

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

FEBRUARY 2015

COMPANY OVERVIEW

Investment Objective

The NAOS Absolute Opportunities Company (ASX: NAC) provides investors with exposure to domestic and international companies in a manner which has low correlation to broader equity market movements. The Company seeks to pay a minimum yield of 4.00% p.a., franked to the maximum extent possible. The Company seeks to generate income for investors through a concentrated long/short portfolio structure.

Investment Process

A unique 5 step investment process that places a strong emphasis on long term industry dynamics, management team capabilities and a 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 0-30 positions) of high quality ASX and internationally listed companies across a wide range of industries which investors may have otherwise limited exposure to. The Company has adopted a concentrated, absolute return, long/short strategy placing primary focus on generating positive absolute returns and not relative outperformance in all market conditions.

Inception Date: 12th November 2014

Benchmark: RBA Cash Rate + 250bps

**Shares on Issue (ASX: NAC):
21,500,000**

**Listed Options on Issue Exercisable
at \$1.00 Prior 30th November 2016
(ASX: NACO): 21,500,00**

**Dividend Yield: Targeted Minimum
4.00% p.a.**

Net Tangible Asset Value Breakdown as at 28th February 2015 (NTA Diluted for Remaining NACO Options)

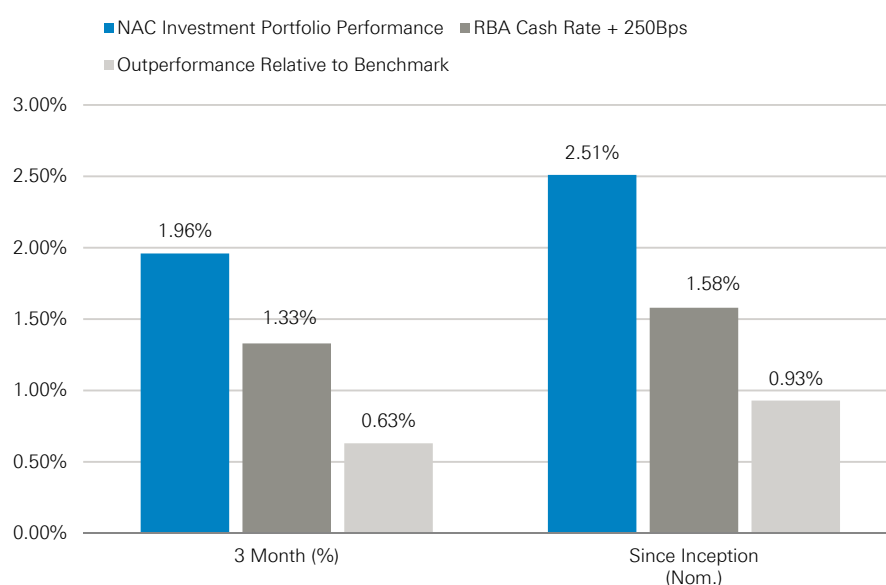
Pre Tax NTA:	\$1.02 (\$1.01)
Post Tax & Pre Unrealised Gains Tax:	\$1.02 (\$1.01)
After Tax NTA:	\$1.01 (\$1.01)

Investment Portfolio Performance to 28th February 2015

NAC's Investment Portfolio posted a positive return for the month of February of +0.88% compared positively to the benchmark return of +0.40% (RBA Cash Rate + 250 Basis Points). This result was driven by a muted performance of the AUD/USD which was flat over the period and a slight outperformance of the long positions relative to the short positions. The Company remains relatively defensive as domestic and global equities remain at heightened levels relative to the amount of capital risk investors are exposing themselves to over the longer term.

	3 Month	Since Inception (Nominal)
NAC Investment Portfolio Performance*	+1.96%	+2.51%
Benchmark (RBA Cash Rate + 250bps)	+1.33%	+1.58%
Performance Relative to Benchmark	+0.63%	+0.93%

*Investment Portfolio Performance is post all operating expenses, before fees and taxes.

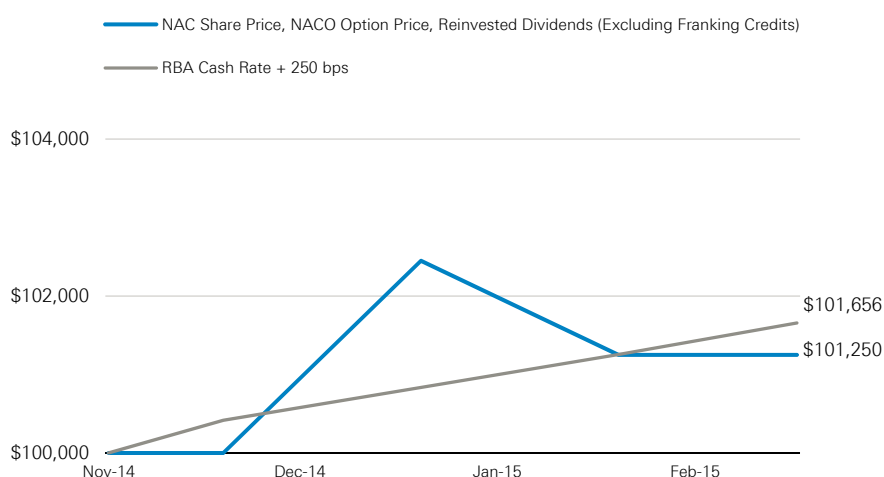


Positive Stock Attribution Analysis (12th November 2014 to 28th February 2015)

