

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

June 2017

KEY CHARACTERISTICS

1. Concentrated Mid-Cap Exposure with a Long Term Value Focus

NAC seeks to provide investors with exposure to high quality, undervalued mid-cap companies (market capitalisation generally >\$250 million to <\$1 billion) with an industrial bias in a concentrated structure. Our core focus is the generation of meaningful returns with a better risk profile than traditional equity focused managed funds.

2. Sustainable Growing Fully Franked Dividends

NAC's dividend has grown every year since inception with dividends usually paid on a six-monthly basis. To date all dividends have been fully franked.

3. Focus on Quality of Companies Not Quantity

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 (typically 0-30) of high quality investment ideas. NAC has the ability to selectively short sell companies that the investment team believe are overvalued and of poor quality.

4. Portfolio Flexibility with a Benchmark Unaware Approach

This means we are not forced holders of stocks with large benchmark/index weightings that we are not convinced are attractive investment propositions. NAC can also hold up to 100% cash, it has been proven that holding cash offers the 'best hedge' during times of crisis.

5. Significant Alignment of Interests with Shareholders

NAOS employees/directors own over 7 million NAC shares, providing a significant alignment of interests.

Net Tangible Asset Value Breakdown as at 30 June 2017

Pre Tax NTA:	\$1.08
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.10
Post Tax NTA:	\$1.07
Share Price	\$1.035
Historical Fully Franked Dividend Yield	4.83%

Investment Portfolio Performance & Market Insight

The NAC Investment Portfolio increased by +0.65% for the month of June 2017 compared to the absolute benchmark which returned +0.35% and the All Ordinaries Accumulation Index (XAOAI) which increased by +0.28%. This brings the inception return for NAC over the past 2 years and 8 months to 51.66% or 17.15% p.a.

The end of June brought with it the end of the 3rd financial year for the NAC Investment Portfolio. For FY2017 the NAC Investment Portfolio returned +6.69%. For the last three financial years, the Investment Portfolio has returned +9.24% in FY2015 (7.5 months), +30.14% in FY2016 and +6.69% in FY2017. The FY2017 financial year was made up of two distinct halves. The return for the first half of the financial year was +10.01% whilst the return for the second half of the year was negative -3.02%.

One key positive that was clear in the breakdown of the underlying performance figures was that no single position contributed negatively to the total return of the portfolio by more than approximately -2%. This highlights the ability of the investment team to protect capital in their investment decisions. What detracted from the overall performance of the financial year was the inability of our key core long positions to perform as strongly as expected, albeit in a mid-cap market that has been under significant pressure all year.

The key positive contributors for the Investment Portfolio for FY2017 were Gentrack Group (ASX: GTK), MNF Group (ASX: MNF), Elders (ASX: ELD) and Consolidated Operations Group (ASX: COG) all of which contributed approximately 2% to overall performance for the year. It was also pleasing to see that a number of small short positions contributed positively to portfolio performance throughout the year.

A number of the core positions finished near or on their 12-month lows at the end of the financial year but we believe these still represent excellent risk adjusted long-term value opportunities. A continued emphasis will still be placed on companies with excellent cash flow generation, which we believe possess a sustainable competitive advantage through reinvestment, proven and aligned management teams, and balance sheets that give the company flexibility over the short to long term. The ability of the investment team to cut their losses and protect capital will dictate the performance of the Investment Portfolio over the long term.

	1 Month	6 Month	1 Year	2 Year (p.a.)	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	+0.65%	-3.02%	+6.69%	+17.83%	+17.15%	+51.66%
Benchmark (RBA Cash Rate + 250bps)	+0.35%	+2.14%	+4.39%	+4.84%	+4.73%	+12.94%
Relative Performance	+0.30%	-5.16%	+2.30%	+12.99%	+12.42%	+38.72%
S&P/ASX All Ordinaries Accumulation Index (XAOAI)	+0.28%	+2.89%	+13.12%	+7.41%	+6.60%	+18.32%

*Investment Portfolio performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions.

