

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

August 2016

KEY CHARACTERISTICS

1. Domestic & Global Long/Short Exposure with a Long Term Value Focus

NAC invests in equities listed domestically and globally in a concentrated long short structure. NAC has the advantage of being able to invest not only in undervalued companies but also to short sell companies that the investment team believe are overvalued on a long term investment horizon.

2. Positive Absolute Return Focus

The primary focus of the Company's investment strategy is the preservation of shareholder's capital and the generation of meaningful absolute returns with a lower downside volatility than traditional equity focused managed funds. NAC offers investors the opportunity to derive a targeted minimum dividend of 4% p.a., which will be franked to the maximum extent possible.

3. Focus on Meaningful Long Term Performance

Investment opportunities are assessed based on their potential to generate meaningful long term performance. Of primary consideration is quality rather than quantity, resulting in a concentrated portfolio of 'Best Ideas' (typically 0-30 holdings).

4. Ability to Hold +100% in Cash

It has been proven that holding cash offers the 'best hedge' during times of crisis. Holding cash also provides flexibility and nimbleness to take advantage of security mispricing opportunities as and when they arise.

5. Significant Alignment of Interests with Shareholders

NAOS employees/directors own a significant amount of shares and options in NAC. Staff are remunerated on the basis of the performance of the firm's investment vehicles through the application of a Performance Based Fee.

Net Tangible Asset Value Breakdown as at 31st August 2016

Pre Tax NTA:	\$1.25
Post Tax & Pre Unrealised Gains NTA:	\$1.24
Post Tax NTA:	\$1.19
Pre Tax NTA (Full Exercise of NACO):	\$1.18
Share Price:	\$1.06

Investment Portfolio Performance to 31st August 2016 & Market Insight

The NAC investment portfolio produced a return of +5.01% for the month of August which brings the nominal return to +54.95% in 22 months of operations. The performance in the portfolio came from a number of long positions, with MNF Group specifically releasing an excellent set of financial results. MNF Group is the largest holding within the fund and is a leading provider of Voice over Internet Protocol (VoIP) software for making phone calls using the internet, rather than on a traditional landline. Having reviewed the result as well as discussing the key business drivers with management, we remain confident in the long-term prospects of the business.

Pleasingly through the month of August a significant majority of the underlying holdings performed to the investment team's expectations with no significant detractors to the performance of the overall portfolio. In what could be seen as a surprise many of the companies within the mid-cap space have been able to grow not just the profitability of their respective businesses but also the revenue base organically. This puts these companies on an excellent footing heading into FY17 with the ability to drive earnings growth through revenue expansion, which we believe will continue to be a key focus of the market. Companies that can't deliver organic revenue growth will suffer, as businesses such as SPO, GEM and PTM have shown.

NAC also released its results in August, and we were pleased to declare a fully franked dividend of \$0.025 after a successful FY16. NAC shares will go ex-dividend on the 11th November allowing NACO holders to exercise their options prior to this date and be entitled to the declared dividend. Finally, all holders with NACO listed options are reminded that these options expire on the 30th of November 2016.

	1 Month	3 Month	6 Month	1 Year	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	+5.01%	+8.44%	+25.86%	+43.39%	+27.52%	+54.95%
Benchmark (RBA Cash Rate + 250bps)	+0.38%	+1.14%	+2.38%	+4.81%	+4.91%	+9.03%
Relative Performance	+4.63%	+7.30%	+23.48%	+38.58%	+22.61%	+45.92%

S&P/ASX All Ordinaries Accumulation Index (XAOAI)	-1.33%	+2.49%	+14.25%	+10.72%	+5.27%	+9.70%
MSCI ACWI (Net, Dividends Reinvested, AUD Terms)	+1.40%	+0.14%	+8.25%	+1.60%	+10.43%	+19.56%

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

Positive Stock Attribution Analysis

(Attribution is what has contributed to NAC’s performance since Inception of 12th November 2014) (12th November to 31st August 2016)

