

NAOS Emerging Opportunities Company Limited (ASX: NCC)
NTA Update and Monthly Investment Report | June 2013

Company Overview

Investment Objective	To provide investors with exposure to high quality emerging companies in a transparent and concentrated 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 at least 4.00% per annum franked to the maximum extent possible.
Investment Process	A unique 5 step investment process that places a strong emphasis on long term industry dynamics and management capabilities to identify investment opportunities over a medium to long term investment horizon.
Investment Strategy	To manage a concentrated portfolio (approximately 0-20 positions) of Emerging Companies across a wide range of industries which investors may have a limited exposure through companies in the ASX-100 index. Many of these Emerging Companies are often overlooked and therefore undervalued by the wider investment community.
Inception Date	26 th February 2013
Benchmark Index	S&P/ASX Small Ordinaries Accumulation Index (XSOAI)
Management Fee	1.25% (Exclusive of the net effect of GST) of the NTA of the Company
Performance Fee	15% (Exclusive of the net effect of GST) of the excess return over the benchmark. Subject to a hurdle rate & high watermark and not applicable on negative performance.

Net Tangible Asset (NTA) as at 30th June 2013

Net Tangible Asset – Before Tax	Net Tangible Asset – After Tax
\$1.0735	\$1.051

*NTA does not account for the 17,313,439 options that are exercisable at \$1.00 anytime before February 2015.

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NCC Company Update

The NAOS Emerging Opportunities Company (NCC) consolidated the gains made in the initial three months of operation. For the month of June NCC posted a slightly negative return of -0.99% post operating expenses then before fees and taxes. This compared favorably to the benchmark Small Ordinaries Accumulation Index (XSOAI) which fell by -7.15% and ended the Financial Year down -5.32%. NCC returned a respectable gain of +10.67% for the financial year before fees and taxes, outperforming the benchmark by +27.58% for the first four months of operations.

The Company did not remove any existing holdings or enter into any new positions throughout the month of June. A small number of existing positions were either added to or reduced due to sharp market movements as markets continue to be highly volatile. New investment opportunities within the Australia equity market are becoming apparent though the view of the investment team is to continue to wait until the highest quality opportunities present themselves as these companies can potentially be caught up in a wider market sell-off.

The month of June provided time for members of the investment team to travel interstate to Victoria and Western Australia not only to view firsthand how our current investments are moving forward but also to keep track of potential investment opportunities. These trips also provided the team with opportunities to improve the investor awareness of NCC to the wider investor community.

NCC will hold its inaugural teleconference on Tuesday the 16th of July at 11am. A presentation will be released on the Monday prior to the ASX that will contain the slides that will form the basis of the teleconference. All participants will have the opportunity to participate in a question and answer session after the formal presentation.

Teleconference Details

Date: Tuesday, 16th of July 2013

Time: 11:00am (AEST)

Telephone Number: 1800 857 029 (national toll free number)

Guest Access Code: 1084 2873# (when prompted please enter this code)

If you wish to receive this report directly please send your details to enquiries@naos.com.au

Portfolio Composition

Investment Type	As at 30th June 2013	
	\$m	%
Listed Equities	\$15,308,993	83%
Hybrids, Interest Bearing Securities, Cash Equivalent Equities and Cash	\$3,245,403	17%
Long Equities Portfolio	\$15,308,993	83%
Short Portfolio	\$0	0%
Total Fund Size Pre Tax	\$18,554,396	
	No. On Issue	
Total Ordinary Shares	17,313,439	
Total Options on Issue		

Investment Performance

	1 Month	2 Months	3 Months	4 Months	Inception
NCC Investment Portfolio Performance	-0.99%	+3.44%	+6.57%	+10.63%	+10.67%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	-7.15%	-10.70%	-14.85%	-17.69%	-16.91%
Outperformance over Benchmark	+6.16%	+14.14%	+21.42%	+28.32%	+27.58%

- Investment Portfolio Performance is Post All Operating Expenses but Before Fees, Taxes and Initial IPO Corporate Commissions.
- Investment Performance has not been grossed up for franking credits that have been received by shareholders.
- Inception date 26th February 2013.
- As at 30th June 2013.

