

NAOS Emerging Opportunities Company (NCC)

ABN 58 161 106 510

MONTHLY INVESTMENT REPORT AND NTA UPDATE

NAOS

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 structure 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 knowledge & 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.

6. Environmental, Social and

Governance (ESG) NAOS adopts an ESG screen across its investments.

Net Tangible Asset Value Breakdown as at 31 December 2017

| | |
|--|--------|
| Pre Tax NTA: | \$1.40 |
| Post Tax & Pre Unrealised Gains Tax NTA: | \$1.38 |
| Post Tax NTA: | \$1.32 |
| Share Price: | \$1.46 |
| Historical Fully Franked Dividend Yield | 4.79% |

Investment Portfolio Performance & Market Insight

The NCC Investment Portfolio produced a positive return of +0.14% compared to the Benchmark Small Ordinaries Accumulation Index which increased by +3.20%. This brings the performance since inception of 4 years and 10 months to +132.84% vs. the Benchmark which has returned +37.18%.

Turning to the portfolio specifics, one position was removed and two new positions were added during the calendar year. It was pleasing to see the positive contributors spread across numerous positions generating incremental performance rather than coming from only one position. Two of the top contributors are listed below.

CML Group (ASX:CGR), an invoice financing business had a very strong 2017 with a close to doubling of the share price in addition to paying fully franked dividends. 2017 was underpinned by multiple earnings upgrades, as the acquisitions made in previous years produced the desired benefits from increased scale. Furthermore, a change of funding mix occurred and will continue to occur throughout 2018.

Big River (ASX:BRI), a building supplies business which listed in April 2017 had a pleasing second half as it delivered on its prospectus numbers and made a couple of small bolt on acquisitions, consistent with the IPO messaging to the market. Some of the key reasons for us investing in BRI was the high-quality management team, significant industry tailwinds as well as an industry that is ripe for consolidation. We remain convinced of these heading into 2018.

Consolidated Operations Group (ASX:COG) was the major detractor from performance during the year. The company has undertaken two rights issues in the past 18 months, walked away during due diligence on two potential acquisitions in the last few months and is cycling through its change of accounting requirements. We feel that the market may have put COG in the 'too hard basket' for the short term but we view these events as an opportunity to increase our position in what we see as being a high cash generative and well managed business.

| | 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* | +0.14% | +8.39% | +21.62% | +15.82% | +15.92% | +19.07% | +132.84% |
| S&P/ASX Small Ordinaries Accumulation Index (XSOAI) | +3.20% | +20.02% | +16.54% | +14.37% | +9.53% | +6.74% | +37.18% |
| Outperformance Relative to Benchmark | -3.06% | -11.63% | +5.08% | +1.45% | +6.39% | +12.33% | +95.66% |

*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. Returns compounded for periods greater than 12 months.

Positive Stock Contribution Analysis

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

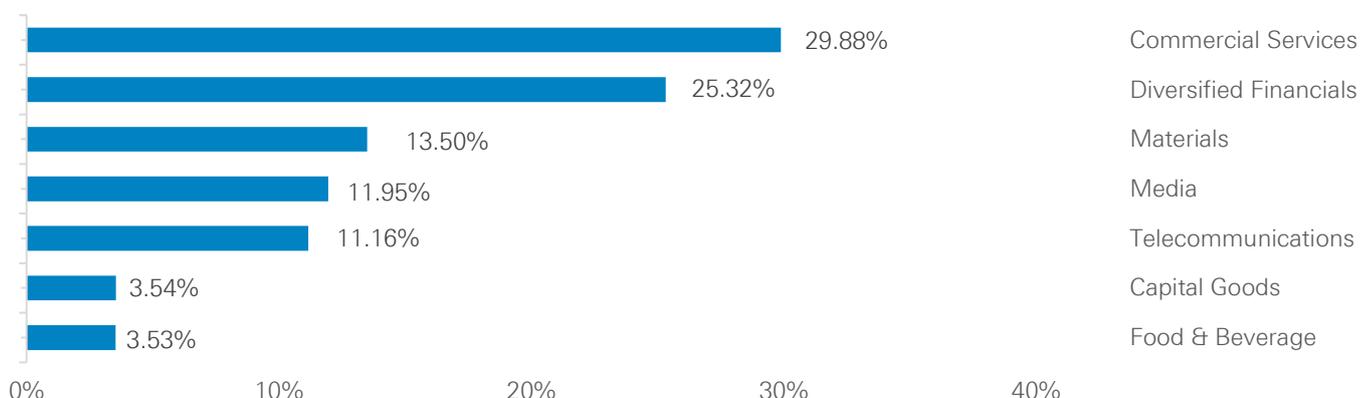
The table below lists the top positive contributors to NCC’s total return since inception. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated portfolio of investments that is often 0 -15 securities at any one time. We will disclose securities in which NCC has a current substantial holding, or when we have exited the position.