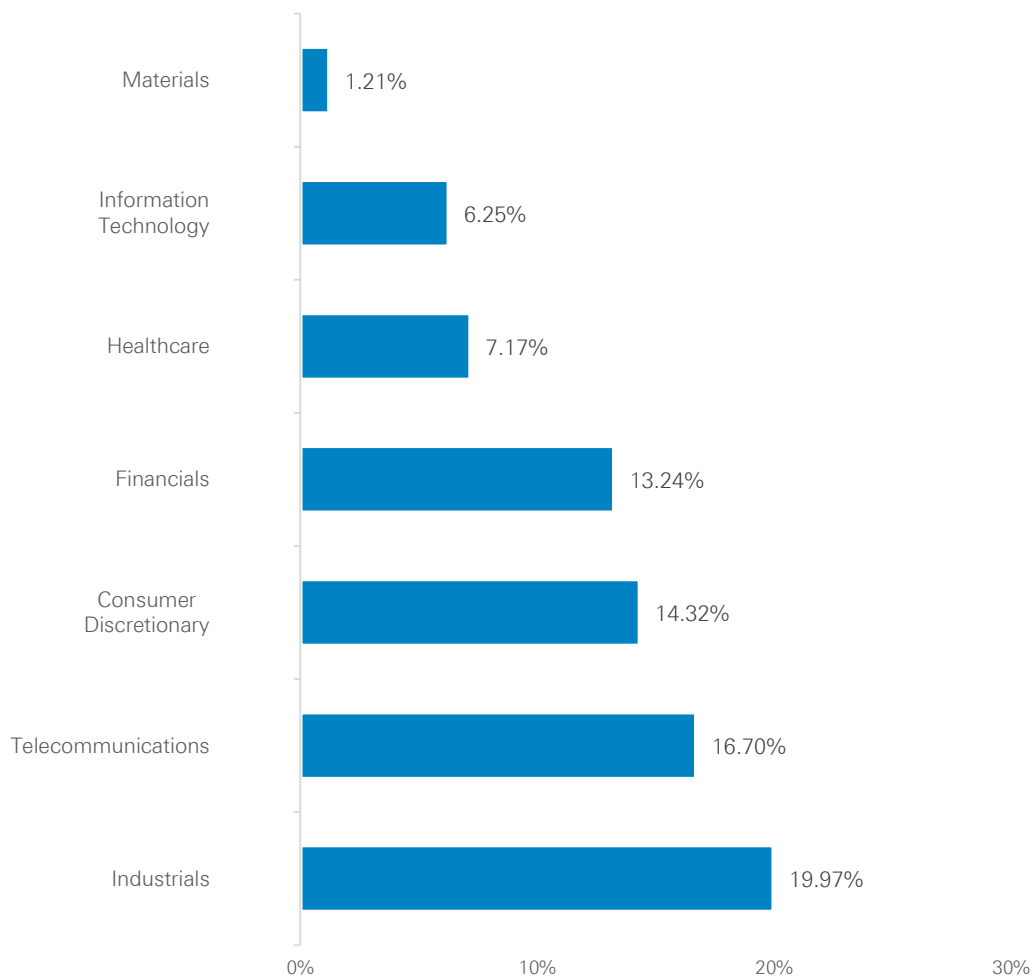
Below is a table listing the top positive contributors to NAC’s total return since inception. The purpose of the table is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio of investments that is generally limited to 0-40 securities at any one time. Positions in the table below may have been held **either as a long position or short position at any given point in time.**

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
US Dollar	+9.51%	Smartgroup	+4.74%
BSA Ltd	+4.99%	Enero Group	+4.05%
Sirtex Medical	+4.89%	1-Page Ltd	+3.81%
Event Hospitality	+4.82%	MNF Group	+3.58%

