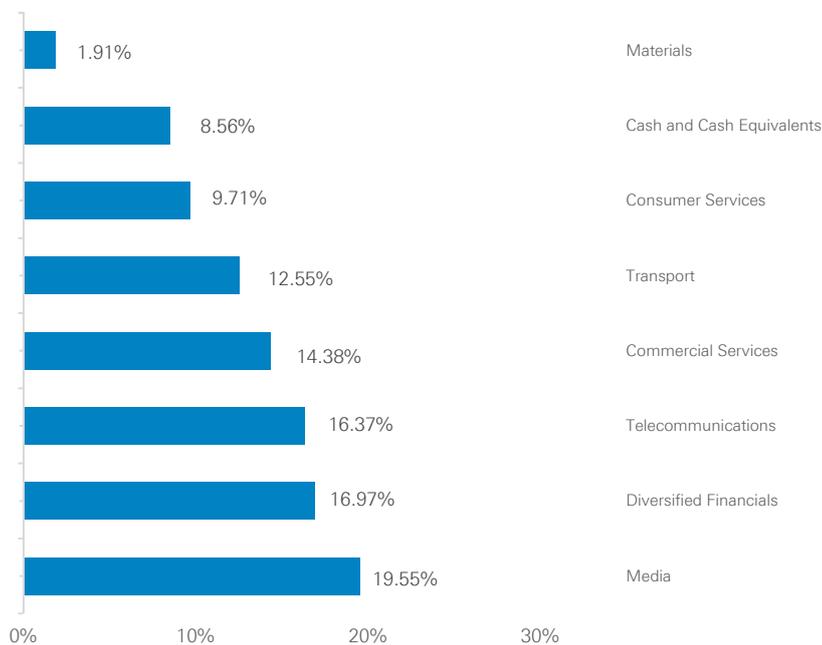
As at 31st August, the portfolio’s net equity exposure was ~91% with a subsequent cash weighting ~9%.

Investment opportunities are assessed with the view that they should attain an average net return of 20% p.a. over an average three year period. We have a high degree of conviction in relation to all positions in the portfolio with the current ‘top-5’ holdings in the portfolio at this time comprising > 65% of the portfolio’s total net tangible assets.

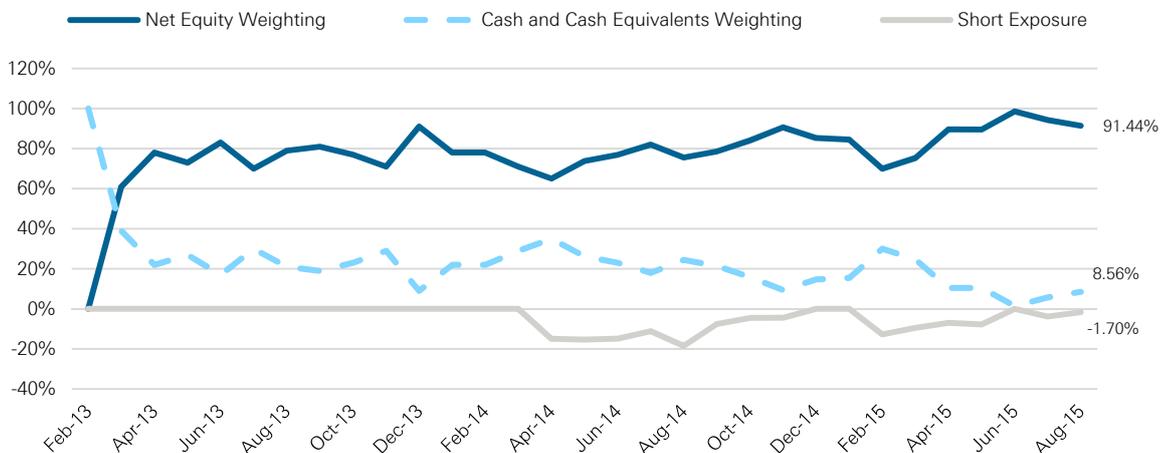
As discussed in detail above, the current ‘top 5’ holdings in the portfolio include Enero Group, Broadcast Services Australia, My Net Fone, Armidale Investment Corporation and Lindsay Australia.

We remain committed to continuing to implement investment opportunities on both the long and short side of the portfolio as well as actively managing our cash exposure such that the investment objectives of the Company can be met and exceeded over the course of time.

Industry Exposure



Net Equity Exposure



Company Meetings

The NAOS investment philosophy is based around the belief that for an Emerging Company to succeed and generate strong returns for shareholders it must be led by a motivated, proven and experienced management team that 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 met with during the month of August is provided below.

