

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

Monthly Investment Report and NTA Update: September 2014

Company Overview

Investment Objective: NCC seeks to provide investors with exposure to high quality emerging companies in a transparent and concentrated long/short 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. The Company has the ability to short sell securities and hold significant levels of cash to assist in protecting investor's capital.

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 0-20 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): 35,326,027

Listed Options on Issue Exercisable at \$1.00 Prior 1st February 2015 (ASX: NCCO): 12,477,337

Listed Options on Issue Exercisable at \$1.13 Prior 1st August 2015 (ASX: NCCOA): 11,789,026

Fully Franked Dividend Yield: 5.55% Fully Franked (7.93% Gross)

Net Tangible Asset Value Breakdown as at 30th September 2014 (NTA Diluted for Remaining NCCO Options)

Pre Tax NTA: \$1.25 (\$1.18)

Post Tax & Pre Unrealised Gains Tax: \$1.24 (\$1.18)

After Tax NTA: \$1.19 (\$1.14)

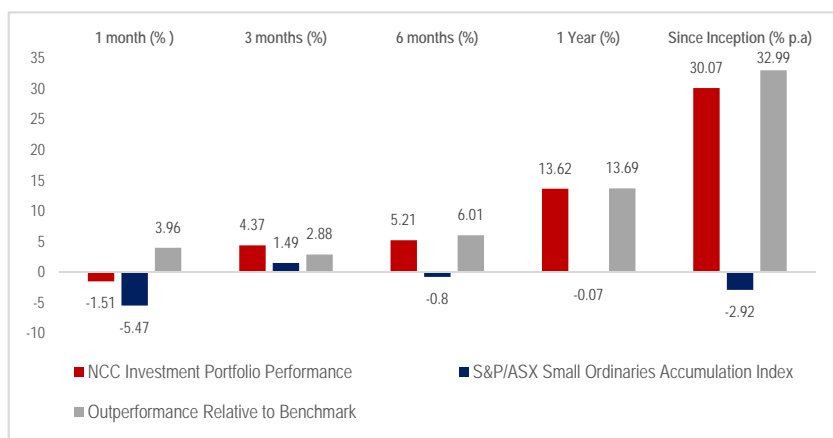
*The above NTA calculations do not account for any potential dilution from the 11,789,026 NCCOA options that remain on issue and are exercisable at \$1.13.

Investment Portfolio Performance to 30th September 2014*

The NCC investment portfolio produced a negative absolute return of -1.51% for the month of September but produced a substantial positive relative return compared to the Small Ordinaries Accumulation Index (XSOAI) which fell by -5.47%. This significant outperformance was generated through two notable short positions within the portfolio as well as a large cash and cash equivalents weighting. If you were to include the Calliden Insurance (CIX) position within the cash equivalents section of the portfolio (as it is currently under takeover) then the total weighting within this asset class would be approximately 40%.