Company Meetings

The NAOS investment philosophy is based around the belief that for an Emerging Company to succeed it must be led by a motivated, proven and experienced management team. That is why The Manager has direct contact with many listed and unlisted Emerging Companies across a wide range of industries. During the month of May The Manager **had direct contact with over 39 unlisted and listed companies of some of which are listed below:**

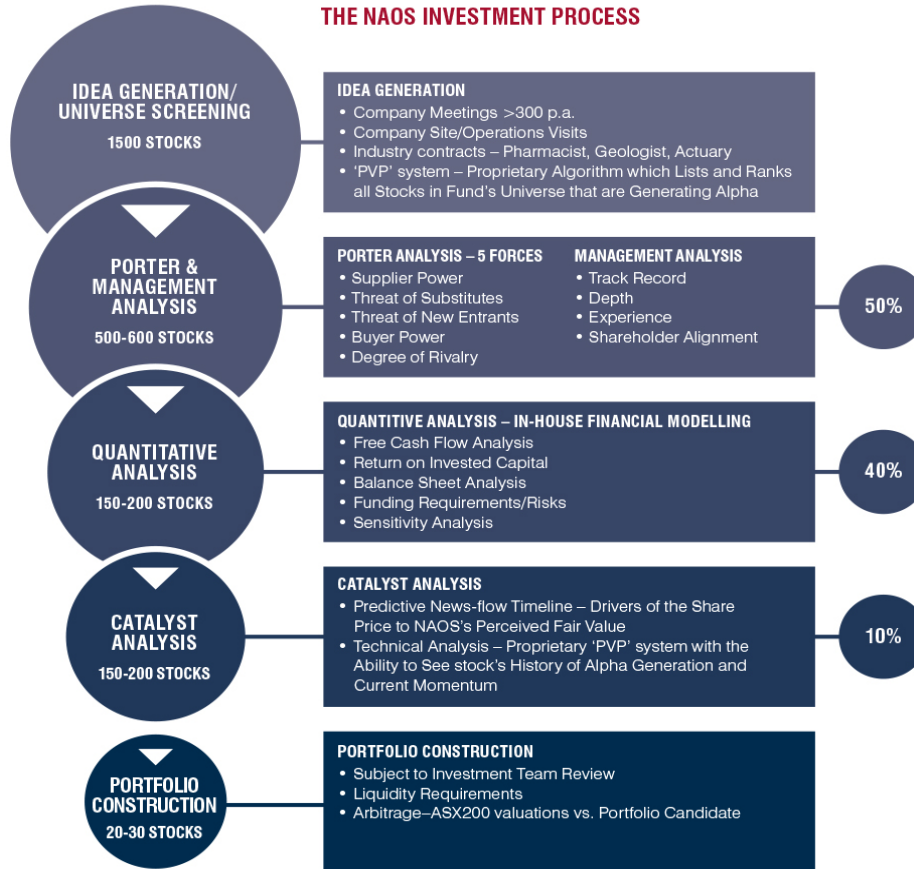
Ammcom (AMM)	ASG Group (ASZ)	NEXTDC (NXT)
Vita Group (VTG)	Sirtex (SRX)	Steri Health (STP)
Fairfax (FXJ)	Attila Resources (AYA)	Sundance Energy (SEA)
ERM Power (EPW)	My Net Fone (MNF)	Freedom Foods (FNP)
APN Media (APN)	KSC Holdings (KSC)	Algae Tec (AEB)

Industry Exposure Table

Industry	Percentage of NAV (%)	Industry	Percentage of NAV (%)
Healthcare Services	11.52%	IT Services	9.83%
Media	1.62%	Consumer Discretionary	14.67%
Telecommunications	15.47%	Financial Services & Insurance	27.84%
Bulk Commodities	5.54%	Food and Beverage	10.84%

