

# NAOS Emerging Opportunities Company (NCC)

NAOS

## MONTHLY INVESTMENT REPORT AND NTA UPDATE

June 2017

### KEY CHARACTERISTICS

#### 1. Genuine Exposure to Undervalued Emerging Companies with an Industrial Focus

Regardless of market capitalisation and/or liquidity, NCC seeks to provide investors with exposure to high quality, undervalued emerging companies (market capitalisation generally <\$250 million) in a transparent and concentrated structure that has the competitive advantage of being a nimble closed ended fund with no liquidity constraints.

#### 2. Sustainable Growing Fully Franked Dividends

NCC's dividend has grown every year since inception with dividends usually paid on a six-monthly basis. To date all dividends have been fully franked.

#### 3. Focus on Quality of Companies Not Quantity or Size

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 investment ideas in order to capitalise on our 'long term information advantage' & 'liquidity advantage'. We target an Internal Hurdle Rate of 20% p.a. over a rolling three-year period for all our investment holdings.

#### 4. Portfolio Flexibility with a Benchmark Unaware Approach

This means we are not forced holders of stocks with large benchmark/index weightings that we are not convinced are attractive investment propositions. NCC can also hold up to 100% cash, it has been proven that holding cash offers the 'best hedge' during times of crisis.

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

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

### Net Tangible Asset Value Breakdown as at 30 June 2017

Pre Tax NTA:	\$1.31
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.29
Post Tax NTA:	\$1.24
Share Price:	\$1.33
Historical Fully Franked Dividend Yield	5.26%

### Investment Portfolio Performance & Market Insight

The NCC Investment Portfolio for the month of June increased by +0.44% compared to the benchmark Small Ordinaries Accumulation Index (XSOAI) which increased sharply by +1.99%. This brings the inception performance of the Investment Portfolio to +107.06% compared to +15.57% for the XSOAI.

For the 2017 Financial Year, NCC produced a positive return of +12.39%, comparing favourably to the XSOAI which increased by +7.01%. This brings a close to the fifth financial year of operations for NCC. Pleasingly each Financial Year has produced a positive return starting with FY2013 (4-months) +10.67%, FY2014 +30.48%, FY2015 +1.81%, FY2016 +24.77% and +12.39% for FY2017.

The year was a tale of two halves for NCC with the first half producing a gain of +16.60%, and the second half returning -3.61%. The most notable detractors in performance for the second half of the year were Consolidated Operations Group (ASX: COG), which fell from a high of \$0.18 to finish the year at \$0.13, MNF Group (ASX: MNF) which fell from \$4.76 to \$4.38, and BSA Limited (ASX: BSA) which fell from a high of \$0.38 at the end of December to finish at \$0.33 at the end of June.

What gives the investment team confidence in these positions is that none of the companies mentioned above have announced any significant negative events over the past six months that would ultimately break the respective investment thesis. Leading into July and August there will be much focus on the outlook commentary that each company provides, as FY2017 has proven to be a very eventful year either due to acquisitions, or legacy issues which have finally been dealt with. This should provide a clear runway for FY2018 and allow the market to gain an understanding of what a true run rate earnings profile is for each of these businesses.

With regard to the positive contributors for the financial year the following provided the highest positive contribution to return for the NCC Investment Portfolio, BSA Limited with a +8.23% contribution, CML Group (ASX: CGR) +4.74%, Consolidated Operations Group +3.78% and Big River Industries (ASX: BRI) +1.80%.

	1 Month	1 Year	2 Years (p.a.)	3 Years (p.a.)	4 Years (p.a.)	Inception (p.a.)	Inception (nom.)
<b>NCC Investment Portfolio Performance*</b>	+0.44%	+12.39%	+18.41%	+12.46%	+16.96%	+18.26%	+107.06%
<b>S&amp;P/ASX Small Ordinaries Accumulation Index (XSOAI)</b>	+1.99%	+7.01%	+10.64%	+7.13%	+8.60%	+3.39%	+15.57%
<b>Outperformance Relative to Benchmark</b>	-1.55%	+5.38%	+7.77%	+5.33%	+8.36%	+14.87%	+91.49%

\*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 Contribution Analysis**

(Contribution is what has attributed to NCC’s performance since Inception of 1 March 2013)

