

# NAOS Emerging Opportunities Company (NCC)

NAOS

## MONTHLY INVESTMENT REPORT AND NTA UPDATE

May 2017

### KEY CHARACTERISTICS

#### 1. Genuine Exposure to Undervalued Emerging Companies with an Industrial Focus

Regardless of market capitalisation and/or liquidity, NCC seeks to provide investors with exposure to high quality, undervalued emerging companies (market capitalisation generally <\$250 million) in a transparent and concentrated structure that has the competitive advantage of being a nimble closed ended fund with no liquidity constraints.

#### 2. Sustainable Growing Fully Franked Dividends

NCC's dividend has grown every year since inception with dividends usually paid on a six-monthly basis. To date all dividends have been fully franked.

#### 3. Focus on Quality of Companies Not Quantity or Size

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 in order to capitalise on our 'long term information advantage' & 'liquidity advantage'. We target an Internal Hurdle Rate of 20% p.a. over a rolling three-year period for all our investment holdings.

#### 4. Portfolio Flexibility with a Benchmark Unaware Approach

This means we are not forced holders of stocks with large benchmark/index weightings that we are not convinced are attractive investment propositions. NCC can also hold up to 100% cash, it has been proven that holding cash offers the 'best hedge' during times of crisis.

#### 5. Significant Alignment of Interests with Shareholders

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

### Net Tangible Asset Value Breakdown as at 31 May 2017

Pre Tax NTA:	\$1.30
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.28
Post Tax NTA:	\$1.22
Share Price:	\$1.33
Historical Fully Franked Dividend Yield	5.26%

### Investment Portfolio Performance & Market Insight

The NCC Investment Portfolio for the month of May increased by +0.70% compared to the benchmark Small Ordinaries Accumulation Index (XSOAI) which fell by -2.05%. This brings the inception performance of the Investment Portfolio to +106.15% compared to +13.31% for the XSOAI.

The traditionally quiet month of May was surprisingly full of stock specific events for the NCC Investment Portfolio. Firstly, Enero Group (ASX: EGG) announced that it has paid a nominal figure to the remaining parties associated with the legacy earnout agreement and removed any further associated liability. It is important to note that the market expected this earnout liability to expire in FY2019. This announcement now allows EGG to pay dividends, initiate share buybacks and makes the business much more marketable to potential acquirers. EGG declared a fully franked special dividend of \$0.05 which we expect will be the start of a progressive and sustainable dividend policy.

Receivables financing group CML Limited (ASX: CGR) announced upgraded profit guidance for FY2017. The original guidance of \$10.6 million EBITDA was increased to in excess of \$12 million EBITDA, and NPAT in excess of \$3 million. The result is being driven by an increasing gross margin across the groups' loan book, organic growth of the loan book, and a stabilising cost base following the integration of the two recent acquisitions. Going forward we expect CGR to continue to grow profitability at a significant rate due to the organic growth rate of the book, lower funding costs and optimisation of gross margin.

Across the wider market the number of downgrade announcements showed no signs of slowing especially at the smaller end of the market. Former market darling Vita Group (ASX: VTG) fell by -60% as it released further details about its ongoing negotiations with its major customer Telstra. Veterinary business for farm operators Apiam Animal Health (ASX: AHX) announced its 3<sup>rd</sup> downgrade of the year - this time attributing it to IT integration issues and a very weak April, resulting in a share price fall of -50%. And finally, Murray River Organics (ASX: MRG), a recent IPO with high expectations, also announced its 3<sup>rd</sup> downgrade since listing in December 2016. The stock has now fallen to just \$0.38 from its listing price of \$1.20. The above highlights how exposure to over-valued companies with poor balance sheets can severely impact overall performance, or in other words, if you can minimise your losses, your top performing stocks will look after overall performance themselves.

