

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

July 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 31 July 2017

Pre Tax NTA:	\$1.07
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.09
Post Tax NTA:	\$1.07
Share Price	\$1.05
Historical Fully Franked Dividend Yield	4.76%

Investment Portfolio Performance & Market Insight

The NAC Investment Portfolio fell by -0.54% for the month of July 2017 compared to the absolute benchmark which returned +0.36% and the All Ordinaries Accumulation Index (XAOAI) which increased by +0.18%. This brings the inception return for NAC over the past 2 years and 9 months to 50.84% or 16.34% p.a.

In a traditionally quiet month for news flow prior to reporting season, there was a pleasing development for one of our investments in the portfolio, Adacel Technologies (ASX: ADA), a manufacturer and service provider of air traffic control software, which won a \$4m contract in July. ADA develop and service the systems used for air traffic control around the globe. If you fly from Australia to the USA, the plane you are in will most likely be controlled at some point over the Pacific Ocean, as well as upon landing in the USA by ADA's systems. The company has 90% market share of the Air Traffic Control market in the USA, and have won all the major large-scale simulator deployment contracts there. In addition to the \$4m contract won this month, ADA have also announced they are in receipt of a further \$7m worth of award notifications, which remain subject to finalisation. ADA have also bid on a further \$19m worth of contracts, on which they expect to hear a decision soon.

Regarding the wider market, there continues to be a significant amount of price dispersion, especially within quasi-industrial names. What makes these movements even more intriguing is that a number of these names were considered by many fund managers to be businesses with strong business models, with significant growth prospects over the medium to long term, an example being iSentia Group (ASX: ISD). When reviewing ISD, in our view it can be differentiated from many other underperforming companies due to three main reasons. Firstly, ISD has a dominant market position with an almost monopolistic market share within the Australia and New Zealand market place. Secondly, ISD have a strong balance sheet with net debt roughly 1 times EBITDA on a deflated earnings profile. Finally, ISD have an excellent cash flow profile with little capital expenditure requirements apart from reinvesting into their software offering for their clients. Although ISD is clearly not out of the woods following the recent downgrade, commentary from both the company and other industry contacts regarding a more competitive customer proposition, potential price increases and success in winning back old clients, together with more complimentary client feedback suggests ISD may be turning the corner. This is a company that was valued at a P/E ratio of almost 24 only 2 years ago, and today it trades closer to a P/E ratio of 14 times, which in our view shows how quickly investor sentiment can change.

	1 Month	6 Month	1 Year	2 Year (p.a.)	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	-0.54%	-3.88%	+2.22%	+17.33%	+16.34%	+50.84%
Benchmark (RBA Cash Rate + 250bps)	+0.36%	+2.13%	+4.36%	+4.84%	+4.72%	+13.35%
Relative Performance	-0.90%	-6.01%	-2.14%	+12.49%	+11.62%	+37.49%

S&P/ASX All Ordinaries Accumulation Index (XAOAI)	+0.18%	+3.87%	+6.62%	+5.31%	+6.46%	+18.54%
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*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 November 2014. Returns compounded for periods greater than 12 months.

Positive Stock Contribution Analysis

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

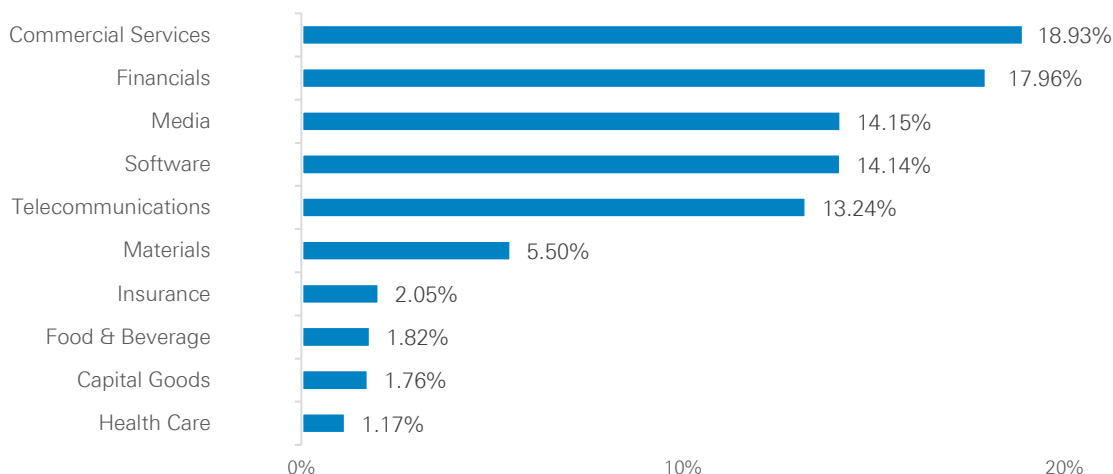
The table lists the top positive contributors to NAC’s total return since inception. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio of 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	+9.16%	Smart Group	+4.22%
BSA Ltd	+5.48%	1- Page Ltd	+3.69%
MNF Group	+5.29%	Bellamy’s Australia	+3.32%
Event Hospitality	+4.83%	Macquarie Atlas Roads	+2.58%

