

NAOS Emerging Opportunities Company (NCC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

FEBRUARY 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

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): 11,789,000

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

Net Tangible Asset Value Breakdown as at 28th February 2015

Pre Tax NTA:	\$1.18
Post Tax & Pre Unrealised Gains Tax:	\$1.16
After Tax NTA:	\$1.15

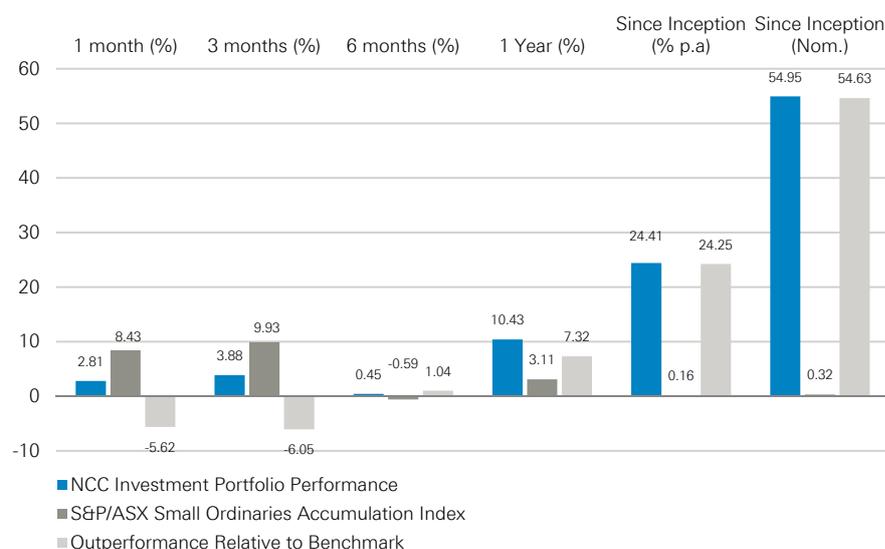
The above NTA calculations do not account for any potential dilution from the 11,789,026 NCCOA options that remain on issue (expiry 1st August 2015) and which are exercisable at \$1.13.

Investment Portfolio Performance to 28th February 2015

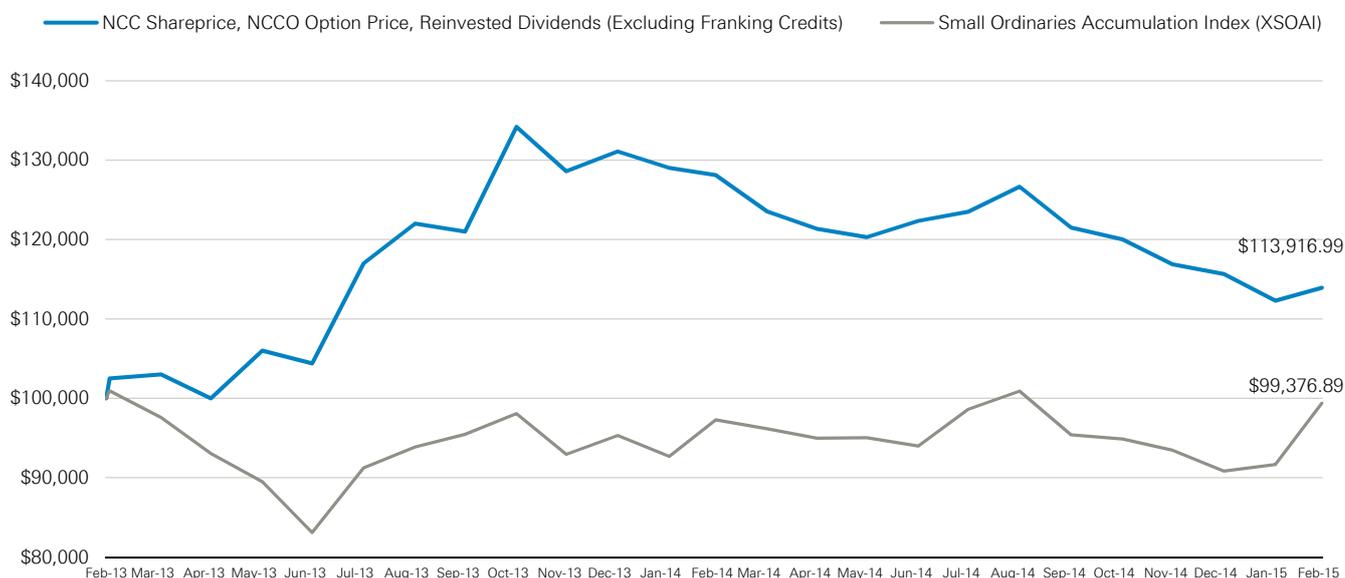
The Investment Portfolio posted a positive return in the month of February of +2.81% underperforming the Small Ordinaries Accumulation Index (XSOAI) which posted a return of +8.43% for the month.

