

# NAOS Emerging Opportunities Company (NCC)

NAOS

## MONTHLY INVESTMENT REPORT AND NTA UPDATE

DECEMBER 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, undervalued emerging companies in a transparent and concentrated long/short structure that has the competitive advantage of being a nimble closed ended fund with no liquidity constraints.

#### 2. Focus on Quality of Companies not Quantity or Size 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 achieve this is to focus on a select number (target 0-15) of high quality ideas. By developing a deep understanding of these companies we believe we are well positioned to capitalise on our 'long term information advantage' & 'liquidity 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. Portfolio Constructed Utilising a Benchmark Unaware Approach

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

#### 5. Significant Alignment of Interests with Shareholders

NAOS & NCC employees/directors own >10 million NCC shares, providing shareholders with a significant alignment of interests.

### Net Tangible Asset Value Breakdown as at 31<sup>st</sup> December 2015

Pre Tax NTA:	\$1.11
Post Tax & Pre Unrealised Gains NTA:	\$1.12
Post Tax NTA:	\$1.09

### Investment Portfolio Performance to 31<sup>st</sup> December 2015

The NCC investment portfolio produced a positive return of +4.56% for the month of December while the portfolio's benchmark, the XSOAI (Small Ordinaries Accumulation Index), rose by +3.91% over the same period. For the Calendar Year of 2015, NCC's investment portfolio returned +5.41% whilst the XSOAI outperformed its larger counterpart, the XAOAI (All Ordinaries Accumulation Index), by some 6.38%. Given the significant outperformance of the small cap sector, we thought it would be worthwhile to examine what the key drivers of performance were in both the small and larger end of the market and provide comment on whether these are likely to reoccur or persist for the year ahead.

Looking firstly at the larger end of the market, the big 4 banks, BHP and RIO all experienced significant headwinds over the course of the year and thus found performance generation challenging. Combined, these companies comprise >50% of the All Ordinaries Accumulation Index (XAOAI) and as such their poor performance provided a significant drag on the performance generation of the index as a whole.

Growth and momentum was the key theme driving the strong performance of the Small Cap sector over Calendar Year 2015. Some of the notable contributors to overall sector performance for the period were Blackmores, Burson, IPH Limited, Bellamy's and APN Outdoor, many of which increased by multiples over the period. When reviewing the performance of these companies we found that much of the share price appreciation was driven not only by earnings expansion (which would be expected) but also by significant multiple expansion or what the market is willing to pay for the prospect of growth. In an environment where earnings expectations (excluding resources) are subdued (~5% EPS growth) and where 'risk free' investments offer little in terms of returns it is not surprising that we have seen an expansion in the multiples being paid. The key question is, will the market continue to reward stocks on this basis and is the market paying a premium relative to company and industry specific risk associated with such investments?

Whilst growth and momentum names dominated the headlines over the year we also saw a number of value and, in some cases, deep value names also perform strongly. We believe 2016 will remain a stock pickers market, with those able to let winners run and cut losers fast being the most successful in generating strong performance.

	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	Inception (p.a.)	Inception (nom.)
NCC Investment Portfolio Performance*	+4.56%	+9.64%	+6.58%	+5.41%	+10.68%	+17.45%	+57.94%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	+3.91%	+11.32%	+6.98%	+10.16%	+2.94%	+0.35%	+0.99%
Outperformance Relative to Benchmark	+0.65%	-1.68%	-0.40%	-4.75%	+7.74%	+17.10%	+56.95%

\*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 nom.) includes part performance for the month of February 2013.

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

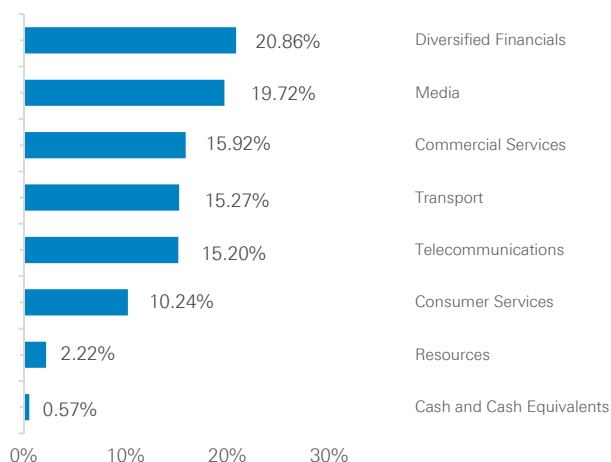
The table below lists the top positive contributors to NCC's total return since 1st March 2013. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated portfolio of investments that is often 0 -15 securities at any one time. We will disclose securities in which the Company has a current substantial holding, or when we have exited the position. All of the below have either 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	+11.53%	Tamawood Limited	+6.42%
Capitol Health Limited	+11.21%	Village Roadshow Limited	+6.07%
Armidale Investment Corporation	+8.86%	Sirtex Medical Limited	+6.06%
Lindsay Australia Limited	+8.78%	RHG Limited	+5.24%
Broadcast Services Australia	+7.00%	Gage Roads Brewing	+4.60%

