

# NAOS Emerging Opportunities Company (ASX: NCC) (ASX: NCCO, NCCOA)

## Monthly Investment Report and NTA Update: June 2014

### Company Overview

**Investment Objective:** NCC seeks to provide investors with exposure to high quality emerging companies in a transparent and concentrated structure, with the ability to outperform the Benchmark over the medium to long term. The Company will seek to pay a minimum dividend yield of 4.00% per annum franked to the maximum extent possible.

**Investment Process:** A unique 5-step investment process that places a strong emphasis on long term industry dynamics, management team capabilities and track record of producing significant shareholder value over the medium to long term. Finally, catalysts are identified for each potential investment so that these investments will be re-rated by the market and trade on valuations closer to their larger counterparts.

**Investment Strategy:** To actively manage a concentrated portfolio (approximately 0-15 positions) of high quality emerging companies across a wide range of industries, which investors may have a limited exposure to through investing in companies just in the ASX-100 Index. Many of these emerging companies are often overlooked and therefore potentially inefficiently priced by the wider investment community.

**Inception Date:** 26th of February 2013

**Benchmark:** Small Ordinaries Accumulation Index (XSOAI)

**Shares on Issue (ASX: NCC):** 35,226,053

**Listed Options on Issue Exercisable at \$1.00 Prior 1<sup>st</sup> February 2015 (ASX: NCCO):** 12,546,337

**Listed Options on Issue Exercisable at \$1.13 Prior 1<sup>st</sup> August 2015 (ASX: NCCOA):** 11,820,000

**Fully Franked Dividend Yield:** 5.24% Fully Franked (7.48% Gross)

### Net Tangible Asset Value Breakdown as at 30<sup>th</sup> June 2014 (NTA Diluted for NCCO Options)

Pre tax NTA: \$1.203 (\$1.150)

Post Tax & Pre Unrealised Gains Tax: \$1.205 (\$1.151)

After Tax NTA: \$1.167 (\$1.129)

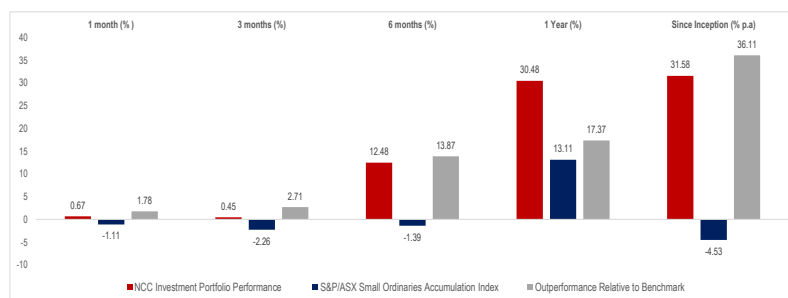
\*The above NTA calculations do not account for any potential dilution from the 11,820,000 NCCOA options that remain on issue.

### Investment Portfolio Performance to 30<sup>th</sup> June 2014\*

The NCC investment portfolio outperformed the Small Ordinaries Accumulation Index (XSOAI) by +1.78% over the month of June, producing a positive return of +0.85% compared to the benchmark which decreased by -1.11%. Since the initial public offering (IPO), the benchmark XSOAI has produced a negative return of -4.53% p.a. Pleasingly, the outperformance of the NCC investment portfolio has continued, maintaining a focus on capital preservation and long-term growth. This focus has led to the investment portfolio increasing its outperformance over XSOAI to +50.41% since IPO in nominal terms.

