

NAOS Emerging Opportunities Company (NCC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

August 2016

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, undervalued emerging companies in a transparent and concentrated structure that has the competitive advantage of being a nimble closed ended fund with no liquidity constraints.

2. Focus on Quality of Companies Not Quantity or Size 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 achieve this is to focus on a select number (target 0-15) of high quality investment ideas. By developing a deep understanding of these companies we believe we are well positioned to capitalise on our 'long term information advantage' & 'liquidity 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. Portfolio Constructed Utilising a Benchmark Unaware Approach

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

5. Significant Alignment of Interests with Shareholders

NAOS & NCC employees/directors own >10 million NCC shares, providing shareholders with a significant alignment of interests.

Net Tangible Asset Value Breakdown as at 31st August 2016

Pre Tax NTA:	\$1.38
Post Tax & Pre Unrealised Gains NTA:	\$1.38
Post Tax NTA:	\$1.28
Share Price:	\$1.17

Investment Portfolio Performance to 31st August 2016 & Market Insight

The NCC Investment Portfolio produced a return of +6.48% which compared favourably to Small Ordinaires Accumulation Index which returned a negative return of -1.56%. This brings up the nominal reception return to +105.25% in approximately 40 months of operations.

The end of August brought with it the end of reporting season. Pleasingly most of the underlying NCC investments reported financial results that were within or even ahead of the investment team's forecasts. In our view the standout performers within the portfolio for FY16 based on business progress not necessarily financial progress were Armidale Investments Group (AIK), CML Group (CGR), Enero (EGG) and BSA Limited (BSA).

Throughout August the investment team met with over 70 businesses. Without a doubt the most notable theme to emerge from the meetings we held through reporting season was the ability of some emerging companies that the investment team has been in contact with for some time to grow their revenue base organically through FY16. Key examples include the retailer Gail Pacific (GAP), Macquarie Telecom (MAQ), Ellex Medical (ELX) and Globe International (GLB). Even against a backdrop of low economic growth and industry specific headwinds (in some cases) it shows that specific emerging companies with an effective, well executed strategy do have the ability to growth the top line well in excess of their larger peers.

You may be aware that these companies were not part of the NCC investment portfolio over the past 12 months. The goal of the NAOS investment team will be to understand the underlying drivers of this revenue growth and the potential for it to continue over a 3-year investment horizon. Many companies can pull certain levers to achieve revenue growth over a short period of time i.e. Dick Smith, but the ability of a business to grow revenue at a compound rate of +15% over many years is hard to find. A well-executed longer-term investment philosophy which identifies businesses who can continue to deliver revenue growth over the long-term can generate significant returns, as the share prices of MNF, SRX and REH have demonstrated.

	1 Month	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Inception (p.a.)	Inception (nom.)
NCC Investment Portfolio Performance*	+6.48%	+28.45%	+44.24%	+15.34%	+16.42%	+22.74%	+105.25%
S&P/ASX Small Ordinaires Accumulation Index (XSOAI)	-1.56%	+19.30%	+26.55%	+6.94%	+7.13%	+4.17%	+15.41%
Outperformance Relative to Benchmark	+8.04%	+9.15%	+17.69%	+8.40%	+9.29%	+18.57%	+89.84%

*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. Since inception (p.a. and nom.) includes part performance for the month of February 2013.

Positive Stock Attribution Analysis

(Attribution is what has contributed to NCC's performance since inception)

(1st March 2013 to 31st August 2016)

