

NAOS Emerging Opportunities Company (NCC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

March 2017

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 31 March 2017

Pre Tax NTA:	\$1.37
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.36
Post Tax NTA:	\$1.26
Share Price:	\$1.42

*The above NTA Values are inclusive of the \$0.035 Dividend (Ex-Dividend Date 3 April 2017)

Investment Portfolio Performance & Market Insight

For the month of March 2017, the NCC Investment Portfolio returned +0.82% compared to the benchmark Small Ordinaries Accumulation Index (XSOAI) which increased by +2.66%. March often offers little with regards to stock specific news for the Investment Portfolio, though there were two notable developments over the month.

CML Group (ASX: CGR) announced that it has secured an initial \$40 million bank debt facility with Westpac. This is notable for a number of reasons: Firstly, it has taken the management team over 3 years to implement the required operational and risk management systems so that a large financial institution is satisfied with the checks and balances that CML has, not only when growing its customer base, but also managing bad debt levels & provisions whilst maintaining a high level of customer service. Secondly, CML has been able to recruit a number of key executives from larger peers, who bring with them a wealth of experience and understanding of what is required at a risk and operational level to bring on institutional funding sources. From a financial standpoint the NAOS Investment Team expects this bank funding agreement to lower the overall cost of funds (which is circa 9% p.a.) for CML, and thus significantly boost their profitability over the next 24 months.

One of Enero Groups' (ASX: EGG) wholly owned subsidiaries, Hotwire PR, announced that they have won a competitive pitch to handle the public relations, creative, and B2B communications for European energy giant Eaton. This is a notable win as it continues to validate the strategy of strengthening the Hotwire business, both organically and through acquisition, to allow Hotwire to compete for tier-1 pitches for many global brands that are household names. These opportunities are significantly larger from a financial perspective, and offer monthly retainer payments which will allow the firm to manage the cost base more appropriately. Another benefit of these larger contracts is the potential to further increase revenue through one-off project work. Following the integration of US tech PR firm Eastwick, Hotwire is now one of the 15 largest tech PR firms in the US, and top-10 in Europe.

Finally, it is worth mentioning some of the corporate activity that continues to take place within the Small Ordinaries Index especially around perceived lower quality companies, which include Spotless Group (ASX: SPO), Myer (ASX: MYR), Cover-More (ASX: CVO) and Ardent Leisure (ASX: AAD). These companies have large weightings within the index, and have all produced significant negative returns for shareholders over the past 12-24 months, however, all have experienced a recent sharp upturn in share price as a result of this corporate activity, which is reflected in the recent gains made by the XSOAI.

	1 Month	1 Year	2 Years (p.a.)	3 Years (p.a.)	4 Years (p.a.)	Inception (p.a.)	Inception (nom.)
NCC Investment Portfolio Performance*	+0.82%	+30.97%	+18.66%	+13.75%	+19.61%	+20.24%	+112.57%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	+2.66%	+13.67%	+8.57%	+6.44%	+4.41%	+3.69%	+15.97%
Outperformance Relative to Benchmark	-1.84%	+17.30%	+10.09%	+7.31%	+15.20%	+16.55%	+96.60%

*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)

(1 March 2013 to 31 March 2017)

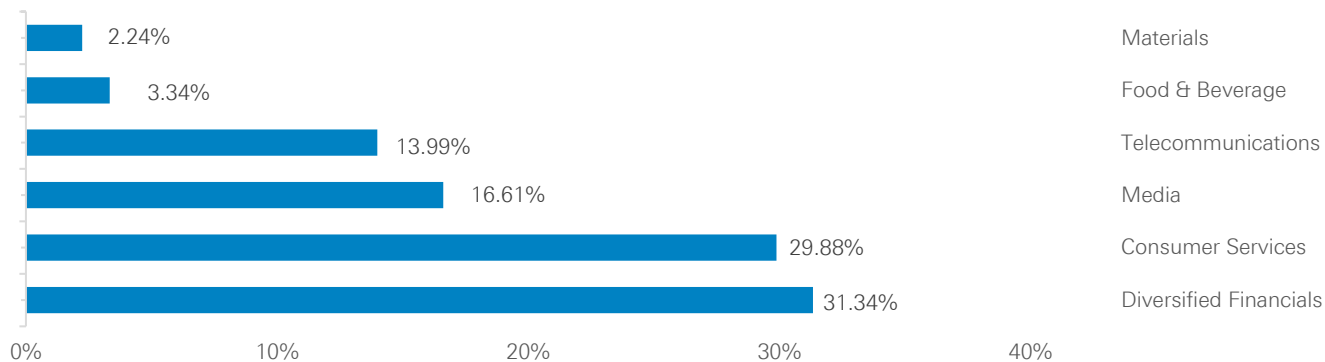
The table below lists the top positive contributors to NCC’s total return since 1 March 2013. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated 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	+25.64%	Village Roadshow	+8.20%
Armidale Investment Corp	+20.53%	Sirtex Medical Limited	+8.18%
Calliden Group	+15.57%	RHG Limited	+7.07%
Capitol Health Limited	+15.14%	MNF Limited	+6.60%
Lindsay Australia	+10.05%	Gage Roads Brewing	+6.21%
Tamawood Limited	+8.67%	AMA Group	+4.39%

