

NAOS Emerging Opportunities Company (NCC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

JULY 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.

2. Focus on Quality of Companies not Quantity 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 do this is to focus on a select (target 0-15) number of high quality ideas. By developing a solid understanding of these companies we believe we are well positioned to capitalise on our 'information 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. Constructing the Portfolio utilising a Benchmark Unaware Approach

Being benchmark unaware means we are not forced holders of stocks that we are not convinced are attractive investment propositions.

5. Demonstrating a Significant Alignment of Interests with Shareholders

NAOS employees/directors own >\$10m NCC shares providing shareholders with a significant alignment of interests.

Net Tangible Asset Value Breakdown as at 31st July 2015

Pre Tax NTA:	\$1.11
Post Tax & Pre Unrealised Gains Tax:	\$1.11
After Tax NTA:	\$1.10

Investment Portfolio Performance to 31st July 2015

The NCC Investment Portfolio produced a positive return of +2.28% for the month of July. This result compared favourably to the portfolio's benchmark (ASX/S&P Small Ordinaries Accumulation Index 'XSOAI') which returned +1.56% for the same period. Since inception (29 months), the relative outperformance of the portfolio versus its benchmark is +55.70%. Pleasingly, this result has been achieved with significantly less downside volatility versus the benchmark, driven largely by the fact the investment strategy is implemented in a high conviction, bottom up driven, benchmark unaware manner.

One of the key drivers to positive portfolio performance for the month was our holding in Armidale Investment Corporation (AIK). During the month the Company reported a significant increase in the valuation of its net tangible asset backing (NTA) for the financial year 2015, from 12 to 14.5 cents per share. The meaningful move in the NTA is attributed to a substantial increase in the value of one of the Company's investments, Hal Data. Hal Data specialises in equipment leasing and as such is valued using a discounted cash flow model (DCF), the key attributes of which are the size of the leasing book and the discount and terminal growth rate applied. As per the announcement to the ASX, the upward revaluation of Hal Data was due to significant growth in the size of the business' leasing book. There was minimal change in the discount rate applied. In this context, we believe the outlook for further near term uplift in the NTA of the Company is significant. The reason for this is threefold;

1. The Company has the potential to reduce the discount rate applied, from the current 'high' >20% level to a more 'normalised' market level of <14%
2. Potential exists for further expansion in the leasing book, which has been forecast to grow significantly again for FY16.
3. AIK is in the process of completing an acquisition, the effects of which we believe will be beneficial to the Company.

As we head into reporting season, we are confident that the companies we invest in will report in a manner which demonstrates to the market that they are able to execute successfully on their respective strategies and that they remain undervalued opportunities that represent good risk/reward opportunities for investors.

	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	Inception (p.a.)	Inception (Nom.)
NCC Investment Portfolio Performance*	+2.28%	+0.23%	+0.56%	+1.78%	+12.01%	+18.72%	+51.57%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	+1.56%	-4.13%	+3.63%	-2.77%	+2.51%	-1.72%	-4.13%
Outperformance Relative to Benchmark	+0.72%	+4.36%	-3.07%	+4.55%	+9.50%	+20.44%	+55.70%

*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 (1st March 2013 to 31st July 2015)

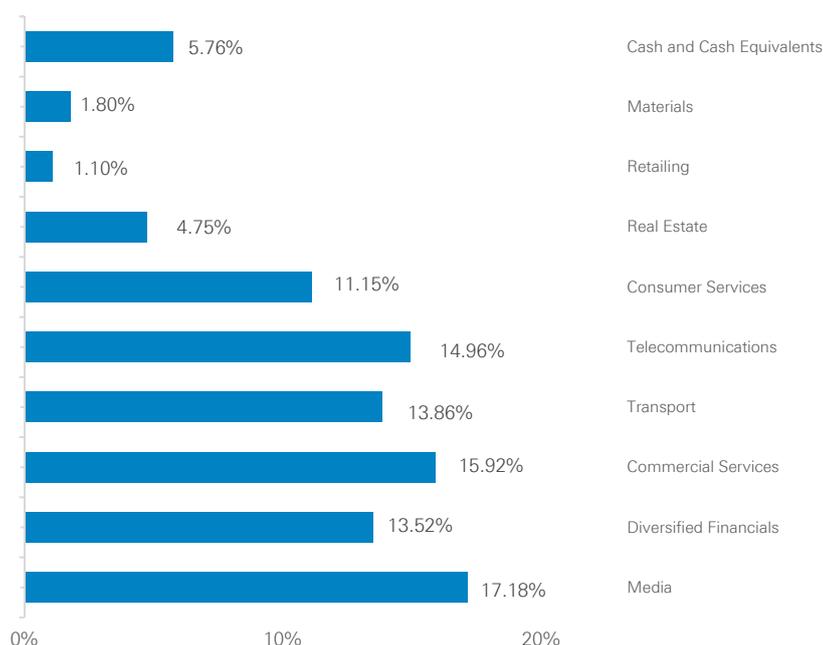
The table below lists the top positive contributors to NCC total return since 1st March 2013. The purpose of the chart is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated portfolio 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 in the portfolio.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
Calliden Group Limited	+11.07%	Village Roadshow Limited	+5.83%
Capitol Health Limited	+10.31%	Sirtex Medical Limited	+5.81%
Armidale Investment Corporation	+7.98%	Broadcast Services Australia Limited	+5.81%
Lindsay Australia Limited	+6.65%	RHG Limited	+5.03%
Tamawood Limited	+6.16%	Gage Roads Brewing Limited	+4.42%

