

# NAOS Emerging Opportunities Company (NCC)

NAOS

## MONTHLY INVESTMENT REPORT AND NTA UPDATE

JANUARY 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 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 31<sup>st</sup> January 2016

Pre Tax NTA:	\$1.07
Post Tax & Pre Unrealised Gains NTA:	\$1.08
Post Tax NTA:	\$1.07

### Investment Portfolio Performance to 31<sup>st</sup> January 2016

The NCC investment portfolio produced a negative return of -3.26% which compared favourably to our benchmark, Small Ordinaries Accumulation Index (XSOAI) which fell by -5.11% over the same period. Once again the smaller companies were able to outperform their larger counterparts which brings the outperformance of the XSOAI relative to the All Ordinaries Accumulation Index (XAOAI) to 8.28% over a rolling 12-month period.

As we touched upon in our December Investment Report, the dislocation between value and growth investments continues to rear its head within equity market movements. In the month of January alone Australia 10-year bond yields fell from 2.9% to 2.6% on the back of global growth fears. Throughout January many of the high growth businesses mentioned such as BAL, BKL and A2M all had significant price falls as investors consider the sustainability of the growth outlook and the subsequent price to earnings multiple that should be applied. Intriguingly over the month of January the number of broker analyst's estimates that were negative outweighed positive revisions on a 2 to 1 ratio.

February brings with it the first half earnings reporting for the majority of listed companies and in most cases the first financial update since AGM season in November. As we have continued to stress for many months now, the companies that will be rewarded will be those that can grow revenue in a sustainable manner as well as grow earnings through a mixture of revenue and margin growth; as opposed to just cost cutting. Growth is now extremely scarce and in our view it can only be found through two distinct investment styles/philosophies; one being through significant industry tailwinds and the other through company specific initiatives

In next month's investment report we will provide a rundown on how our top-5 investments reported over the previous 6 months as well as any commentary on their individual outlooks that was provided to the market.

	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	Inception (p.a.)	Inception (nom.)
<b>NCC Investment Portfolio Performance*</b>	-3.26%	+2.27%	+0.82%	+1.00%	+6.16%	+15.44%	+52.24%
<b>S&amp;P/ASX Small Ordinaries Accumulation Index (XSOAI)</b>	-5.11%	-1.38%	-0.04%	+3.59%	+1.69%	-1.44%	-4.16%
<b>Outperformance Relative to Benchmark</b>	<b>+1.85%</b>	<b>+3.65%</b>	<b>+0.86%</b>	<b>-2.59%</b>	<b>+4.47%</b>	<b>+16.88%</b>	<b>+56.40%</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 Attribution Analysis  
(1st March 2013 to 31st January 2016)**

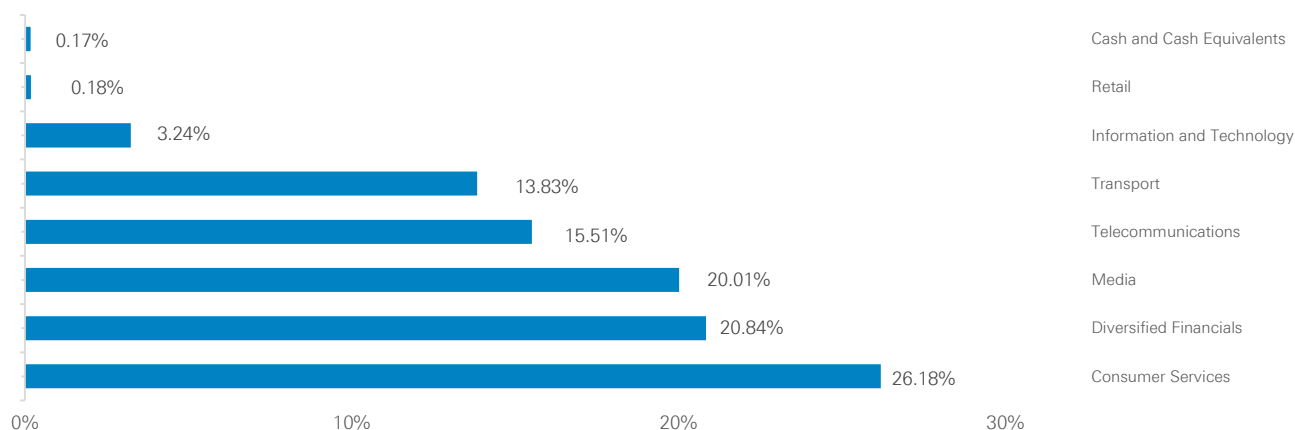
The table below lists the top positive contributors to NCC’s total return since 1st March 2013. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated 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)
Calliden Group Limited	+11.11%	Tamawood Limited	+6.19%
Capitol Health Limited	+10.80%	Village Roadshow Limited	+5.85%
Armidale Investment Corporation	+7.58%	Sirtex Medical Limited	+5.84%
Lindsay Australia Limited	+7.54%	RHG Limited	+5.05%
Broadcast Services Australia	+6.39%	Gage Roads Brewing	+4.43%