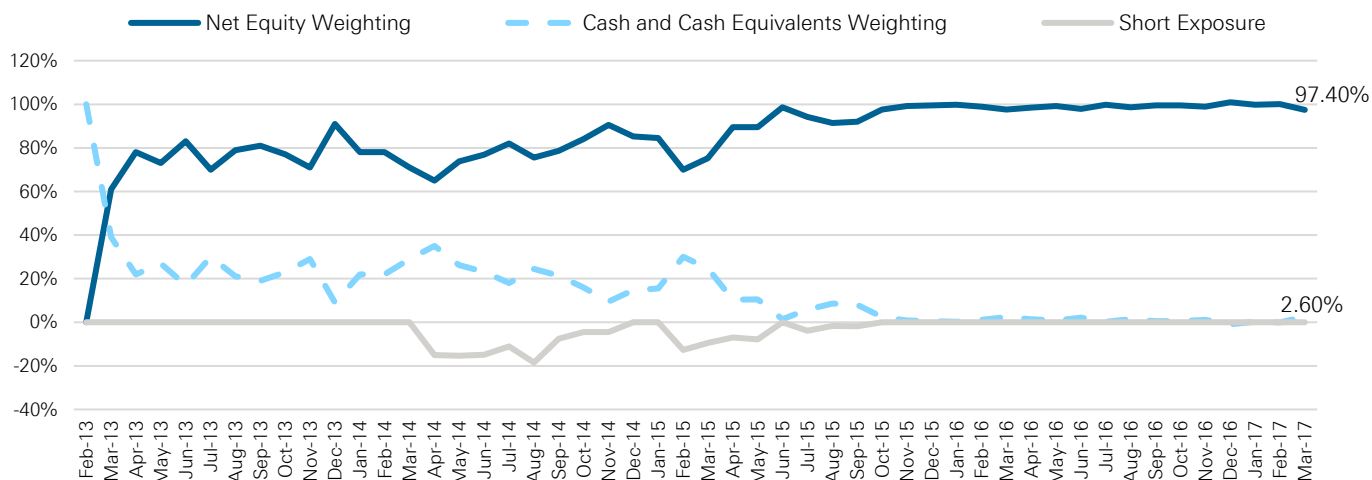
Portfolio Positioning as at 31 March 2017

As at March month end, the portfolio’s net equity exposure was ~97.40% with a subsequent cash weighting of +2.60%. 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 March is provided below.

- Austin Engineering Ltd (ANG AU)
- Redhill Education (RDH AU)
- Australian Ethical Ltd (AEF AU)
- Saunders International (SND AU)
- Armidale Investment Corp (AIK AU)
- Eureka Group Holdings (EGH AU)
- Objective Corp (OCL AU)
- Global Construction Services (GCS AU)
- BSA Ltd (BSA AU)
- Engenco Ltd (EGN AU)
- Macquarie Telecom Group (MAQ AU)
- Axcesstoday (AXL AU)

Portfolio Characteristics – Summary Data

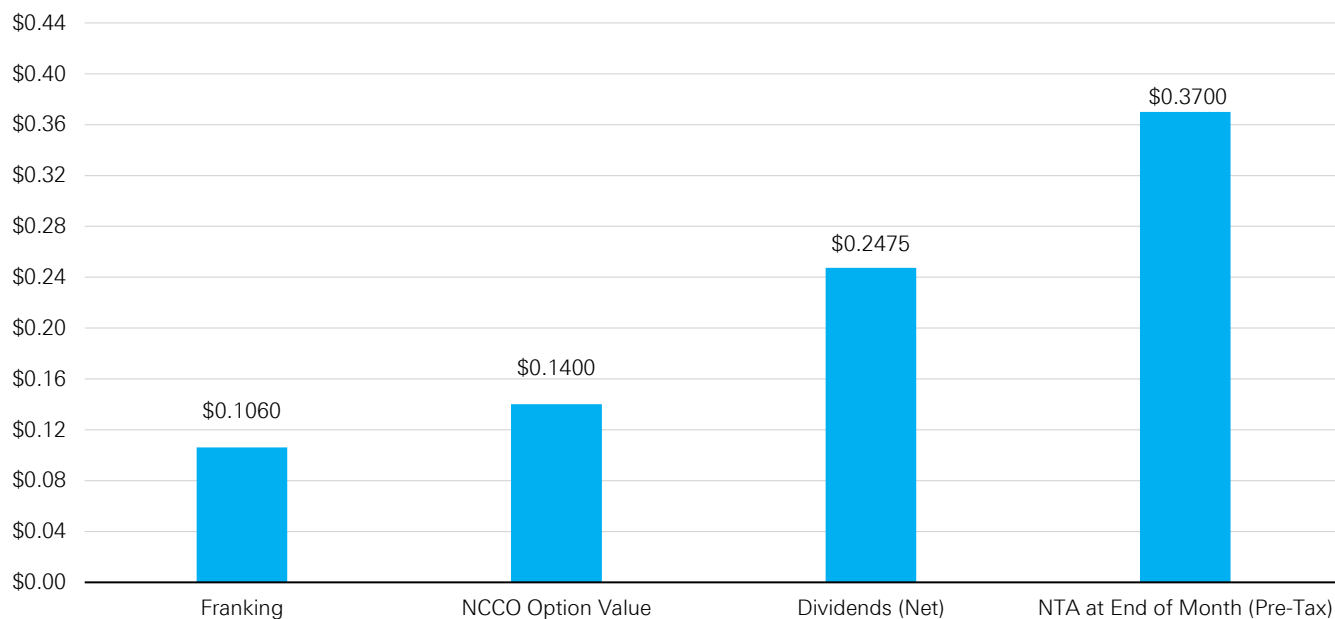
Below are a number of historical portfolio risk measures. Our aim in providing these metrics is to demonstrate to investors how NCC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and also to preserve investor's capital. A glossary of 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	\$140 Million
Percentage of Positive Months (NCC)	71%
Percentage of Positive Months (XSOAI)	55%
Standard Deviation of Returns (NCC)	11.09%
Standard Deviation of Returns (XSOAI)	14.02%
Correlation of Returns to XSOAI	0.57
Sortino Ratio	3.00
Downside Deviation (NCC)	5.94%
Downside Deviation (XSOAI)	7.25%
Current Estimated Portfolio Beta (6 Month Historical)	0.36

