

# NAOS Emerging Opportunities Company (NCC)

NAOS

## MONTHLY INVESTMENT REPORT AND NTA UPDATE

OCTOBER 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 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 >\$10m NCC shares, providing shareholders with a significant alignment of interests.

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

<b>Pre Tax NTA:</b>	<b>\$1.06</b>
<b>Post Tax &amp; Pre Unrealised Gains NTA:</b>	<b>\$1.06</b>
<b>After Tax NTA:</b>	<b>\$1.05</b>

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

The NCC investment portfolio produced a positive return of +3.72% for the month of October. The portfolios benchmark, the XSOAI (Small Ordinaries Accumulation Index), rose by +7.12% over the same period. Once again the Small Cap end of the market outperformed its larger counterpart, the All Ordinaries Accumulation Index (XAOAI), which produced a result of +4.59% for the period.

Since the portfolio's inception on 26<sup>th</sup> February 2013 (32 months), the relative outperformance of the portfolio versus the benchmark is +52.25%.

The strong performance of Small Cap companies over the course of October can largely be explained by the shift towards Mining and Resources companies over the period.

If we look briefly at the oil and gas sector, taking into consideration the significant decline of the oil price during the 2014 Calendar Year and the general inability of companies in this sector to quickly adjust their operations to meet the new scenario, we have seen downward pressure on the stock prices of companies in this sector. Seeking to capitalise on the thematic at play, we have also saw increased short selling activity by hedge funds resulting in further downward price pressure.

Recently the oil price has started to stabilise, together with increasing M&A activity over the latter half of calendar year 2015. This has led some of these funds closing their short positions, contributing to the flow of capital back into the sector.

	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	Inception (p.a.)	Inception (nom.)
<b>NCC Investment Portfolio Performance*</b>	<b>+3.72%</b>	<b>-1.42%</b>	<b>-1.19%</b>	<b>+0.76%</b>	<b>+3.11%</b>	<b>+16.20%</b>	<b>+49.42%</b>
<b>S&amp;P/ASX Small Ordinaries Accumulation Index (XSOAI)</b>	<b>+7.12%</b>	<b>+1.36%</b>	<b>-2.83%</b>	<b>+2.43%</b>	<b>-0.46%</b>	<b>-1.07%</b>	<b>-2.83%</b>
<b>Outperformance Relative to Benchmark</b>	<b>-3.40%</b>	<b>-2.78%</b>	<b>+1.64%</b>	<b>-1.67%</b>	<b>+3.57%</b>	<b>+17.27%</b>	<b>+52.25%</b>

\*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 31<sup>st</sup> October 2015)

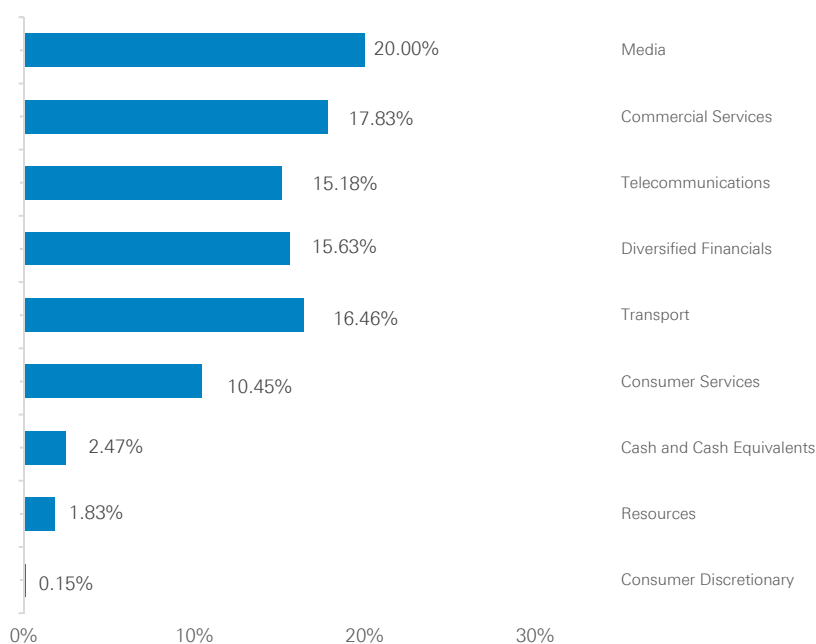
The table below lists the top positive contributors to NCC’s total return since 1<sup>st</sup> March 2013. The purpose of the chart is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated 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 have 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	+10.92%	Armidale Investment Corporation	+5.87%
Capitol Health Limited	+10.61%	Village Roadshow Limited	+5.75%
Lindsay Australia Limited	+8.01%	Sirtex Medical Limited	+5.74%
Broadcast Services Australia	+6.74%	RHG Limited	+4.96%
Tamawood Ltd	+6.08%	Gage Road Brewing	+4.36%

