

# NAOS Emerging Opportunities Company (NCC)

NAOS

## MONTHLY INVESTMENT REPORT AND NTA UPDATE

APRIL 2015

### 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 a 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 are therefore potentially inefficiently priced by the wider investment community.

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

**Share Price at 30<sup>th</sup> April 2015: \$1.025**

**Fully Franked Dividend Yield: 6.37%**  
**Gross Fully Dividend Yield 9.10%**

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

**Shares on Issue (ASX: NCC): 46,918,297**

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

**Total Directors Shareholding in NCC: 3,210,079 Ordinary Shares**

### Net Tangible Asset Value Breakdown as at 30<sup>th</sup> April 2015

<b>Pre Tax NTA:</b>	<b>\$1.11</b>
<b>Post Tax &amp; Pre Unrealised Gains Tax:</b>	<b>\$1.11</b>
<b>After Tax NTA:</b>	<b>\$1.10</b>

The above NTA calculations do not account for any potential dilution from the 11,789,026 NCCOA options that remain on issue (expiry 1st August 2015) and which are exercisable at \$1.13.

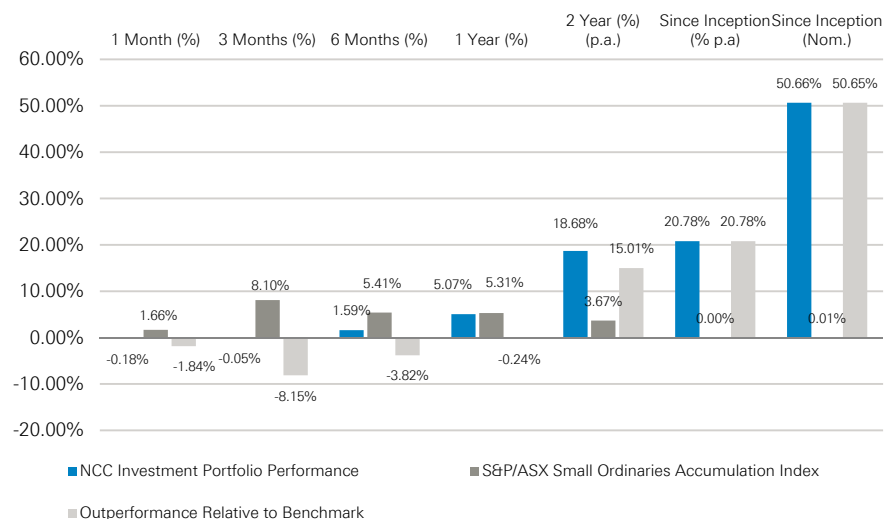
### Investment Portfolio Performance to 30<sup>th</sup> April 2015

The Investment Portfolio was down slightly for the month of April, posting a -0.18% return. The Benchmark (Small Ordinaries Accumulation Index) finished the month with a positive result of +1.66%, significantly outperforming its larger counterpart, the ASX 300 Accumulation Index, which fell by -1.70% over the same period.

Share price movements across the portfolio were modestly flat over the period with our two short positions adding positively to the performance over the month. These positive contributions were offset by small negative performances from a couple of the long positions within the portfolio. The NAOS team expects little movement in the long portfolio until earnings seasons for FY15 draws closer and a number of our key positions update the market in the outlook for FY16. Pleasingly though, one position gave an excellent update to the market in April which provides the company an excellent foundation for earnings growth over the next 12 months.

	1 month	3 month	6 month	1 Year	2 Years (p.a.)	Inception (p.a.)	Inception (Nom.)
<b>NCC Investment Portfolio Performance*</b>	<b>-0.18%</b>	<b>-0.05%</b>	<b>+1.59%</b>	<b>+5.07%</b>	<b>+18.68%</b>	<b>+20.78%</b>	<b>+50.66%</b>
<b>S&amp;P/ASX Small Ordinaries Accumulation Index (XSOAI)</b>	<b>+1.66%</b>	<b>+8.10%</b>	<b>+5.41%</b>	<b>+5.31%</b>	<b>+3.67%</b>	<b>+0.00%</b>	<b>+0.01%</b>
<b>Outperformance Relative to Benchmark</b>	<b>-1.84%</b>	<b>-8.15%</b>	<b>-3.82%</b>	<b>-0.24%</b>	<b>+15.01%</b>	<b>+20.78%</b>	<b>+50.65%</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.

