

NAOS Emerging Opportunities Company (NCC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

DECEMBER 2014

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 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 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): 36,950,270

Listed Options on Issue Exercisable at \$1.00 Prior 1st February 2015 (ASX: NCCO): 11,172,338

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

Fully Franked Dividend Yield*: 6.22% Fully Franked (8.89% Gross)

*Includes guided dividend for 1st Half 2015.

Net Tangible Asset Value Breakdown as at 31st December 2014 (NTA Diluted for Remaining NCCO Options)

Pre Tax NTA:	\$1.18 (\$1.14)
Post Tax & Pre Unrealised Gains Tax:	\$1.17 (\$1.13)
After Tax NTA:	\$1.16 (\$1.12)

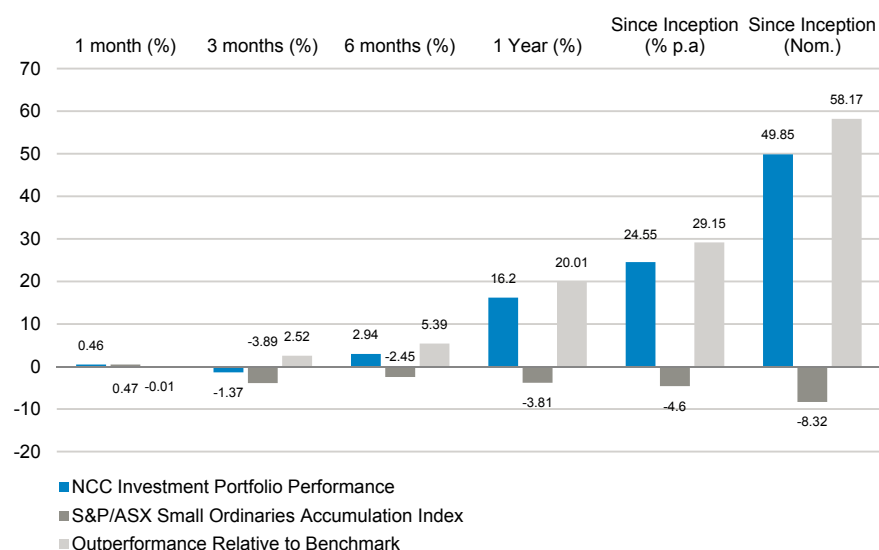
*The above NTA calculations do not account for any potential dilution from the 11,789,026 NCCOA options that remain on issue and are exercisable at \$1.13.

Investment Portfolio Performance to 31st December 2014*

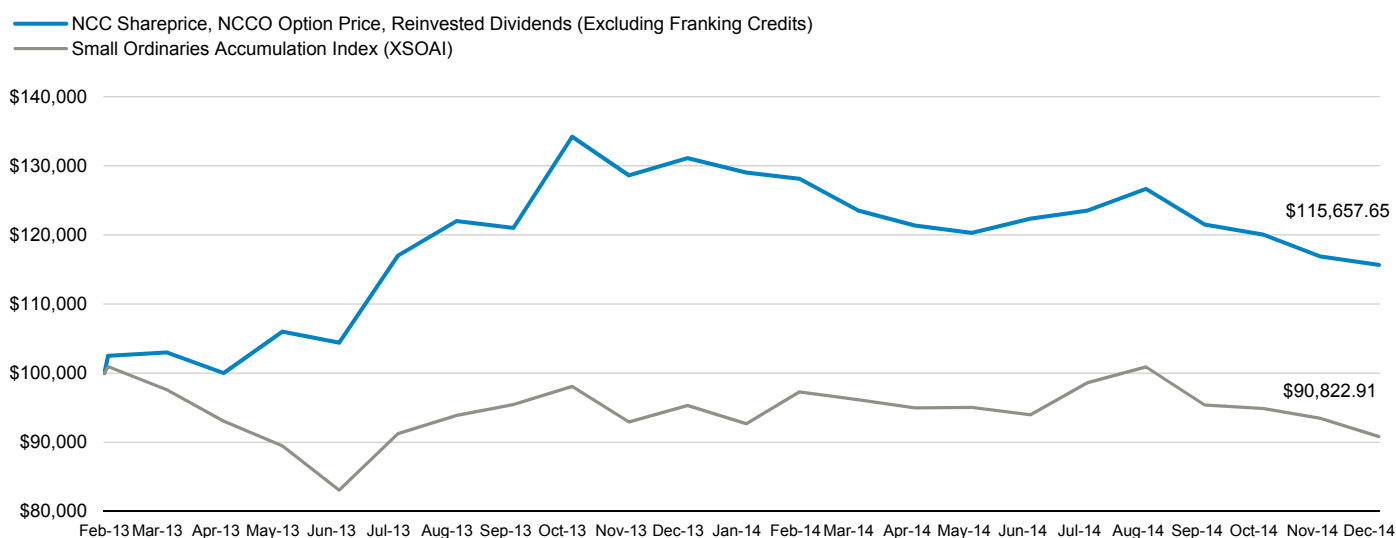
The Investment Portfolio posted a positive return in the month of December of +0.46% this compared similarly to the benchmark Small Ordinaries Accumulation Index (XSOAI) which posted a return of +0.47% for the month.