	1 Month	1 Year	2 Years (p.a.)	3 Years (p.a.)	4 Years (p.a.)	Inception (p.a.)	Inception (nom.)
<b>NCC Investment Portfolio Performance*</b>	+0.70%	+15.23%	+15.60%	+12.54%	+16.54%	+18.52%	+106.15%
<b>S&amp;P/ASX Small Ordinaries Accumulation Index (XSOAI)</b>	-2.05%	+3.55%	+5.21%	+6.03%	+6.08%	+2.98%	+13.31%
<b>Outperformance Relative to Benchmark</b>	<b>+2.75%</b>	<b>+11.68%</b>	<b>+10.39%</b>	<b>+6.51%</b>	<b>+10.46%</b>	<b>+15.54%</b>	<b>+92.84%</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. Since inception (p.a. and nom.) includes part performance for the month of February 2013.

### Positive Stock Contribution Analysis

(Contribution is what has attributed to NCC's performance since Inception of 1 March 2013)

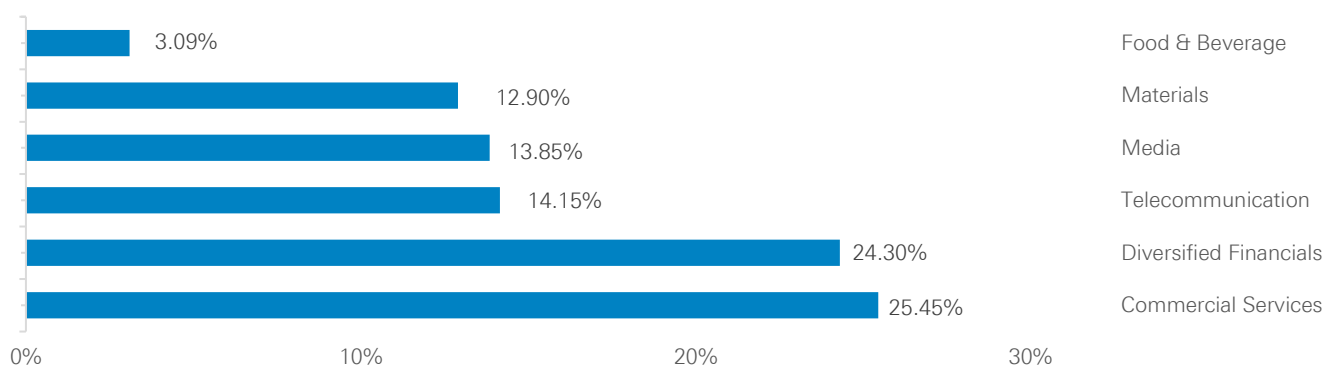
The table below lists the top positive contributors to NCC's total return since inception. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated 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. Positions in the table 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	+24.00%	Village Roadshow	+7.93%
Calliden Group	+15.06%	Sirtex Medical Limited	+7.91%
Consolidated Operations Group	+15.03%	RHG Limited	+6.84%
Capitol Health Limited	+14.64%	Gage Roads Brewing	+6.01%
Lindsay Australia	+9.72%	Enero Group	+5.46%
Tamawood Limited	+8.39%	MNF Group Limited	+4.83%

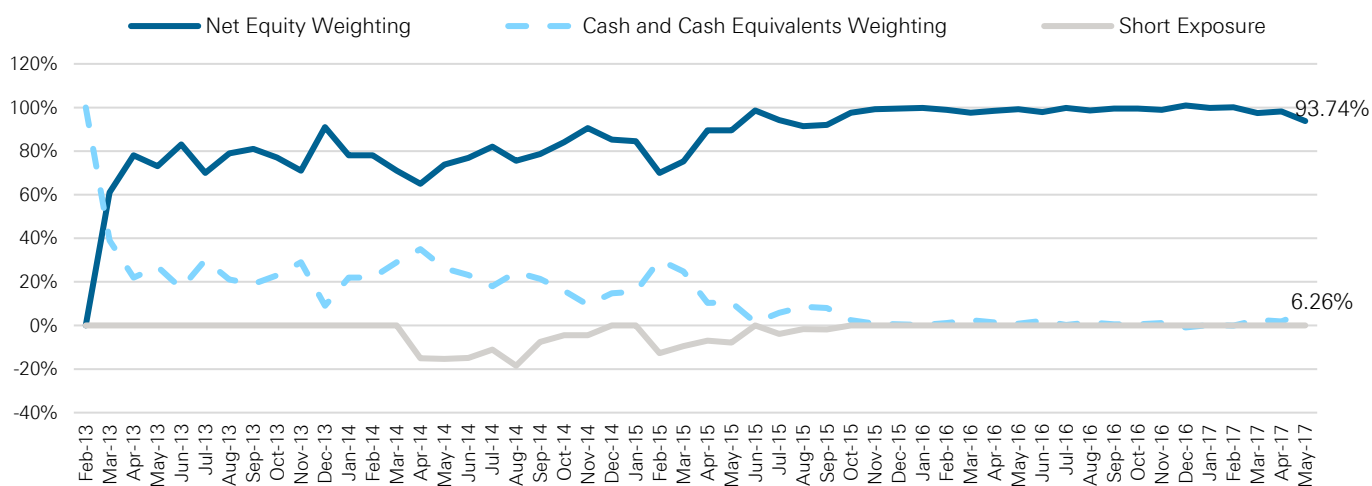
### Portfolio Positioning as at 31 May 2017