Below is a table which lists the top positive contributors to NAC total return since inception. The purpose of the table 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 0-30 securities at any one time. All of the below may either of been a long or short position.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
USD ETF	+2.44%	Reece Australia Limited	+0.42%
Iselect Limited	+1.02%	Macquarie Atlas Roads	+0.39%
National Australia Bank	+0.76%	Amalgamated Holdings	+0.28%
Village Roadshow	+0.58%	Steadfast Group	+0.27%

Shareholder Return Analysis (IPO Investors)



Portfolio Characteristics

Total Number of Equity Holdings	9
Total Number of "Income" Instruments	8
Total Number of Holdings	17
Median Market Capitalisation	\$3.07bn
Percentage of Positive Months	75% (3 out of 4)
Best Monthly Return	+2.77%
Worst Monthly Return	-1.66%

*listed and unlisted bonds, convertible notes, preference shares and other income securities – both domestic and international.

Market Insight

NAC's Investment Portfolio posted a positive return for the month of February of +0.88% compared to the absolute benchmark of +0.40% (RBA Cash Rate + 250 Basis Points).

The New Year rally continued into the month of February with the MSCI All World Index +4.79% in AUD terms. Locally, the ASX200 was even stronger posting a gain of +6.09%.

In Australia, February was reporting season for most companies. Capital management was one theme generally well rewarded which involved share buybacks from the likes of Amcor, Fairfax Media, Nine Entertainment, Rio and Seven Group. Special dividends came from Oil Search and Tabcorp which were also well received.

One company that was punished by the market was Woolworths. Woolworths is currently battling an increase in competition from the likes of Aldi, which may threaten their traditionally high margins. A similar scenario has been playing out in the UK over the past couple of years, where the incumbent supermarket players have experienced margin compression and loss in market share following significant increases in competition. Woolworths expansion into home improvement is also facing headwinds and has left the market questioning their path to profitability in that area. We think Woolworths will continue to face challenges in the near term.

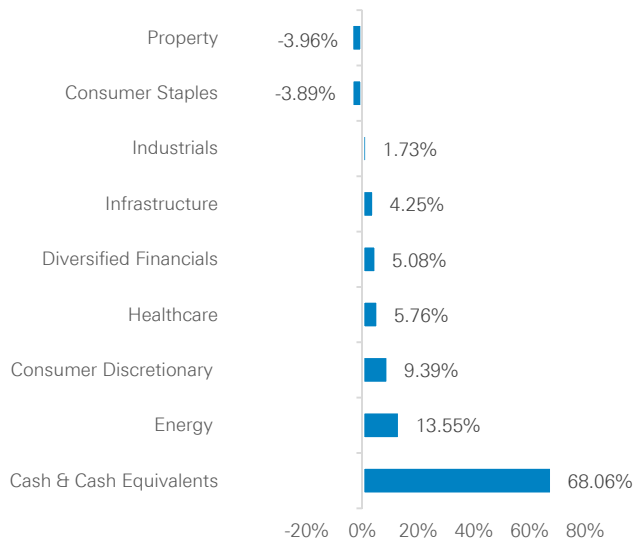
The big events in Australia for the month were reporting season as well as the RBA's decision to cut interest rates by 25 basis points to 2.25%. FY15 growth for Australian companies finished broadly in line with market expectations at +6.3%. Resources were the outperformer for the month, and energy stocks bounced as the oil price found some support.

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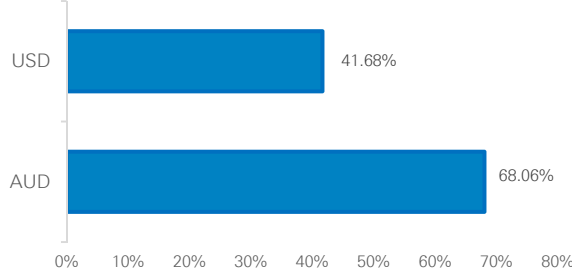
Portfolio Positioning as at 28th February 2015

Over the course of February we implemented a number of new short and long positions into the portfolio, taking the total number of holdings to 17. As a result of the new positions undertaken, the cash position in the portfolio fell slightly and we increased our weightings to income securities. On the long side reporting season produced a number of good results with REH and ISU reporting strong results. On the short side NAC continues to focus on companies that are being used as proxies for term deposits and where investors are not adequately being paid for the potential capital risk they are taking over the longer term. We continue to look to capitalise on the macro themes of a falling Australian dollar and the effect of lower interest rates on the Australian and also global consumer.