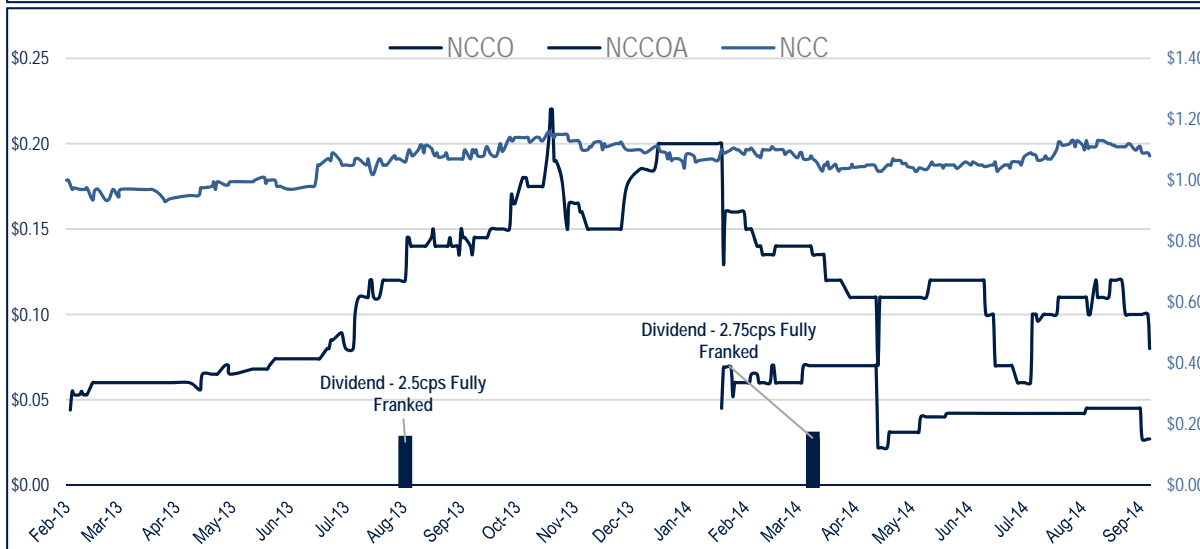
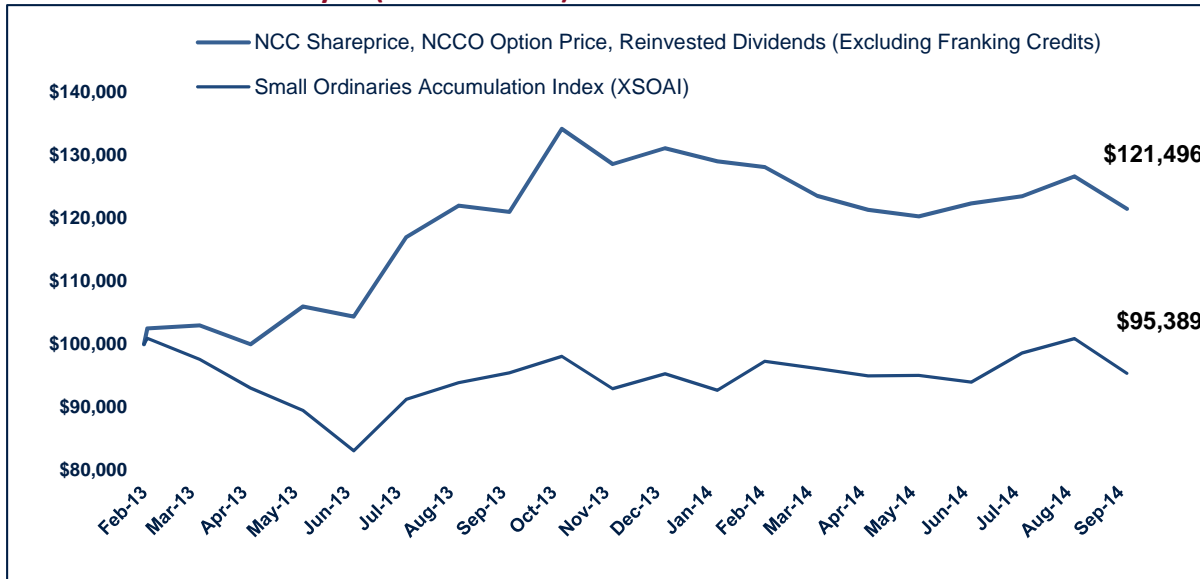
	1 Month	3 Months	6 Months	1 Year	Inception (p.a.)	Inception (Nom.)
NCC Investment Portfolio Performance*	-1.51%	+4.37%	+5.21%	+13.62%	+30.07%	+51.92%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	-5.47%	+1.49%	-0.80%	-0.07%	-2.92%	-4.61%
Outperformance over Benchmark	+3.96%	+2.88%	+6.01%	+11.69%	+32.99%	+56.53%

*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



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Shareholder Return Analysis (IPO Investors)



Positive Stock Attribution Analysis (1st March 2013 to 30th September 2014)

