

NAOS Absolute Opportunities Company (NAC)

ABN 49 169 448 837

MONTHLY INVESTMENT REPORT AND NTA UPDATE

NAOS

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 >\$400 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 0-20) of high quality investment ideas in order to capitalise on our 'long term knowledge & liquidity advantage'. 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 its investments.

Net Tangible Asset Value Breakdown as at 30 November 2017

Pre Tax NTA:	\$1.14
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.15
Post Tax NTA:	\$1.11
Share Price	\$1.01
Historical Fully Franked Dividend Yield	4.95%

Investment Portfolio Performance & Market Insight

The NAC Investment Portfolio returned +6.69% for the month of November compared to the absolute benchmark which increased by +0.34%. This brings the inception return for 3 years to +67.87% which compares to the benchmark return of +14.94% and the All Ordinaries Accumulation Index return of +26.77%. The month of November was an eventful one for the NAC Investment Portfolio with a full year result from Elders (ASX: ELD) together with both Annual General Meeting (AGMs), and updates from core holdings including MNF Group (ASX: MNF), Capitol Health (ASX: CAJ) and Platinum Asset Management (ASX: PTM).

Moelis upgraded their FY17 EBITDA guidance by 15% to 'at least \$38m', the third time they have upgraded earnings guidance since listing in April. Pleasingly, the higher outlook has been driven by strong activity levels across all parts of their business. Moelis currently have \$165m in cash and liquid securities, and we remain confident in the ability of management to allocate this capital effectively to further grow the business.

Elders reported a very strong FY17 result which marks the successful conclusion of the turnaround strategy put in place by management back in 2014. The current management team, led by CEO Mark Allison, have been instrumental in guiding Elders from an over leveraged conglomerate, into a pure play agricultural services business with impressive returns on capital from all business units. Importantly, the team have outlined a plan for the next three years, however, despite their strong track record, market expectations for Elders to achieve this three-year target remain incredibly low. Despite the significant re-rating in the share price, ELD remains a high conviction position within the NAC portfolio. We believe that many analysts underestimate the earnings potential of ELD over a 2-3-year view, as ELD move away from volatile earnings streams to more consistent earnings streams.

Finally, MNF held their AGM in November and provided EBITDA guidance of 19% growth as well as gross margin growth of 23%. MNF highlighted the significant investment in research & development, through the hiring of a number of engineers and developers. In our opinion, this highlights the significant amount of growth opportunities for MNF from many new and existing clients requesting tailored solutions.

	1 Month	6 Month	1 Year	2 Year (p.a.)	3 Year (p.a.)	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	+6.69%	+11.41%	+5.23%	+19.23%	+18.63%	+18.51%	+67.87%
Benchmark (RBA Cash Rate + 250bps)	+0.34%	+2.12%	+4.32%	+4.51%	+4.66%	+4.67%	+14.94%
Relative Performance	+6.35%	+9.29%	+0.91%	+14.72%	+13.97%	+13.84%	+52.93%
XAOAI [^]	+1.91%	+7.44%	+14.83%	+12.39%	+9.19%	+8.09%	+26.77%

*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. ^ Refers to the S&P/ASX All Ordinaries Accumulation Index

Positive Stock Contribution Analysis

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

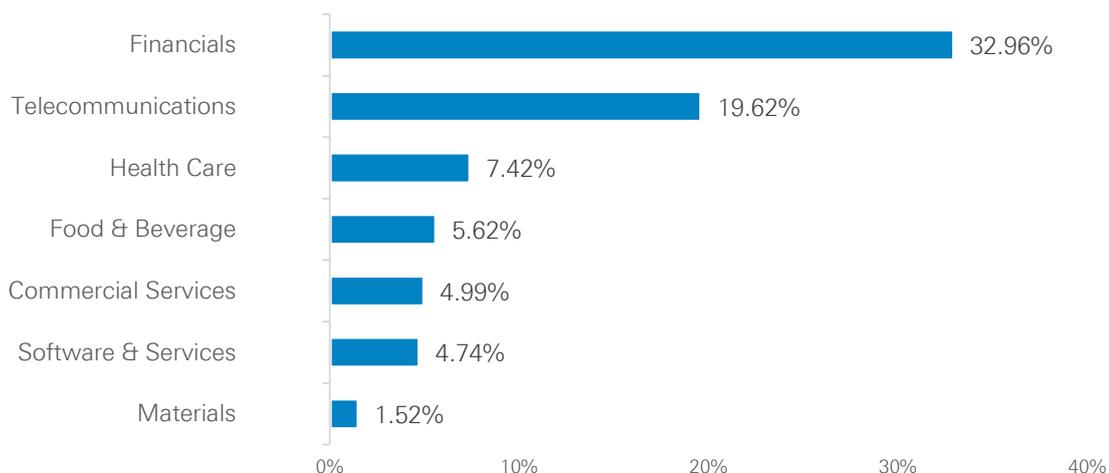
The table below lists the top positive contributors to NAC’s total return since inception. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio of investments that is generally limited to 0-20 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	+12.42%	Elders Ltd	+3.94%
BSA Ltd	+6.63%	Gentrack Group	+3.21%
Event Hospitality	+5.37%	Enero Group	+2.82%
Smart Group	+4.70%	Moelis Australia	+1.99%