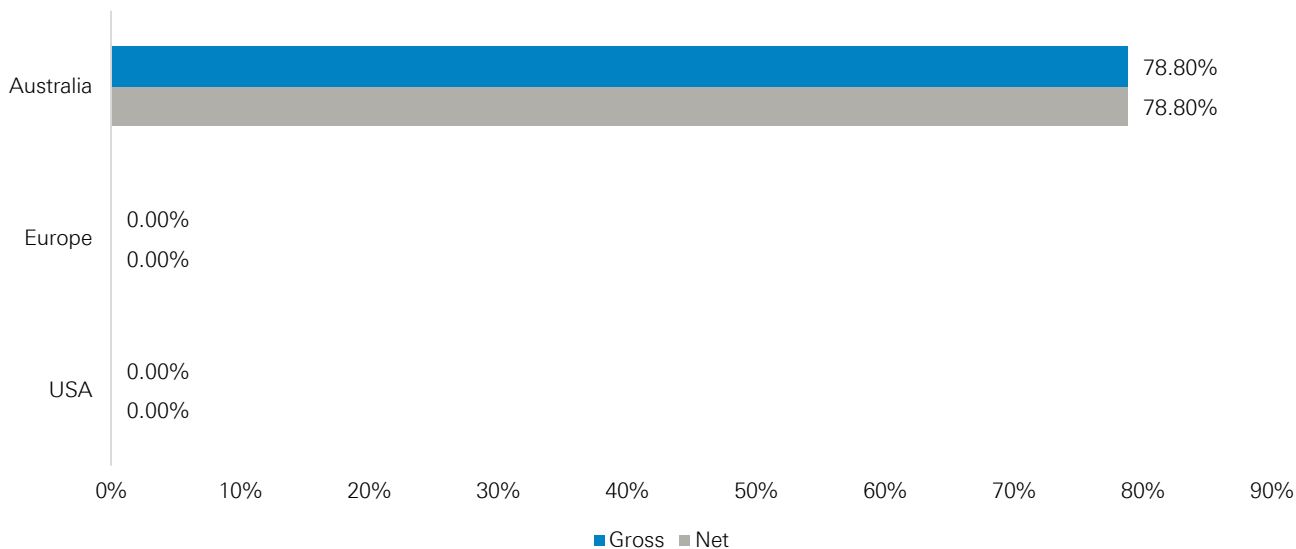
Portfolio Positioning as at 31st August 2016

As at 31st August the portfolio comprised of 17 holdings, all of which were long positions. We held no short positions or income instruments as at end of month.

