

NAOS Emerging Opportunities Company (NCC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

September 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 structure 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.

6. Environmental, Social and

Governance (ESG) NAOS adopts an ESG Screen across all our investments.

Net Tangible Asset Value Breakdown as at 30 September 2017

Pre Tax NTA:	\$1.38
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.36
Post Tax NTA:	\$1.30
Share Price:	\$1.43
Historical Fully Franked Dividend Yield	4.90%

Investment Portfolio Performance & Market Insight

***Please join us for the NAOS National Investor Roadshow this October. If you would like to attend, please register your attendance on our website or contact us directly on (02) 9002 1577 or enquiries@naos.com.au**

For the month of September, the NCC Investment Portfolio returned -1.24% compared to the benchmark Small Ordinaries Accumulation Index (XSOAI) which increased by +1.31%. This brings the inception performance of the Investment Portfolio to +121.95% compared to +20.66% for the XSOAI over 4 years and 7 months.

There were three notable releases from companies held within the NCC Investment Portfolio. These were Big River Group (ASX: BRI), Wingara AG (ASX: WNR) and Consolidated Operations Group (ASX: COG). Firstly, BRI completed its first acquisition since its Initial Public Offering (IPO) of a small building supplies distribution business in Burleigh Heads. This is BRI's first major step since listing towards executing on its stated business strategy of consolidating the building supplies distribution industry. It will be key for BRI to show the market that they can increase the value of these acquisitions through increased buying power, greater product range and the ability to tender on larger projects.

One of the smaller positions in the portfolio, WNR, announced that it has acquired the freehold for the land on which its main hay production facility, at Epsom, Victoria is situated. Over the past 6 months, WNR has either acquired or secured long-term leases for three strategic properties being Epsom for hay production, Raywood, VIC for storage and trading, and finally Horsham, VIC for a much larger production facility, with direct train access to port facilities. WNR has guided to 45,000 tonnes of hay production with the ability to increase this to potentially 250,000 tonnes within the next 36 months, which can be internally funded.

Finally, COG announced that the 3rd and final potential acquisition of a large finance broking firm had been withdrawn, due to numerous concerns which arose during the final stages of due diligence. Out of the three previously announced acquisitions just one was completed with the other two not being completed for different reasons. From an immediate earnings accretion perspective this is disappointing, though when considering the potential for longer term value destruction that may have occurred from these acquisitions, COG may have made the right decision for shareholders over the longer term. It is important not to forget the amount of shareholders' funds that have been lost through poor acquisitions in companies such as Vocus Telecommunications (ASX: VOC), QBE Insurance (ASX: QBE), Slater & Gordon (ASX: SGH) and Automotive Holdings Group (ASX: AHG).

	1 Month	1 Year	2 Years (p.a.)	3 Years (p.a.)	4 Years (p.a.)	Inception (p.a.)	Inception (nom.)
NCC Investment Portfolio Performance*	-1.24%	+4.33%	+24.34%	+13.46%	+13.51%	+18.96%	+121.95%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	+1.31%	+2.98%	+15.32%	+8.15%	+6.03%	+4.18%	+20.66%
Outperformance Relative to Benchmark	-2.55%	+1.35%	+9.02%	+5.31%	+7.48%	+14.78%	+101.29%

*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. Returns compounded for periods greater than 12 months.