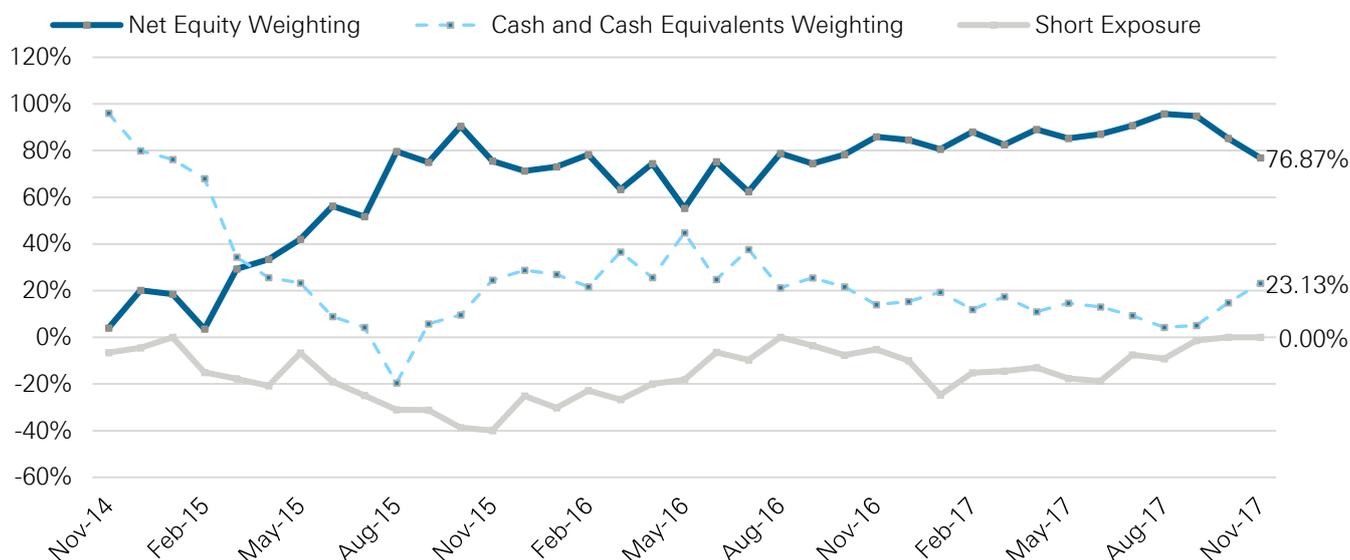
Portfolio Positioning as at 30 November 2017

As at 30 November 2017 the portfolio’s net equity exposure was ~76.87% with a subsequent cash weighting of +23.13%. As at month end, the portfolio was comprised of 13 holdings, with 13 long positions and 0 short positions.

Net Industry Exposure



Net Equity Exposure



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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 companies the team had contact with during the month were as follows:

- Pacific Current Group (PAC AU)
- Wagners Holdings (WGN AU)
- Sealink Group (SLK AU)
- MNF Group Ltd (MNF AU)
- Scottish Pacific (SCO AU)
- HUB24 Ltd (HUB AU)
- Elders Ltd (ELD AU)
- Japara Healthcare Ltd (JHC AU)
- Gentrack Group Ltd (GTK AU)
- Platinum Asset Management Ltd (PTM AU)

Portfolio Characteristics – Summary Data as at 30 November 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.