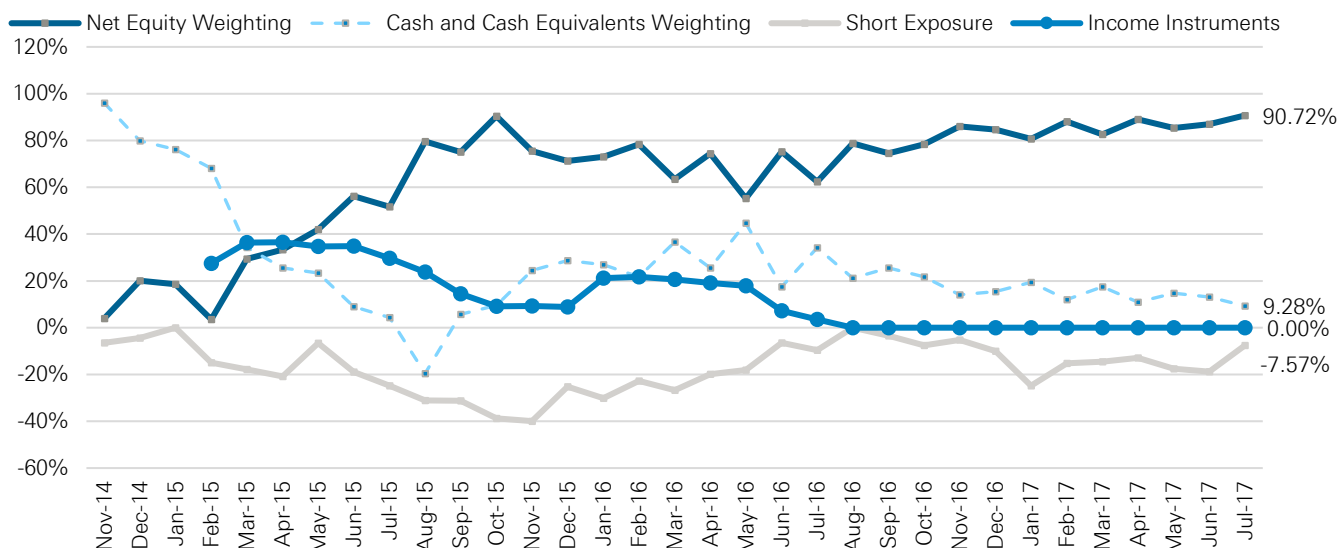
Portfolio Analysis as at 31 July 2017

As at 31 July 2017 the portfolio comprised of 17 holdings, with 15 long positions and 2 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:

- Hanson Technologies Ltd (HSN AU)
- Elders Ltd Ltd (ELD AU)
- Nextdc Ltd (NXT AU)
- Speedcast International Ltd (SDA AU)
- Bapcor Ltd (BAP AU)
- Turners Automotive Group (TRA AU)
- iSentia Group Ltd (ISD AU)
- Reckon Ltd (RKN AU)
- Clifford Thames (Unlisted)
- Convenience Retail REIT (CRR AU)
- BWX Ltd (BWX AU)
- GUD Holdings Ltd (GUD)

Portfolio Characteristics – Summary Data as at 31 July 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 investors' 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.

