

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

September 2017

KEY CHARACTERISTICS

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

NAC seeks to provide investors with exposure to high quality, undervalued small-mid cap companies (market capitalisation generally >\$100 million to <\$1 billion) with an industrial bias in a concentrated structure.

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 0-15) 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.

6. Environmental, Social and

Governance (ESG) NAOS adopts an ESG Screen across all our investments.

Net Tangible Asset Value Breakdown as at 30 September 2017

Pre Tax NTA:	\$1.09
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.11
Post Tax NTA:	\$1.08
Share Price	\$1.005
Historical Fully Franked Dividend Yield	4.98%

Investment Portfolio Performance & Market Insight

***Please join us for the NAOS National Investor Roadshow this October. If you would like to attend, please register your attendance on our website or contact us directly on (02) 9002 1577 or enquiries@naos.com.au**

For the month of September, the NAC Investment Portfolio increased by +1.22% compared to the absolute benchmark which increased by +0.35%. This brings the inception performance of the Investment Portfolio to +53.83% compared to +14.14% for the Benchmark over 2 years and 10 months. There were notable announcements from two companies held within the NAC portfolio during the month, namely Gentrack Group (ASX: GTK) and Adacel Technologies (ASX: ADA).

Firstly, GTK revised earnings expectations upwards from previous guidance by circa +20%. The main reasons for the upgrade include the successful integration of the recent acquisitions, and continued strong tailwinds within the segments that GTK operates in, namely utility and airport operators. GTK still exhibits strong long-term value characteristics with annuity type revenue, a net cash balance sheet and excellent cash flow conversion.

ADA announced the successful tender of two contracts, one with the Sri Lankan Civil Aviation Training Centre, and the other with Leidos under the Federal Aviation Administration's (FAA) Advanced Technologies and Oceanic Procedures (ATOP) Program. While the financial details of the Sri Lankan contract have not been disclosed, the new ATOP contract (ATOP is ADA's largest and longest-running contract dating back to 2000 with annual revenues of \$12m) represents an increase in revenue of 20% on an annualised basis compared to 2017.

Finally, NAC has recently entered into a new core position being Moelis Australia (ASX: MOE). MOE exhibits many of the hallmarks that NAOS seeks to identify within companies we invest in. This includes management track record and alignment (staff own >65%), and balance sheet flexibility. MOE have a strong balance sheet with approximately \$150 million of net cash, a significant competitive advantage of being able to originate deals internally as well as fund any transaction internally without the reliance of external funders and their respective hurdles. Over the longer-term MOE is seeking to build a large funds management business in alternative sectors, such as aged care and real estate. At face value it may look expensive, but as companies such as Magellan Financial (ASX: MFG) and Platinum (ASX: PTM) have shown us, these are very scalable businesses whereby the earnings can often lag the share price for many years, especially as funds under management are growing.

	1 Month	6 Month	1 Year	2 Year (p.a.)	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	+1.22%	-0.85%	-4.39%	+18.14%	+16.11%	+53.83%
Benchmark (RBA Cash Rate + 250bps)	+0.35%	+2.14%	+4.33%	+4.84%	+4.70%	+14.14%
Relative Performance	+0.87%	-2.99%	-8.72%	+13.30%	+11.41%	+39.69%

S&P/ASX All Ordinaries Accumulation Index (XAOAI)	+0.05%	-0.53%	+8.53%	+11.23%	+6.39%	+19.54%
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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)