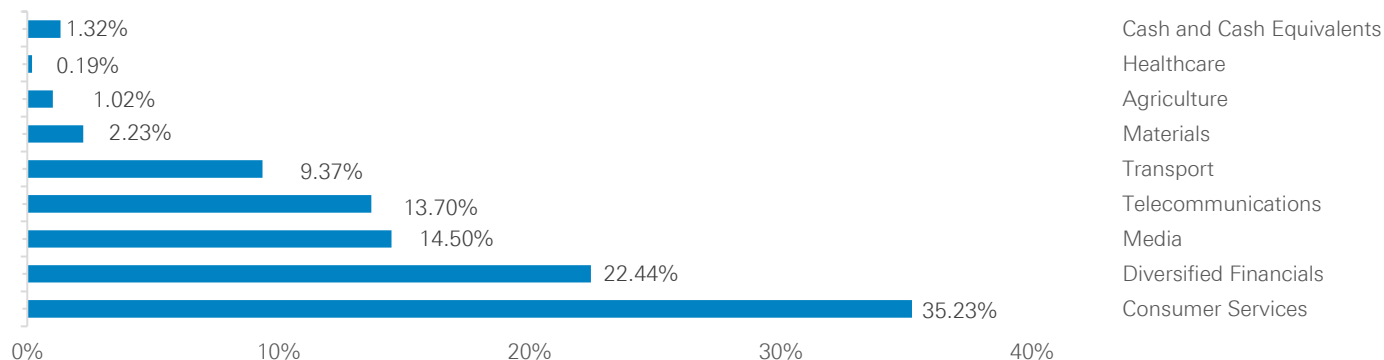
The table below lists the top positive contributors to NCC's total return since 1st March 2013. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated portfolio of investments that is often 0 -15 securities at any one time. We will disclose securities in which the Company has a current substantial holding, or when we have exited the position. All of the below have **either been a long or short position** in the portfolio at some point in time.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
BSA Limited	+23.98%	Village Roadshow Limited	+7.86%
Armidale Investment Corp	+15.52%	Sirtex Medical Limited	+7.85%
Calliden Group	+14.93%	RHG Limited	+6.78%
Capitol Health Ltd	+14.52%	Gage Road Brewing	+5.96%
Lindsay Group	+11.11%	Enero Group	+5.61%
Tamawood	+8.12%	MNF Group	+4.60%

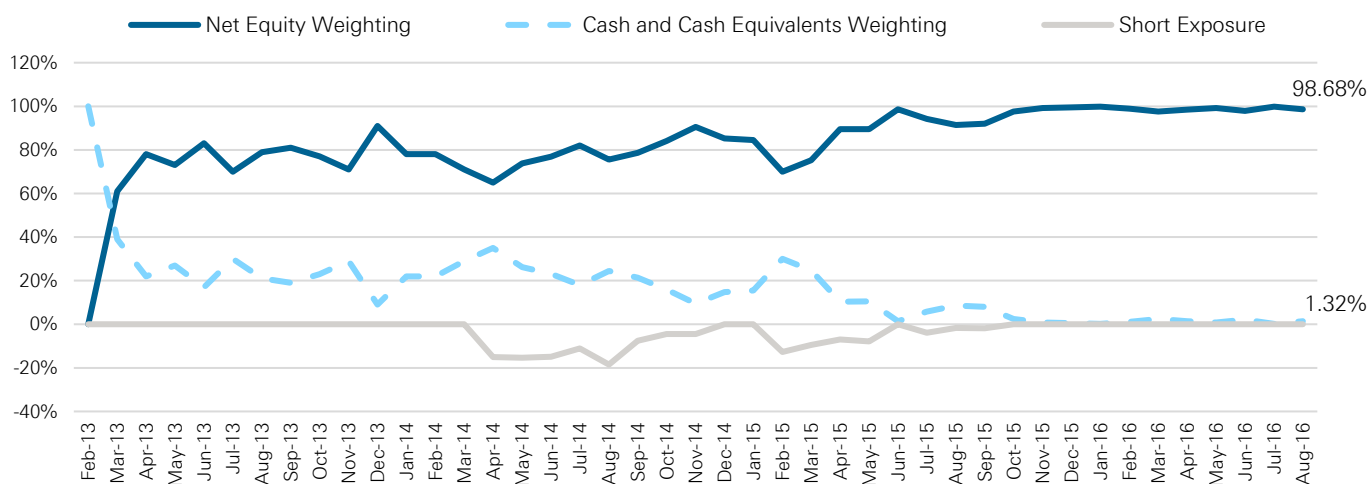
Portfolio Positioning as at 31st August 2016

As at August month end, the portfolio's net equity exposure was ~98% with a subsequent cash weighting of +1.32%. The core holdings in the portfolio did not change over the course of the month. As at month end, the portfolio was comprised of 10 long positions and no shorts. There were also no income instruments in the portfolio.

Industry Exposure



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. This 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 we met with during the month of August is provided below.

