

# NAOS Emerging Opportunities Company (NCC)

NAOS

## MONTHLY INVESTMENT REPORT AND NTA UPDATE

NOVEMBER 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, undervalued emerging companies in a transparent and concentrated long/short 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 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 30<sup>th</sup> November 2015

|                                      |        |
|--------------------------------------|--------|
| Pre Tax NTA:                         | \$1.07 |
| Post Tax & Pre Unrealised Gains NTA: | \$1.07 |
| Post Tax NTA:                        | \$1.06 |

### Investment Portfolio Performance to 30<sup>th</sup> November 2015

The NCC investment portfolio produced a positive return of +1.10% for the month of November. The portfolios benchmark, the XSOAI (Small Ordinaries Accumulation Index), rose by just +0.02% over the same period. Once again the Small Cap end of the market outperformed its larger counterpart, the All Ordinaries Accumulation Index (XAOAI), which produced a result of -0.69% for the period.

Since NCC's inception on 26<sup>th</sup> February 2013 (32 months) the portfolio has outperformed the stated benchmark by +53.87%.

There were a number of sizeable stock specific disappointments in the All Ordinaries Index over the course of the month, these included; Dick Smith (DSH) which fell by -59.7% after downgrading guidance and announcing a significant write-off of inventory value just 1 month after releasing updated market guidance. Mermaid Marine (MRM) fell by 45.2% after updating the market with the first 4 months of trading performance, which was some 50% below the market consensus for FY16 and finally, Slater & Gordon fell by -66.6% with its much publicised accounting irregularities, topped off in November with the announcement of unfavourable regulatory changes in the UK which will affect FY17 results and beyond.

|   | 1 Month | 3 Months | 6 Months | 1 Year | 2 Years (p.a.) | Inception (p.a.) | Inception (nom.) |
|---|---------|----------|----------|--------|----------------|------------------|------------------|
| NCC Investment Portfolio Performance*               | +1.10%  | +5.77%   | -2.41%   | +1.27% | +6.29%         | +16.14%          | +51.06%          |
| S&P/ASX Small Ordinaries Accumulation Index (XSOAI) | +0.02%  | +6.56%   | -5.05%   | +6.50% | +2.26%         | -1.03%           | -2.81%           |
| Outperformance Relative to Benchmark                | +1.08%  | -0.79%   | +2.64%   | -5.23% | +4.03%         | +17.17%          | +53.87%          |

\*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 (1st March 2013 to 30th November 2015)

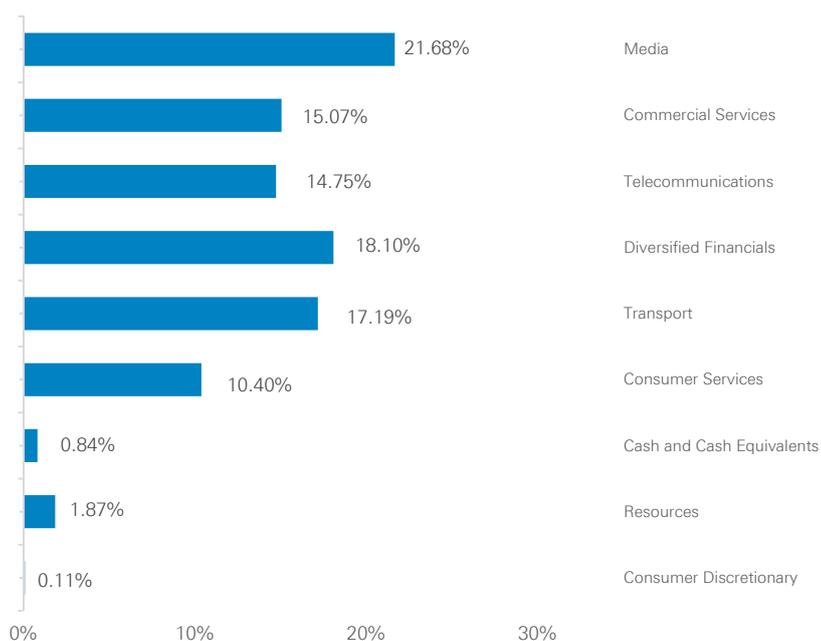
The table below lists the top positive contributors to NCC's total return since 1st March 2013. The purpose of the chart is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated 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 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) |
|---------------------------------|-------------------------------|------------------------------|-------------------------------|
| Calliden Group Limited          | +11.03%                       | Village Roadshow Limited     | +5.81%                        |
| Capitol Health Limited          | +10.73%                       | Sirtex Medical Limited       | +5.80%                        |
| Lindsay Australia Limited       | +9.49%                        | RHG Limited                  | +5.01%                        |
| Armidale Investment Corporation | +8.02%                        | Gage Road Brewing            | +4.40%                        |
| Tamawood Ltd                    | +6.15%                        | Broadcast Services Australia | +3.97%                        |