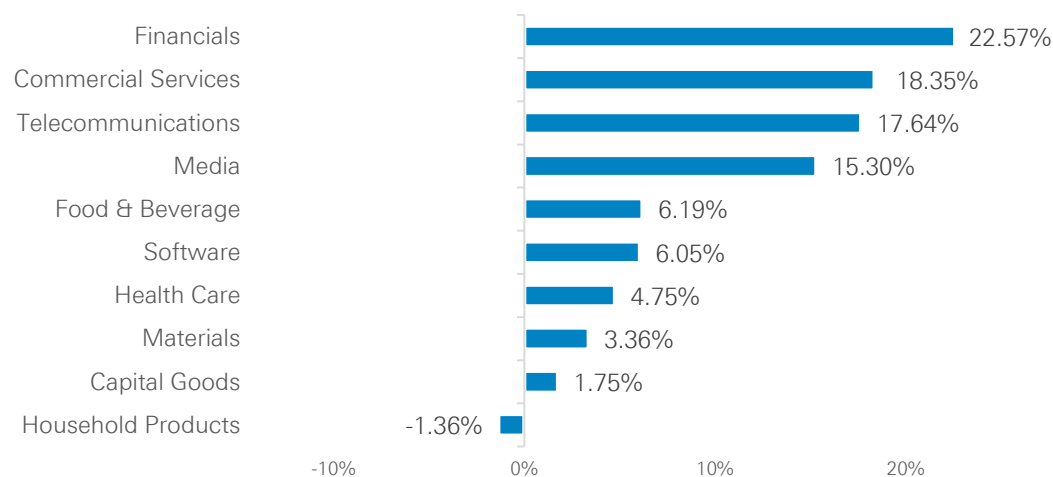
The table below lists the top positive contributors to NAC’s total return since inception. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio of investments that is generally limited to 0-15 securities at any one time. We will disclose securities in which NAC has a current substantial holding, or when we have exited the position. 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)
MNF Group	+8.36%	Enero Group	+3.66%
BSA Ltd	+5.71%	Gentrack	+2.36%
Event Hospitality	+4.92%	Iselect	+1.95%
Smart Group	+4.30%	Infomedia	+1.40%

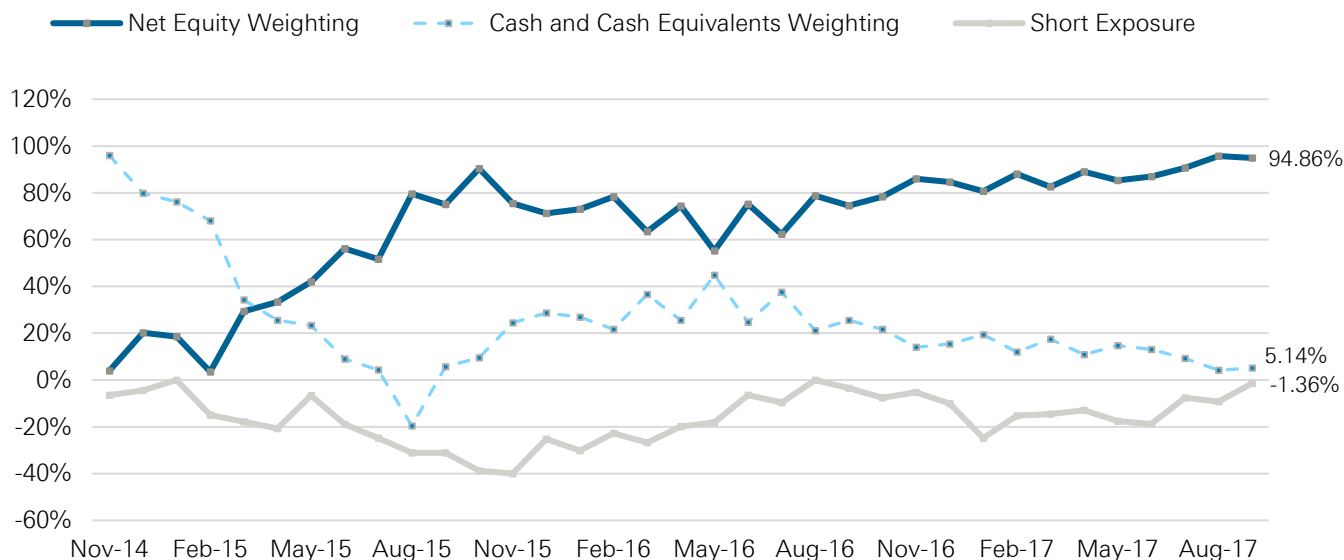
Portfolio Positioning as at 30 September 2017

As at 30 September 2017 the portfolio’s net equity exposure was ~94.86% with a subsequent cash weighting of +5.14%. As at month end, the portfolio was comprised of 15 holdings, with 14 long positions and 1 short position.