Positive Stock Contribution Analysis

(Contribution is what has attributed to NAC’s performance since Inception of 12 November 2014)

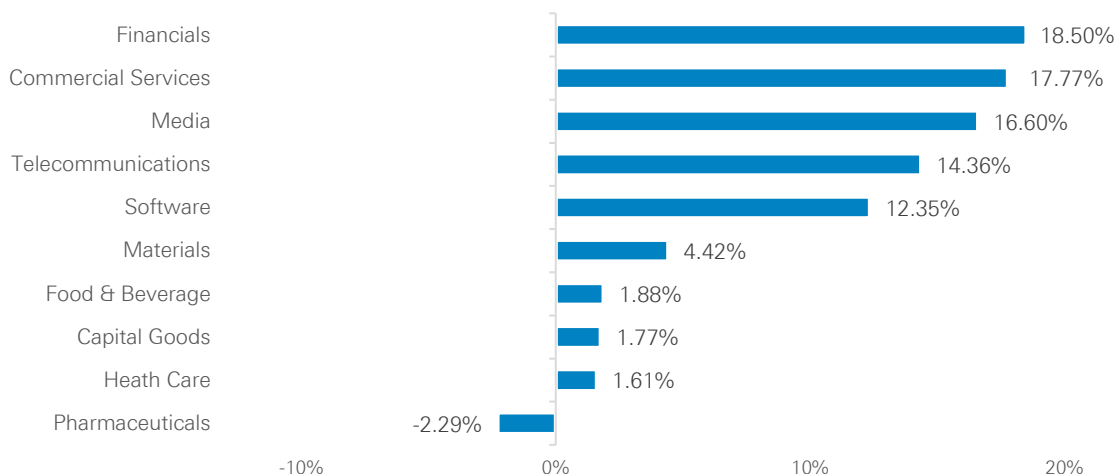
The table lists the top positive contributors to NAC’s total return since inception. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio of investments that is generally limited to 0-30 securities at any one time. Positions in the table 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)
US Dollar	+9.21%	Smart Group	+4.24%
Event Hospitality	+4.84%	1- Page Ltd	+3.71%
BSA Ltd	+4.47%	Bellamy’s Australia	+3.33%
MNF Group	+4.28%	Enero Group	+2.81%

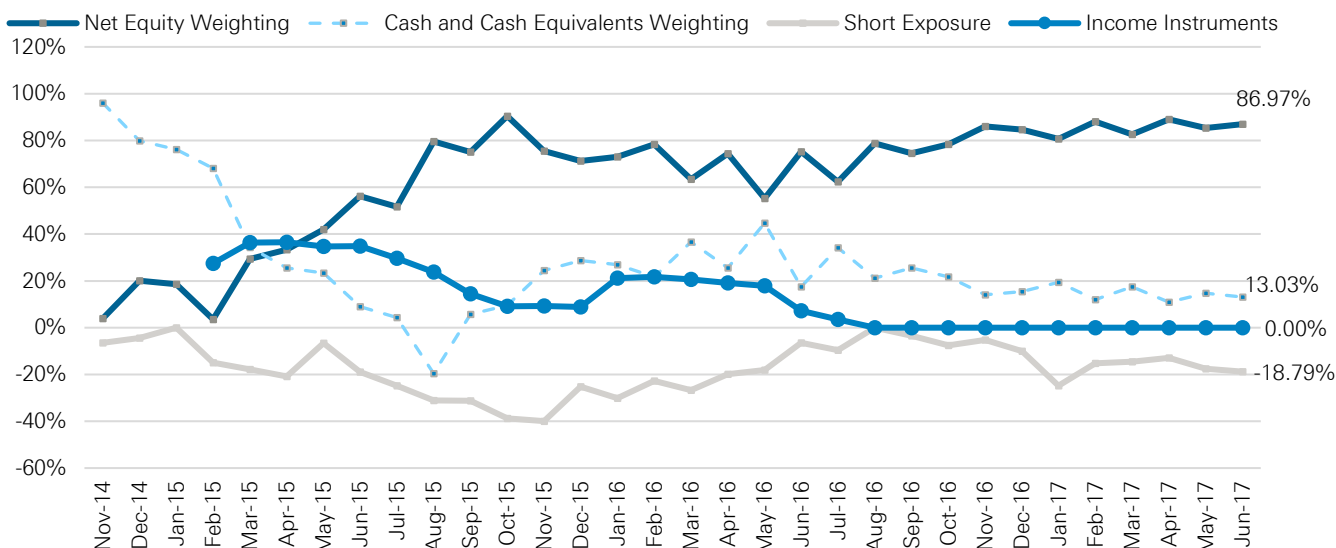
Portfolio Analysis as at 30 June 2017

As at 30 June 2017 the portfolio comprised of 17 holdings, with 13 long positions and 4 short positions.