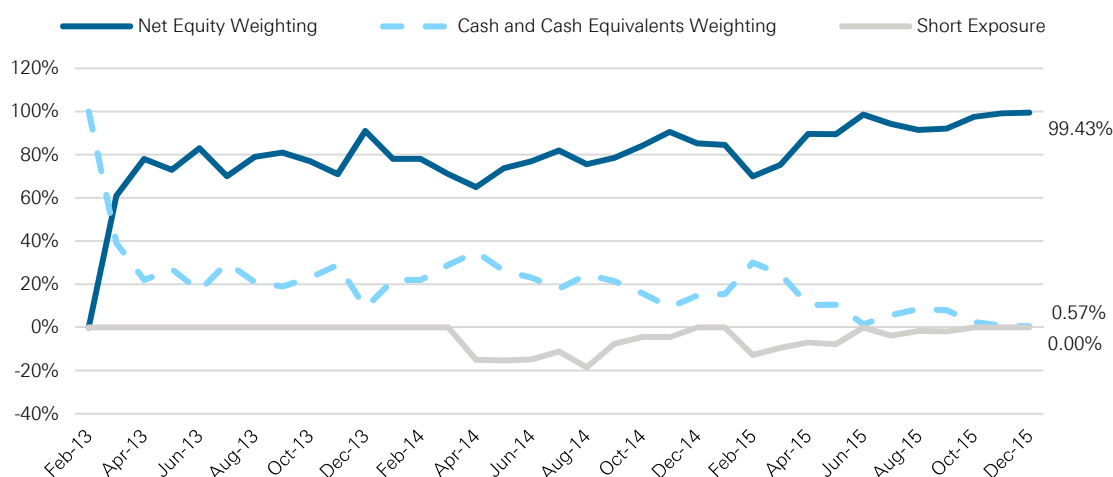
### Portfolio Positioning as at 31st December 2015

As at December month end, the portfolio's net equity exposure was ~99% with a subsequent cash weighting of ~0.5%. The core holdings in the portfolio did not change over the course of the month. As at month end, the portfolio was comprised of 8 long positions and no shorts. There were also no income instruments in the portfolio.

#### 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. This 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 we met with during the month of December is provided below.

- Grays Ecommerce Group Limited (GEG)
- STW Communications Group Limited (SGN)
- JustKapital Litigation Partners Limited (JKL)
- Gentrack Goup Limited (GKL)
- Murray River Organics (unlisted)
- Prophecy International Holdings Limited (PRO)
- Lindsay Australia Limited (LAU)
- MNF Group (MNF)
- Collins Foods Limited (CKF)
- Onthehouse holdings Limited (OTH)
- Redhill Education Limited (RDH)
- Australian Vintage Limited (AVO)

## Portfolio Characteristics – Summary Data

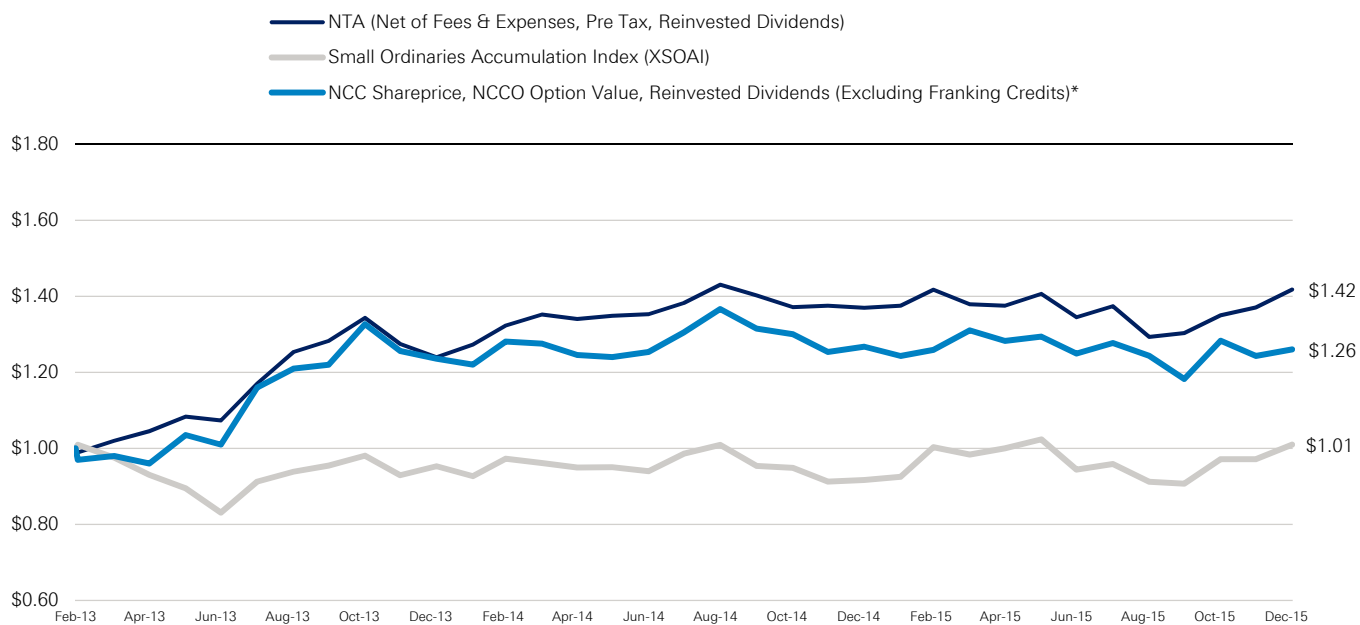
Below are a number of historical portfolio risk measures. Our aim in providing these metrics is to demonstrate to investors how NCC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term and to preserve investors' capital. This month we have added 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.