Capital Management – Summary Data as at 31 March 2017

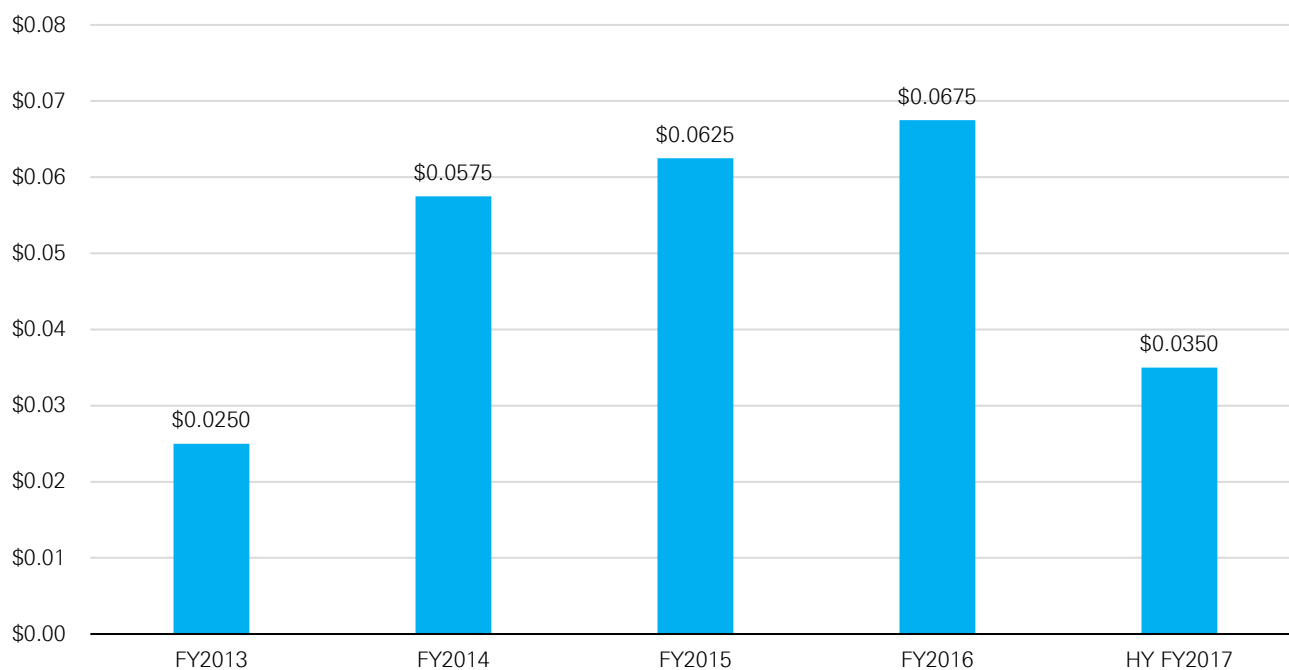
Share Price	\$1.42
Discount/(Premium) to NTA (Pre-Tax)	(3.65%)
Historical Fully Franked Dividend Yield	4.93%
Historical Gross Dividend Yield	7.04%
Shares on Issue	47,203,039
NCC Directors Shareholding (Ordinary Shares)	3,660,146

Historical Shareholder Return Breakdown



*Assumes an intrinsic NCCO value of \$0.14 cents per option at expiry (1 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

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Warwick Evans (Director)
Sebastian Evans (Director)

Company Secretary

Richard Preedy

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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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