	1 month	3 months	6 months	1 Year	Inception (p.a.)	Inception (Nom.)
NCC Investment Portfolio Performance*	+2.81%	+3.88%	+0.45%	+10.43%	+24.41%	+54.95%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	+8.43%	+9.93%	-0.59%	+3.11%	+0.16%	+0.32%
Outperformance over Benchmark	-5.62%	-6.05%	+1.04%	+7.32%	+24.25%	+54.63%

*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.

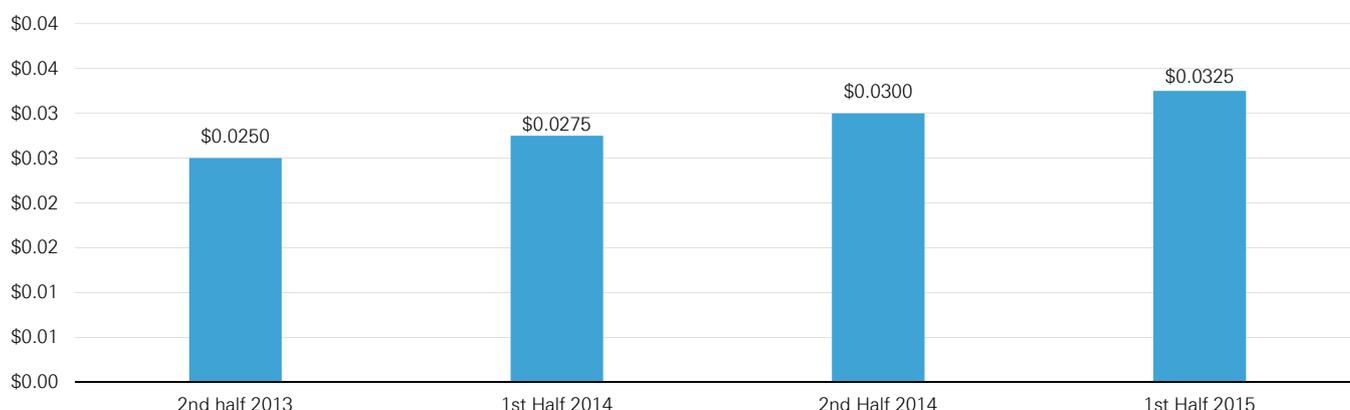


Shareholder Return Analysis (IPO Investors)*



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

Historical Fully Franked Dividends (Cents per Share)



Positive Stock Attribution Analysis (1st March 2013 to 28th February 2015)