- Eureka Group Holdings (EGH)
- Korvest Limited (KOV)
- Rhipe Limited (RHP)
- RNY Property Group (RNY)
- DWS Limited (DWS)
- CML Group Limited (CGR)
- Enero Group Limited (EGG)
- Baby Bunting (IPO)
- Alliance Aviation Services (AOZ)
- Sirtex Medical Limited (SRX)
- Fairfax Media Group (FXJ)
- RXP Services Limited (RXP)

Portfolio Characteristics – Summary Data

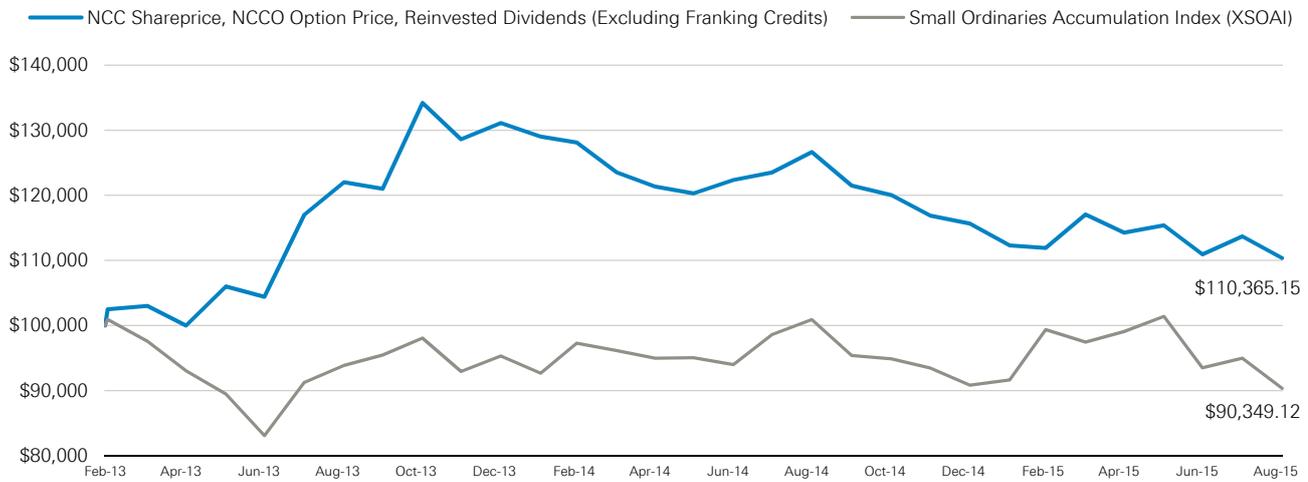
Below are a number of historical portfolio risk measures. Our aim in providing these metrics is to demonstrate to investors how NCC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term and to preserve investors' capital. This month we have added the metric for downside deviation compared to that of the benchmark. This metric provides a basis upon which the volatility of negative returns can be assessed. A glossary of the terms used below and the method used for calculating them can be found on the last page of this report.

Total Number of Equity Holdings (Long & Short)	9
Total Number of "Income" Instruments	0
Total Number of Holdings	9
Portfolio Weighted Average Market Capitalisation	\$118m
Percentage of Positive Months (NCC)	70%
Percentage of Positive Months (XSOAI)	52%
Standard Deviation of Returns (NCC)	11.35%
Standard Deviation of Returns (XSOAI)	14.45%
Correlation of Returns to XSOAI	54.57%
Sortino Ratio	2.56
Downside Deviation	4.93%
Downside Deviation XSOAI	7.63%
Current Estimated Portfolio Beta	0.21

