

NAOS Emerging Opportunities Company (NCC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

September 2016

KEY CHARACTERISTICS

1. Genuine Exposure to Undervalued Emerging Companies

Regardless of market capitalisation and/or liquidity, NCC seeks to provide investors with exposure to high quality, undervalued emerging companies in a transparent and concentrated structure that has the competitive advantage of being a nimble closed ended fund with no liquidity constraints.

2. Focus on Quality of Companies Not Quantity or Size of Companies

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. By developing a deep understanding of these companies we believe we are well positioned to capitalise on our 'long term information advantage' & 'liquidity advantage'.

3. Focus on Meaningful Long Term Performance

We target an Internal Hurdle Rate of 20% p.a. over a rolling three-year period for all our investment holdings.

4. Portfolio Constructed Utilising a Benchmark Unaware Approach

Being benchmark unaware means we are not forced holders of stocks with large benchmark weightings that we are not convinced are attractive investment propositions.

5. Significant Alignment of Interests with Shareholders

NAOS & NCC employees/directors own >10 million NCC shares, providing shareholders with a significant alignment of interests.

Net Tangible Asset Value Breakdown as at 30th September 2016

Pre Tax NTA:	\$1.42
Post Tax & Pre Unrealised Gains NTA:	\$1.42
Post Tax NTA:	\$1.31
Share Price:	\$1.32

Investment Portfolio Performance to 30th September 2016 & Market Insight

In the month of September NCC entered into one new position, being funds management firm Contango Asset Management (ASX: CGA). Contango Asset Management represents the first listing of an asset management business since Magellan Financial Group (ASX: MFG) and Blue Sky Alternative Investments (ASX: BLA). The listing of CGA sparked our interest as we believe there are some interesting benefits from the listed asset manager model with regard to potential scalability and alignment of interests, which CGA may be able to leverage.

CGA is currently cash flow breakeven, with a far smaller AUM than other listed asset managers. Given the potential scalability of the asset management model to grow AUM without significantly increasing costs, CGA are well-placed to generate significant positive cash-flow post-listing. In addition, the listing of CGA helps to significantly align interests with shareholders. As most, if not all of key management personnel are shareholders this means they are clearly aligned to drive the profitability of the business through growth in AUM, which can be directly influenced by the performance of the underlying funds.

If CGA can prove that their products can outperform the market, then the funds under management will increase over time. If we look back to MFG when it first listed it was not a profitable business for a number of years but ultimately the time and money spent on distribution capability, coupled with product performance, allowed the funds under management to grow significantly in a short period of time.

As with all NCC investments a major consideration is the ability of any potential investment to achieve our desired internal target return of 20% p.a. over a 3-5-year period. If we take a three-year view and believe that CGA can increase their AUM level from the current \$750 million to \$2.5 - \$3 billion, even if downward fee pressure occurs then the revenue base could increase from the current \$5.4 million to circa \$15 million, with a potential NPAT of \$5 million. Using the P/E's of current listed peers this still delivers an annualised return over three years of ~22% p.a. With the benefit of an existing product track record, a proven Managing Director, and meaningful employee alignment we believe this has the potential to achieve and exceed these figures over our long term investment horizon.

	1 Month	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Inception (p.a.)	Inception (nom.)
NCC Investment Portfolio Performance*	+3.65%	+31.08%	+48.23%	+18.32%	+16.74%	+23.39%	+112.74%
S&P/ASX Small Ordinaries Accumulation Index (XSOAI)	+1.53%	+14.84%	+29.16%	+10.82%	+7.07%	+4.51%	+17.17%
Outperformance Relative to Benchmark	+2.12%	+16.24%	+19.07%	+7.50%	+9.67%	+18.88%	+95.57%

*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.