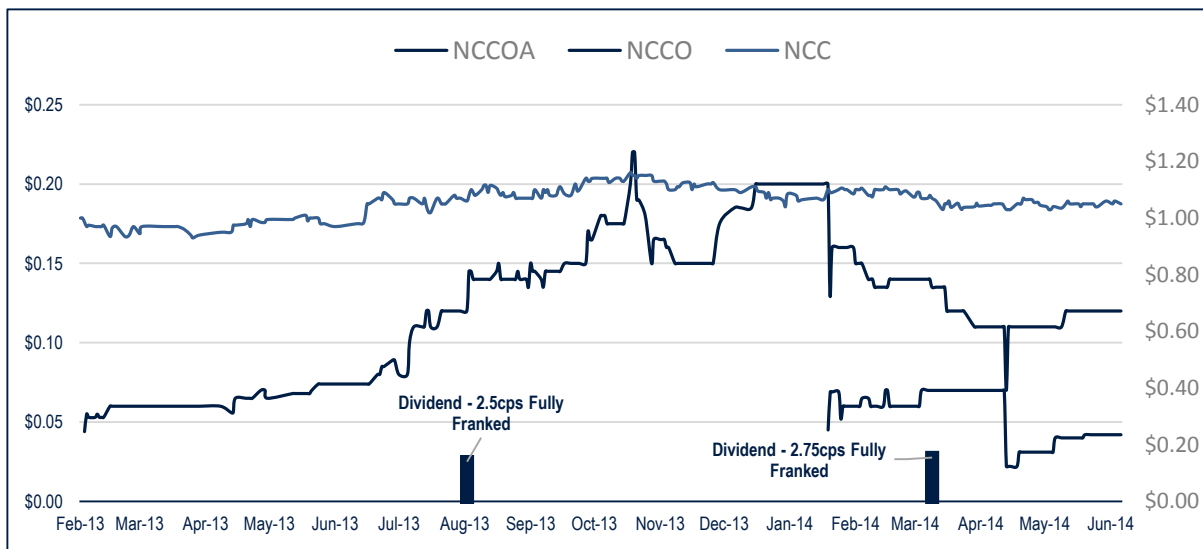
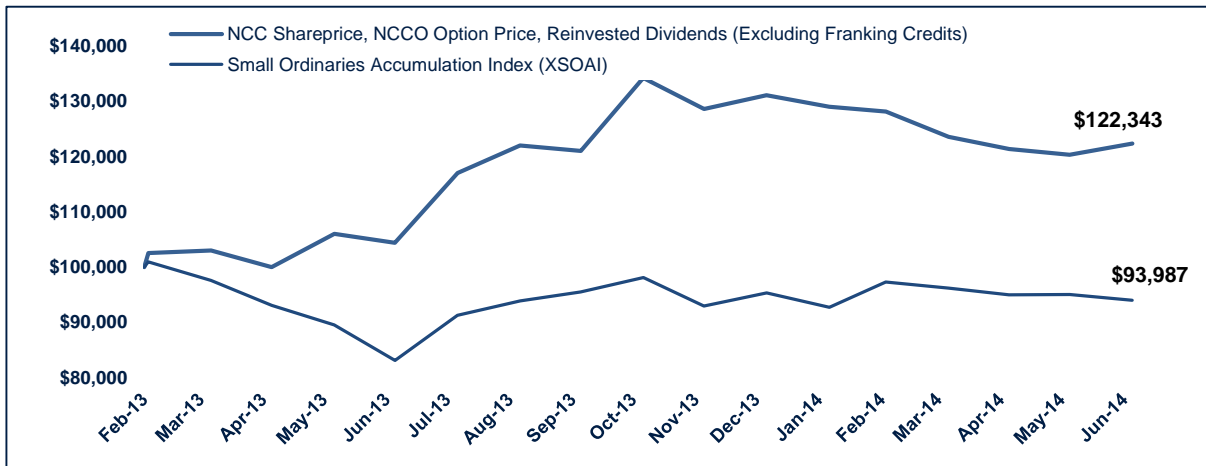
	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	Since Inception (% p.a)
NCC Investment Portfolio Performance	+0.67	+0.45	+12.48	+30.48	+31.58
S&P/ASX Small Ordinaries Accumulation Index	-1.11	-2.26	-1.39	+13.11	-4.53
Outperformance Relative to Benchmark	<b>+1.78</b>	<b>+2.71</b>	<b>+13.87</b>	<b>+17.37</b>	<b>+36.11</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.