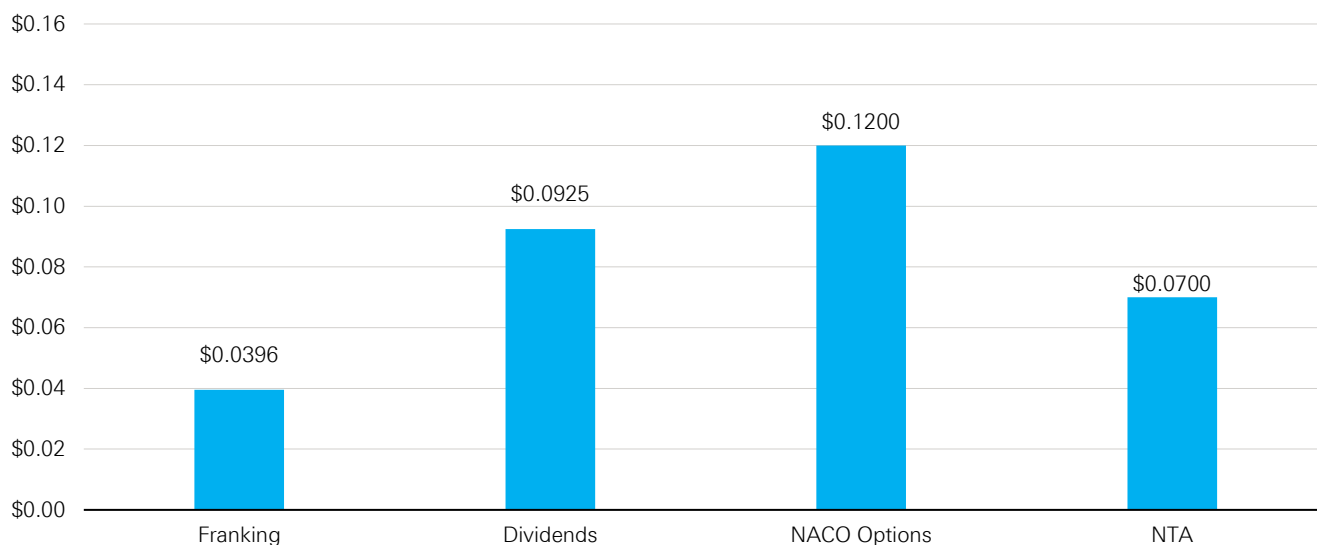
Total Number of Equity Holdings (Long & Short)	17
Total Number of Income/Debt Instruments*	0
Portfolio Weighted Market Capitalisation (AUD)	\$622.51m
Percentage of Positive Months (NAC)	61%
Percentage of Positive Months (XAOAI)	58%
Standard Deviation of Returns (NAC)	9.54%
Standard Deviation of Returns (XAOAI)	11.54%
Correlation of Returns to XAOAI	0.39
Sortino Ratio	5.41
Downside Deviation (NAC)	3.02%
Downside Deviation (XAOAI)	6.91%
Current Estimated Portfolio Beta	0.09

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

Capital Structure - Summary Data as at 31 July 2017

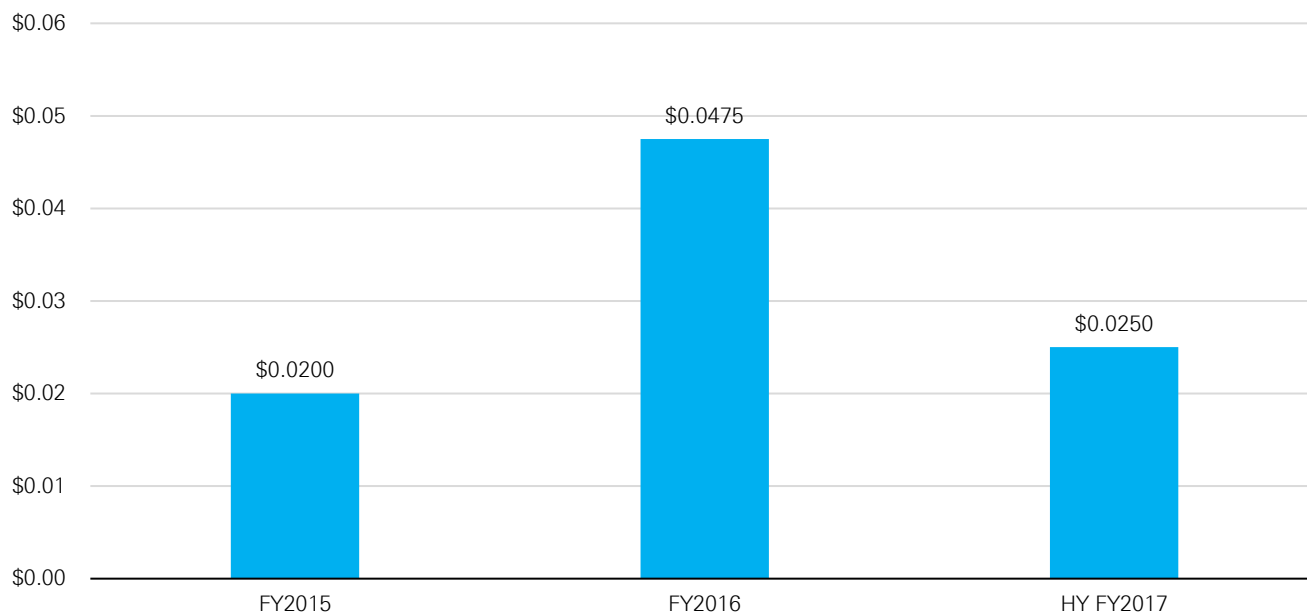
Share Price	\$1.05
Share Price Premium/(Discount) to Pre-Tax NTA	(-1.87%)
Shares on Issue	52,536,889
Directors Shareholding	6,693,760

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:

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CORPORATE DIRECTORY

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Warwick Evans (Director)
Sebastian Evans (Director)

Company Secretary

Richard Preedy

Investment Team

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Jeffrey Kim (Portfolio Manager)
Robert Miller (Portfolio Manager)
Ben Rundle (Portfolio Manager)
Chadd Knights (Investment Analyst)

Chief Financial/Operating Officer

Richard Preedy

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Rajiv Sharma

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Julia Stanistreet

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