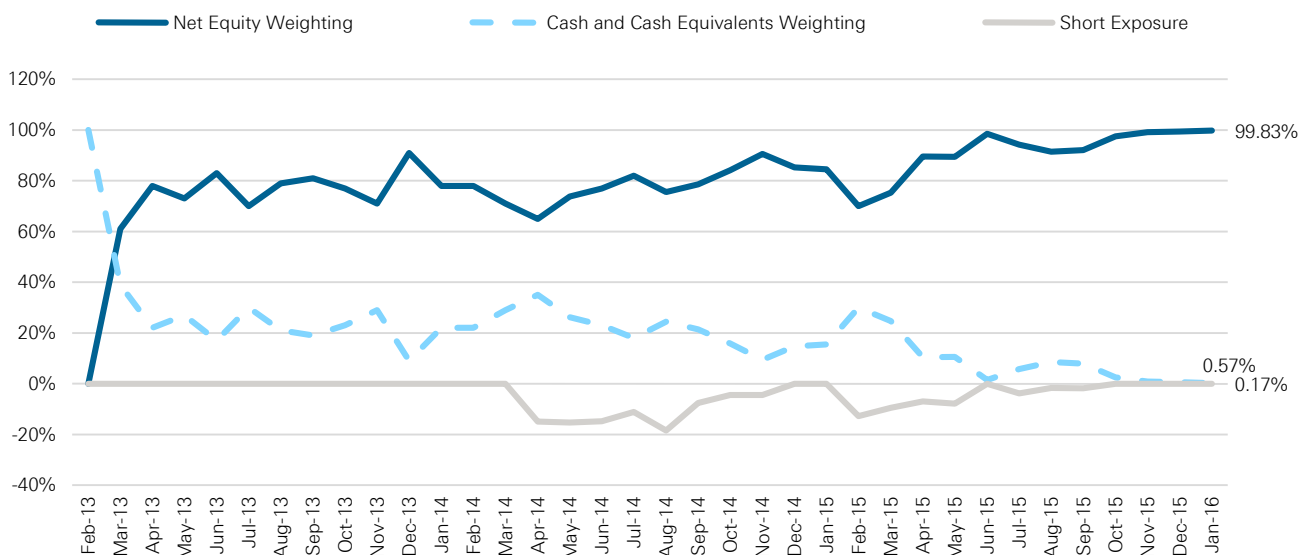
**Portfolio Positioning as at 31st January 2016**

As at January month end, the portfolio’s net equity exposure was ~99% with a subsequent cash weighting of ~0.5%. 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 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 January is provided below.

- Iselect Limited (ISU)
- Billabong (BBG)
- Structural Monitoring Systems (SMN)
- XTD Limited (XTD)
- Direct Money (DM1)
- Xenith IP (XIP)
- Xero (XRO)
- Oz Minerals (OZL)
- Vita Life Sciences (VSC)
- DWS Limited (DWS)
- RXP Limited (RXP)
- GUD Holdings (GUD)