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:

- Adacel Technologies Ltd (ADA AU)
- 3P Learning Ltd (3PL AU)
- RCR Tomlinson Ltd (RCR AU)
- HUB24 Ltd (HUB AU)
- Lifestyle Communities Ltd (LIC AU)
- Moelis Australia Ltd (MOE AU)
- WPP AUNZ Ltd (WPP AU)
- Objective Corporation Ltd (OCL AU)
- Mortgage Choice Ltd (MOC AU)
- Skydive the Beach Ltd (SKB AU)
- 360 Capital Group (TGP AU)
- EML Payments Ltd (EML AU)

Portfolio Characteristics – Summary Data as at 30 September 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.

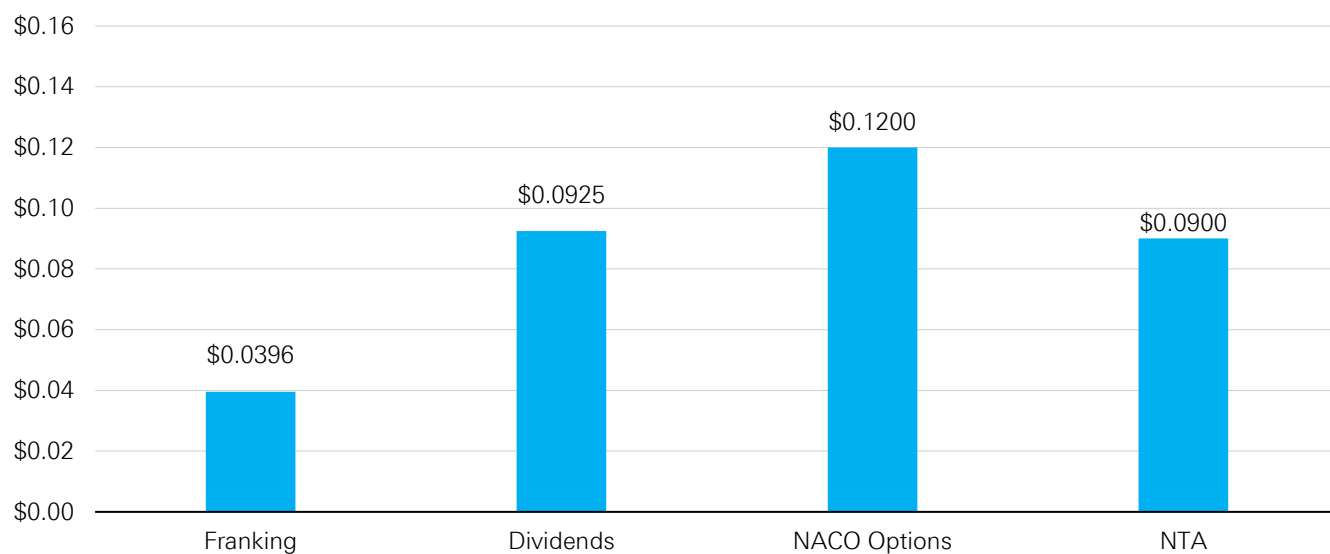
Total Number of Equity Holdings (Long & Short)	15
Total Number of Income/Debt Instruments*	0
Portfolio Weighted Market Capitalisation (AUD)	\$276.58m
Percentage of Positive Months (NAC)	63%
Percentage of Positive Months (XAOAI)	60%
Standard Deviation of Returns (NAC)	9.18%
Standard Deviation of Returns (XAOAI)	11.21%
Correlation of Returns to XAOAI	0.39
Sortino Ratio	5.33
Downside Deviation (NAC)	3.02%
Downside Deviation (XAOAI)	6.91%
Current Estimated Portfolio Beta	0.21

