

NAOS Emerging Opportunities Company (NCC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

July 2017

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 fund 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 information advantage' & '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.

Net Tangible Asset Value Breakdown as at 31 July 2017

Pre Tax NTA:	\$1.35
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.33
Post Tax NTA:	\$1.27
Share Price:	\$1.38
Historical Fully Franked Dividend Yield	5.07%

Investment Portfolio Performance & Market Insight

For the month of July, the NCC Investment Portfolio increased by +3.43% compared to the benchmark Small Ordinaries Accumulation Index (XSOAI) which increased marginally by +0.34%. This brings the inception performance of the Investment Portfolio to +114.17% compared to +15.96% for the XSOAI over 4 years and 6 months. With little news of substance occurring within the month of July as companies prepare for the release of their full-year results, this is an excellent time to touch on some of our investments within the portfolio and what will be our key focus when we review their FY17 results this reporting season.

Without a doubt, the company within our concentrated portfolio with the most to demonstrate this results season will be Consolidated Operations Group (ASX: COG), formerly known as Armidale Investment Corporation. The full year results will unfortunately be a mix of the previous accounting policy which changed in October 2016, together with 9 months of the new consolidated entity accounting policy. The major focus will be on the second half results, as this will be a clean set of financials where we will look to analyse the EBITDA generation of the broking group (and subsequent margins), the lease origination results of TL Rentals, cost control regarding corporate overheads, and historical losses in legacy businesses. Our final focus will relate to capital management, and looking forward to FY18 how COG can better manage their capital structure through the potential release of self-funded leases, and whether dividends are now on the horizon due to the low capital requirements of the respective businesses.

Big River Group (ASX: BRI) will release its first set of results as a listed entity. With a litany of disappointing previous initial public offerings (IPO's) that were held by private equity firms over the last year, it will be important for BRI to achieve its prospectus forecasts with minimal one-off items. This results season will allow BRI to highlight its limited exposure to high rise residential developments, which has been a misconception in the wider marketplace. Investors will be paying a lot of attention to BRI's views relating to consolidation opportunities within the building distribution industry, and the ability for BRI to gain exposure to differentiated verticals within this space, as these were the predominant reasons for listing BRI in April. A potential acquisition may allow BRI to gain even greater exposure to the significant infrastructure spend that is underway, predominately within NSW, over the next 3 years.

	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*	+3.43%	+11.11%	+19.08%	+12.87%	+15.38%	+18.78%	+114.17%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	+0.34%	-1.09%	+9.97%	+5.55%	+6.18%	+3.40%	+15.96%
Outperformance Relative to Benchmark	+3.09%	+12.20%	+9.11%	+7.32%	+9.20%	+15.38%	+98.21%

*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)

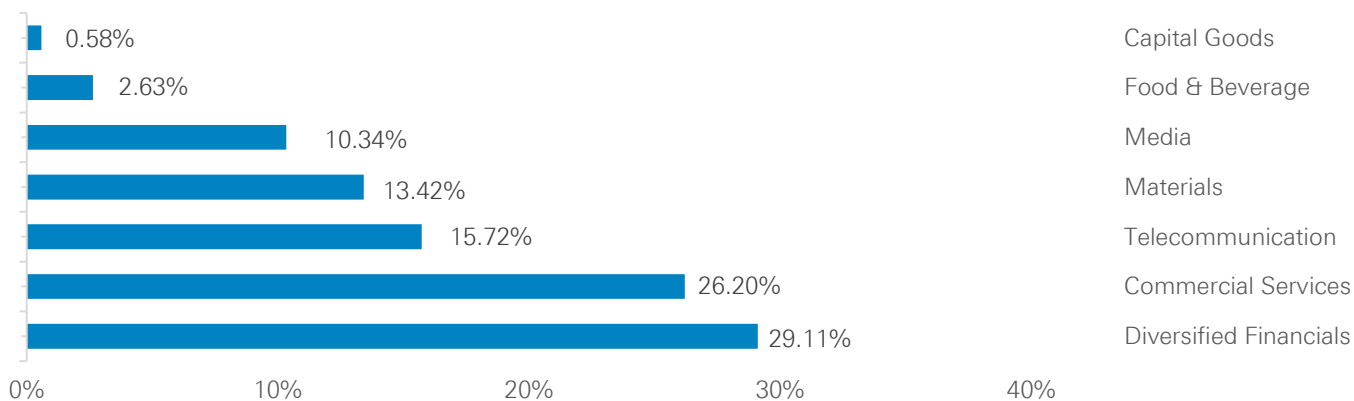
The table below lists the top positive contributors to NCC's total return since inception. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated portfolio of investments that is often 0 -15 securities at any one time. We will disclose securities in which the Company has a current substantial holding, or when we have exited the position. Positions in the table 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	+26.17%	Village Roadshow	+8.23%
Calliden Group	+15.62%	Sirtex Medical Limited	+8.21%
Capitol Health Limited	+15.19%	RHG Limited	+7.10%
Consolidated Operations Group	+13.96%	CML Group Limited	+6.88%
Lindsay Australia	+10.08%	MNF Group Limited	+6.73%
Tamawood Limited	+8.70%	Gage Roads Brewing	+6.24%