Portfolio Positioning as at 31st July 2015

As at 31st July, the portfolio's net equity exposure was ~94% with a subsequent cash weighting of just 6%. Over the course of the month there were no changes to the long positions held in the portfolio. We initiated one short position during the month resulting in the portfolio being comprised of 11 long positions and 1 short position as at month-end. Adhering to the high conviction philosophy of NAOS, at the close of the month, the top-5 positions held by NCC comprised >65% of the Company's NTA.

Industry Exposure



Market Insight

During the month of July the Australian equity market underwent a 'relief rally' and, as a result, the ASX-200 Accumulation Index posted a result of +4.23% for the month. Smaller companies fared worse than their larger counterparts however, with the XSOAI underperforming the ASX-200 significantly returning only +1.56% for the month.

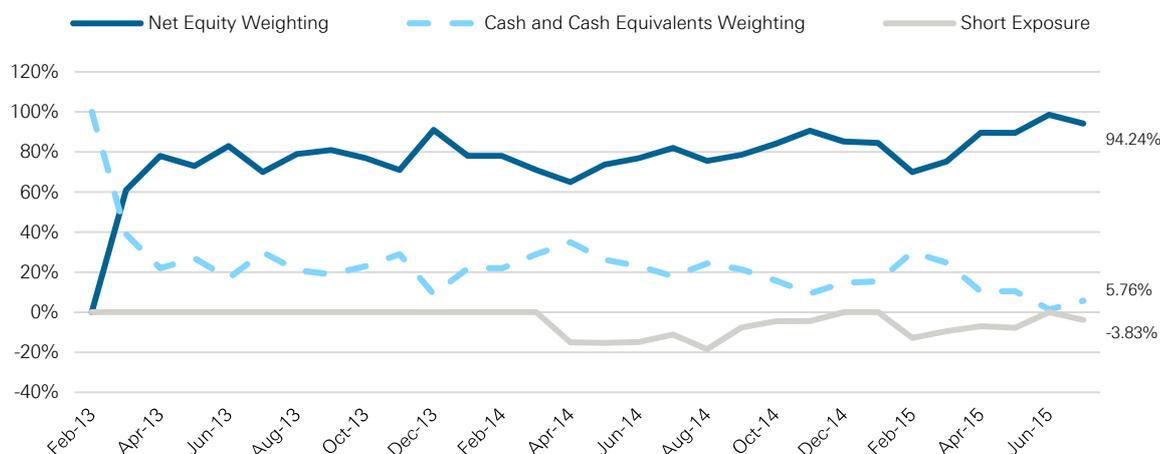
Greece's ability to strike yet another deal with the European troika contributed substantially to investor sentiment during the month and it was on this basis that markets were buoyed into positive territory both here and offshore.

August brings with it 'Reporting Season' and we expect proceedings to shift into high gear from 11 August. Continuing on from most recent reporting seasons, we expect we will see those stocks that have been able to grow earnings in what has been considered a 'low growth' environment rewarded with high price to earnings ratios.

Looking forward into FY16, the earnings expectations for industrial companies remain exceptionally high at +23.9%. Other sectors in this 'high growth' category include Utilities at +14.2%, Healthcare at +13.2% and Consumer Discretionary +11.9%. We expect earnings in the Energy and Materials sectors to remain soft over the FY16 period, with earnings expected to fall by -26.5% and -18.2% respectively, creating a significant drag on broader market performance.

Heading into Reporting Season, the NAOS team will remain focused on companies that are not only able to increase profitability due to cost control and subsequent margin growth but, more importantly, that are able to show revenue growth as well. We expect to see strong results from those companies that are able to benefit from lower debt servicing levels (I.e. Utilities/REITS's) and a lower AUD/USD. We also expect companies whose business operations are highly correlated to the Australian residential building cycle will do well. In other industries such as Media, Consumer Discretionary and Materials/Energy, the key issue will be cost management relative to market expectations followed by balance sheet health. Contrarian/value investing has proved to be a tough investment strategy over the last 6 months and leading into reporting season with expectations low for many of these value investments, it will be interesting to see how these low expectations are matched with reported company profits and forecasts.

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 that 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 met with during the month of July is provided below.