| Investment | Contribution to Return (%NAV) | Investment | Contribution to Return (%NAV) |
|-------------------------------|-------------------------------|------------------------|-------------------------------|
| BSA Limited | +29.05% | CML Group Limited | +10.36% |
| Calliden Group | +16.76% | Tamawood Limited | +9.34% |
| Capitol Health Limited | +16.31% | Village Roadshow | +8.83% |
| Consolidated Operations Group | +14.58% | Sirtex Medical Limited | +8.81% |
| MNF Group Limited | +11.43% | RHG Limited | +7.62% |
| Lindsay Australia | +10.83% | Gage Roads Brewing | +6.70% |

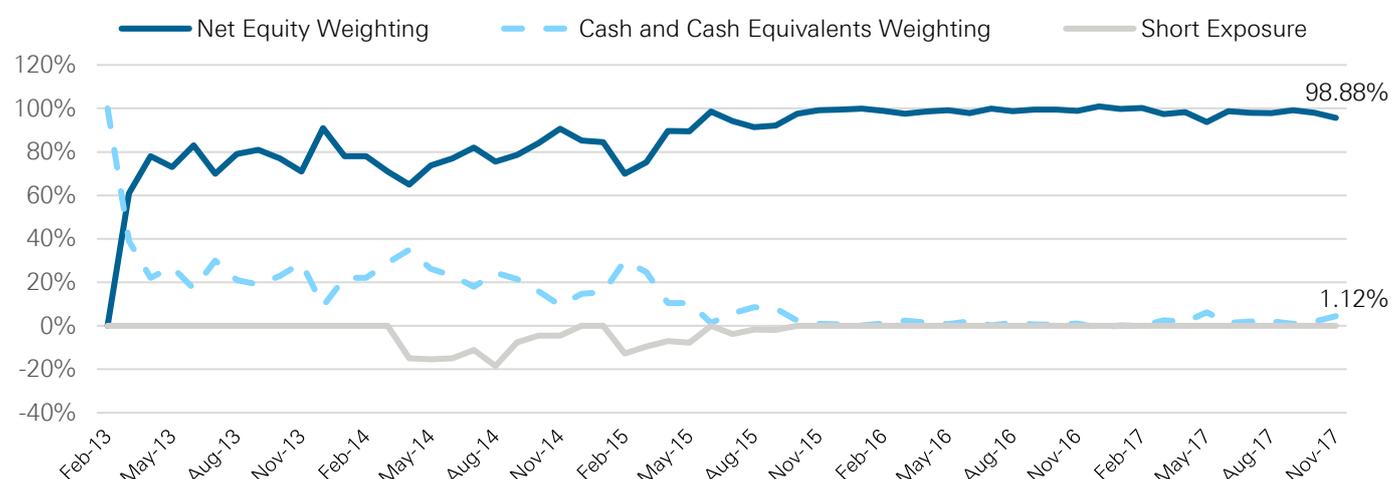
Portfolio Positioning as at 31 December 2017

As at 31 December 2017, the portfolio’s net equity exposure was ~98.88% with a subsequent cash weighting of +1.12%. 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 short positions. 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:

- Rhipa Ltd (RHP AU)
- Apiam Animal Health Ltd (AHX AU)
- Austock Group Ltd (ACK AU)
- Enero Group (EGG AU)
- Topbeta Holdings (TBH AU)
- Consolidated Operations Group (COG AU)
- Gale Pacific Ltd (GAP AU)
- Service Stream Ltd (SSM AU)
- Redflex Holdings Ltd (RDF AU)
- Fiducian Group Ltd (FID AU)