### Portfolio Positioning as at 31<sup>st</sup> October 2015

As at October month end, the portfolio’s net equity exposure was ~97% with a subsequent cash weighting of ~2.5%. The core holdings in the portfolio did not change over the course of the month. As at month end, the portfolio comprised of a total of 9 holdings 9 of which were on the long side. There were no income instruments in the portfolio.

### Industry Exposure



### AGM Reporting Spotlight

October brought with it AGM season and notable portfolio holdings to report were Enero Group (EGG), My Net Fone (MNF) and Lindsay Australia (LAU).

Enero’s report to market was positive with the Board stating that the business had the same, if not more, capability, momentum and traction now than it did 12 months ago. The Board reinforced their commitment to the execution of the strategy to continue to grow the revenue base in Australia and offshore.

We remain confident that Enero Group will continue to perform in the manner expected per the assumptions made in relation to our investment thesis.

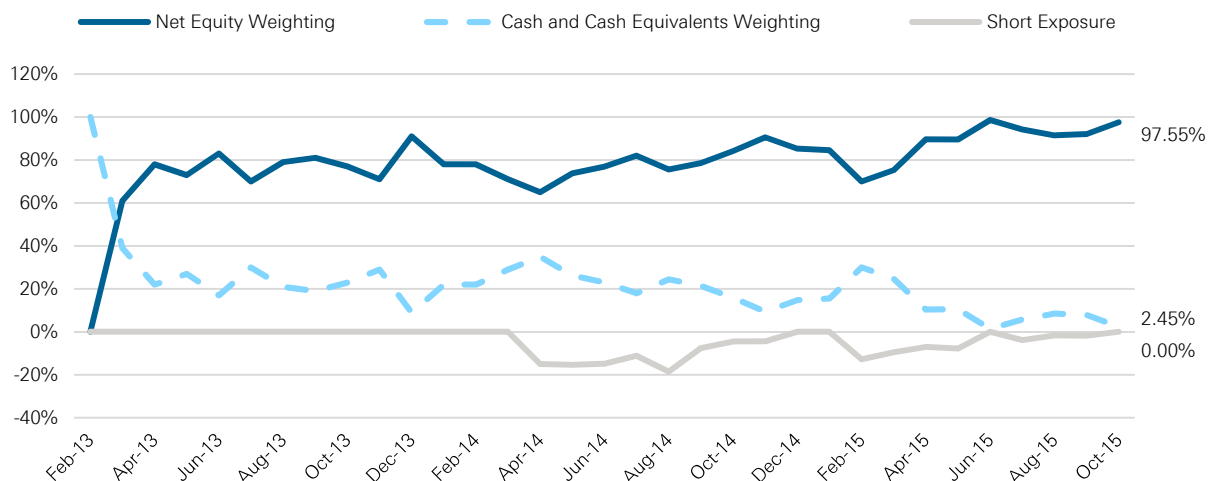
My Net Fone (MNF) was another of our holdings to report via their AGM in October.

In line with the company’s ‘building for growth’ objectives, MNF announced that they had allocated \$5 million for investment in additional staffing, specifically in the areas of Business Development and Marketing. Whilst costs had been apportioned to this activity there had been no forecast increases to the revenue line as a result of staffing additions, something which we believe the company will see upside from, particularly in 2<sup>nd</sup> Half FY16 and well into FY17.