### Portfolio Positioning as at 30th November 2015

As at November month end, the portfolio's net equity exposure was ~99% with a subsequent cash weighting of ~1%. The core holdings in the portfolio did not change over the course of the month. As at month end, the portfolio was comprised of 9 long positions. As at month end there were no income instruments in the portfolio.

### Industry Exposure



### AGM Reporting Spotlight; Part 2

November brought with it the close of AGM reporting season for the NAOS investment team.

Two of NCC's core holdings that held their AGM's during the month of November were Armidale Investment Corporation (AIK) and BSA Limited (BSA).

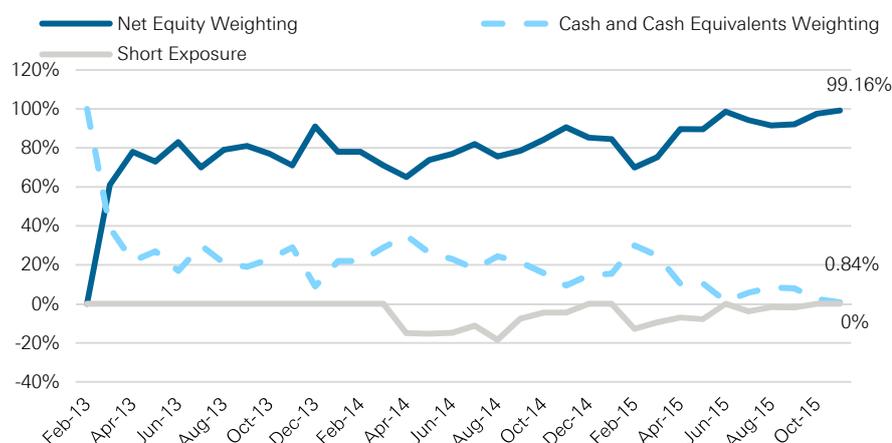
AIK provided shareholders with a detailed synopsis of the current business structure and key underlying business drivers over the mid-term. Of particular focus was information presented on TL Rentals, a wholly owned equipment finance business of AIK. Prior to the AGM there had been very little information provided to the market relating to TL Rentals and so we saw this as an excellent improvement on disclosure. Key favourable highlights from the information presented were:

- Data on lease performance, such as arrears and write-offs continued to track at <1.5%
- Improved disclosure and transparency on the TL Rentals business such as a geographical breakdown of the leasing book together with a break down in constituents by asset class
- Historical data on the income and asset value at the end of the company's leasing contracts since 2011.

Also intriguing was the material released by AIK on their recent acquisition of the Platform Finance Group (PFG). PFG is an asset finance broker and aggregator, specialising in motor vehicles and general business equipment finance. The finance broking industry can best be described as 'cottage' especially compared to mortgage broking and more recently insurance broking. AIK believes that PFG has the scale and IT platform to capitalise on consolidation in the sector just as SDF and AUB have done within the insurance broking industry.

