

# NAOS Emerging Opportunities Company (NCC)

NAOS

## MONTHLY INVESTMENT REPORT AND NTA UPDATE

NOVEMBER 2014

### COMPANY OVERVIEW

#### Investment Objective

NCC seeks to provide investors with exposure to high quality emerging companies in a transparent and concentrated long/short structure, with the ability to outperform the Benchmark over the medium to long term. The Company will seek to pay a minimum dividend yield of 4.00% per annum franked to the maximum extent possible. The Company has the ability to short sell securities and hold significant levels of cash to assist in protecting investor's capital.

#### Investment Process

A unique 5 step investment process that places a strong emphasis on long term industry dynamics, management team capabilities and track record of producing significant shareholder value over the medium to long term. Finally, catalysts are identified for each potential investment so that these investments will be re-rated by the market and trade on valuations closer to their larger counterparts.

#### Investment Strategy

To actively manage a concentrated portfolio (approximately 0-20 positions) of high quality emerging companies across a wide range of industries, which investors may have a limited exposure to through investing in companies just in the ASX-100 Index. Many of these emerging companies are often overlooked and therefore potentially inefficiently priced by the wider investment community.

**Inception Date: 26th of February 2013**

**Benchmark: Small Ordinaries Accumulation Index (XSOAI)**

**Shares on Issue (ASX: NCC): 36,950,270**

**Listed Options on Issue Exercisable at \$1.00 Prior 1st February 2015 (ASX: NCCO): 11,172,338**

**Listed Options on Issue Exercisable at \$1.13 Prior 1st August 2015 (ASX: NCCOA): 11,789,026**

**Fully Franked Dividend Yield\*: 6.43% Fully Franked (9.19% Gross)**

\*Based off guided dividend for 1<sup>st</sup> Half 2015.

### Net Tangible Asset Value Breakdown as at 30<sup>th</sup> November 2014

\*Dividend Paid in December 2014 Removed From NTA Calculation for November

(NTA Diluted for Remaining NCCO Options)

<b>Pre Tax NTA:</b>	<b>\$1.18 (\$1.14)</b>
<b>Post Tax &amp; Pre Unrealised Gains Tax:</b>	<b>\$1.19 (\$1.14)</b>
<b>After Tax NTA:</b>	<b>\$1.14 (\$1.11)</b>

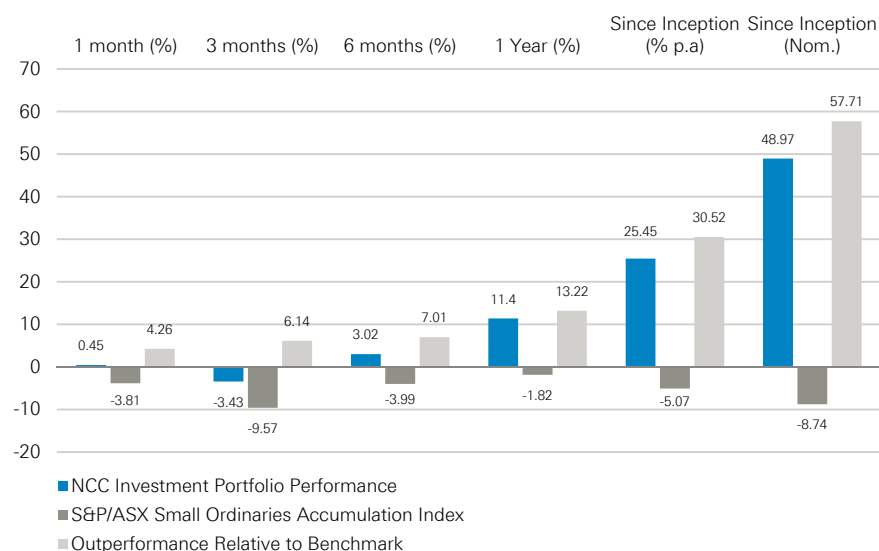
\*The above NTA calculations do not account for any potential dilution from the 11,789,026 NCCOA options that remain on issue and are exercisable at \$1.13.