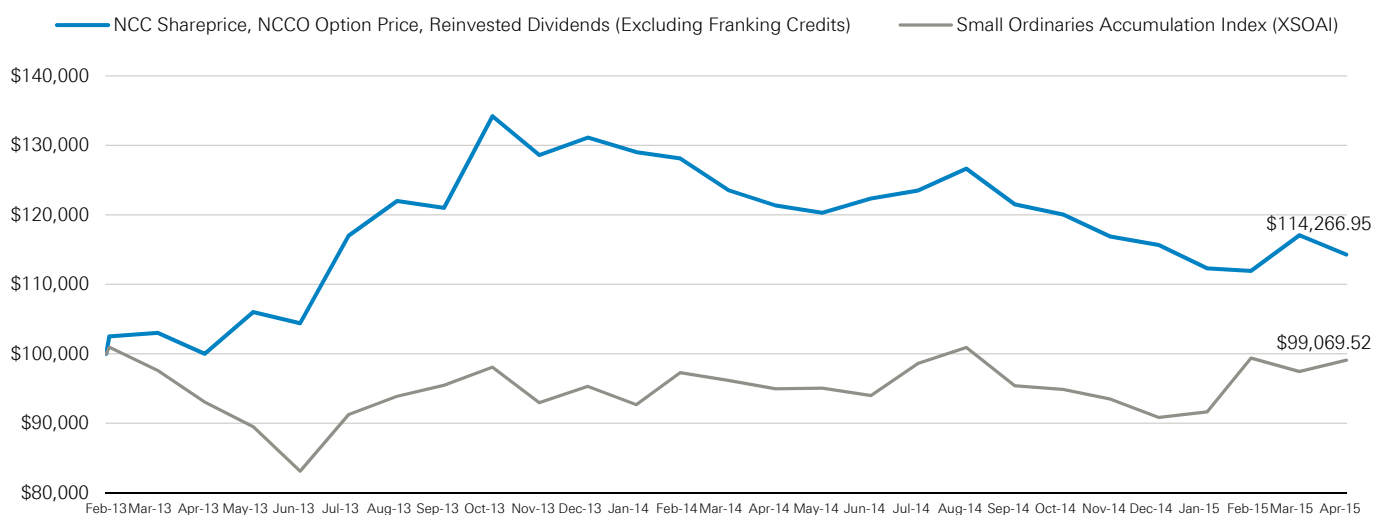


### Positive Stock Attribution Analysis (1<sup>st</sup> March 2013 to 30<sup>th</sup> April 2015)

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. 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 of been a long or short position.

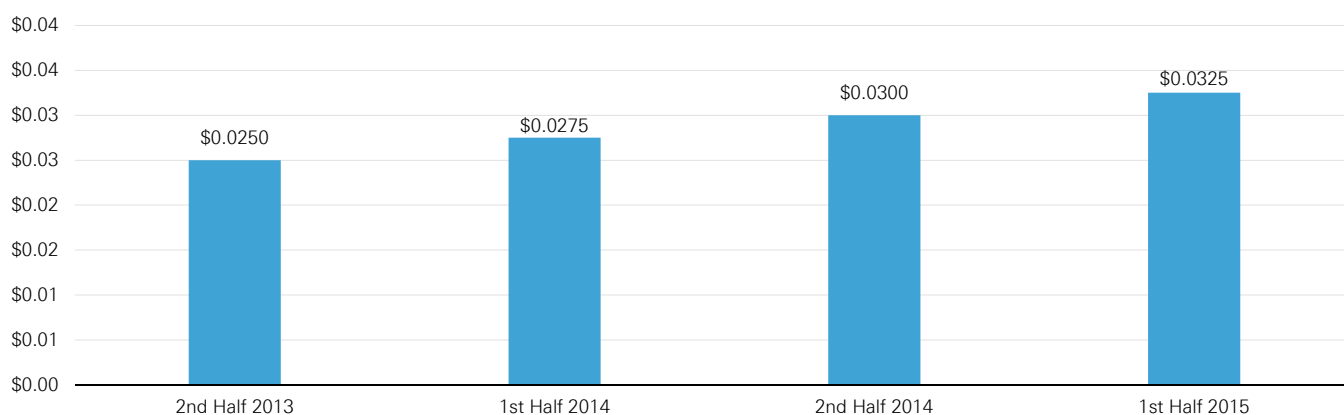
Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
Calliden Group Limited	+10.50%	BSA Limited	+5.20%
Capitol Health Limited	+9.82%	RHG Limited	+4.79%
Lindsay Australia	+7.41%	Investment A	+4.50%
Tamawood Limited	+5.86%	Gage Road Brewing	+4.21%
Village Roadshow Limited	+5.55%	AMA Group Limited	+2.63%