- Maxitrans – (MXI)
- Australian Ethical – (AEF)
- WPP AUNZ – (WPP)
- Wingara Ag – (WNR)
- Energy Action – (EAX)
- Royal Wolf Holdings – (RWH)
- Duxton Water – (IPO)
- Blue Sky Investments – (BLA)
- Korvest – (KOV)
- Objective Group – (OCL)
- Village Roadshow – (VRL)
- Gail Pacific – (GAP)

Portfolio Characteristics – Summary Data

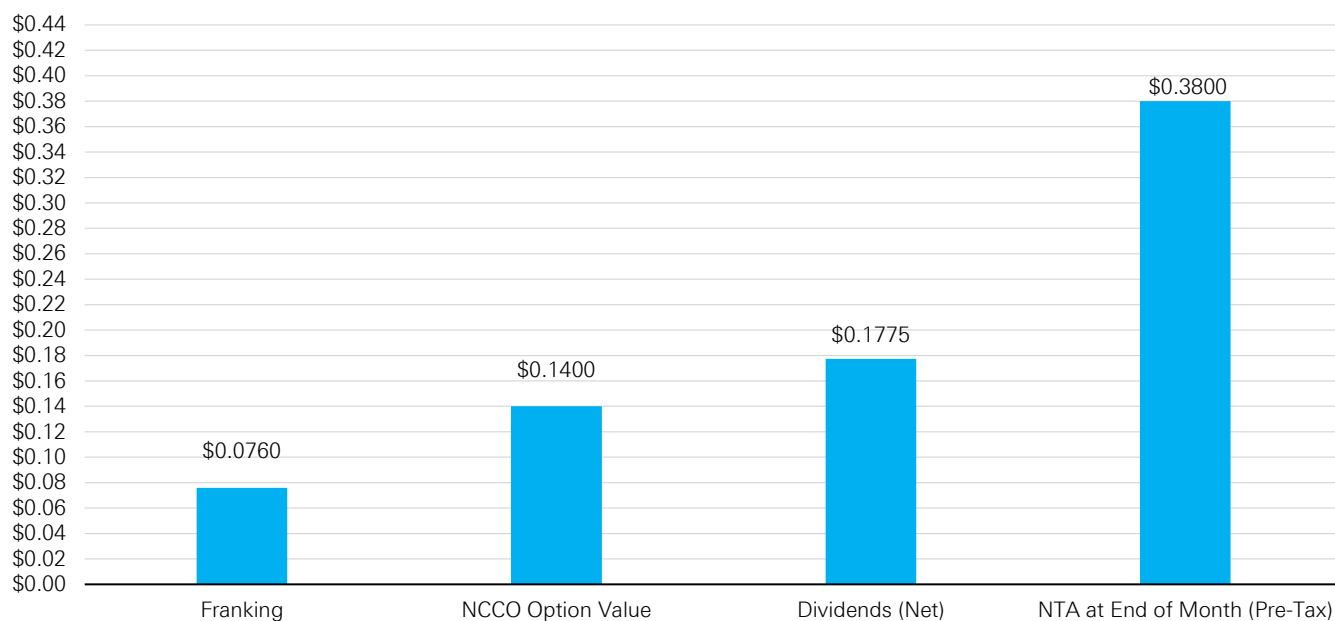
Below are a number of historical portfolio risk measures. Our aim in providing these metrics is to demonstrate to investors how NCC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and also to preserve investor's capital. A glossary of the terms used below and the method used for calculating them can be found on the last page of this report.

Portfolio Weighted Average Market Capitalisation	\$125 Million
Percentage of Positive Months (NCC)	77%
Percentage of Positive Months (XSOAI)	56%
Standard Deviation of Returns (NCC)	11.62%
Standard Deviation of Returns (XSOAI)	14.62%
Correlation of Returns to XSOAI	0.58
Sortino Ratio	3.40
Downside Deviation (NCC)	5.93%
Downside Deviation (XSOAI)	7.51%
Current Estimated Portfolio Beta (6 Month Historical)	0.04