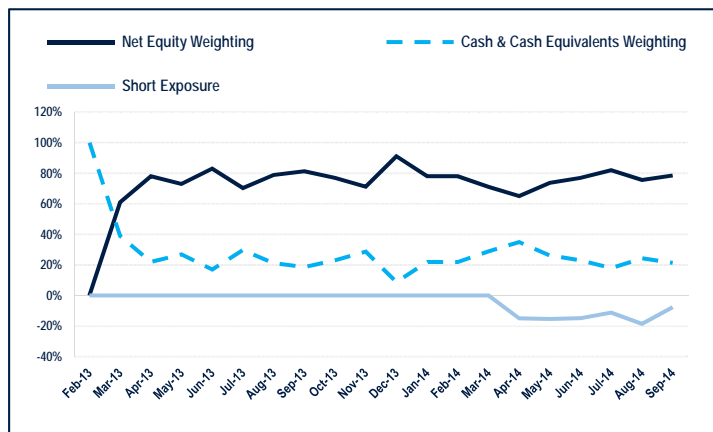
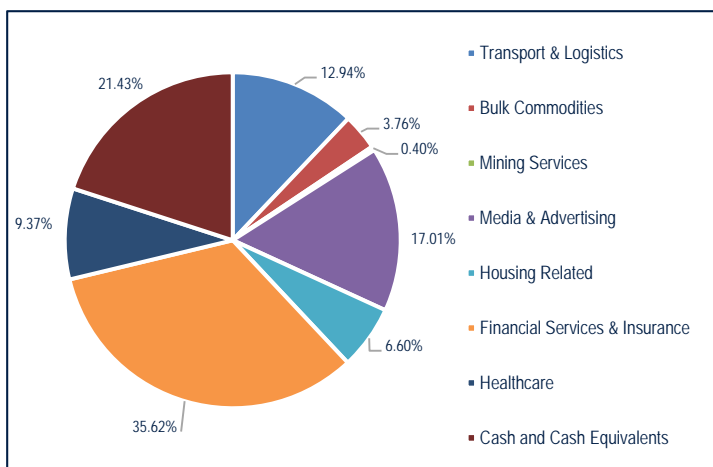
Below is a chart which lists the top positive contributors to NCC total return since 1st March 2013. The purpose of the chart is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated portfolio of investments that is often 0 - 20 securities at any one time. Any security that is currently held within the investment portfolio will not be disclosed until it is no longer part of the portfolio.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
Current Investment A	+13.50%	Current Investment C	+4.51%
Capitol Health	+10.49%	Gage Road Brewing	+4.50%
Current Investment B	+5.82%	Current Investment D	+3.86%
Village Roadshow	+5.67%	AMA Group	+2.80%
RHG Limited	+5.11%	Current Investment E	+2.38%

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Portfolio Positioning as at 30th September 2014

The Investment Portfolio closed one short position in the month of September after a sharp fall well in excess of market movements. As mentioned previously the portfolio remains conservatively positioned with a cash and cash equivalents weighting of close to 40% when including CIX or 21.5% when this is removed as per the charts below. The investment team continues focus on quality and not quantity with a portfolio of currently 11 investments.



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 September the Investment Management Team had direct contact with over 90 unlisted and listed companies of which several are listed below:

Vocation (VET)	Veda Group (VED)	iSelect (ISU)
Rubik Financial (RFL)	Kip McGrath (KME)	Bullet Proof (BPF)
Greencross (GXL)	Steadfast Group (SDF)	Oncosil (OCL)
Transfield Services (TSE)	Freelancer (FLN)	BSA Group (BSA)

Market Insight

With the ASX-200 falling close to -6.00% in September this has now brought the performance of the ASX-200 (financial year to date) to negative -1.9%. With plenty of market commentary on valuation levels of the major banks and resource names it is interesting to note that the price to earnings multiple of industrial companies excluding the banks remains well above 16 times.

With AGM season fast approaching this will provide a clear indication for investors as to how the first 3-4 months of trading has been and whether market expectations for earnings growth of >7% is realistic. The one bright spot potentially within AGM season will be for companies who will benefit from a weak AUD. Even with the sharp recent fall of the AUD, the fact remains that this fall has only occurred within the last few weeks and therefore any financial benefit will be felt mainly in 2H-FY15.

Taking note of recent domestic economic growth figures there have been some notable underlying trends. Firstly there has been a small lift in household income levels and secondly GDP growth ex-mining was +2.7% which is the fastest rate in almost 7 years. These trends are very much pre-cursors for increased consumer confidence/consumption levels, but this will not occur until employees feel more secure about their current employment status.

Within the Small Ordinaries Index (XSO) it was the higher operating cost mining stocks that fared worst in the month of September. Companies such as Northern Star Resources (-27.6%), Lynas (-50.0%) and Pan Aust (-13.5%) all experienced significant falls. Two noticeable contrarian opportunities bucked the trend in September with Billabong (+23.9%) (see chart below) and Nufarm (+14.4%) posting strong gains. These examples illustrate that value can still be found in emerging companies that are focusing on company specific issues and are not totally beholden to a supportive global/domestic macro environment.

Billabong 1-Year Share Price Chart (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

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