	1 month	3 months	6 months	1 Year	Inception (p.a.)	Inception (Nom.)
NCC Investment Portfolio Performance*	+0.46%	-1.37%	+2.94%	+16.20%	+24.55%	+49.85%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	+0.47%	-3.89%	-2.45%	-3.81%	-4.60%	-8.32%
Outperformance over Benchmark	-0.01%	+2.52%	+5.39%	+20.01%	+29.15%	+58.17%

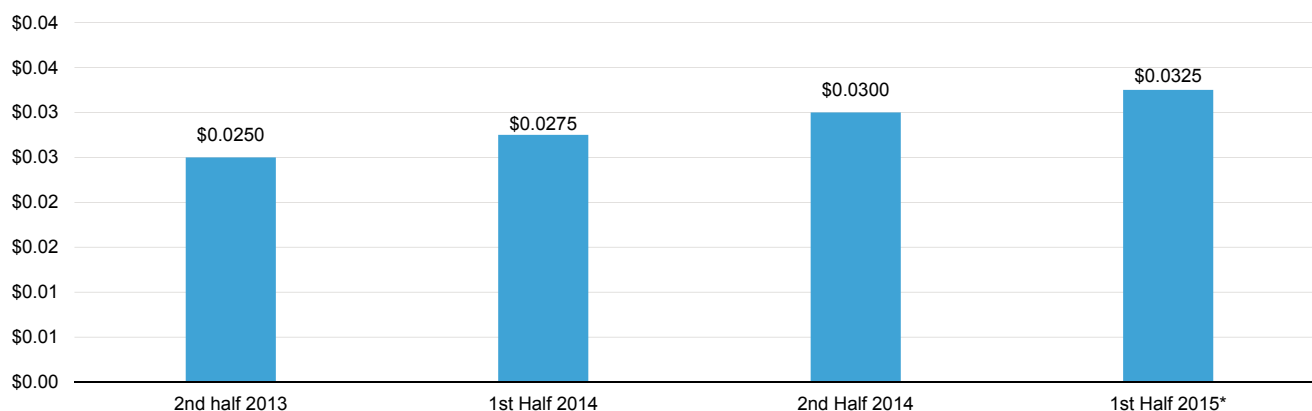
*Investment Portfolio Performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions. Performance has not been grossed up for franking credits received by shareholders.



Shareholder Return Analysis (IPO Investors)



Historical Fully Franked Dividends (Cents per Share)



*Guided dividend for 1st Half 2015.

Positive Stock Attribution Analysis (1st March 2013 to 31st December 2014)

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	13.01%	Investment D	4.46%
Capitol Health	10.14%	Gage Road Breweries	4.35%
Investment C	6.44%	Investment H	4.14%
Village Roadshow	5.48%	Investment I	5.00%
RHG Limited	4.94%	AMA Group	2.71%

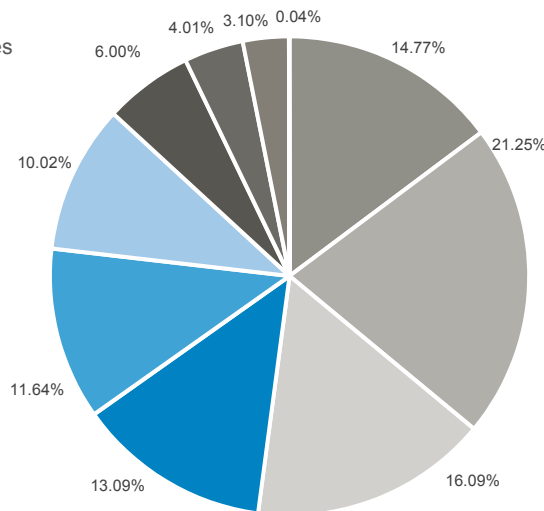
Portfolio Positioning as at 31st December 2014

Prior to month end we closed all our short positions such that the portfolio is now comprised of 11 long positions only.