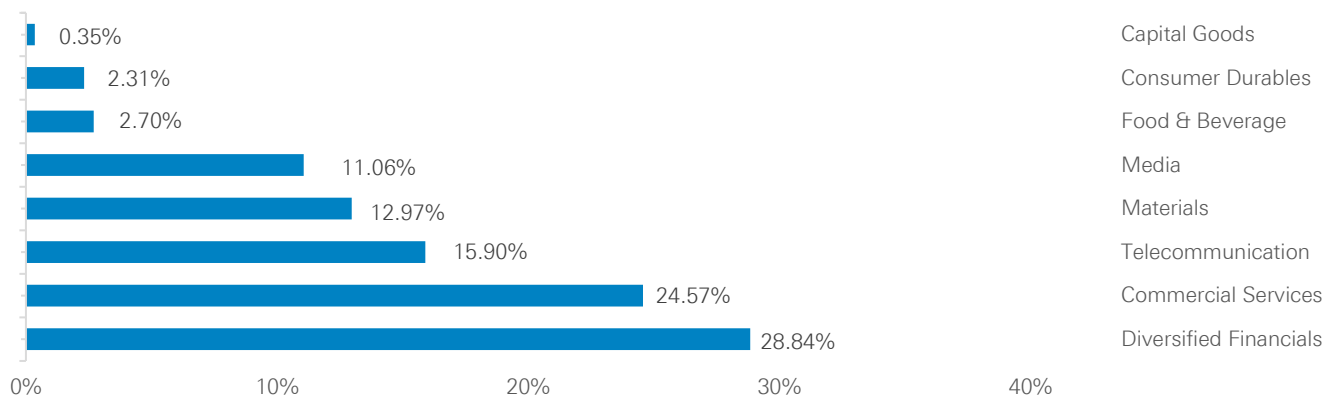
The table below lists the top positive contributors to NCC’s total return since inception. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated 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. Positions in the table 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)
BSA Limited	+24.53%	Village Roadshow	+7.95%
Consolidated Operations Group	+16.04%	Sirtex Medical Limited	+7.93%
Calliden Group	+15.10%	RHG Limited	+6.86%
Capitol Health Limited	+14.68%	Gage Roads Brewing	+6.03%
Lindsay Australia	+9.74%	MNF Group Limited	+5.31%
Tamawood Limited	+8.41%	CML Group Limited	+4.68%

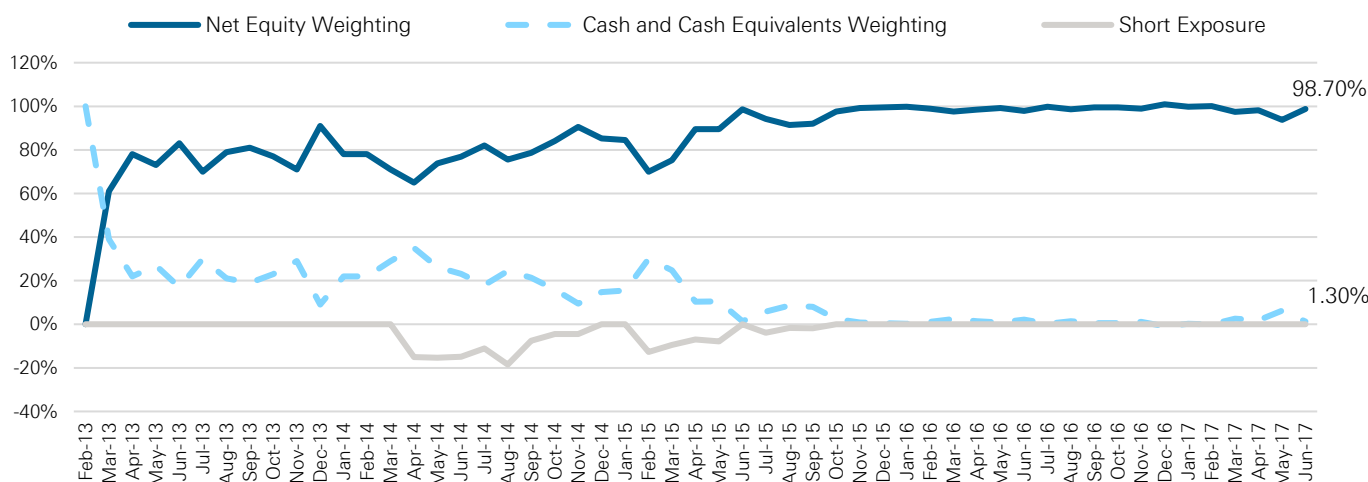
**Portfolio Positioning as at 30 June 2017**

As at 30 June 2017, the portfolio’s net equity exposure was ~98.70% with a subsequent cash weighting of +1.30%. The core holdings in the portfolio did not change over the course of the month. As at month end, the portfolio was comprised of 12 long positions and no shorts. There were also no income instruments in the portfolio.