Capital Management – Summary Data as at 31st August 2015

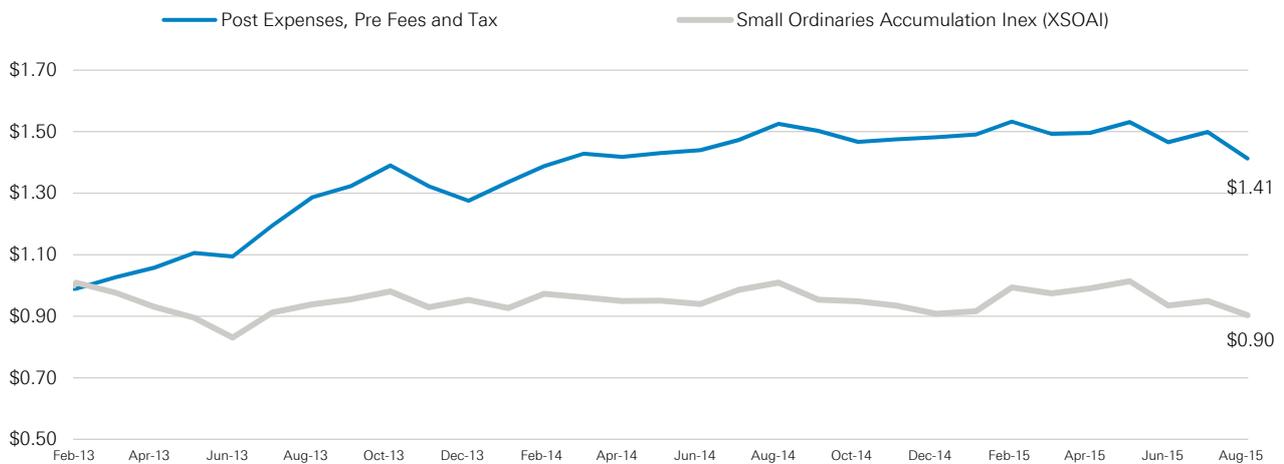
Share Price	\$0.99
Discount to NTA (pre tax, undiluted)	-5.30%
Fully Franked Dividend Yield	6.06%
Gross Dividend Yield	8.66%
Shares on Issues	46,918,297
Directors Shareholding (ordinary shares)	3,210,079

Shareholder Return Analysis (IPO) Investors

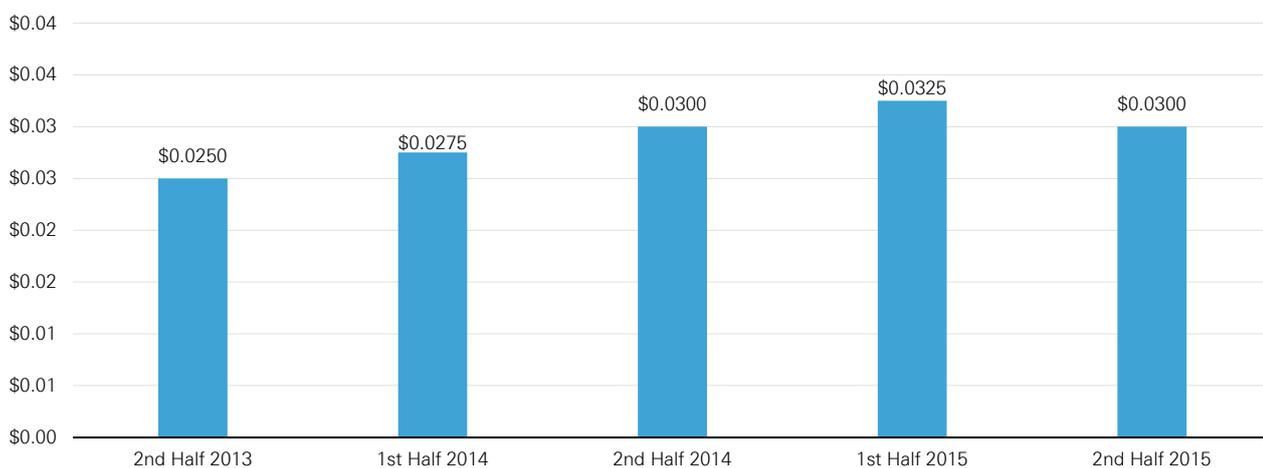


*Assumes an intrinsic value of \$0.02 cents per option at expiry (1st February 2015).

NTA Per Share (Post Expenses, Pre Fees and Tax) vs Small Ordinaries Accumulation Index (Net, Div Reinvested)



Dividend Profile - Historical Fully Franked Dividends (Cents per Share)



Description of Statistical Terms/Glossary

Portfolio Weighted Average Market Capitalisation – The portfolio weight of each individual position multiplied by each companies respective market capitalisation.

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 securities move in relation to each other. In this case the two securities are NCC 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 NCC would be expected to have a return of +1.00%

Sortino Ratio – A modification of the Sharp 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 (RBA Cash Rate+ 250 Basis Points) 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 means that the security/portfolio will be less volatile than the market.

XSOAI – Small Ordinaries Accumulation Index (XSOAI)

CORPORATE DIRECTORY

Directors

David Rickards (Independent Chairman)
Warwick Evans (Director)
Sebastian Evans (Director)

Company Secretary

Lawrence Adams

Investment Team

Sebastian Evans (Chief Investment Officer)
Ben Rundle (Portfolio Manager)
Jeffrey Kim (Portfolio Manager)
Robert Miller (Portfolio Manager)

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Anneke Senden

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