Lindsay Australia (LAU) provided a positive start to FY16, with produce and other freight volumes for the first three months of the year being stronger than the corresponding periods last year. Transport revenue, including internal revenue, was also up (+8.3%) from the same period last year as were sales from the company’s Rural division (+6.8%).

In terms of its operations, we believe the build out and development of the Company’s transport and logistics services to Australian growers is unique amongst peers in the industry and presents a substantial barrier to entry for new entrants to the market.

### 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 October is provided below.

- Kathmandu Holdings Limited (KMD)
- Power Holdings Limited (PWR IPO)
- SmartGroup Corporation Limited (SIQ)
- JustKapital Litigation Partners Limited (JKL)
- SkyFII Limited (SKF)
- Iselect Limited (ISU)
- Pioneer Credit Limited (PNC)
- Enero Group Holdings (EGG)
- Infomedia Limited (IFM)
- Capital Health Limited (CAJ)
- Otoc Limited (OTC)
- My Net Fone Limited (MNF)

### Portfolio Characteristics – Summary Data

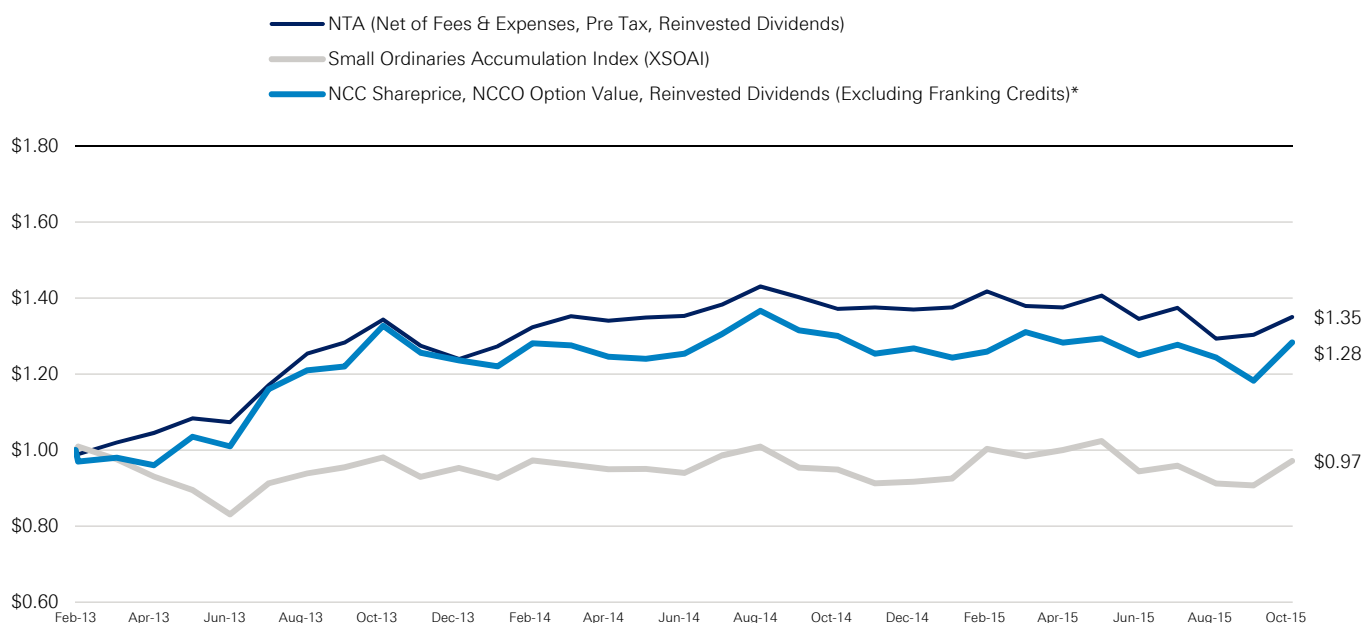
Below are a number of historical portfolio risk measures. Our aim in providing these metrics is to demonstrate to investors how NCC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term and to preserve investors' capital. This month we have added 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	\$96m
Percentage of Positive Months (NCC)	70%
Percentage of Positive Months (XSOAI)	52%
Standard Deviation of Returns (NCC)	11.75%
Standard Deviation of Returns (XSOAI)	14.74%
Correlation of Returns to XSOAI	57.93%
Sortino Ratio	2.35
Downside Deviation	5.78%
Downside Deviation XSOAI	7.68%
Current Estimated Portfolio Beta	0.22