### Investment Portfolio Performance to 30<sup>th</sup> November 2014\*

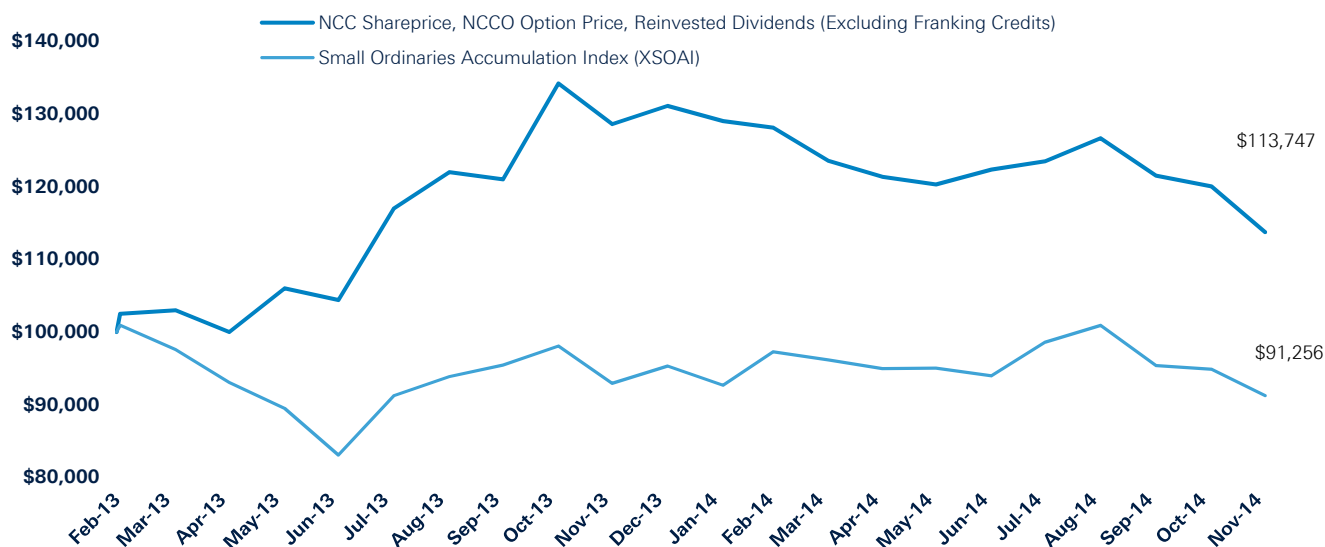
The Investment Portfolio posted a positive return in the month of November of +0.45%. This compared favourably to the benchmark Small Ordinaries Accumulation Index (XSOAI) which fell by -3.81%.

	1 month	3 months	6 months	1 Year	Inception (p.a.)	Inception (Nom.)
<b>NCC Investment Portfolio Performance*</b>	<b>+0.45%</b>	<b>-3.43%</b>	<b>+3.02%</b>	<b>+11.40%</b>	<b>+25.45%</b>	<b>+48.97%</b>
<b>S&amp;P/ASX Small Ordinaries Accumulation Index (XSOAI)</b>	<b>-3.81%</b>	<b>-9.57%</b>	<b>-3.99%</b>	<b>-1.82%</b>	<b>-5.07%</b>	<b>-8.74%</b>
<b>Outperformance over Benchmark</b>	<b>+4.26%</b>	<b>+6.14%</b>	<b>+7.01%</b>	<b>+13.22%</b>	<b>+30.52%</b>	<b>+57.71%</b>

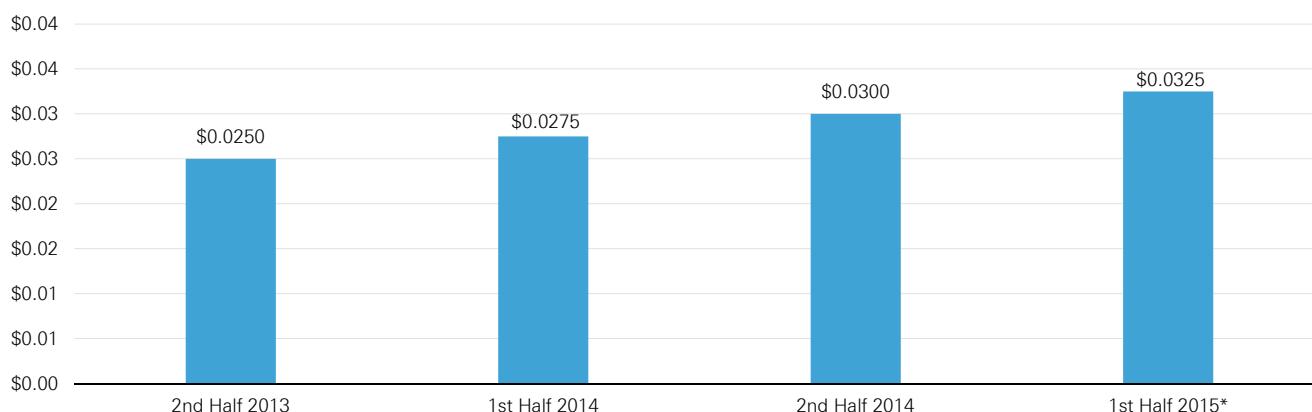
\*Investment Portfolio Performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions. Performance has not been grossed up for franking credits received by shareholders.