## Portfolio Characteristics – Summary Data

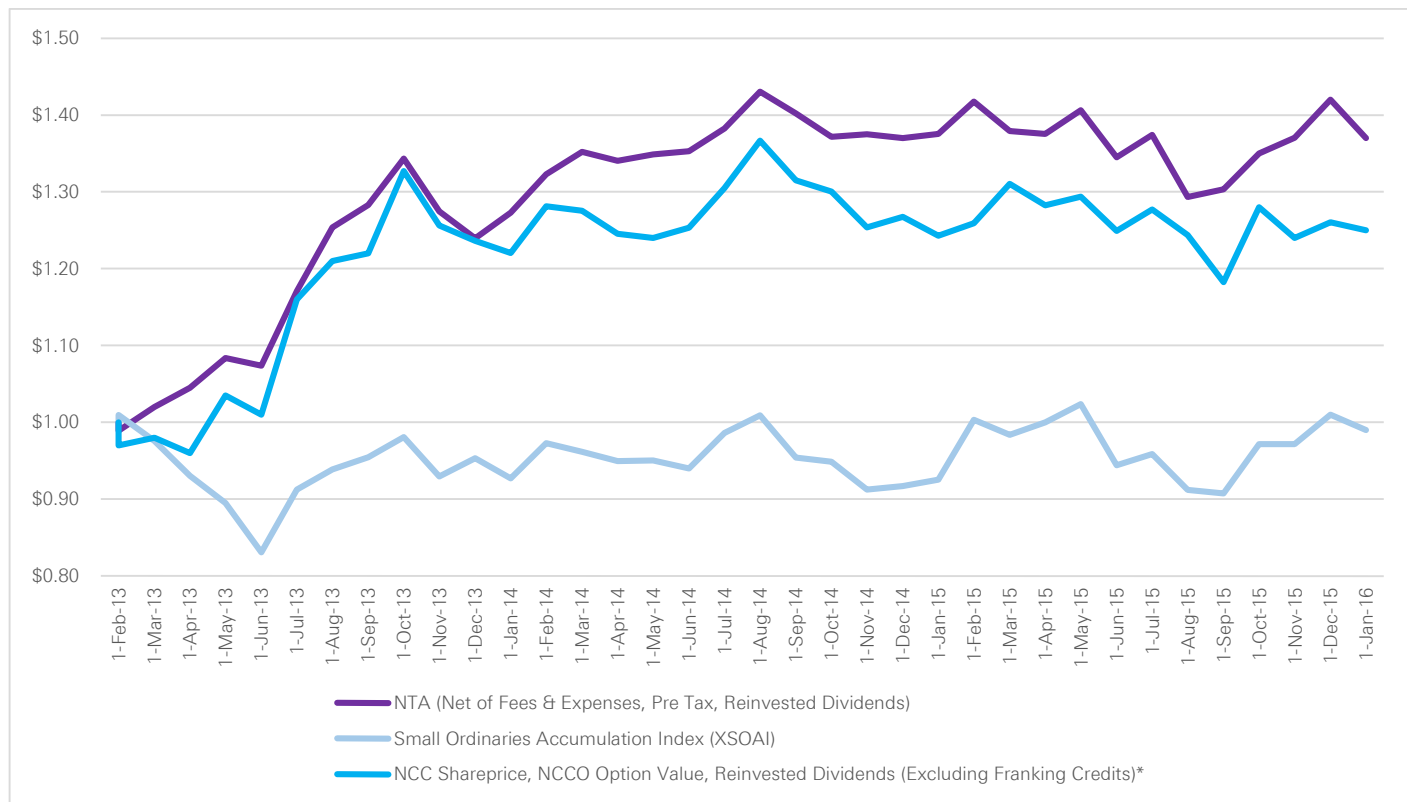
Below are a number of historical portfolio risk measures. Our aim in providing these metrics is to demonstrate to investors how NCC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and also to preserve investors' capital. This month we 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	\$95m
Percentage of Positive Months (NCC)	71%
Percentage of Positive Months (XSOAI)	46%
Standard Deviation of Returns (NCC)	11.72%
Standard Deviation of Returns (XSOAI)	14.59%
Correlation of Returns to XSOAI	60.74%
Sortino Ratio	2.16
Downside Deviation (NCC)	5.93%
Downside Deviation (XSOAI)	7.57%
Current Estimated Portfolio Beta	0.33

## Capital Management – Summary Data as at 31<sup>st</sup> January 2016

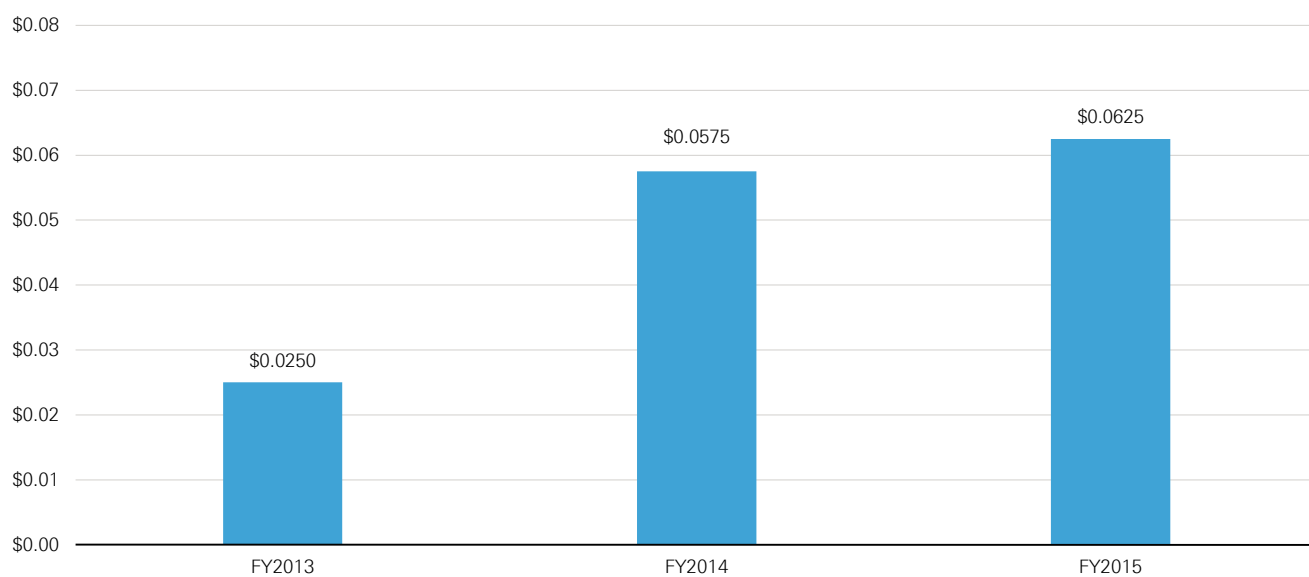
Share Price	\$0.965
Discount/Premium to NTA (pre tax)	-9.81%
Historical Fully Franked Dividend Yield	6.22%
Historical Gross Dividend Yield	8.89%
Shares on Issue	46,918,297
Directors Shareholding (ordinary shares)	3,307,608

### 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 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 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 Manager

Julia Stanistreet

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