### Shareholder Return Analysis (IPO Investors)\*



\*Assumes an intrinsic value of \$0.02 cents per option at expiry (1st February 2015).

### Historical Fully Franked Dividends (Cents per Share)



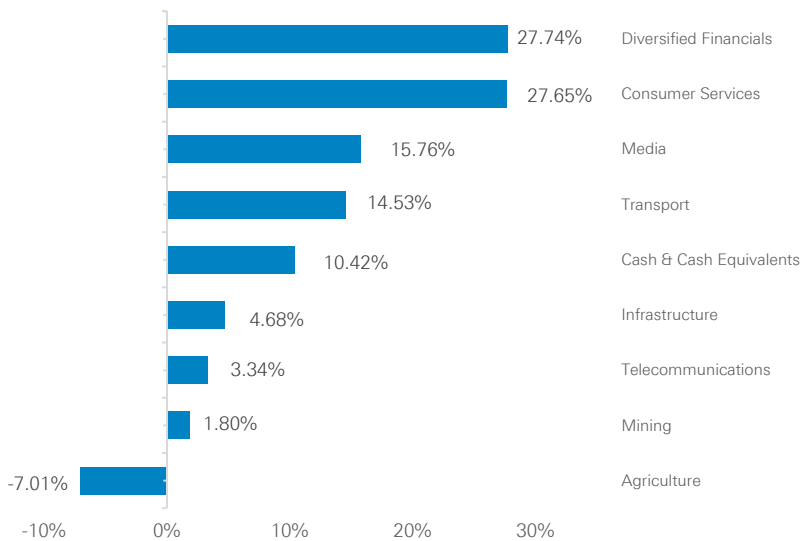
**Portfolio Positioning as at 30<sup>th</sup> April 2015**

The makeup of the portfolio remained very stable over the month. The long portfolio remains made up of 12 positions and there now remains just 1 short position, as the other short position was closed after a significant fall in the share price.

The portfolio remains focused on the long term quality of investments and not quantity of holdings. This is demonstrated by the top 5 positions within the portfolio representing a weighting of circa 60% of NTA and the remaining 7 positions making up the balance of portfolio assets. From a market capitalisation perspective, the smallest company in the portfolio remains capped at circa \$20 million and the largest is capped at over \$1.7 billion. On a weighted average, the market capitalisation of the portfolio is approximately \$220 million.

On the following page we have provided a number of historical portfolio risk measures with a view to providing our investors with further colour to the long term investment objective of NCC, which is to outperform the benchmark over the long term and to preserve investors' capital. The new metrics published include the portfolio standard deviation compared to that of the benchmark, portfolio correlation to the benchmark and an analysis of positive versus negative return months compared to the benchmark. By providing such data we hope to facilitate our investors forming a view of how risk adjusted returns over time can be achieved.

**Industry Exposure**



**Market Insight**

During the month of April a number of consensus trades in the market place had significant reversion. Notably the Australian dollar reached over \$0.80 then finished the month of April up 3c to \$0.791. Resources outperformed their Banking counterparts significantly, with a +4.3% return compared to -5.9%. Finally, the Shanghai Composite Index finished the month up +18.5% which was well ahead of all major indices.

Investors' primary focus continues to be placed on the recent weak US economic data together with the potential effects of the European Quantitative Easing program, while the important issue of government bonds yields has quietly gone under the radar.