Portfolio Characteristics – Summary Data as at 31 December 2017

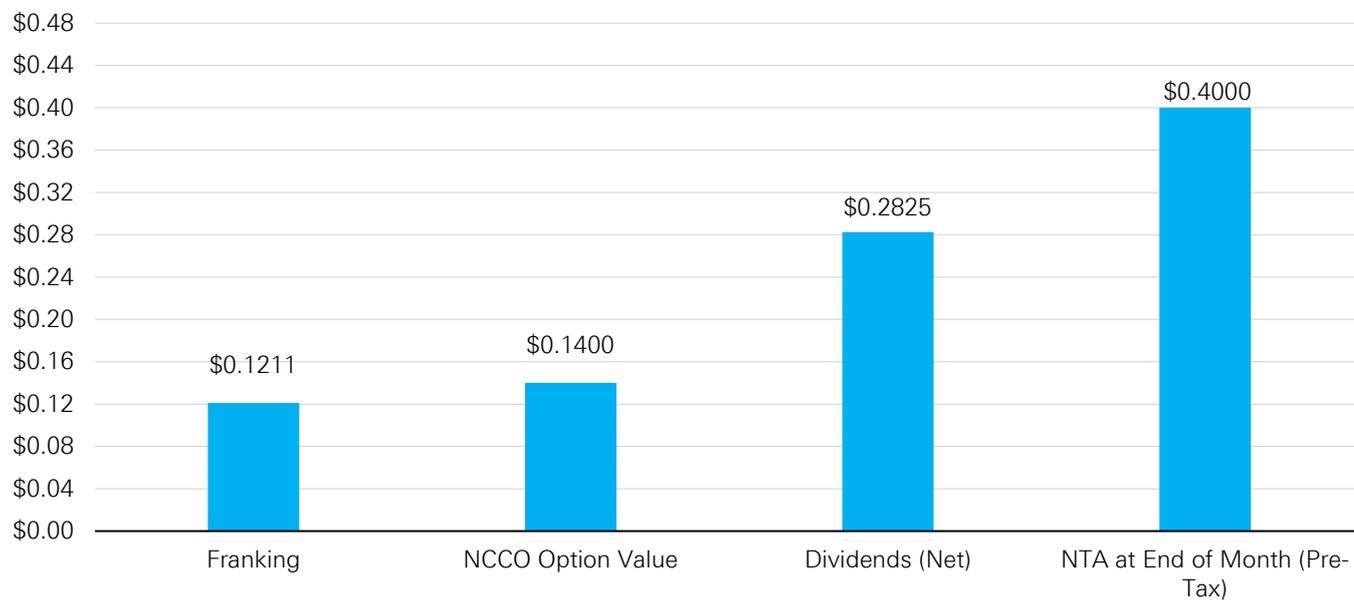
Below are a number of historical portfolio risk measures. Our aim in providing these metrics is to demonstrate to investors how NCC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and to also preserve investors' capital. A glossary of the terms used below and the method used for calculating them can be found on the last page of this report.

| | |
|--|------------------|
| Average Market Capitalisation of the Portfolio's Equity Holdings | \$144.80 million |
| Percentage of Positive Months (NCC) | 72% |
| Percentage of Positive Months (XSOAI) | 59% |
| Standard Deviation of Returns (NCC) | 10.74% |
| Standard Deviation of Returns (XSOAI) | 13.39% |
| Correlation of Returns to XSOAI | 0.54 |
| Sortino Ratio | 2.91 |
| Downside Deviation (NCC) | 5.76% |
| Downside Deviation (XSOAI) | 7.29% |
| Current Estimated Portfolio Beta (6 Month Historical) | 0.27 |