As at 31 May 2017, the portfolio's net equity exposure was ~93.74% with a subsequent cash weighting of +6.26%. 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.

#### Net 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 the team had contact with during the month were as follows:

- Wingara Ag Ltd (WNR AU)
- BSA Ltd (BSA AU)
- Paragon Care Ltd (PGC AU)
- RPMGlobal Holdings Ltd (RUL AU)
- Contango Asset Management Ltd (CGA AU)
- Consolidated Operations Group (COG AU)
- Godfreys Group (GFY AU)
- Tempo Australia Ltd (TPP AU)
- Centrepoint Alliance (CAF AU)
- CML Group Ltd (CGR AU)
- DWS Ltd (DWS AU)
- MNF Group Ltd (MNF AU)

## Portfolio Characteristics – Summary Data as at 31 May 2017

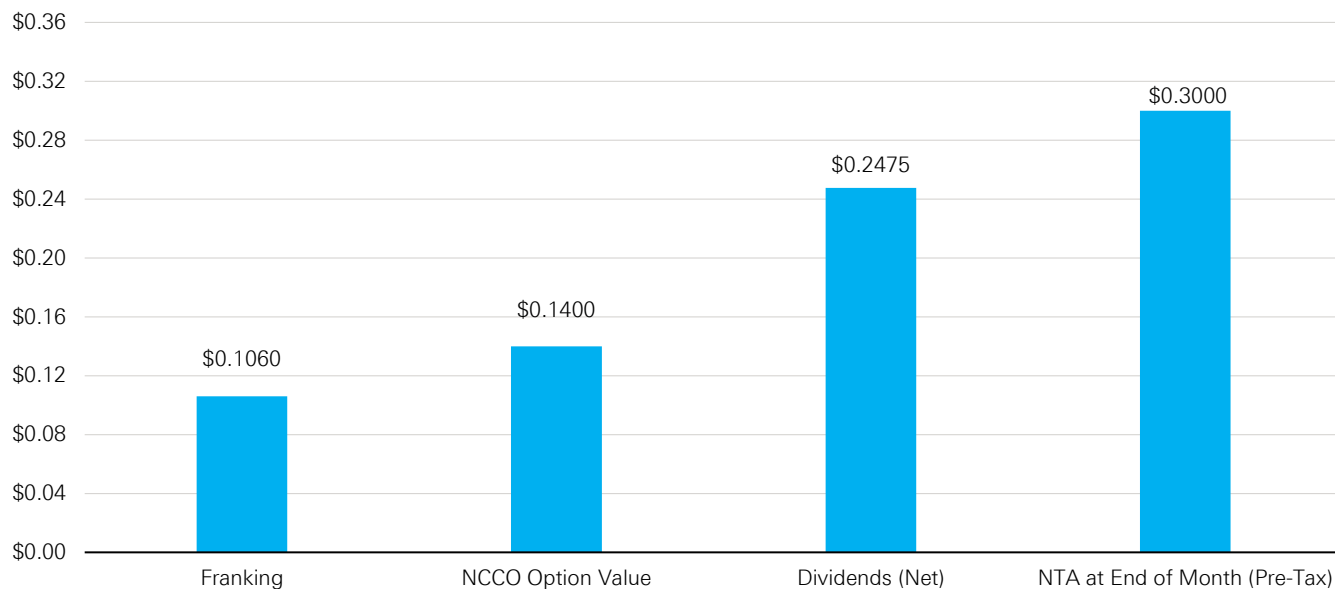
Below are a number of historical portfolio risk measures. Our aim in providing these metrics is to demonstrate to investors how NCC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and also to preserve investor's capital. A glossary of 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	\$122.84 Million
Percentage of Positive Months (NCC)	71%
Percentage of Positive Months (XSOAI)	53%
Standard Deviation of Returns (NCC)	11.17%
Standard Deviation of Returns (XSOAI)	13.79%
Correlation of Returns to XSOAI	0.56
Sortino Ratio	2.75
Downside Deviation (NCC)	5.85%
Downside Deviation (XSOAI)	7.29%
Current Estimated Portfolio Beta (6 Month Historical)	0.46