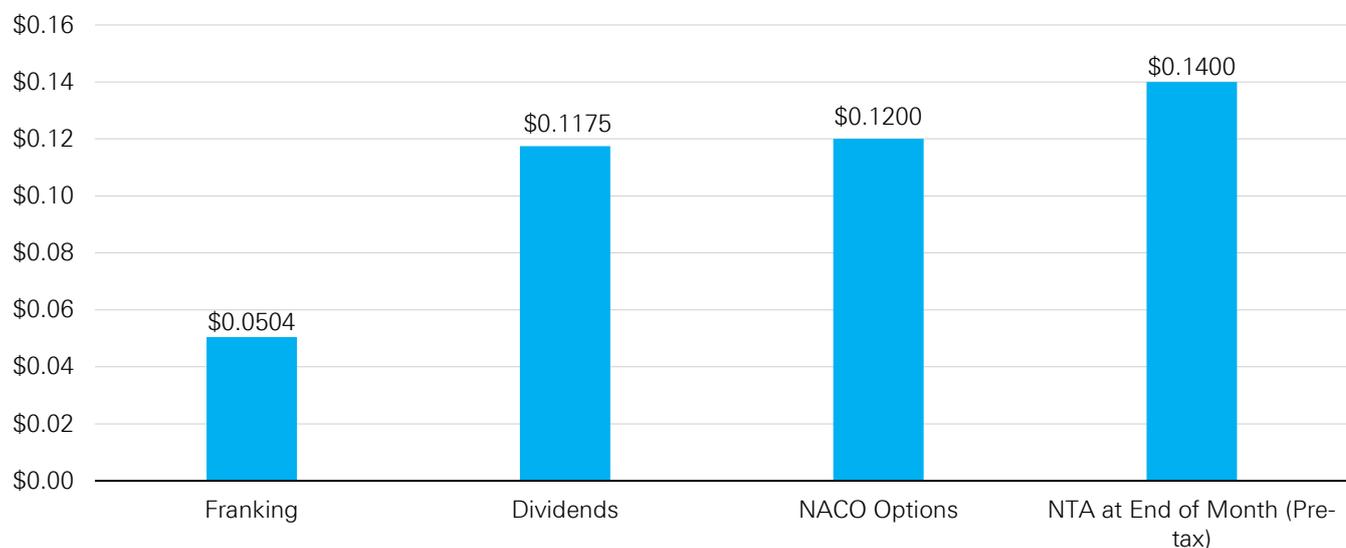
Total Number of Equity Holdings (Long & Short)	13
Total Number of Income/Debt Instruments*	0
Portfolio Weighted Market Capitalisation (AUD)	\$698.10m
Percentage of Positive Months (NAC)	65%
Percentage of Positive Months (XAOAI)	62%
Standard Deviation of Returns (NAC)	9.45%
Standard Deviation of Returns (XAOAI)	11.10%
Correlation of Returns to XAOAI	0.39
Sortino Ratio	5.43
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 November 2017

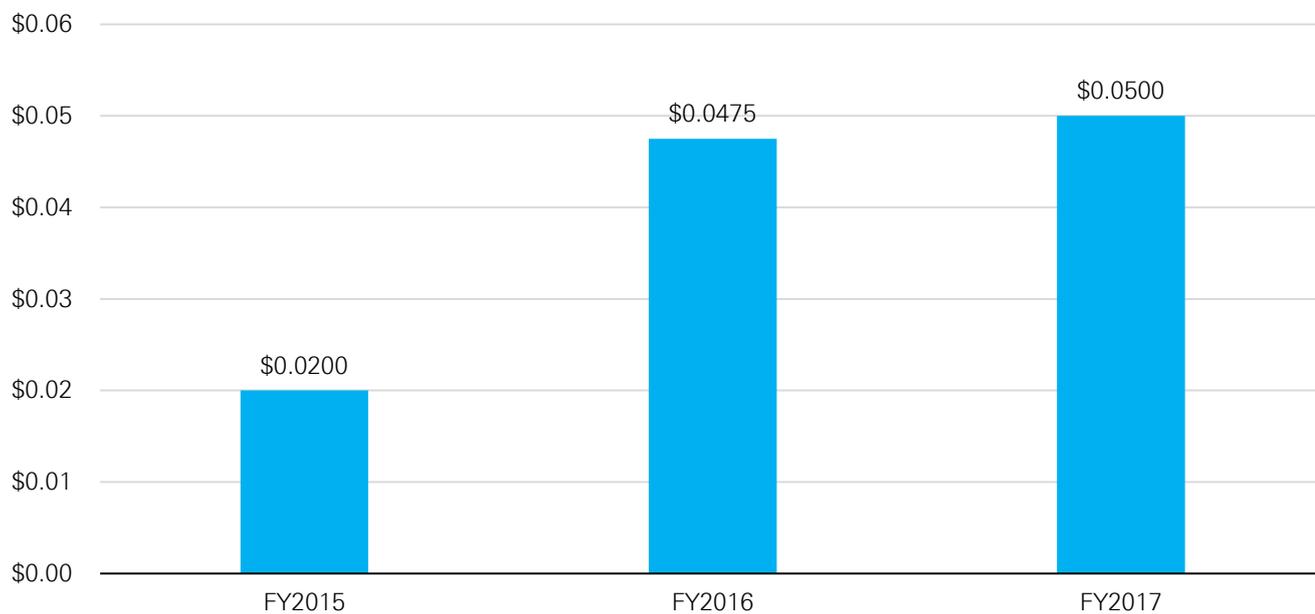
Share Price	\$1.01
Share Price Premium/(Discount) to Pre-Tax NTA	(-11.40%)
Shares on Issue	52,536,889
Directors Shareholding	6,718,583

Historical Shareholder Return Breakdown



*Assumes an intrinsic NACO value of \$0.12 cents per option at expiry (30 November 2016) based on pre-tax NTA on this date diluted for remaining options.

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:

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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

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ENQUIRIES

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