**Net 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 the team had contact with during the month were as follows:

- Tempo Australia Ltd (TPP AU)
- Saunders International Ltd (SND AU)
- MyRepublic (Unlisted)
- Freedom Insurance Group (FIG AU)
- Wingara AG Ltd (WNR AU)
- Consolidated Operations Group (COG AU)
- Kogan.com Ltd (KGN AU)
- BIG Un Ltd (BIG AU)
- Over the Wire Ltd (OTW AU)
- Spirit Telecom Ltd (ST1 AU)
- Capilano Honey Ltd (CZZ AU)
- Namoi Cotton Co-operative Ltd (NAM AU)

## Portfolio Characteristics – Summary Data as at 30 June 2017

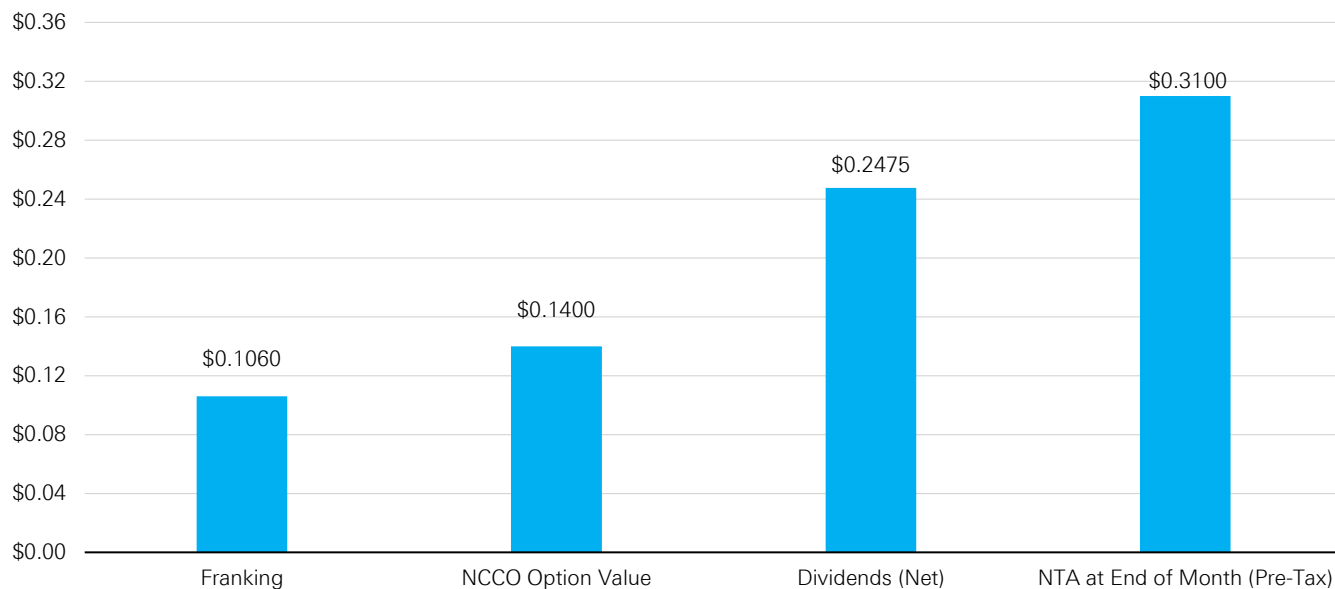
Below are a number of historical portfolio risk measures. Our aim in providing these metrics is to demonstrate to investors how NCC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and also to preserve investor's capital. A glossary of the terms used below and the method used for calculating them can be found on the last page of this report.

Portfolio Weighted Average Market Capitalisation	\$135.10 Million
Percentage of Positive Months (NCC)	71%
Percentage of Positive Months (XSOAI)	54%
Standard Deviation of Returns (NCC)	11.07%
Standard Deviation of Returns (XSOAI)	13.68%
Correlation of Returns to XSOAI	0.56
Sortino Ratio	2.71
Downside Deviation (NCC)	5.85%
Downside Deviation (XSOAI)	7.29%
Current Estimated Portfolio Beta (6 Month Historical)	0.45