Portfolio Weighted Market Capitalisation	\$90m
Percentage of Positive Months (NCC)	71%
Percentage of Positive Months (XSOAI)	46%
Standard Deviation of Returns (NCC)	11.52%
Standard Deviation of Returns (XSOAI)	14.49%
Correlation of Returns to XSOAI	58.86%
Sortino Ratio	2.54
Downside Deviation	5.78%
Downside Deviation XSOAI	7.68%
Current Estimated Portfolio Beta	0.36

## Capital Management – Summary Data as at 31<sup>st</sup> December 2015

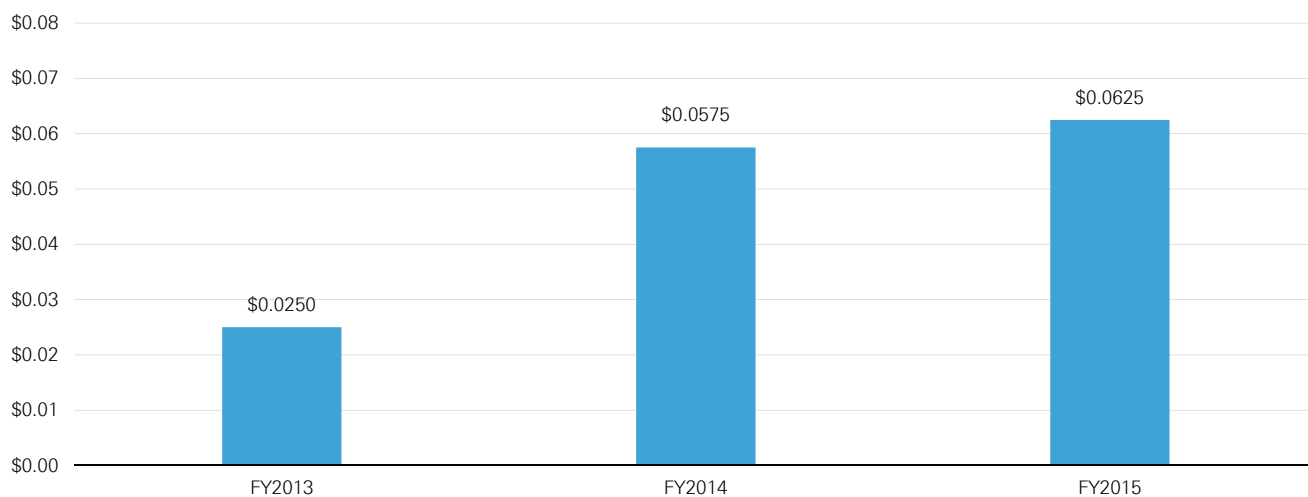
Share Price	\$0.975
Discount to NTA (pre tax)	12.16%
Fully Franked Dividend Yield	6.15%
Gross Dividend Yield	8.79%
Shares on Issue	46,918,297
Directors Shareholding (ordinary shares)	3,307,608

NTA & Share Price Analysis



\*Assumes an intrinsic NCCO value of \$0.14 cents per option at expiry (1st February 2015).

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



## Description of Statistical Terms/Glossary

**Portfolio Average Market Capitalisation** – The portfolio weight of each individual position multiplied by each company's 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 variables move in relation to each other. In this case the two variables 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 Sharpe 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 (Small Ordinaries Accumulation Index - XSOAI) 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 indicated that a security/portfolio should be less volatile than the market.

**XSOAI** – Small Ordinaries Accumulation Index

### Disclaimer:

This report has been prepared by NAOS Asset Management Limited. Information provided in this report is for general information purposes and must not be construed as investment advice. In preparing this report we have not taken into account the investment objectives, financial situation or needs of any particular investor. Past performance is not a reliable indicator of future performance. Before making an investment decision investors must read the offer documents and should seek their own financial product advice. Returns are compounded for periods greater than 12 months. The Investment Manager of the Company is NAOS Asset Management Limited (ABN 23 107 624 126, AFSL 273529). NAOS Address: Level 4 Domain House, 139 Macquarie Street Sydney NSW 2000. NAOS Telephone: 61 2 9947 2566

### CORPORATE DIRECTORY

#### Directors

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

#### Company Secretary

Richard Preedy

#### Investment Team

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

#### Chief Financial/Operating Officer

Richard Preedy

#### Business Development Manager

Julia Stanistreet

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