Positive Stock Attribution Analysis

(Attribution is what has contributed to NCC's performance since inception)

(1st March 2013 to 30th September 2016)

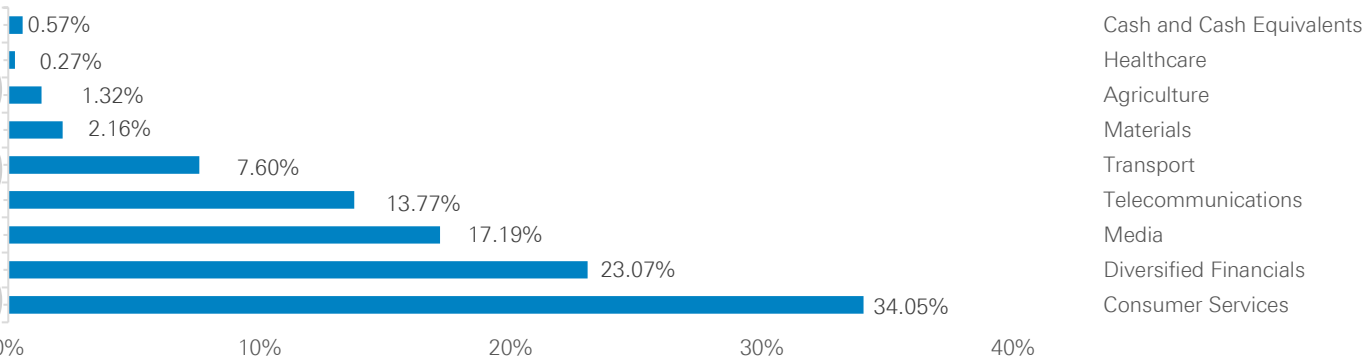
The table below lists the top positive contributors to NCC's total return since 1st March 2013. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated 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. All of the 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	+23.27%	Village Roadshow Limited	+8.15%
Armidale Investment Corp	+17.65%	Sirtex Medical Limited	+8.14%
Calliden Group	+15.49%	Enero Group	+7.25%
Capitol Health Ltd	+15.06%	RHG Limited	+7.06%
Lindsay Group	+11.30%	Gage Road Brewing	+6.18%
Tamawood	+8.63%	MNF Group	+5.56%

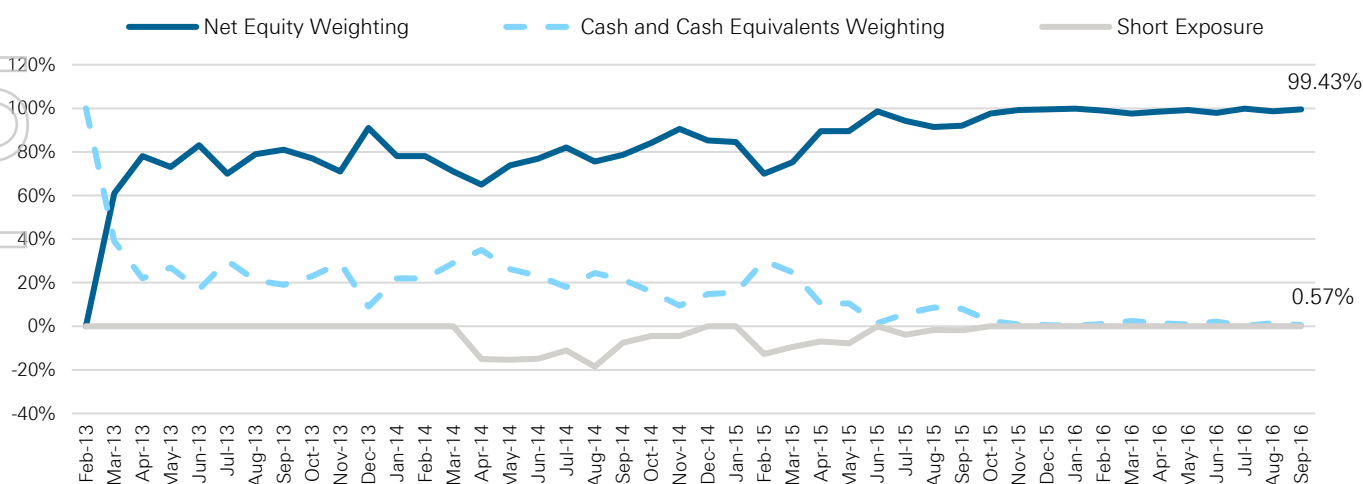
Portfolio Positioning as at 30th September 2016

As at September month end, the portfolio's net equity exposure was ~99% with a subsequent cash weighting of +0.57%. 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 shorts. There were also no income instruments in the portfolio.