The NAOS Investment Process

THE NAOS INVESTMENT PROCESS



NCC and NCCO Market Prices (30th June 2013)

ASX: NCC	ASX: NCCO
\$0.97	\$0.074

Market Review

The market experienced a volatile month with the S&P/ASX-200 Accumulation Index falling by -2.32% and the S&P/ASX Small Ordinaries Accumulation Index significantly underperformed the larger indices finishing down -7.15%. June was once again marred by a number of downgrades from large corporations. This included AMP which downgraded earnings due to higher than expected life insurance claims and subsequently fell by -18.0%. Newcrest Mining once again downgraded earnings guidance for FY13 and together with a weakening gold price the stock fell by -32.0%. Finally Caltex Australia and Lend Lease Group downgraded earnings and fell -19.7% and -16.7% respectively. What was also apparent throughout the month of June was the continued selling pressure in resource companies with the top 4 worst performing companies in the S&P/ASX-200 Index being resource companies each falling between -33.0% and -23.6%.

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World markets were sold off in June mainly due to the comments made by Federal Reserve Chairman Ben Bernanke which the market perceived as the inevitable end to QE-3. Secondly markets saw a significant rise in negative sentiment in China which was driven by a sharp rise in the 'Shibor' interbank lending rate in China and is illustrated in the chart below. This coincided with a worse than expected PMI data and export growth in China that grew at +1%/y compared to market expectations of +7.4%/y. Continued economic weakness in China, albeit off a high base, is keeping a lid on commodity prices for the time being and therefore many resources companies continue to scale back capital expenditure profiles over the medium/short term. The flow on effect for drilling and contracting companies is obviously profound though there will continue to be more subtle and lagging effects such as a short term increase in the unemployment rate, potential decreases in labour costs due a drop in demand for skilled labor and overall decline in the cost of doing business in Australia. Australia over the last few years has been seen as prohibitively expensive to do business in, however over the coming years there is the potential for this to change and allow Australia to once again become competitive on a worldwide scale in regards to its cost and efficiency base.



5-Year Price Chart of Shibor 3 Month Index (Bloomberg)

It is worth noting the sharp increase in the cost of an average 30-year mortgage in the US, which is illustrated in the chart below. This has been a result of rising US Treasury yields in expectation of Federal stimulus coming to a halt or at the very least being tempered in the not too distant future. The effect on the US consumer will not be known for some time though it must be said if mortgage payments are to increase by 1/3rd over the next 12 months there will be some flow on effect to the wider US economy.



5-Year Price Chart of US Home Mortgage 30- Year Fixed National Average (Bloomberg)

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Market Outlook

The current consensus P/E for FY14 is 13.5 ex-banks with 10.2% in earnings growth and a dividend yield of 5.2%. On face value this would ultimately mean that the market is close to or at the bottom of a potential trading range as the average P/E of the market since 1993 has been 14.4. What many market skeptics will argue though is the expectation of over 10% EPS growth ex-banks is still too high and ultimately unachievable. What will drive earnings growth over the next 12 months might be similar to what has driven EPS growth in the US for the last 12 months which has been margin expansion due to cost out strategies especially in the materials space. Together with continued monetary easing and a lower AUD this may potentially drive revenue growth in the Eastern states and facilitate the Australian economy's transition back to a more service, housing and manufacturing centric economy whilst the materials space comes to grips with a potentially lower price environment. Below is a chart, which illustrates the amount of total gross inbound tourist arrivals into Australia over the last 30 years. The key area of focus will be if the growth that was experienced in the mid 1980's to the early 2000's will resume? As the chart shows there has been a slight increase in arrivals over the last year or two and if this was to continue it will be highly beneficial for the services industry and companies along the Eastern seaboard.



30-Year Price Chart of Australian Inbound Tourist Arrivals (Bloomberg)

Contact Us

If you have any further queries in regards to this report or any other particular investment matter please contact Sebastian Evans (Director/Portfolio Manager) or a member of the NAOS team on (02) 9947 2566 or through the email address below.

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