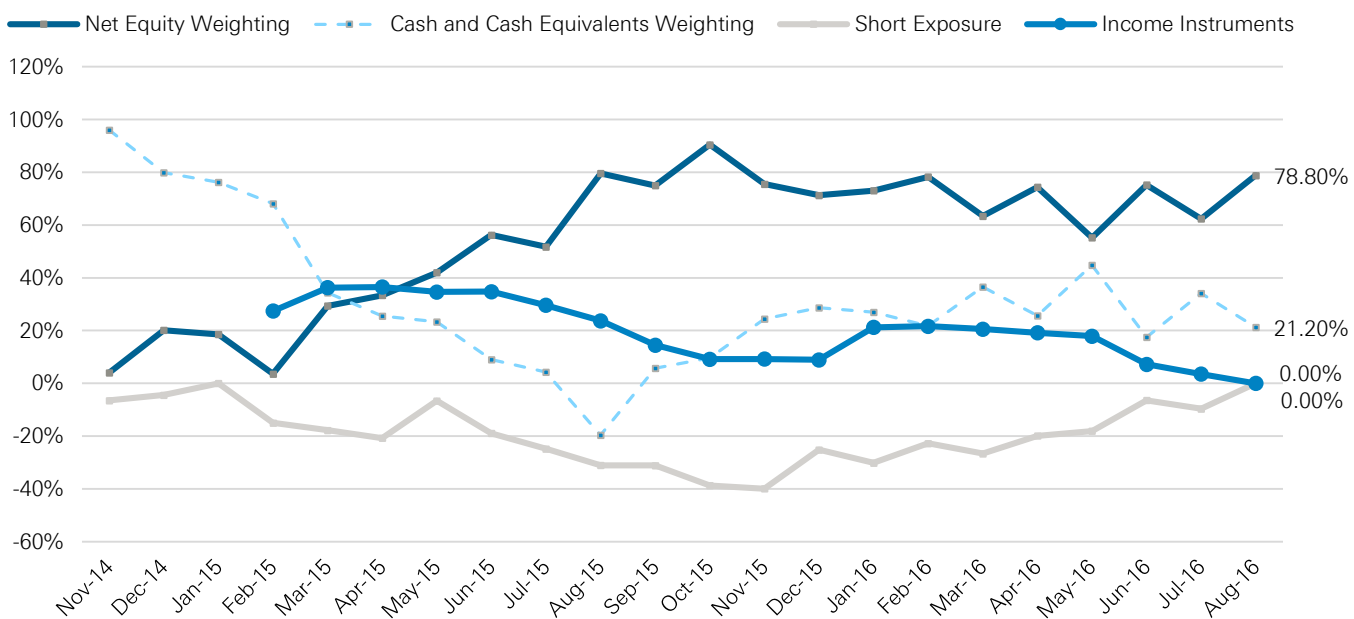
Net Industry Exposure



Geographical Equity Exposure



Net Equity Exposure



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 NAOS Investment Team has contact with many listed and unlisted companies across a wide range of industries and geographies. A selection of the unlisted and listed companies the team had contact with during the month of August were as follows:

- Costa Group (CGC AU)
- Eneo Group (EGG AU)
- McMillan Shakespeare (MMS AU)
- MNF Group (MNF AU)
- Service Stream (SSM AU)
- APN Outdoor (APO AU)
- Beacon Lighting (BLX AU)
- Sirtex Medical (SRX AU)
- Pacific Smiles (PSQ AU)
- Ardent Leisure (AAD AU)

Portfolio Characteristics – Summary Data as at 31st August 2016

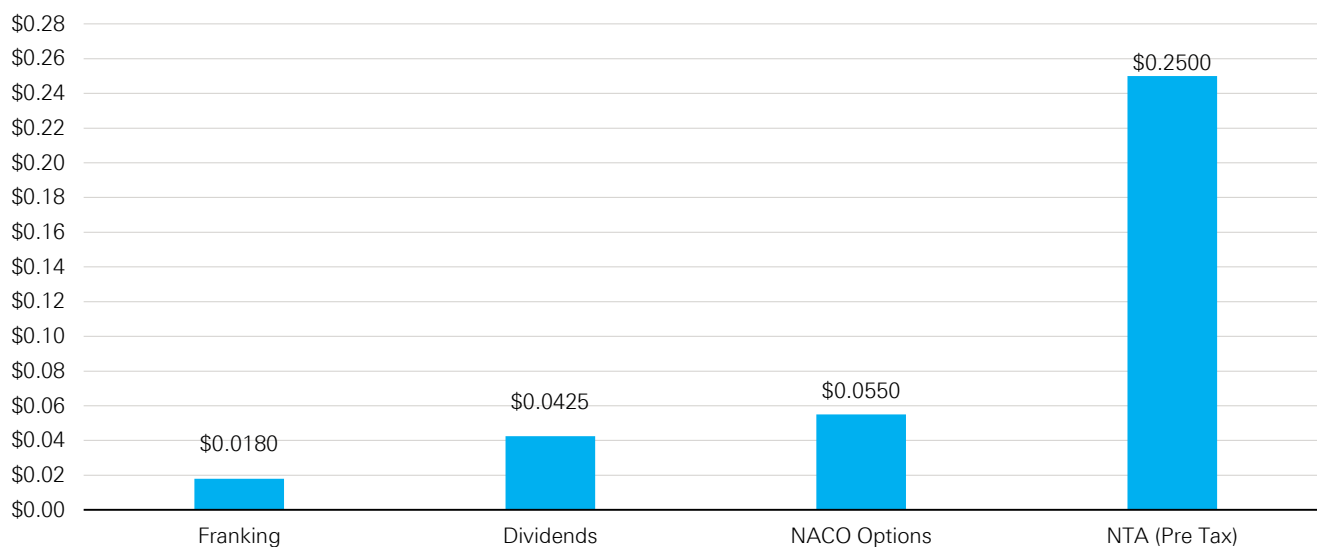
Total Number of Equity Holdings (Long & Short)	17
Total Number of Income/Debt Instruments*	0
Total Number of Holdings	17
Portfolio Weighted Market Capitalisation (AUD)	\$300.8m
Percentage of Positive Months (NAC)	73%
Percentage of Positive Months (XAOAI)	50%
Standard Deviation of Returns (NAC)	9.68
Standard Deviation of Returns (XAOAI)	13.23
Correlation of Returns to XAOAI	54.87%
Sortino Ratio	13.76
Downside Deviation (NAC)	2.00
Downside Deviation (XAOAI)	7.52
Current Estimated Portfolio Beta	0.2073