Continued overleaf...

### 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 November is provided below.

- Integrated Research (IRI)
- CTI Logistics (CLX)
- Wilson Investment Group (WIG)
- AV Jennings (AVJ)
- Appen Group (APX)
- Broadcast Services Limited (BSA)
- Updater (UPD)
- DWS Limited (DWS)
- Dubber (DUB)
- Grays Online (GEG)
- IVE Group (IVE)
- Surfstitch (SRF)

### 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.

|  |        |
|--|--------|
| Portfolio Weighted Market Capitalisation | \$91m  |
| Percentage of Positive Months (NCC)      | 71%    |
| Percentage of Positive Months (XSOAI)    | 53%    |
| Standard Deviation of Returns (NCC)      | 11.57% |
| Standard Deviation of Returns (XSOAI)    | 14.52% |
| Correlation of Returns to XSOAI          | 57.92% |
| Sortino Ratio                            | 2.34   |
| Downside Deviation                       | 5.78%  |
| Downside Deviation XSOAI                 | 7.68%  |
| Current Estimated Portfolio Beta         | 0.24   |

### AGM Reporting Spotlight; Part 2

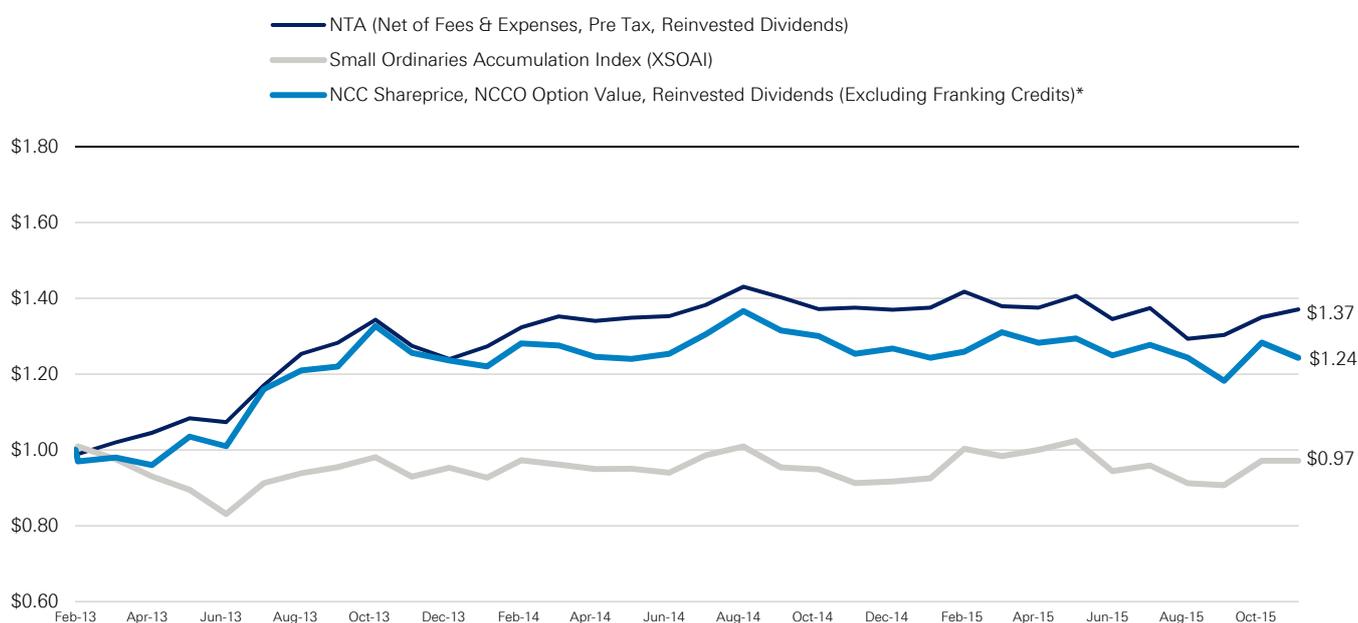
BSA Limited was the second NCC holding to hold its AGM during the month of November. During the meeting BSA gave a comprehensive update on its 3 business units. Key takeaways from the meeting were:

- Revenue remains on track for +\$500 million with the EBITDA skewed to the second half of FY16. We believe this is a good outcome for the business as there is a clear mandate to focus on margins even at the expense of growth.
- The business has a tender pipeline that is one of the largest in the company's history. There continues to be a significant amount of tendering for large infrastructure projects, NBN development/maintenance and other one-off projects (such as construction/development of universities/residential/commercial) that continue to come to market.
- The business maintains an excellent balance sheet with net cash of ~\$18 million, positioning them very well for future acquisition opportunities.
- Finally, the two legacy issues (New Royal Adelaide Hospital and the NSW Office of State Revenue) remain outstanding however the company believes progress is being made and most importantly, the issues still remain in negotiation stage rather than in formal legal proceedings.

Capital Management – Summary Data as at 30<sup>th</sup> November 2015

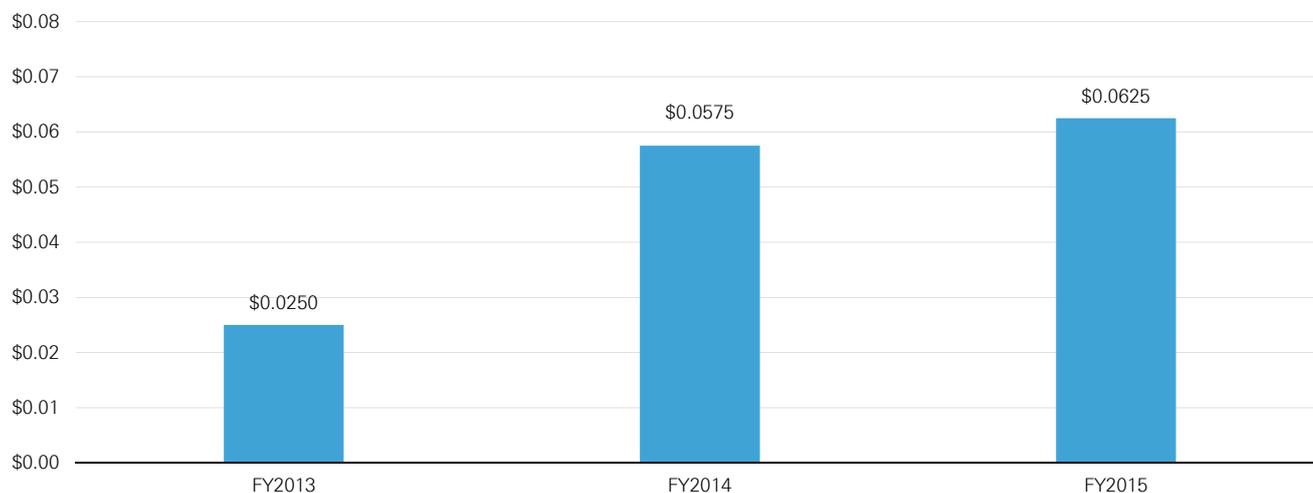
|  |            |
|--|------------|
| Share Price                              | \$0.96     |
| Discount to NTA (pre tax, undiluted)     | 10.3%      |
| Fully Franked Dividend Yield             | 6.51%      |
| Gross Dividend Yield                     | 8.93%      |
| Shares on Issue                          | 46,918,297 |
| Directors Shareholding (ordinary shares) | 3,307,608  |

NTA & Share Price Analysis



\*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)



## 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 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 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 (XSOAI)

### 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 4 Domain House, 139 Macquarie Street Sydney NSW 2000. NAOS Telephone: 61 2 9947 2566

### 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)

#### Chief Financial/Operating Officer

Richard Preedy

#### Business Development Team

Anneke Senden  
Julia Stanistreet

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