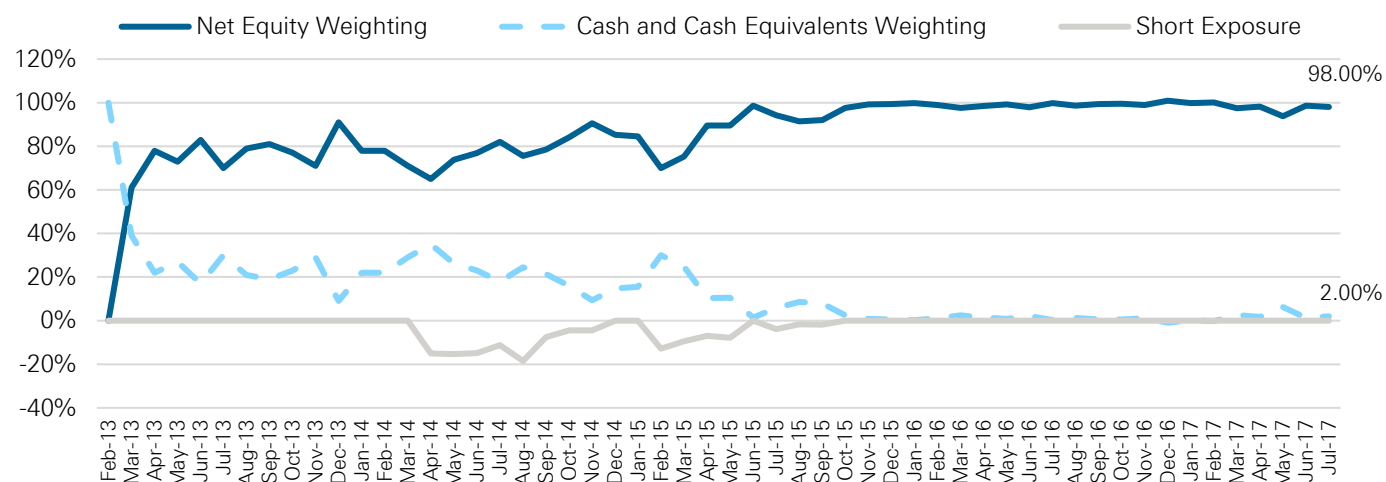
Portfolio Positioning as at 31 July 2017

As at 31 July 2017, the portfolio's net equity exposure was ~98.00% with a subsequent cash weighting of +2.00%. The core holdings in the portfolio did not change over the course of the month. As at month end, the portfolio was comprised of 11 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:

- Tempo Australia Ltd (TPP AU)
- Ellex Medical Lasers (ELX AU)
- Kangaroo Island Plantation Timbers (KPT AU)
- Universal Biosensors Inc (UBI AU)
- Topbeta Holdings Limited (TBH AU)
- Contango Asset Management (CGA AU)
- Windlab Limited (WND AU)
- Enlicitc (Unlisted)
- Clean Seas Seafood Limited (CSS AU)
- Fastbrick Robotics Ltd (FBR AU)
- Livetiles Ltd (LVT AU)
- Wattle Health Australia Ltd (WHA AU)

Portfolio Characteristics – Summary Data as at 31 July 2017

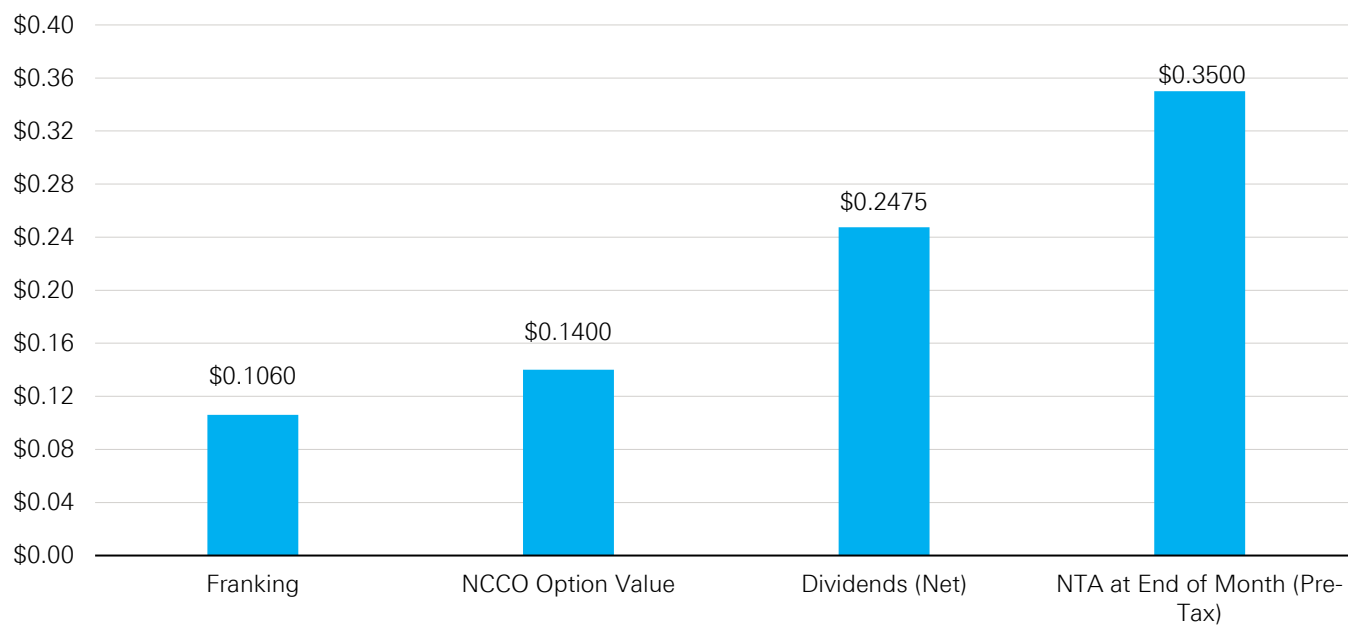
Below are a number of historical portfolio risk measures. Our aim in providing these metrics is to demonstrate to investors how NCC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and also to preserve investors' capital. A glossary of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