## Investment Report & NTA Update – June 2014 (continued)

### Shareholder Return Analysis (IPO Investors)



### Positive Stock Attribution Analysis (1st March 2013 to 30<sup>th</sup> June 2014)

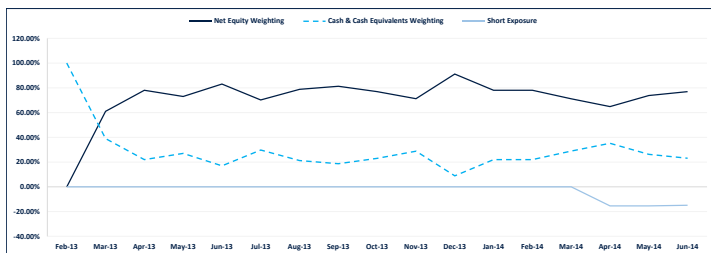
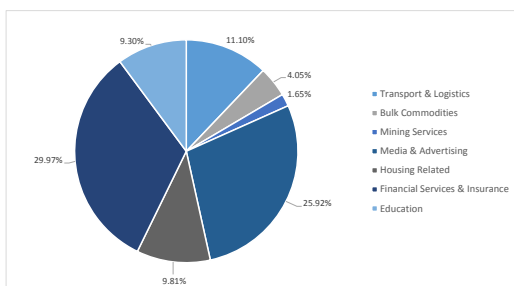
Below is a chart which lists the top positive contributors to NCC total return since 1st March 2013. The purpose of the chart is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated portfolio of investments that is often 0 -15 securities at any one time.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
Investment A	+10.04%	Investment E	+4.83%
Investment B	+9.38%	Investment F	+4.49%
Investment C	+5.43%	Investment G	+4.31%
Investment D	+4.90%	Investment H	+2.69%

## Investment Report & NTA Update – June 2014 (continued)

### Portfolio Positioning as at 30th June 2014

We decreased our cash & cash equivalents weighting over the month of June from approximately 26% to circa 23% of the total portfolio value. The decrease in this weighting was due to a further increase in two existing positions. The portfolio has maintained 11 long positions with the largest being 14.93% of the portfolio pre-tax value and the smallest 1.65%.



### 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 Investment Management Team has direct contact with many listed and unlisted Emerging Companies across a wide range of industries. During the month of June the Investment Management Team had direct contact with over 47 unlisted and listed companies of which several are listed below:

Enero Group Limited (EGG)	Phosphagenics Limited (POH)	The Pas Group Limited (PGR)
STW Communications Group Limited (SGN)	Affinity Education Group Limited (AFJ)	Billabong International Limited (BBG)
AWE Limited (AWE)	Ozforex Group Limited (OFX)	Coventry Group Limited (CYG)
Asaleo Care Limited (AHY)	Vocation Limited (VET)	Mermaid Marine Australia Limited (MRM)

### Market Insight

The 2014 financial year came to an end with the period being characterised by two distinctly different halves.

Approximately 80% of the markets 17.4% total return was made in the first half of the year with the remaining 20% being made in the second half.

Even more noticeable was that a staggering circa 40% of total performance was derived from the banks with just 3.73% being derived from the materials sector.

The top five contributors to market performance accounted for over 50% of the markets overall return, highlighting the top heavy nature of the ASX-100 and the ability to gain diversification across industry exposures through some listed investment companies such as NCC.

It is worthwhile touching on the underperformance of the materials sector and specifically the mining services industry that has had been hit the hardest by lower commodity prices over the previous financial year.

An excellent lead indicator for the Small Ordinaries Industrials Index (XSI) is the amount of 'Meters Drilled' according to exploration data releases by the Australian Bureau of Statistics (ABS). The most recent data released for the quarter ending March 2014 shows continuation of a negative trend which may ultimately lead to share price weakness in the small industrials sector as per the 12 month chart below.

Interestingly, when looking at the short and long term capex intentions of mining companies, there has been a slight improvement in the short term forecast which we believe may ultimately relate to a maintenance and ongoing capex requirements for existing operations that have been deferred until FY15. When we look at the longer term capex expectations for mining companies we can see that they remain very weak, a reflection of mining companies focus on shareholders returns and as a result of the expense of large capex programs, that often prove more costly than expected and disappointing from a shareholder return perspective.



Source: Bloomberg

# Corporate Directory



## Directors

David Rickards (Chairman)  
Warwick Evans  
Sebastian Evans

## Company Secretary

Lawrence Adams

## Investment Team

Sebastian Evans: Portfolio Manager  
Tom Granger: Assistant Portfolio Manager  
Jeffrey Kim: Investment Analyst  
Robert Miller: Investment Analyst

## Business Development

Anneke Senden

## Investment Manager

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

## Share Registry

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

## Auditor

Deloitte Touche Tohmatsu  
Level 9, Grosvenor Place  
225 George Street  
Sydney NSW 2000

## Enquiries

Anneke Senden  
Level 4, Domain House  
139 Macquarie Street  
Sydney NSW 2000  
Telephone: (02) 8064 0567  
Email: [asenden@naos.com.au](mailto:asenden@naos.com.au)  
Website: [www.naos.com.au](http://www.naos.com.au)

## Registered Office

Level 4, Domain House  
139 Macquarie Street  
Sydney NSW 2000  
Telephone: (02) 8064 0568  
Facsimile: (02) 8215 0037