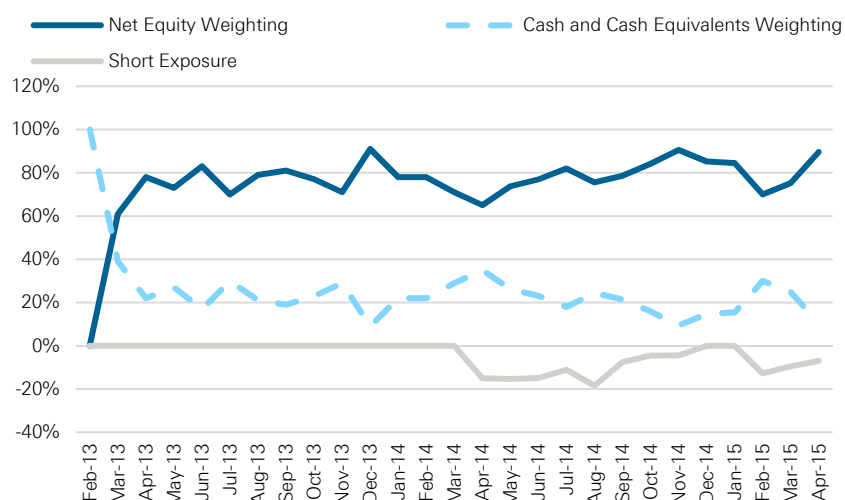
Since the middle of June, 10 year government bonds yields of many major economies has risen sharply (see chart below). In the case of Germany, bond yields have risen by over 10 times. Despite this, equity markets have remained at elevated levels. If the global benchmark for risk free rates continues to move higher, then, (as this is a valuation input for equity market valuations) it may only be a matter of time before a market correction will occur. Of course this would be negated if global government bond yields revert back to their lows. One should note that even though yields have risen in recent times, the rise has been off a very low base.



We believe potentially the most important call leading into the new financial year will be inflation pressure across Europe and the US. Ultimately, if inflationary pressures increase substantially, central banks around the world will be forced to raise cash rates.

As you can see in the chart overleaf, using Germany as an example, inflationary expectations have risen substantially with bond yields recently reflecting this. The same can be seen in the US, although this has been driven by a recovery in the Brent Oil price, which arguably is not an indicator the Federal Reserve will be paying too much attention to relative to other key indicators such as wage growth.

### Net Equity Exposure



### Market Insight Cont.



### Portfolio Characteristics – Summary Data

Total Number of Equity Holdings (Long & Short)	13
Total Number of "Income" Instruments	0
Total Number of Holdings	13
Portfolio Weighted Average Market Capitalisation	\$221 Million
Percentage of Positive Months (NCC)	70%
Percentage of Positive Months (XSOAI)	52%
Standard Deviation of Returns (NCC)	+11.53%
Standard Deviation of Returns (XSOAI)	+14.48%
Correlation of Returns to XSOAI	+48.13%
Sortino Ratio	+4.04
Current Estimated Portfolio Beta	+0.33

\*A summary of the statistical terms used in the table above can be found on the page following.

### 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 NAOS Investment Team has direct contact with many listed and unlisted Emerging Companies across a wide range of industries.

During the month of April the Investment Team had direct contact with over 43 unlisted and listed companies, a broad selection of those met with is provided as follows:

- Indoor Sky Dive (IDZ)
- Affinity Education (AFJ)
- 1 Page (1PG)
- Helloworld (HLO)
- Reckon (RKN)
- Smart Group (SIQ)
- Buderim Ginger (BUG)
- Superloop (IPO)
- Live Tiles (IPO)
- Urbanise (UBN)
- Clarius (CND)
- CML Group (CGR)

## Description of Statistical Terms/Glossary

**Portfolio Weighted Average Market Capitalisation** – The portfolio weight of each individual position multiplied by each companies 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 Sharp 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 may potentially indicate that there is a low probability of a large capital loss.

**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 1 means that the security/portfolio will be less than 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

Lawrence Adams

#### Investment Team

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

#### Business Development

Anneke Senden

#### 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  
Telephone: (02) 9947 2567  
Email: [asenden@naos.com.au](mailto:asenden@naos.com.au)  
[www.naos.com.au](http://www.naos.com.au)