Industry Exposure



Net Equity Exposure



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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 we met with during the month of September is provided below.

- Macquarie Telecom – (MAQ)
- CML Group – (CGR)
- Lindsay Group – (LAU)
- Vita Life Sciences – (VSC)
- BSA Group – (BSA)
- Infomedia – (IFM)
- Ellex Medical – (ELX)
- Eureka Group – (EGH)
- Somomed – (SOM)
- Grays Ecommerce Group – (GEG)
- Brickworks – (BKW)
- 3P Learning – (3PL)

Portfolio Characteristics – Summary Data

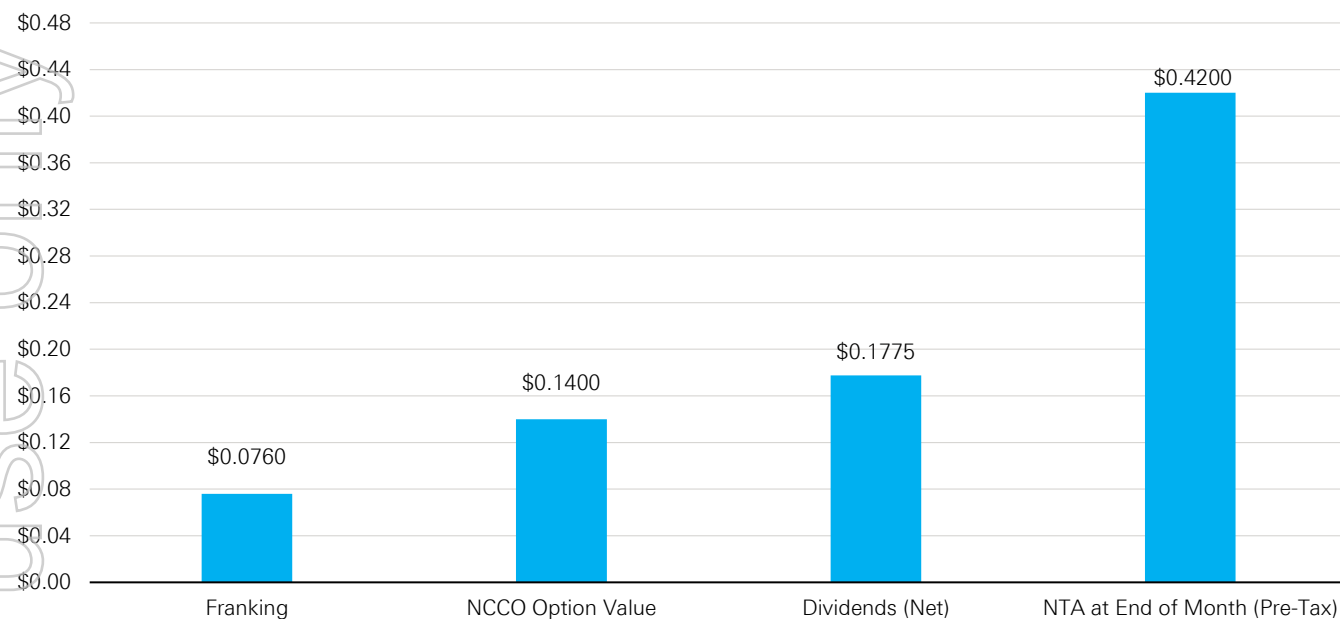
Below are a number of historical portfolio risk measures. Our aim in providing these metrics is to demonstrate to investors how NCC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and also to preserve investor's capital. A glossary of 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	\$132 Million
Percentage of Positive Months (NCC)	77%
Percentage of Positive Months (XSOAI)	57%
Standard Deviation of Returns (NCC)	11.53%
Standard Deviation of Returns (XSOAI)	14.46%
Correlation of Returns to XSOAI	0.58
Sortino Ratio	3.40
Downside Deviation (NCC)	5.93%
Downside Deviation (XSOAI)	7.51%
Current Estimated Portfolio Beta (6 Month Historical)	0.06