Positive Stock Contribution Analysis

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

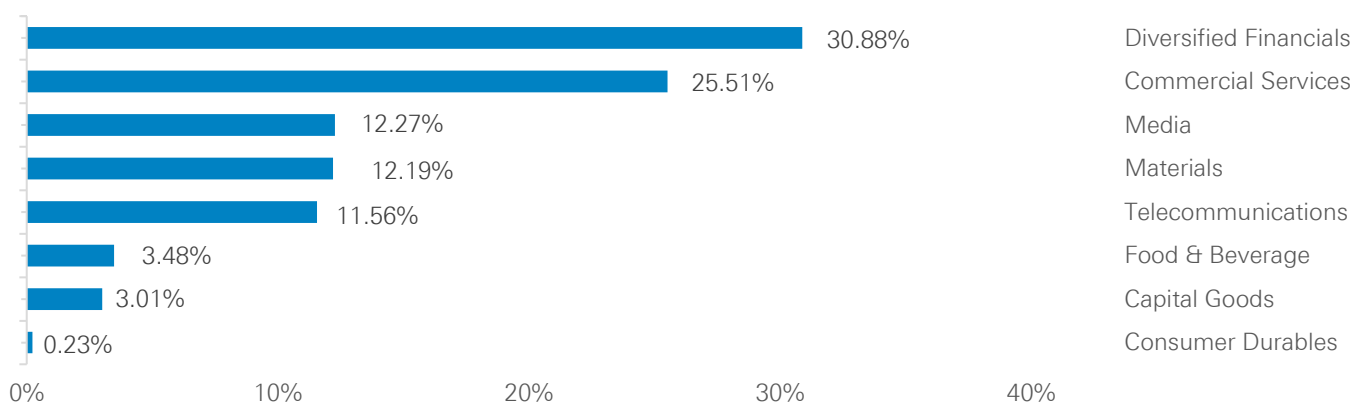
The table below lists the top positive contributors to NCC’s total return since inception. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated portfolio of investments that is often 0 -15 securities at any one time. We will disclose securities in which NCC has a current substantial holding, or when we have exited the position.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
BSA Limited	+27.16%	Tamawood Limited	+8.95%
Calliden Group	+16.07%	Village Roadshow	+8.46%
Capitol Health Limited	+15.62%	Sirtex Medical Limited	+8.44%
Consolidated Operations Group	+13.51%	RHG Limited	+7.30%
Lindsay Australia	+10.37%	Gage Roads Brewing	+6.41%
MNF Group Limited	+9.10%	CML Group Limited	+6.10%

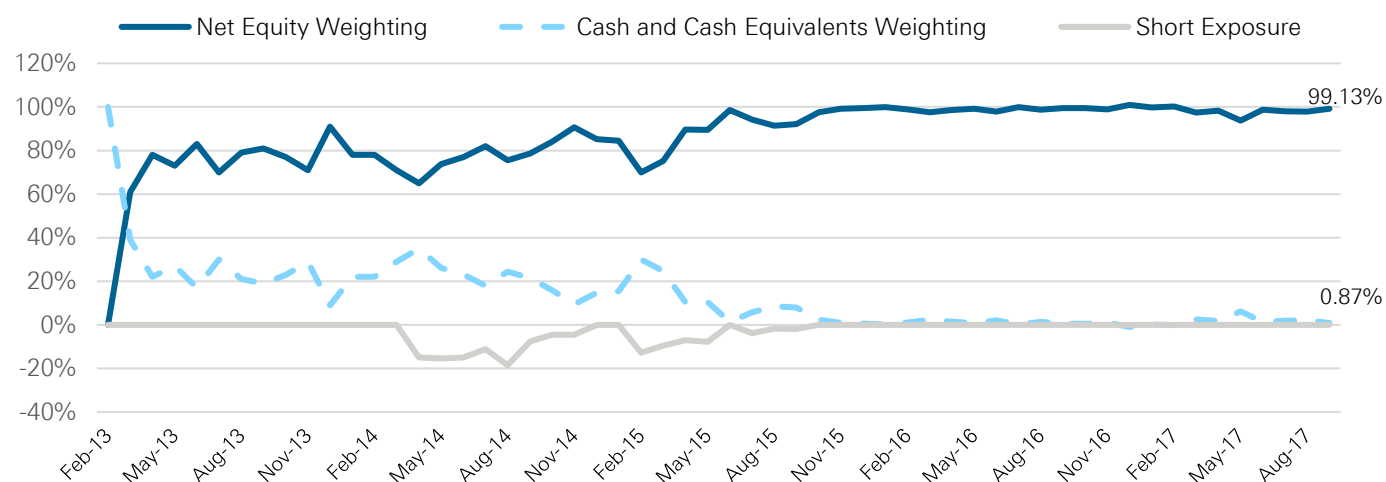
Portfolio Positioning as at 30 September 2017