## Capital Structure – Summary Data as at 31 May 2017

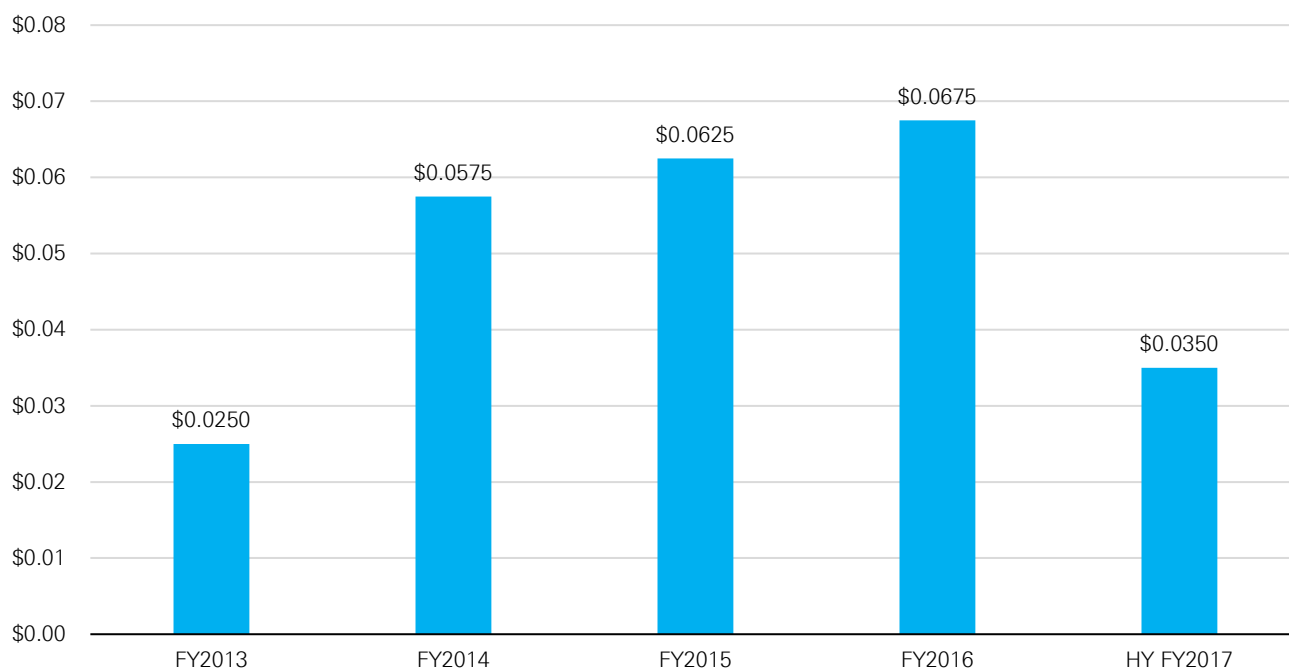
Share Price	\$1.33
Premium/(Discount) to NTA (Pre-Tax)	2.31%
Shares on Issue	54,546,344
NCC Directors Shareholding (Ordinary Shares)	3,756,353

### Historical Shareholder Return Breakdown



\*Assumes an intrinsic NCCO value of \$0.14 cents per option at expiry (1 February 2015), based on pre-tax NTA on this date diluted for remaining options.

### 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

#### Communications & Marketing

Megan Walker

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