### Total Shareholder Return Analysis (IPO Investors Assumes \$100,000 Initial Investment)



### Historical Fully Franked Dividends (Cents per Share)



\*Guided dividend for 1<sup>st</sup> Half 2015.

### Positive Stock Attribution Analysis (1st March 2013 to 30<sup>th</sup> November 2014)

Below is a chart which lists the top positive contributors to NCC total return since 1st March 2013. The purpose of the chart 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. Any security that is currently held within the investment portfolio will not be disclosed until it is no longer part of the portfolio.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
Current Investment A	+13.0%	RHG Limited	+5.0%
Capitol Health	+10.3%	Gage Road Breweries	+4.4%
Current Investment B	+6.7%	Current Investment D	+4.0%
Current Investment C	+5.6%	Current Investment E	+2.9%
Village Roadshow	+5.6%	AMA Group	+2.8%

## Portfolio Positioning as at 30<sup>th</sup> November 2014

The structure of the portfolio has remained unchanged over the month with the same 10 long and 2 short investments as per the October report.

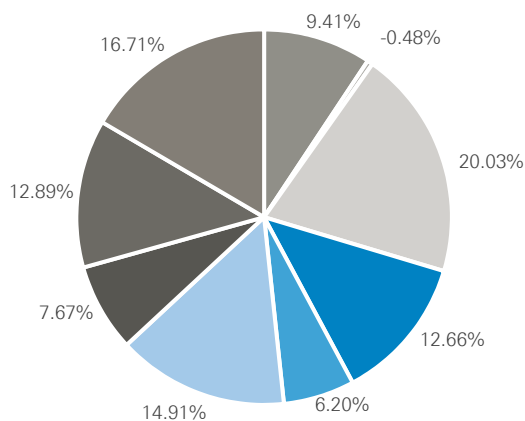
During the month we received a takeover bid for one of our security holdings being an unlisted, fully secured convertible note issued by an Australian listed coal developer. The only condition to the bid being successful is for the acquirer to secure financing; there are no further conditions with regards to project due diligence or significant market movements.

It is important to note that the convertible note is currently being priced in the investment portfolio based on the listed equity stock price and not on the bid price for the convertible notes, which is at a significant premium. We expect an update and the successful completion of the transaction to occur in 1QCY15.

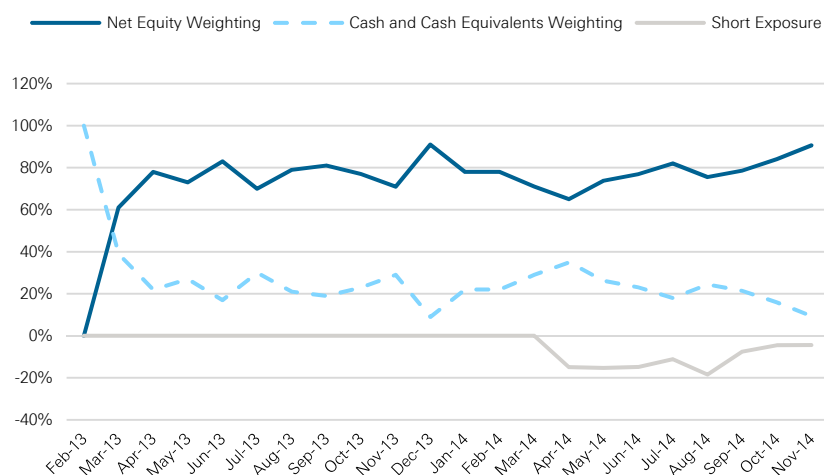
The cash and cash equivalent position at the end of November was +9.41% though when including the position in Calliden (CIX) which is currently under takeover this increases to +26.12%.