**Capital Management – Summary Data as at 31<sup>st</sup> October 2015**

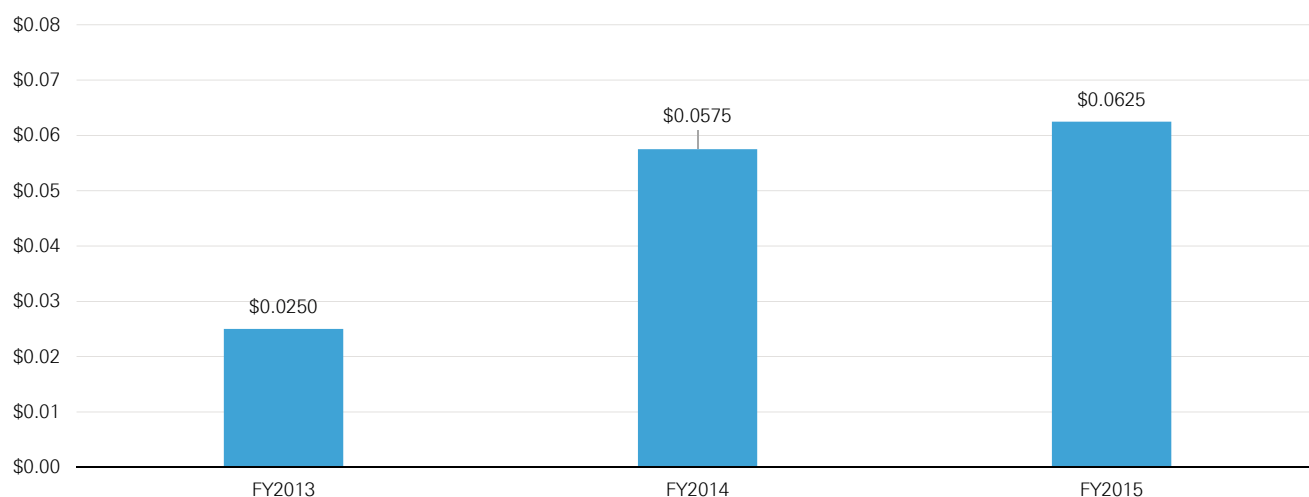
Share Price	\$0.995
Discount to NTA (pre tax, undiluted)	6.13%
Fully Franked Dividend Yield	6.28%
Gross Dividend Yield	8.97%
Shares on Issues	46,918,297
Directors Shareholding (ordinary shares)	3,210,079

**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 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 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 (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 indicated that a security/portfolio should 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

Richard Preedy

#### Investment Team

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

#### Chief Financial/Operations Officer

Richard Preedy

#### Business Development

Anneke Senden  
Julia Stanistreet

#### Share Registry

Boardroom Pty Limited  
7/207 Kent Street  
Sydney NSW 2000  
Telephone: 1300 737 760  
Facsimile: 1300 653 459

#### Investment Manager

NAOS Asset Management Limited  
Level 4, Domain House  
139 Macquarie Street  
Sydney NSW 2000  
(AFSL: 273529)  
Telephone: (02) 8064 0568  
Facsimile: (02) 8215 0037

#### Auditor

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

#### Registered Office

Level 4, Domain House  
139 Macquarie Street  
Sydney NSW 2000  
Telephone: (02) 9947 2566  
Facsimile: (02) 8215 0037

#### ENQUIRIES

Anneke Senden or Julia Stanistreet  
Telephone: (02) 9947 2566  
Email: [asenden@naos.com.au](mailto:asenden@naos.com.au);  
[jstanistreet@naos.com.au](mailto:jstanistreet@naos.com.au)  
[www.naos.com.au](http://www.naos.com.au)