## Capital Structure – Summary Data as at 30 June 2017

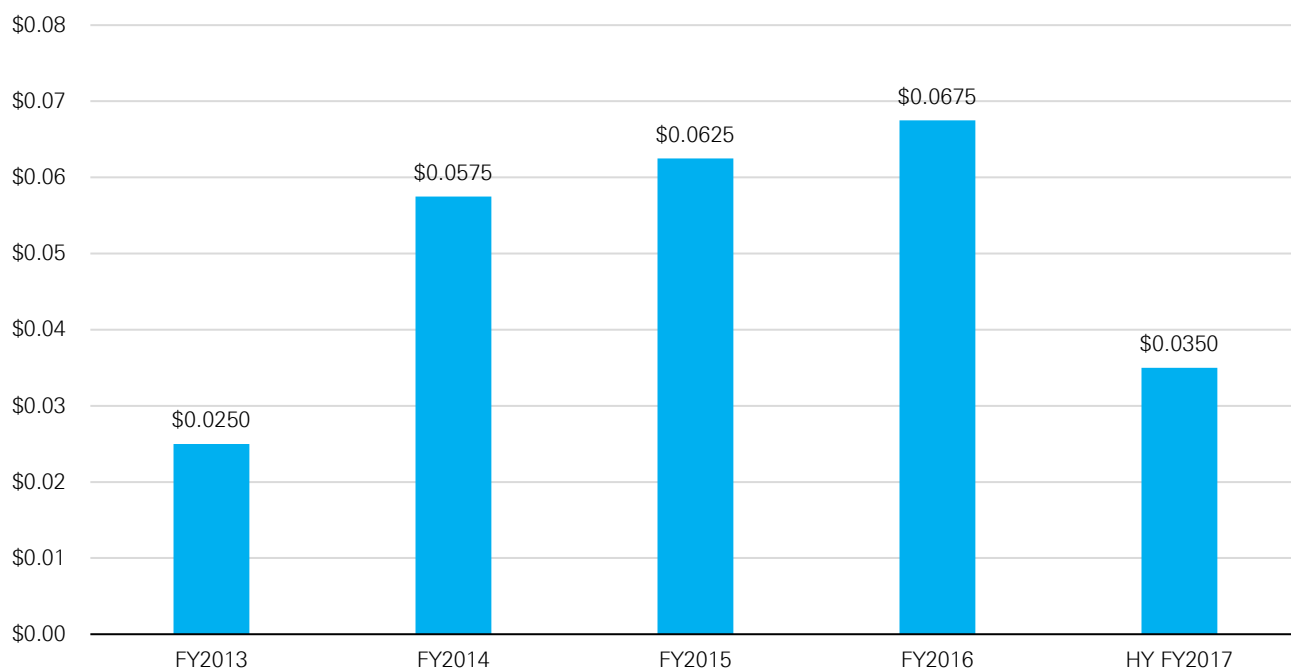
Share Price	\$1.33
Premium/(Discount) to NTA (Pre-Tax)	1.53%
Shares on Issue	59,173,393
NCC Directors Shareholding (Ordinary Shares)	3,829,879

### Historical Shareholder Return Breakdown



\*Assumes an intrinsic NCCO value of \$0.14 cents per option at expiry (1 February 2015), based on pre-tax NTA on this date diluted for remaining options.

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



## A 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 34, MLC Centre, 19 Martin Place, Sydney NSW 2000.

### 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)  
Chadd Knights (Investment Analyst)

#### Chief Financial/Operating Officer

Richard Preedy

#### Business Development Manager

Julia Stanistreet

#### Communications & Marketing

Megan Walker

#### Share Registry

Boardroom Pty Limited  
12/225 George Street  
Sydney NSW 2000  
Telephone: 1300 737 760  
Facsimile: 1300 653 459

#### Investment Manager

NAOS Asset Management Limited  
Level 34, MLC Centre  
19 Martin Place  
Sydney NSW 2000  
(AFSL: 273529)

#### Auditor

Deloitte Touche Tohmatsu  
Level 25, Grosvenor Place  
225 George Street  
Sydney NSW 2000

#### Registered Office

Level 34, MLC Centre  
19 Martin Place  
Sydney NSW 2000

#### ENQUIRIES

##### Julia Stanistreet

Telephone: (02) 9002 1576  
Email: [jstanistreet@naos.com.au](mailto:jstanistreet@naos.com.au)

##### Megan Walker

Telephone: (02) 9002 1577  
Email: [mwalker@naos.com.au](mailto:mwalker@naos.com.au)  
Email: [enquires@naos.com.au](mailto:enquires@naos.com.au)

[www.naos.com.au](http://www.naos.com.au)