Net Industry 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 were as follows:

- Pengana Capital Ltd (PCG AU)
- PMP Ltd (PMP AU)
- Smartgroup Corporation (SIQ AU)
- Technology One Ltd (TNE AU)
- WPP AUNZ Ltd (WPP AU)
- Trilogy International Ltd (TIL AU)
- Bingo Industries Ltd (BIN AU)
- Consolidated Operations Group (COG AU)
- Billabong International Ltd (BBG AU)
- Collins Foods Ltd (CKF AU)
- Macquarie Telecom Ltd (MAQ AU)
- Guardian Childcare (Unlisted)

Portfolio Characteristics – Summary Data as at 30 June 2017

Below are a number of historical portfolio risk measures. Our aim in providing these metrics is to demonstrate to investors how NAC 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.

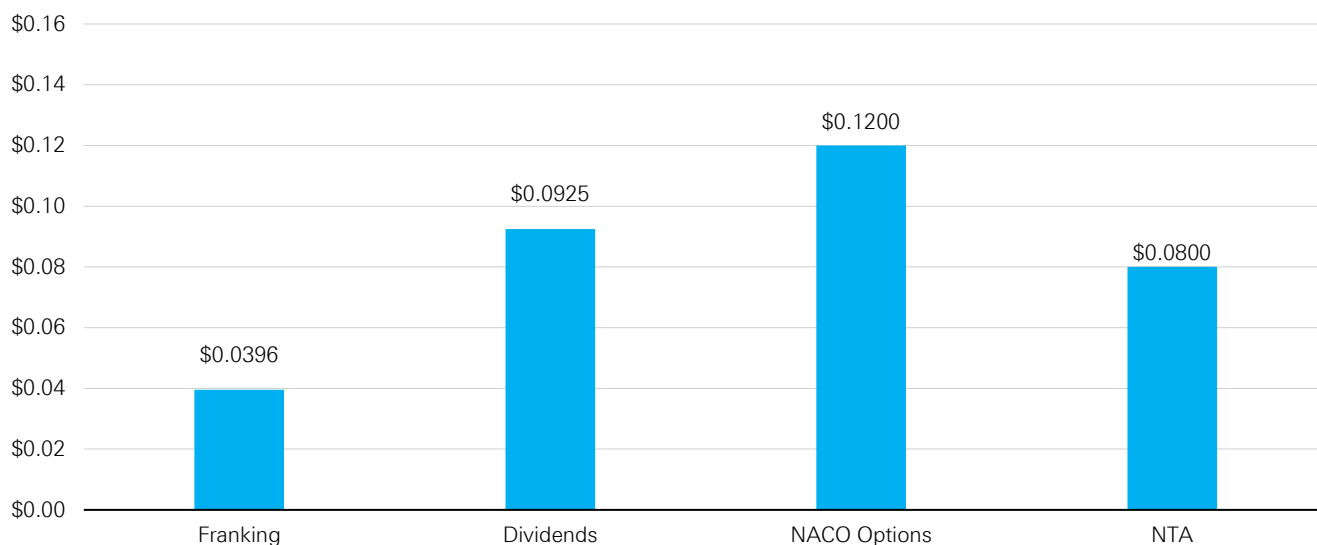
Total Number of Equity Holdings (Long & Short)	17
Total Number of Income/Debt Instruments*	0
Portfolio Weighted Market Capitalisation (AUD)	\$351.4m
Percentage of Positive Months (NAC)	63%
Percentage of Positive Months (XAOAI)	56%
Standard Deviation of Returns (NAC)	9.53%
Standard Deviation of Returns (XAOAI)	11.72%
Correlation of Returns to XAOAI	0.39
Sortino Ratio	5.65
Downside Deviation (NAC)	3.04%
Downside Deviation (XAOAI)	6.91%
Current Estimated Portfolio Beta	-0.05