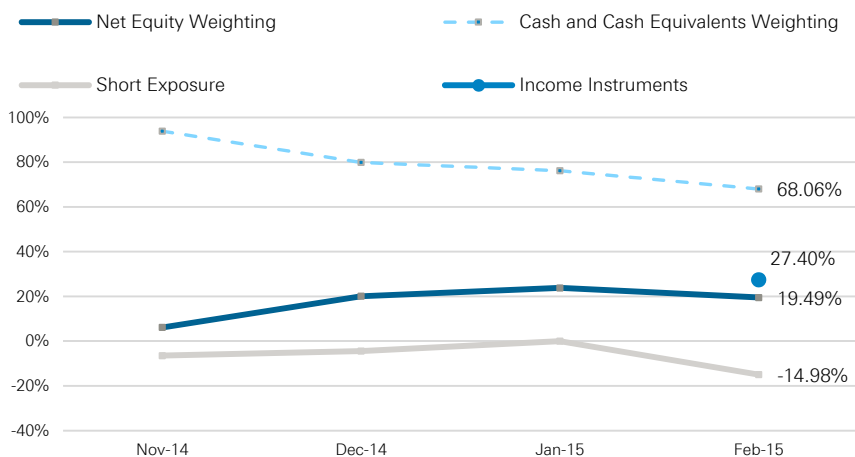
Industry Exposure (Equity & Income Instruments)



Currency Exposure



Net Equity Exposure



Market Insight Cont...

Globally, European markets were very strong after the ECB's launch of Quantitative Easing saw asset prices well supported. In the US, markets were also strong although lagged global indices on speculation of an increase in interest rates. Below is a chart showing the performance of some of the major global indices over the month of February. France (Yellow), Japan (Green), China (Blue) and Australia (Orange) were the four best performers with Germany (White), US (Red), the UK (Light orange) and Hong Kong (pink) the laggards.



Source: Bloomberg

The focus of the NAOS Absolute Opportunities Company is to protect and grow capital in both rising and falling global markets. To achieve this we run a balanced portfolio consisting of both long and short positions and as a result if markets stage an aggressive rally, as we have seen over the past two months, we will expect to underperform against them. Conversely, if global markets sell off, we expect to outperform. The markets are always most susceptible to events that no one sees coming. To borrow a quote from Warren Buffett's recent annual letter;

"Though practically all days are relatively uneventful, tomorrow is always uncertain. (I felt no special apprehension on December 6, 1941 or September 10, 2001.) And if you can't predict what tomorrow will bring, you must be prepared for whatever it does." Warren Buffett

In a low interest rate environment, such as the one we are currently experiencing, stocks can trade in a manner that does not support underlying fundamentals in a reach for yield. If investors are not getting the returns they require from their term deposits, assets are often redeployed into other asset classes such as publicly listed stocks. The result can cause share prices to wildly diverge from underlying fundamentals. NAOS takes a disciplined approach to not get caught up in this herd mentality behaviour. Instead we focus on opportunities where we believe the underlying value of the stock is not fully reflected in the share price.

Company Meetings

The NAOS investment philosophy is based around the belief that for a 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 contact with many listed and unlisted companies across a wide range of industries. During Reporting Season, the Investment Team engaged with over 100 unlisted and listed companies, a broad selection of those met with is provided as follows.

- Gilead Sciences Inc (GILD)
- Tox Free Solutions Limited (TOX)
- Cochlear Limited (COH)
- Seven West Media Limited (SWM)
- APN News & Media (APN)
- HFA Holdings (HFA)
- Virtus Health Limited (VRT)
- Shopping Centres Australasia Property Group (SCP)
- Suncorp Group Limited (SUN)
- Dick Smith Holdings Limited (DSH)
- Cardno Limited (CDD)
- Amalgamated Holdings Limited (AHD)
- Ardent Leisure Group (AAD)
- Blackmores Group (BKL)
- Macquarie Group Limited (MQG)
- Insurance Australia Group Limited (IAG)
- Sirtex Medical Limited (SRX)
- Carsales.com (CRZ)
- Infomedia Limited (IFM)
- Burson Group Limited (BAP)
- Breville Group Limited (BRG)

Disclaimer:

This report has been prepared by NAOS Asset Management Ltd. Information retained in this report does not represent 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 the offer documents and should seek their own financial product advice. Information in this report has been given in good faith. Returns are compounded for periods greater than 12 months. The Investment Manager of the Company is NAOS Asset Management Ltd (ABN 23 107 624 126, AFSL 273529). NAOS Address: Level 4 Domain House, 139 Macquarie Street Sydney NSW 2000. NAOS Telephone: 61 2 9947 2566

CORPORATE DIRECTORY

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Warwick Evans (Director)
Sebastian Evans (Director)

Company Secretary

Lawrence Adams
Investment Team
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Jeffrey Kim (Portfolio Manager)
Robert Miller (Portfolio Manager)
Ben Rundle (Portfolio Manager)

Business Development

Anneke Senden

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