Capital Structure – Summary Data as at 31 December 2017

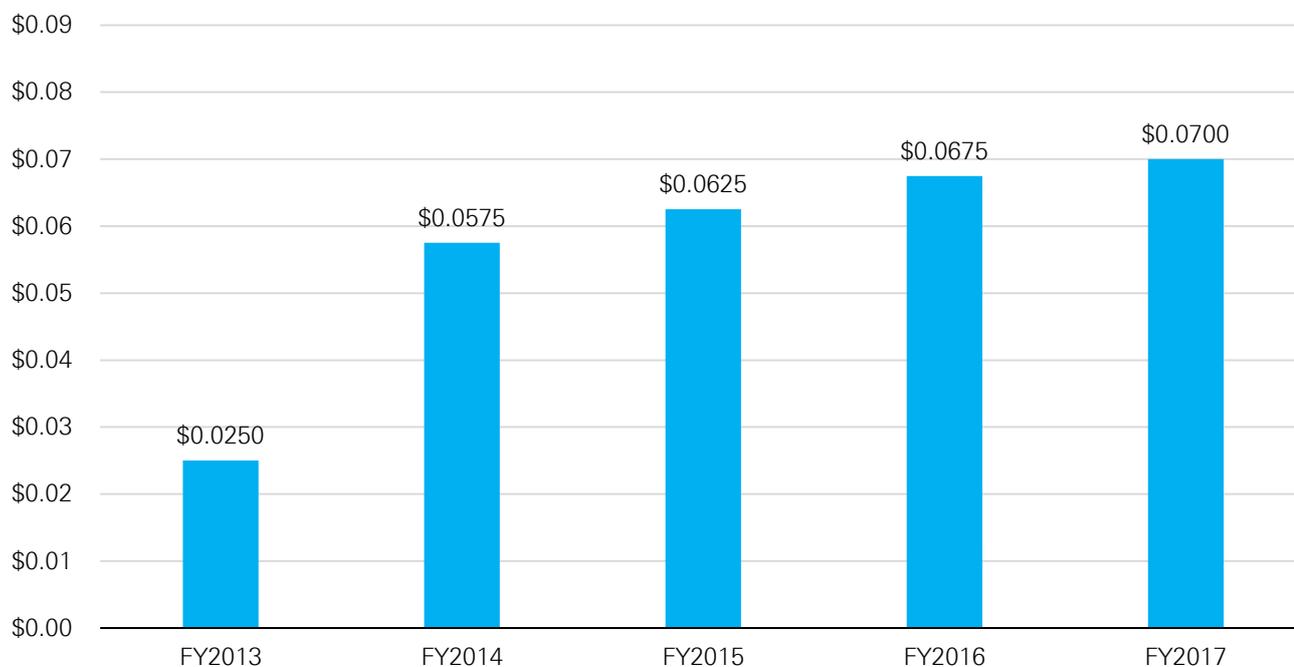
| | |
|--|------------|
| Share Price | \$1.46 |
| Premium/(Discount) to NTA (Pre-Tax) | 4.29% |
| Shares on Issue | 59,404,890 |
| NCC Directors Shareholding (Ordinary Shares) | 3,871,889 |

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

Average Market Capitalisation of the Portfolio's Equity Holdings – The sum of, the percentage of each individual position relative to the total value of all Equity Holdings multiplied by each company's respective market capitalisation (Cash and Income/Debt securities are excluded).

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

Important Information:

This material has been prepared by NAOS Asset Management Limited (ABN 23 107 624 126, AFSL 273529) (NAOS) as investment manager of the listed investment company referred to herein (Company). This material is provided for general information purposes only and must not be construed as investment advice. It does not take into account the investment objectives, financial situation or needs of any particular investor. Before making an investment decision, investors should consider obtaining professional investment advice that is tailored to their specific circumstances. Past performance is not necessarily indicative of future results and neither NAOS nor the Company guarantees the future performance of the Company, the amount or timing of any return from the Company, or that the investment objectives of the Company will be achieved. To the maximum extent permitted by law, NAOS and the Company disclaims all liability to any person relying on the information contained herein in relation to any loss or damage (including consequential loss or damage), however caused, which may be suffered directly or indirectly in respect of such information. This material must not be reproduced or disclosed, in whole or in part, without the prior written consent of NAOS.

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Warwick Evans (Director)
Sebastian Evans (Director)

Company Secretary

Rajiv Sharma

Investment Team

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Jeffrey Kim (Portfolio Manager)
Robert Miller (Portfolio Manager)
Ben Rundle (Portfolio Manager)
Chadd Knights (Investment Analyst)

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Richard Preedy

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