## Industry Breakdown

- Cash & Cash Equivalents
- Materials
- Commercial Services & Supplies
- Transportation
- Consumer Durables
- Media
- Healthcare
- Diversified Financials
- Insurance



## Net Equity Exposure



## Market Insight

The month of November proved once again to be challenging for domestic equities. The ASX-200 index fell by -3.30% and the Small Ordinaries Accumulation Index fell even further, by -3.81%. Leading the market lower once again were soft commodity prices in the form of Iron Ore, which fell to \$69.80, and the WTI Spot Oil price, which fell by over 17.50% to \$65.95 over the period. With lower bulk commodity prices placing more pressure on Australia's terms of trade, the Australian dollar continued its slide lower finishing at \$0.851 or a fall of almost 3 cents over the month. Another notable move, especially considering that a clear majority of economists believe the next domestic interest rate move will be higher, was the fall in the Australian 10 year bond yield, which has now fallen below 3.00% for the first time in 4 years (see chart below). It is worth noting that every sector of the Australian equity market significantly underperformed their global sector counterparts.

As NAOS has stressed for some time, the market continues to offer value for certain specific companies however we see very little market strength to drive the tide higher and assist the equity market over the coming 12 months. This trend was apparent in November with a number of household companies experiencing significant falls, even outside of the resources sectors. Some notable names included Myer Holdings (-16.5%), Woolworths (-13.6%) and Challenger Financial (-8.4%). On a positive note, there were a number of companies that fought the general market trend and produced significant positive returns. These included Qantas Airways (+14.3%), Recall Holdings (+9.9%) and Dulux Group (+8.7%).

Globally, equity markets posted gains as the S&P500 reposted a number of record highs through the month due to strong US economic data and the Republicans gaining control of both houses in Congress in the mid-term elections. European equities also performed strongly even on the back of poor economic data. The market reacted positively to a strengthened case for a US style quantitative easing program within the ECB leading to increased liquidity and interest rates that will remain lower for longer.



## 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. That is why the Investment Management Team has direct contact with many listed and unlisted Emerging Companies across a wide range of industries. During the month of November the Investment Management Team had direct contact with over 43 unlisted and listed companies of which several are listed below:

- Impedimed Limited (IPD)
- Mobilar Limited (MBO)
- Lovisa Jewellery (LOC)
- Eureka Group Holdings Limited (EGH)
- Enero Group Limited (EGG)
- Bulletproof Group Limited (BPF)
- Rhype Limited (RHP)
- Yonder and Beyond (QRL)
- CML Group Limited (CGR)
- Donaco International Limited (DNA)
- Oncosil Medical Limited (OSL)
- Cellmid Limited (CDY)

### CORPORATE DIRECTORY

#### Directors

David Rickards (Independent Chairman)  
Warwick Evans (Director)  
Sebastian Evans (Director)

#### Company Secretary

Lawrence Adams

#### Investment Team

Sebastian Evans (Portfolio Manager)  
Tom Granger (Assistant Portfolio Manager)  
Jeffrey Kim (Investment Analyst)  
Robert Miller (Investment Analyst)

#### Business Development

Anneke Senden

#### Share Registry

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7/207 Kent Street  
Sydney NSW 2000  
Telephone: 1300 737 760  
Facsimile: 1300 653 459

#### Investment Manager

NAOS Asset Management Limited  
Level 4, Domain House  
139 Macquarie Street  
Sydney NSW 2000  
(AFSL: 273529)  
Telephone: (02) 8064 0568  
Facsimile: (02) 8215 0037

#### Auditor

Deloitte Touche Tohmatsu  
Level 25, Grosvenor Place  
225 George Street  
Sydney NSW 2000

#### Registered Office

Level 4, Domain House  
139 Macquarie Street  
Sydney NSW 2000  
Telephone: (02) 8064 0568  
Facsimile: (02) 8215 0037

#### ENQUIRIES

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