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

Capital Structure - Summary Data as at 30 June 2017

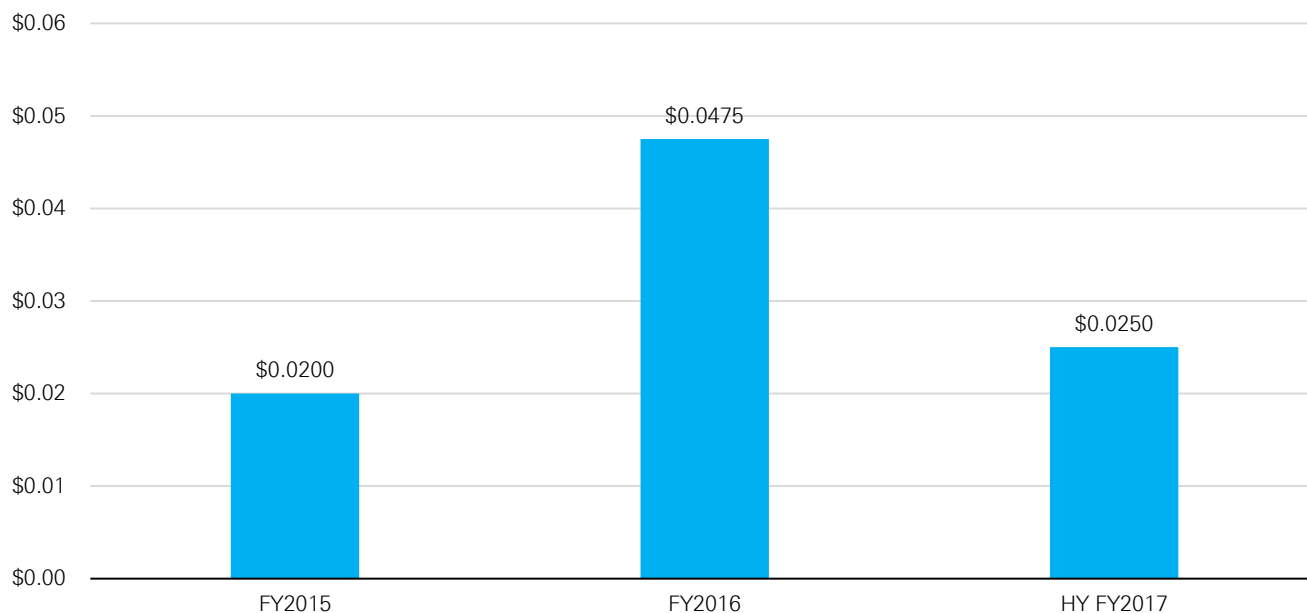
Share Price	\$1.035
Share Price Premium/(Discount) to Pre-Tax NTA	(-4.17%)
Shares on Issue	52,536,889
Directors Shareholding	6,693,760

Historical Shareholder Return Breakdown



*Assumes an intrinsic NACO value of \$0.1200 cents per option at expiry (30 November 2016).

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 Manager

Julia Stanistreet

Communications & Marketing

Megan Walker

Share Registry

Boardroom Pty Limited
12/225 George Street
Sydney NSW 2000
Telephone: 1300 737 760
Facsimile: 1300 653 459

Investment Manager

NAOS Asset Management Limited
Level 34, MLC Centre
19 Martin Place
Sydney NSW 2000
(AFSL: 273529)

Auditor

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

Registered Office

Level 34, MLC Centre
19 Martin Place
Sydney NSW 2000

ENQUIRIES

Julia Stanistreet

Telephone: (02) 9002 1576
Email: jstanistreet@naos.com.au

Megan Walker

Telephone: (02) 9002 1577
Email: mwalker@naos.com.au
Email: enquires@naos.com.au

www.naos.com.au