Portfolio Weighted Average Market Capitalisation	\$138.97 Million
Percentage of Positive Months (NCC)	72%
Percentage of Positive Months (XSOAI)	55%
Standard Deviation of Returns (NCC)	11.01%
Standard Deviation of Returns (XSOAI)	13.55%
Correlation of Returns to XSOAI	0.55
Sortino Ratio	2.80
Downside Deviation (NCC)	5.85%
Downside Deviation (XSOAI)	7.29%
Current Estimated Portfolio Beta (6 Month Historical)	0.08

Capital Structure – Summary Data as at 31 July 2017

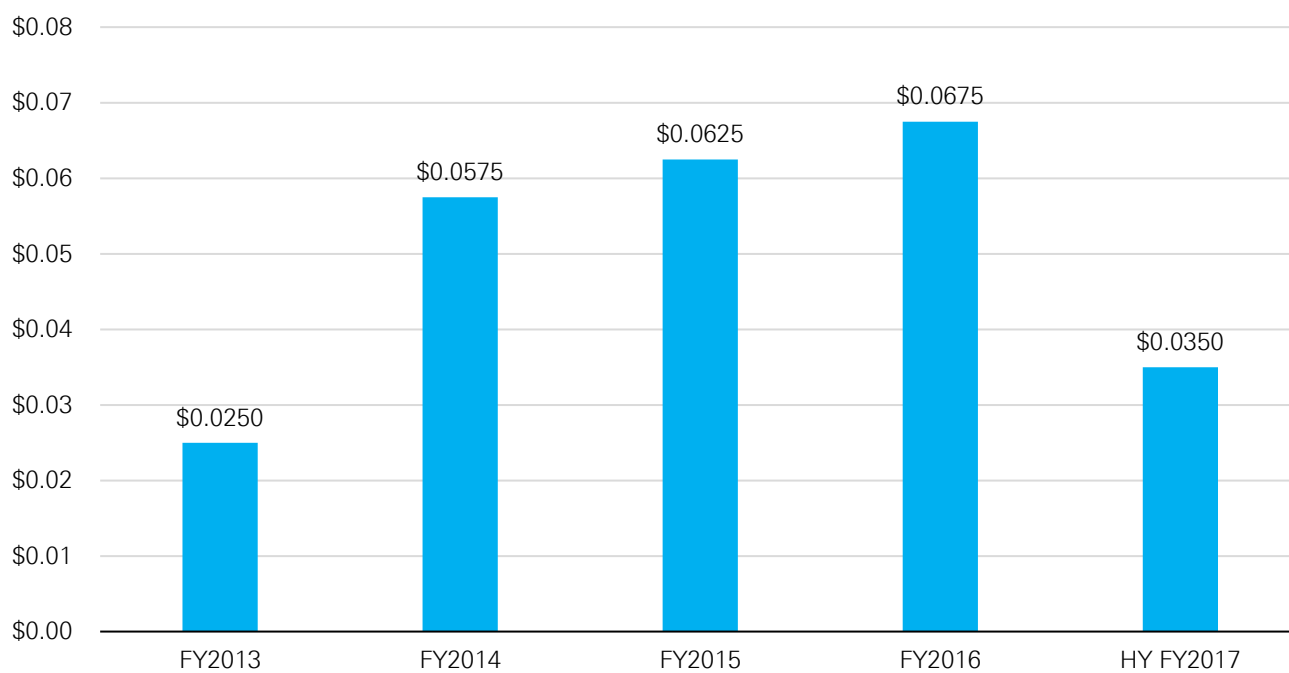
Share Price	\$1.38
Premium/(Discount) to NTA (Pre-Tax)	2.22%
Shares on Issue	59,173,393
NCC Directors Shareholding (Ordinary Shares)	3,829,879

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

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:

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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)

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Richard Preedy

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