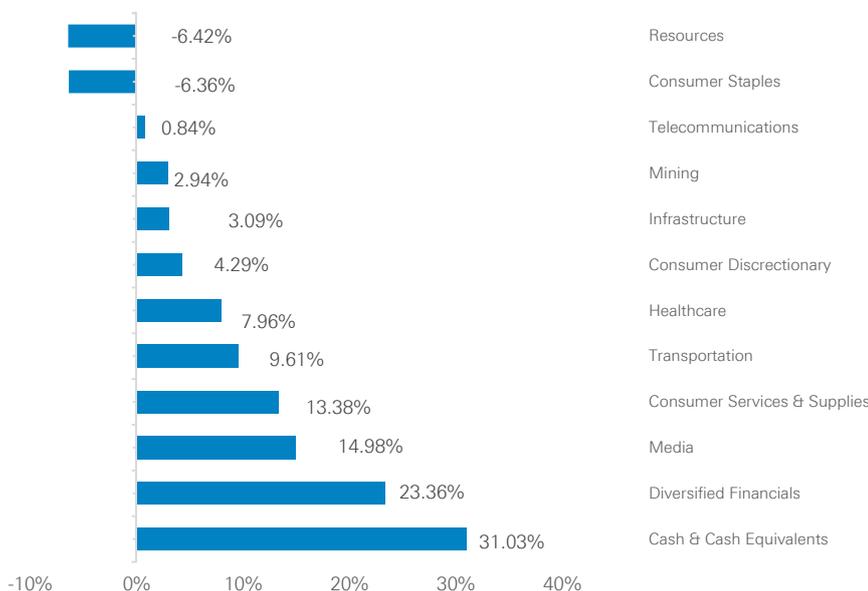
Below is a chart which lists the top positive contributors to NCC total return since 1st March 2013. The purpose of the chart is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated portfolio of investments that is often 0 -15 securities at any one time. 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)
Calliden Group	+13.38%	RHG Limited	+5.08%
Capitol Health	+10.42%	Investment G	+4.82%
Investment C	+7.41%	Gage Roads Brewery	+4.47%
Tamawood Limited	+6.22%	Investment I	+4.44%
Village Roadshow Limited	+5.89%	AMA Group Limited	+2.79%

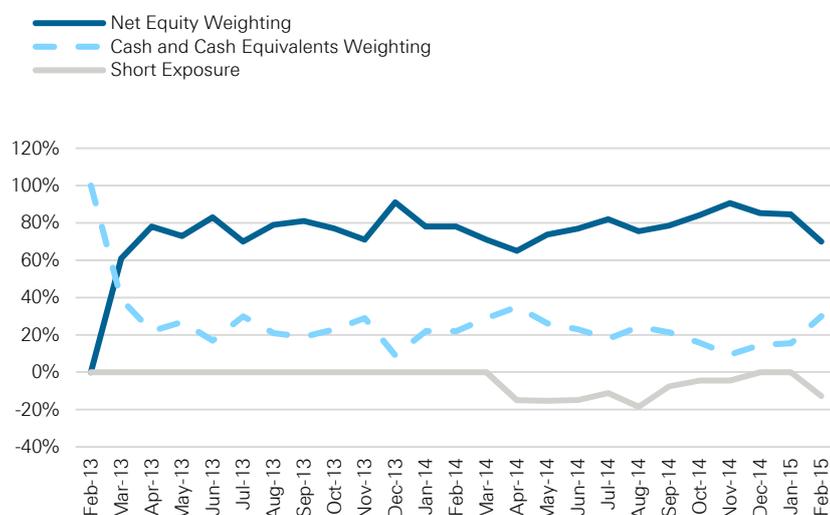
Portfolio Positioning as at 28th February 2015

Over the course of February the investment team formally reviewed the progress of a number of key long term positions currently held within the portfolio. Pleasingly, the team believes significant progress has been made in key portfolio holdings such as BSA Limited (ASX:BSA), Enero Group (ASX:EGG), and Billabong (ASX:BBG). Reporting season also allowed the investment team to add to one existing position within the online comparison space and also enter into a new long position, Candle Australia (ASX:CND), which NAOS is now substantial in. As per many of the current investments in the NCC portfolio, Candle Australia (ASX:CND) has a significant revenue base with a sustainable business model. The key area of improvement pertains to the management of the cost base under the existing leadership or a proven investment team to boost shareholder returns. Pleasingly, and to reduce the effect of any capital loss, CND's balance sheet is net cash with a significant amount of franking credits and a number of tax losses.

Industry Exposure



Net Equity Exposure



Market Insight

The month of February brought with it reporting season and the key focus of establishing what the drivers of any growth in company profitability were going to be; either revenue growth or continued cost cutting programs. Overall, the markets expectations of company performance were met mostly due to significant cost management programs, with very few companies able to exhibit organic revenue growth without the aid of currency movements. The market didn't seem to mind, however with the S&P/ASX 300 Accumulation Index finishing up +6.9% and the Small Ordinaries Accumulation Index finishing up an eye watering +8.4% for the month.

In our opinion, significant movements in the market were led by two factors; firstly, the domestic interest rate cut which led to significant equity market inflows from retail investors who continued to seek higher yielding investments from what is currently being offered from term deposits with the banks and secondly, the fall in the Australian dollar relative to the US dollar. The move of the AUD to ~\$0.78 US cents has resulted in notable inflows from overseas institutional investors, many of which are now seeing value in Australian assets as a result of the depreciation of the Australian dollar.