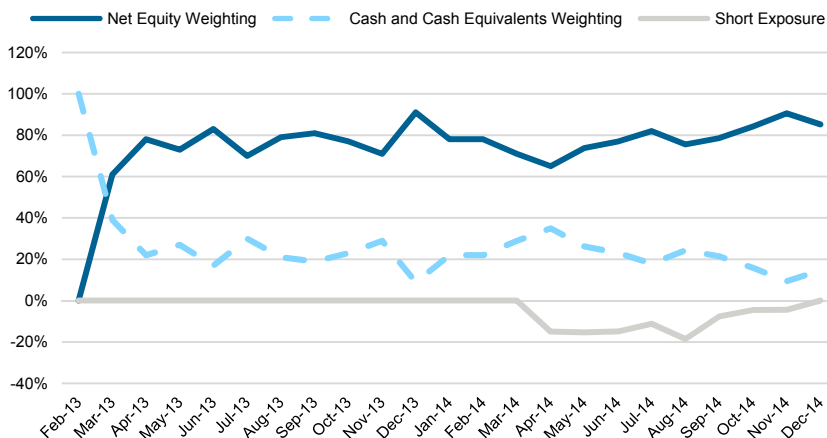
Over the course of the month we established a small position in an industrials company and we saw the successful takeover of the Calliden Group. Our interests in the Group were assumed as part of the takeover bid and now, having received the monetary consideration for our holding, we are looking to reallocate the capital realised to another opportunity.

Industry Breakdown

- Cash & Cash Equivalents
- Commercial Services & Supplies
- Media
- Transportation
- Diversified Financials
- Healthcare
- Consumer Durables & Apparel
- Consumer Services
- Materials
- Capital Goods



Net Equity Exposure



Market Insight

The S&P ASX200 Accumulation Index finished the year with a total return of +5.7% or just +1.1% in capital growth when dividends are removed. The local bond market on the other hand produced its best gain since 2002.

There were a number of notable events and key themes that shaped both global and domestic equity market movements over the period, the most prominent of which was the continued strength of the US economy which has seen the best growth in over 11 years (a 5% annualised rate in 3Q14), leading to a significant strengthening of the USD against the AUD (the AUD fell by over 21% in CY2014) and many other major currencies such as the Japanese Yen and Euro. Another major theme was the significant fall in commodity prices, both in bulks and metals alike. Since June the crude oil price has fallen by over 50% together with Iron Ore, Thermal Coal, Coking Coal, Gold and Copper also falling significantly over CY2014. The primary driver of such significant movements is the Chinese economy moving gradually from investment in large one off capital expenditure items to being more consumption based.

Looking forward into CY2015, things remain interesting for domestic equity markets. Firstly, equity market valuations remain elevated with the FY15 P/E for the ASX-200 currently at 15.27 with EPS growth of 8.39% over the same period. As the previous 2-3 years of EPS growth have been driven by margin expansion through cost cutting, any EPS growth over FY15 and FY16 will need to be driven by revenue growth. We also expect an increase in consumer confidence and business confidence over the medium term on the basis of record low interest rates, significant growth in residential real estate valuations, low oil/petrol prices and a sharp devaluation of the AUD/USD. Some impediments to growth and confidence still remain, such as uncertainty with regard to government policy especially with regards to issues affecting the general population such as child care rebates, increases in GST or changes to the taxation of self-managed super fund earnings.

CY2015 is shaping up as a year that will benefit stock pickers as opposed to index mirroring strategies where one tide lifts all. Companies that have a sustainable competitive advantage and pricing power will continue to benefit, along with those companies that are clear beneficiaries from thematic such as a lower AUD and/or lower oil prices.

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 Investment Management Team has direct contact with many listed and unlisted Emerging Companies across a wide range of industries. During the month of December the Investment Management Team had direct contact with circa 30 unlisted and listed companies of which several are listed below:

- Technology One Limited (TNE)
- BSA Limited (BSA)
- ISelect Limited (ISU)
- Estia Health Limited (EHE)
- Altium Limited (ALU)
- Commodities Group Limited (COZ)
- Sirtex Medical Limited (SRX)
- Redify (Unlisted)
- Smartgroup Corporation Limited (SIQ)
- Mastermyne Group Limited (MYE)
- Money3 Corporation Limited (MNY)
- Blue Sky Alternative Investments Limited (BLA)

CORPORATE DIRECTORY

Directors

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

Company Secretary

Lawrence Adams
Investment Team
Sebastian Evans (Portfolio Manager)
Tom Granger (Assistant Portfolio Manager)
Jeffrey Kim (Investment Analyst)
Robert Miller (Investment Analyst)

Business Development

Anneke Senden

Share Registry

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Facsimile: (02) 8215 0037

Auditor

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Sydney NSW 2000

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ENQUIRIES

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