As at 30 September 2017, the portfolio’s net equity exposure was ~99.13% with a subsequent cash weighting of +0.87%. 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 short positions. 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:

- Billabong International Ltd (BBG AU)
- Over The Wire Ltd (OTW AU)
- Temple & Webster Group (TPW AU)
- Spirit Telecom Ltd (ST1 AU)
- Big River Industries (BRI AU)
- Engenco Ltd (EGN AU)
- Namoi Cotton Ltd (NAM AU)
- Mitchell Services Ltd (MSV AU)
- Gale Pacific Ltd (GAP AU)
- Austin Engineering Ltd (ANG AU)
- Field Solutions Group (FSG AU)
- Maxitrans Industries Ltd (MXI AU)

Portfolio Characteristics – Summary Data as at 30 September 2017

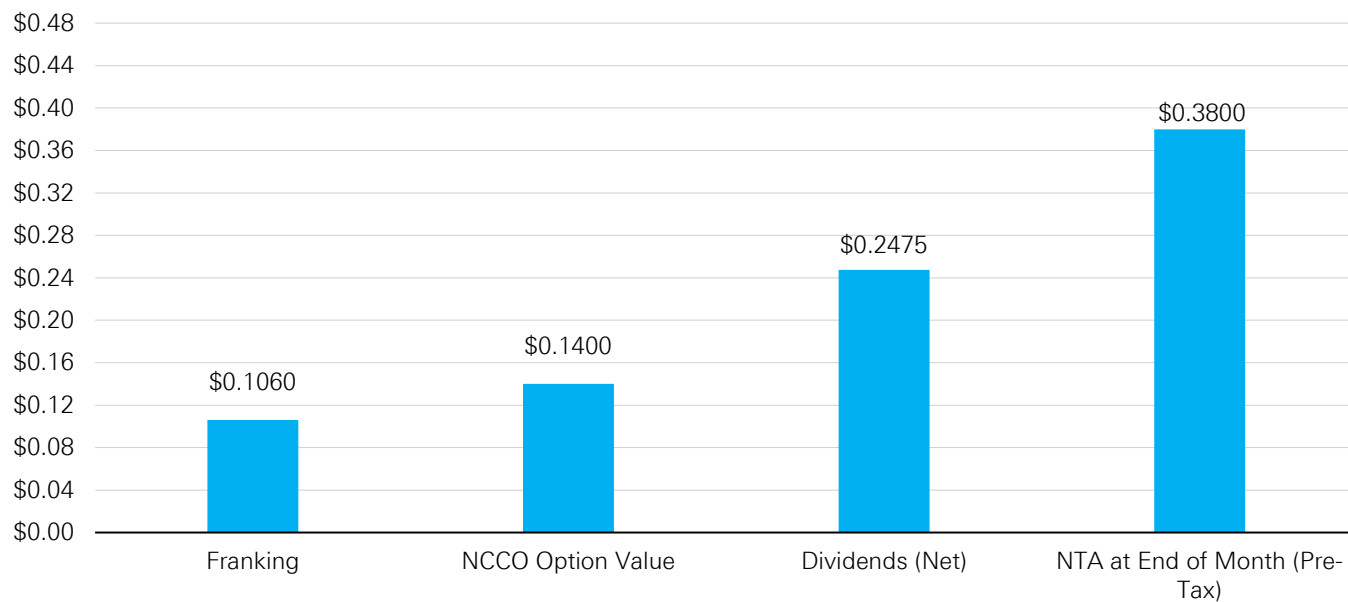
Below are a number of historical portfolio risk measures. Our aim in providing these metrics is to demonstrate to investors how NCC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and to also preserve investors' capital. A glossary of 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	\$134.03 Million
Percentage of Positive Months (NCC)	71%
Percentage of Positive Months (XSOAI)	56%
Standard Deviation of Returns (NCC)	11.00%
Standard Deviation of Returns (XSOAI)	13.36%
Correlation of Returns to XSOAI	0.55
Sortino Ratio	2.89
Downside Deviation (NCC)	5.76%
Downside Deviation (XSOAI)	7.29%
Current Estimated Portfolio Beta (6 Month Historical)	0.04