Capital Management – Summary Data as at 30th September 2016

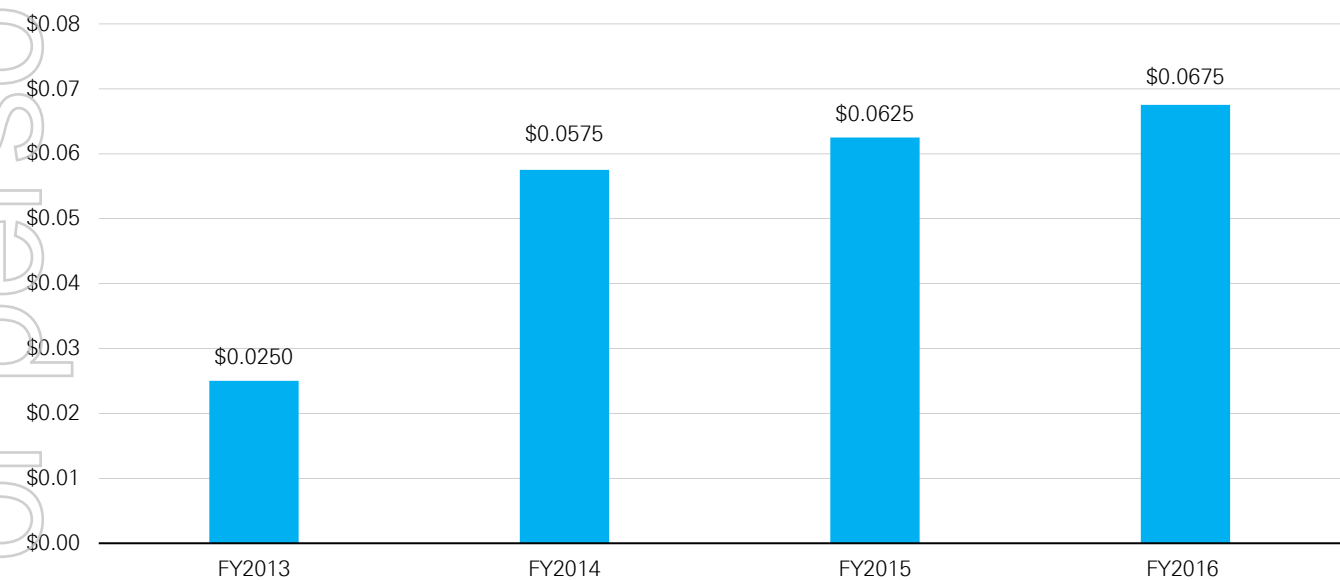
Share Price	\$1.32
Discount/Premium to NTA (Pre-Tax)	-7.04%
Historical Fully Franked Dividend Yield	5.11%
Historical Gross Dividend Yield	7.29%
Shares on Issue	46,918,297
NCC Directors Shareholding (Ordinary Shares)	3,571,066

Historical Shareholder Return Breakdown



*Assumes an intrinsic NCCO value of \$0.14 cents per option at expiry (1st February 2015).

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:

This report has been prepared by NAOS Asset Management Limited. Information provided in this report is for general information purposes and must not be construed as investment advice. In preparing this report we have not taken into account the investment objectives, financial situation or needs of any particular investor. Past performance is not a reliable indicator of future performance. Before making an investment decision, investors must read the offer documents and should seek their own financial product advice. Returns are compounded for periods greater than 12 months. The Investment Manager of the Company is NAOS Asset Management Limited (ABN 23 107 624 126, AFSL 273529). NAOS Address: Level 34, MLC Centre, 19 Martin Place, Sydney NSW 2000.

CORPORATE DIRECTORY

Directors

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

Company Secretary

Richard Preedy

Investment Team

Sebastian Evans (Chief Investment Officer)
Jeffrey Kim (Portfolio Manager)
Robert Miller (Portfolio Manager)
Ben Rundle (Portfolio Manager)
Chadd Knights (Investment Analyst)

Chief Financial/Operating Officer

Richard Preedy

Business Development Manager

Julia Stanistreet

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ENQUIRIES

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