Capital Management – Summary Data as at 31st August 2016

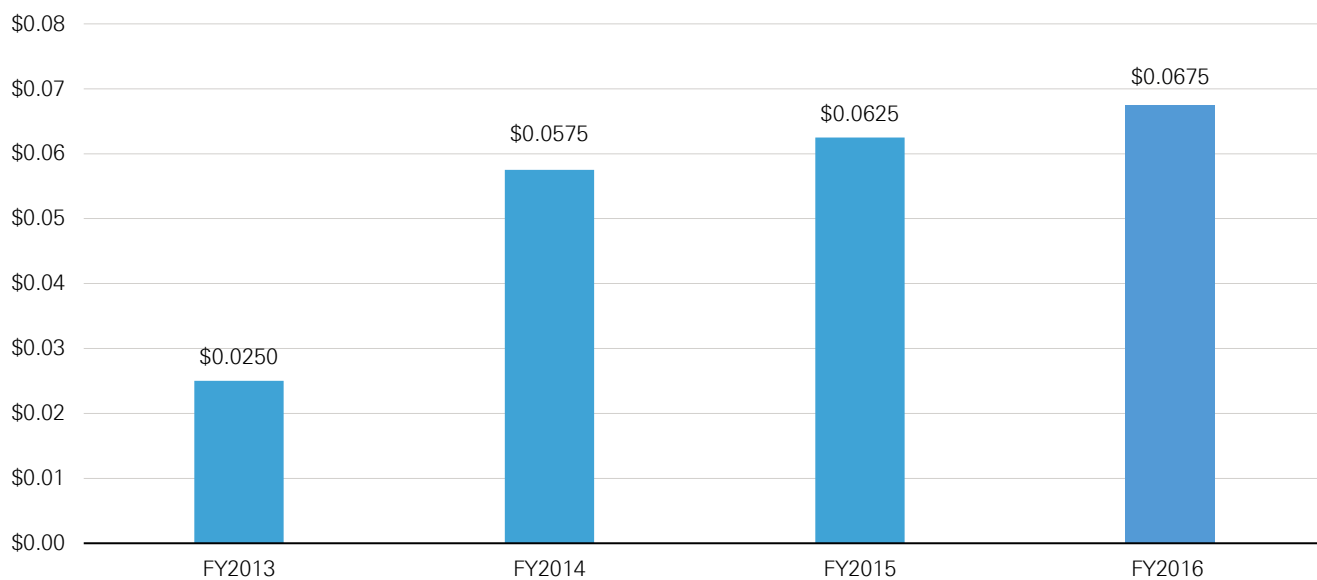
Share Price	\$1.17
Discount/Premium to NTA (Pre-Tax)	-15.22%
Historical Fully Franked Dividend Yield	5.77%
Historical Gross Dividend Yield	8.24%
Shares on Issue	46,918,297
NCC Directors Shareholding (Ordinary Shares)	3,571,066

Historical Shareholder Return Breakdown



*Assumes an intrinsic NCCO value of \$0.14 cents per option at expiry (1st February 2015).

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



A Description of Statistical Terms/Glossary

Portfolio Average Market Capitalisation – The portfolio weight of each individual position multiplied by each company's 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 variables move in relation to each other. In this case the two variables 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 Sharpe 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 (Small Ordinaries Accumulation Index - XSOAI) 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 indicated that a security/portfolio should be less volatile than the market.

XSOAI – Small Ordinaries Accumulation Index

Disclaimer:

This report has been prepared by NAOS Asset Management Limited. Information provided in this report is for general information purposes and must not be construed as investment advice. In preparing this report we have not taken into account the investment objectives, financial situation or needs of any particular investor. Past performance is not a reliable indicator of future performance. Before making an investment decision, investors must read the offer documents and should seek their own financial product advice. Returns are compounded for periods greater than 12 months. The Investment Manager of the Company is NAOS Asset Management Limited (ABN 23 107 624 126, AFSL 273529). NAOS Address: Level 34, MLC Centre, 19 Martin Place, Sydney NSW 2000.

CORPORATE DIRECTORY

Directors

David Rickards (Independent Chairman)
Warwick Evans (Director)
Sebastian Evans (Director)

Company Secretary

Richard Preedy

Investment Team

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

Chief Financial/Operating Officer

Richard Preedy

Business Development Manager

Julia Stanistreet

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 34, MLC Centre
19 Martin Place
Sydney NSW 2000
(AFSL: 273529)

Auditor

Deloitte Touche Tohmatsu
Level 25, Grosvenor Place
225 George Street
Sydney NSW 2000

Registered Office

Level 34, MLC Centre
19 Martin Place
Sydney NSW 2000

ENQUIRIES

Julia Stanistreet
Telephone: (02) 9002 1576
Email: jstanistreet@naos.com.au
www.naos.com.au