Capital Structure – Summary Data as at 30 September 2017

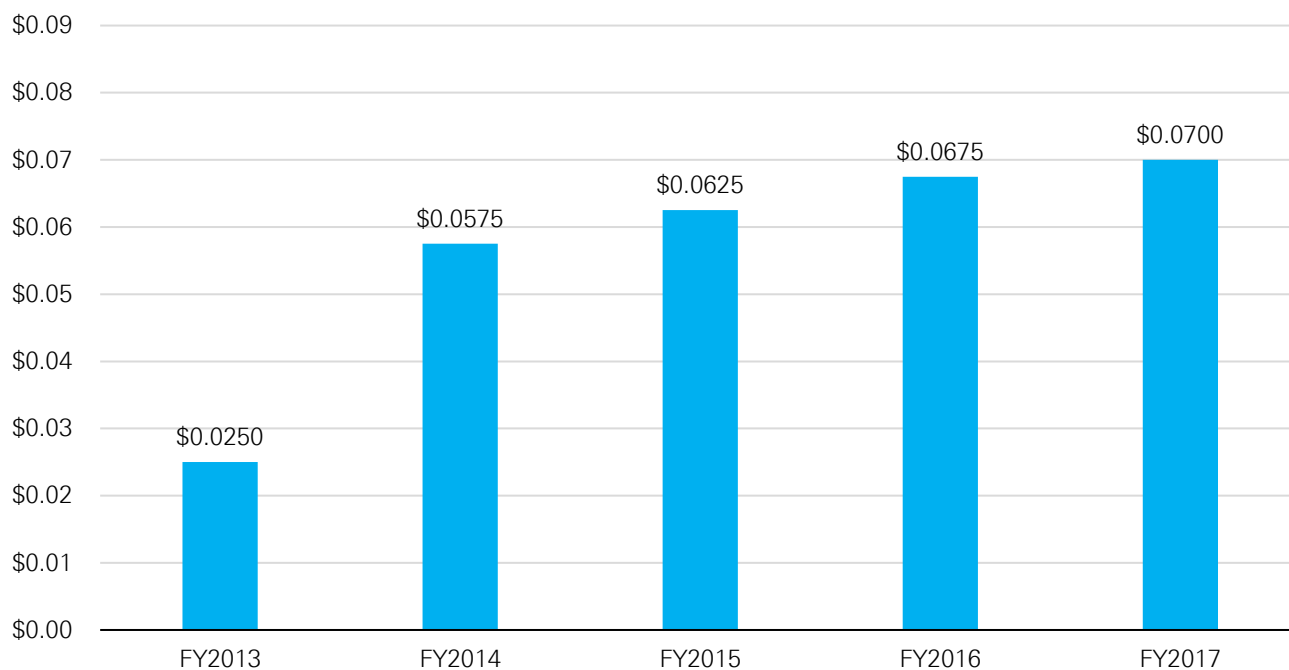
Share Price	\$1.43
Premium/(Discount) to NTA (Pre-Tax)	3.62%
Shares on Issue	59,173,393
NCC Directors Shareholding (Ordinary Shares)	3,829,879

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:

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CORPORATE DIRECTORY

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

Company Secretary

Rajiv Sharma

Investment Team

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Jeffrey Kim (Portfolio Manager)
Robert Miller (Portfolio Manager)
Ben Rundle (Portfolio Manager)
Chadd Knights (Investment Analyst)

Chief Financial/Operating Officer

Richard Preedy

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Rajiv Sharma

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