- Pureprofile Limited (PPL)
- Aditya Birla Minerals Limited (ABY)
- Thorn Group Limited (TGA)
- Altium Limited (ALU)
- Beston Global Food Company (IPO)
- Ramelius Resources Limited (RMS)
- My Net Fone (MNF)
- HFA Holdings Limited (HFA)
- Vision Eye Institute Limited (VEI)
- Impedimed Limited (IPD)
- Adherium Limited (IPO)
- Ten Network Holdings (TEN)

Portfolio Characteristics – Summary Data

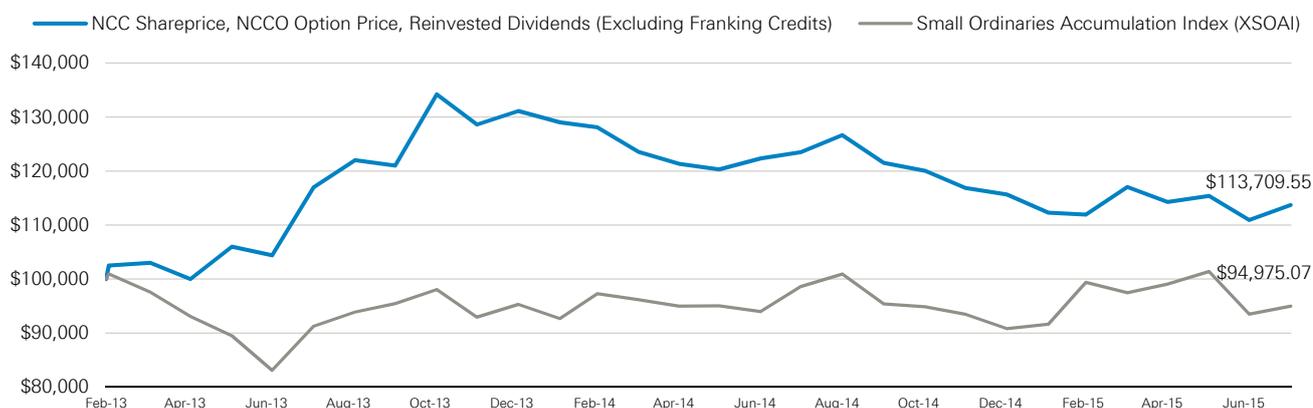
Below are a number of historical portfolio risk measures. Our aim in providing these metrics is to demonstrate to investors how NCC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term and to preserve investors’ capital. This month we have added 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.

Total Number of Equity Holdings (Long & Short)	11
Total Number of “Income” Instruments	0
Total Number of Holdings	11
Portfolio Weighted Average Market Capitalisation	\$98mn
Percentage of Positive Months (NCC)	70%
Percentage of Positive Months (XSOAI)	47%
Standard Deviation of Returns (NCC)	11.35%
Standard Deviation of Returns (XSOAI)	14.45%
Correlation of Returns to XSOAI	54.58%
Sortino Ratio	3.26
Downside Deviation	4.93%
Downside Deviation XSOAI	7.63%
Current Estimated Portfolio Beta	0.03

Capital Management – Summary Data as at 31st July 2015

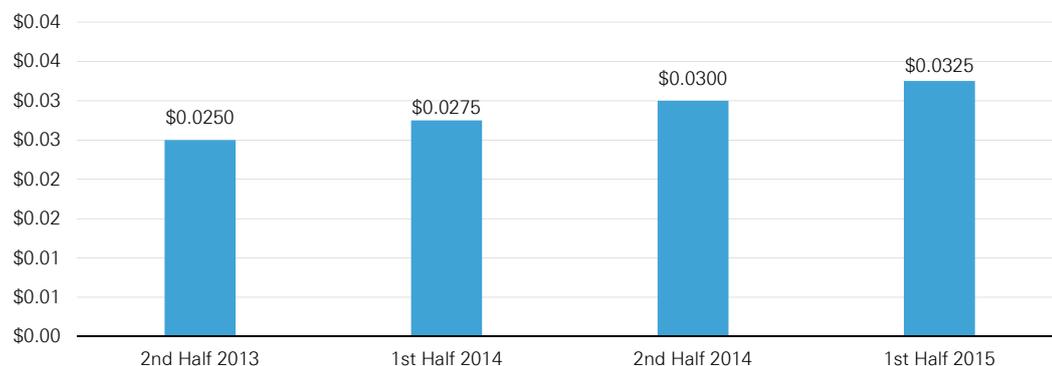
Share Price	\$1.02
Discount to NTA (undiluted, pre tax)	-8.82%
Fully Franked Dividend Yield	6.50%
Gross Dividend Yield	9.30%
Shares on Issues	46,918,297
Options on Issue	11,789,026 (strike at \$1.13, currently out of the money)
Directors Shareholding (ordinary shares)	3,210,079

Shareholder Return Analysis (IPO) Investors



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

Dividend Profile - Historical Fully Franked Dividends (Cents per Share)



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 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 means that the security/portfolio will 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

Lawrence Adams

Investment Team

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Ben Rundle (Portfolio Manager)
Jeffrey Kim (Portfolio Manager)
Robert Miller (Portfolio Manager)

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