Notable throughout the reporting season was the dispersion of returns between companies who exceeded expectations and those that missed, even ever so slightly. Those that met expectations were rewarded handsomely whilst those that missed were punished. Notable positive performers included FXL (+19.4%), MDN (+17.6%) and SVW (+36.8%) and notable detractors were AZJ (-2.4%), AAD (-13.7%) and KMD (-19.8%).

A central theme playing out in meetings with management was how the challenging nature of business conditions was persisting and how these conditions were providing for very little visibility with regard to forward revenue. Management also noted that they were yet to see any flow through from lower interest rates and currency and higher house prices. Interestingly however, the consumer sentiment index passed through 100 points for the first time in over a year during the month, even whilst the leading indicator of employment continued to drag with the unemployment rate rising to 6.4%. Perhaps more importantly, capex intentions for both mining and non-mining companies continued to disappoint.

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 Reporting Season, the Investment Team had direct contact with over 100 unlisted and listed companies, a broad selection of those met with is provided as follows:

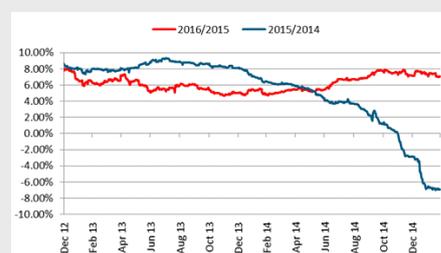
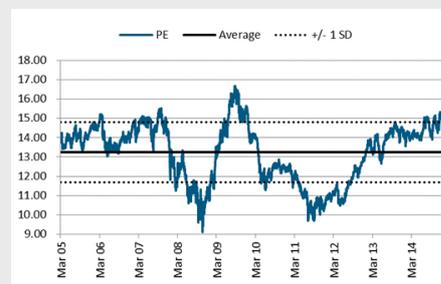
- Carsguide (Unlisted)
- Skydive the Beach (Unlisted)
- Eureka Group Holdings (EGH)
- Inabox Group Limited (IAB)
- CML Group Limited (CGR)
- Reckon Limited (RKN)
- Mitula (Unlisted)
- Capilano Honey Limited (CZZ)
- Enero Group Holdings (EGG)
- Regional Express Holdings Limited (REX)
- ISelect Limited (ISU)
- Webject Limited (WEB)
- Alexium International Group (AJX)
- Freelancer Limited (FLN)
- Alchemia Limited (ACL)
- Mobile Embrace Limited (MBE)
- My Net Fone Limited (MNF)
- SomnoMed Limited (SOM)
- InfoMedia Limited (IFM)
- Imdex Limited (IMD)
- Rhipe Limited (RHP)
- Phosphogenics Limited (POH)
- The Reject Shop (TRS)
- Village Roadshow Limited (VRL)

Market Insight Cont.

Looking closer into domestic equity market fundamentals, it is worth noting a few charts/statistics. As per the chart below, the Forward P/E of the 50 leaders is now over 17 times which is the highest in the past decade. Although this may not be concerning if earnings were increasing, the fact remains that earnings for the 50 leaders has been falling throughout the year. Whilst estimates for FY16 remain at 10% EPS growth, given the reactive nature of markets we would expect this to start falling later in the year.

Pleasingly, reporting season was as expected for most of our investments, with progress being made in a number of our core holdings such as BSA Limited (ASX:BSA) and Enero Group (ASX:EGG). Another key holding for NCC is Billabong International Limited (ASX:BBG). BBG delivered a solid result considering the challenges the company has faced over the prior 12 months. We used the recent pullback in the share price of the stock to acquire further shares in BBG as we believe not only in the margin expansion potential over the next 12-24 months but also in the capability of the proven management team, excellent brand recognition, low gearing (excluding lease liabilities) and BBG's leverage to consumer spending in North America, Europe and Australia).

The NCC portfolio continues to invest in businesses where the investment team believe the management team(s) have significant scope to increase the earnings potential of their respective businesses regardless of wider market sentiment. Naos prefers to invest in companies where the management team are able to control their destiny as opposed to being a variable of wider market movements and valuations.



Source: Shaw Stockbroking

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

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