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

Capital Structure - Summary Data as at 30 September 2017

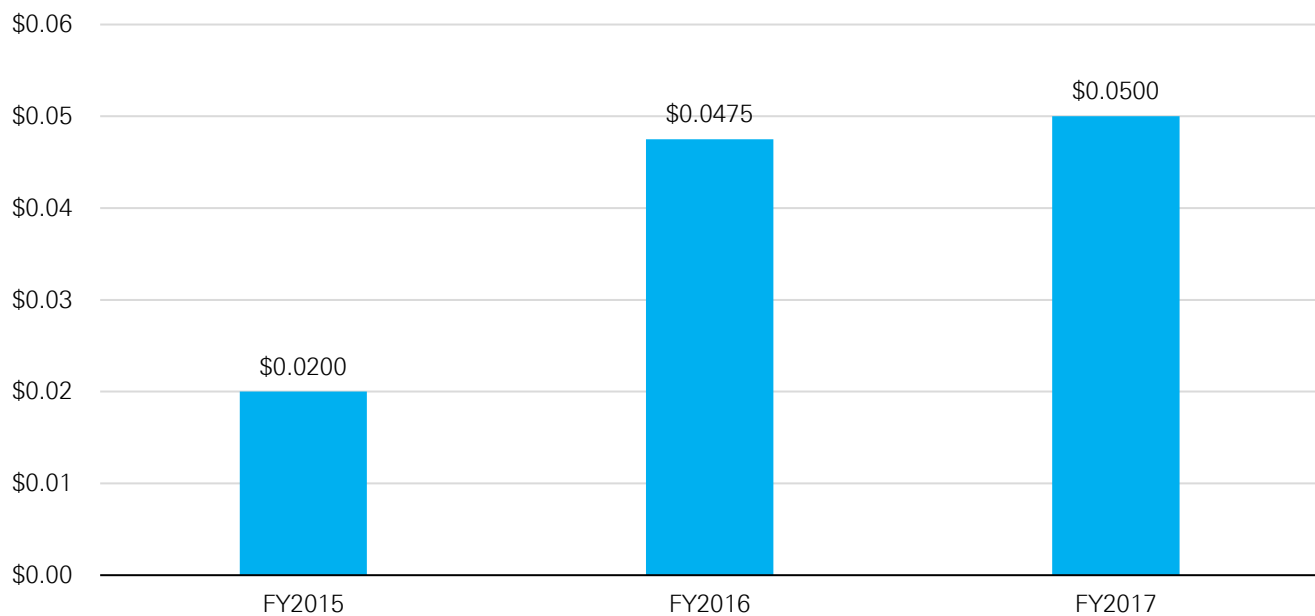
Share Price	\$1.005
Share Price Premium/(Discount) to Pre-Tax NTA	(-7.80%)
Shares on Issue	52,536,889
Directors Shareholding	6,693,760

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

Important Information:

This material has been prepared by NAOS Asset Management Limited (ABN 23 107 624 126, AFSL 273529) (NAOS) as investment manager of the listed investment company referred to herein (Company). This material is provided for general information purposes only and must not be construed as investment advice. It does not take into account the investment objectives, financial situation or needs of any particular investor. Before making an investment decision, investors should consider obtaining professional investment advice that is tailored to their specific circumstances. Past performance is not necessarily indicative of future results and neither NAOS nor the Company guarantees the future performance of the Company, the amount or timing of any return from the Company, or that the investment objectives of the Company will be achieved. To the maximum extent permitted by law, NAOS and the Company disclaims all liability to any person relying on the information contained herein in relation to any loss or damage (including consequential loss or damage), however caused, which may be suffered directly or indirectly in respect of such information. This material must not be reproduced or disclosed, in whole or in part, without the prior written consent of NAOS.

CORPORATE DIRECTORY

Directors

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

Company Secretary

Rajiv Sharma

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

Senior Legal Counsel

Rajiv Sharma

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

Megan Walker

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

www.naos.com.au