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

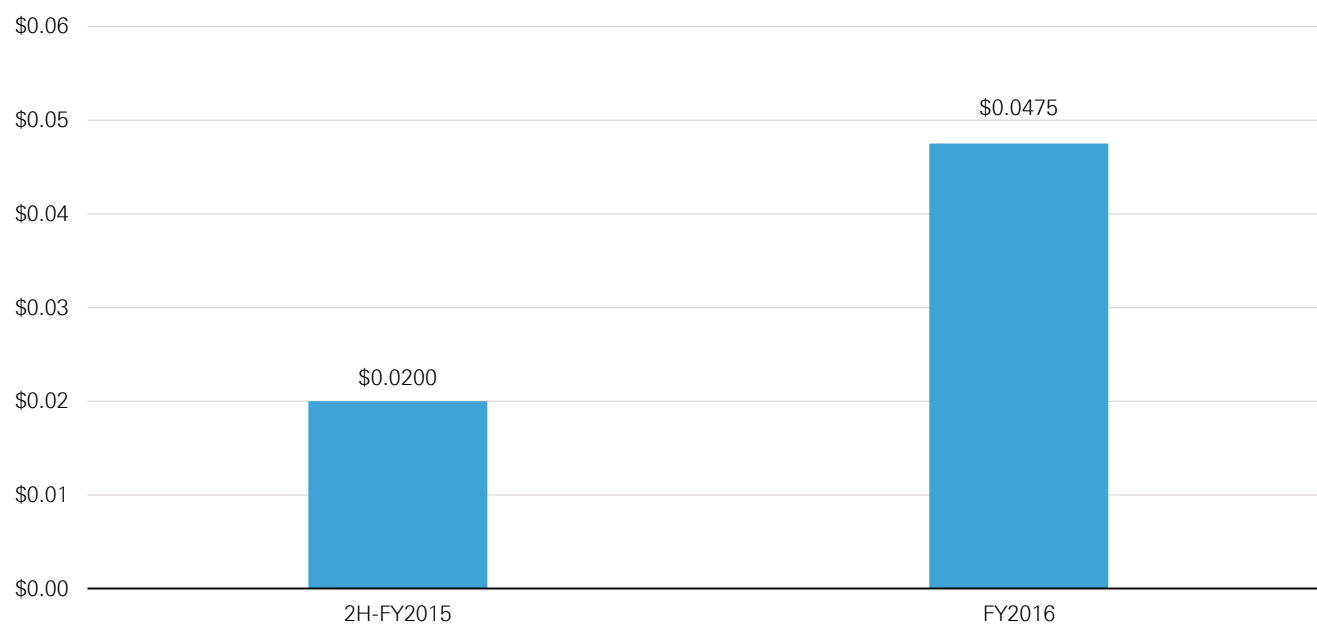
Capital Management - Summary Data as at 31st August 2016

Share Price	\$1.06
Share Price Discount/Premium to NTA (Undiluted, Pre-Tax)	-15.20%
Historical Fully Franked Dividend Yield	4.48%
Historical Gross Dividend Yield	6.40%
Shares on Issue	29,398,750
Options on Issue	13,601,250
Directors Shareholding	2,799,328

Historical Shareholder Return Breakdown



Dividend Profile – Historical Fully Franked Dividends (Cents per share)



Description of Statistical Terms/Glossary

Portfolio Weighted 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 securities move in relation to each other. In this case the two securities are NAC and XAOAI. If the correlation is 1 then the two securities should have the same monthly returns and if the correlation is -1 and XAOAI had a return of -1.00% then NAC 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 may potentially indicate that there is a low probability of a large capital loss.

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.

XAOAI – All 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. NAOS Telephone: 61 2 9002 1576

CORPORATE DIRECTORY

Directors

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

Company Secretary

Julie Coventry

Investment Team

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

Chief Financial/Operating Officer

Richard Preedy

Business Development

Julia Stanistreet

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ENQUIRIES

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