

15 November 2018

## Annual General Meeting 2018 – Chairman’s Statement

Dear Fellow Shareholders,

For the financial year ended 30 June 2018, NAOS Emerging Opportunities Company Limited (‘Company’) recorded an aftertax profit of \$4.1 million. The Company declared a record 7.25 cents per share of fully franked dividends for the year, which represented a growth of 4% over the previous year and marks the sixth year of consecutive dividend increases. The Board continues to be mindful of providing shareholders a growing stream of fully franked dividends over the longer term whilst building a profit reserve, which can be utilised in periods where strong positive performance is harder to achieve.

The Company prides itself in offering what we believe is the only Listed Investment Company (‘LIC’) that provides a pure, concentrated, long-term exposure to micro-cap industrial businesses regardless of their liquidity profile. This concentrated, long-term approach is reflected by the nine positions held as at 30 June, all of which have been held for more than 12 months within the investment portfolio.

The investment portfolio produced a return of +7.1% for the financial year ended 30 June 2018, though it did significantly underperform the benchmark S&P/ASX Small Ordinaries Accumulation Index (‘XSOAI’) which rose by +24.3%. Given the index unaware approach and the concentrated nature of the portfolio, performance differing to the broader market from time to time will occur. The Company remains focused on capital preservation over the longer term with the investment portfolio making positive returns in each financial and calendar year. Also note, the portfolio returns since inception of the Company have been generated with a lower volatility than that of the wider market.

The total shareholder return (‘TSR’) shows the total return to shareholders, being the change in share price together with dividends reinvested, but does not include the benefits of franking credits paid to shareholders. The TSR for the Company for the year to 30 June 2018 was –0.5%. Although the share price traded consistently at a premium to pre-tax net tangible assets (‘NTA’) for the majority of the year, a decrease in the share price during the final months of the financial year caused the TSR to lag the portfolio return.

With regard to NTA growth, the NTA of the Company did not change significantly over the year, with the increase in NTA generated from the positive performance of the investment portfolio offset by the payment of dividends to shareholders and the payment of tax over the course of the year. In order to eliminate potential dilution for existing shareholders, the Company did not issue any shares at a discount, with the Dividend Reinvestment Plan (‘DRP’) capital management initiative further supporting this by issuing DRP shares only

when the Company is trading at a premium, and buying shares on-market when trading at a discount to post-tax NTA.

During FY18, the Company continued to look for ways to improve the quality and transparency of our investment communications; these initiatives contributed to record shareholder numbers, with more than 200 new shareholders added to the register. As at 30 June 2018, the Company had 1,895 shareholders on the register which represented a 13% increase from the end of the previous financial year. A larger shareholder base corresponds to stronger liquidity.

As always, the Board is committed to managing the capital base in the most appropriate manner; one that provides the Investment Manager with the framework necessary to maximise potential performance for fellow shareholders as well as providing a stable stream of growing dividends. With this in mind, the Board remains committed to limiting the size of the Company to between \$125 million and \$150 million.

All Directors increased their holdings throughout the financial year whilst also taking advantage of the Dividend Reinvestment Plan, and now hold a cumulative 3.95 million shares, continuing to align their interests with those of shareholders.

On behalf of the Board, I would like to thank all the staff of the Investment Manager for their continued efforts and dedication throughout the year.

David Rickards  
Independent Chairman