

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

April 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 30th April 2016 (Post accrual for \$0.0225 Fully Franked Dividend Payable on 12th May 2016)

Pre Tax NTA:	\$1.19
Post Tax & Pre Unrealised Gains NTA:	\$1.19
Post Tax NTA:	\$1.15

*The above NTA calculations do not account for any potential dilution from the 20,106,000 NACO options that remain on issue (expiry 30th November 2016) and which are exercisable at \$1.00

Investment Portfolio Performance to 30th April 2016

The Naos Absolute Opportunities portfolio returned +4.48% for the month of April. For the financial year to date, the investment portfolio has returned +24.81%. Pleasingly the NTA rose for the month of April post the effect of the \$0.0225 fully franked dividend as well as a further 1,386,500 NACO options being exercised in the month of April.

Markets both domestically and globally rose as the "risk on" trade gained momentum. Domestically this was evident in the materials space with stocks such as Fortescue Metals Group (+33.7%), Rio Tinto (+20.8%) and BHP Billiton (+22.7%) all posting significant gains for the month.

The portfolio performance was driven by contribution from the long side of the portfolio including stocks such as My Net Fone and STW Communications. A number of key industrial positions all posted strong gains for the month as well as two short positions within the technology and healthcare space posting falls over the period of April.

The portfolio remains conservatively positioned with a portfolio beta of just under 0 and a net equity position of circa 55%. This illustrates that the portfolio continues to hold what the investment team believes is high quality low beta positions on the long side and lower quality high beta positions on the short side. May and June are often consolidation periods in terms of market performance, and also the so called "confession" season for many companies that must disclose to the market if their earnings for the Financial Year are going to fall short of expectations. Based on this, as well as global/domestic equity valuations, the investment team believes a conservative portfolio structure is ideal over the next 2-3-month period.

	1 Month	3 Month	6 Month	1 Year	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	+4.48%	+9.59%	+19.64%	+28.87%	+23.54%	+36.30%
Benchmark (RBA Cash Rate + 250bps)	+0.40%	+1.21%	+2.40%	+4.85%	+4.97%	+7.36%
Relative Performance	+4.08%	+8.38%	+17.24%	+24.02%	+18.57%	+28.94%
S&P/ASX All Ordinaries Accumulation Index (XAOAI)	+3.24%	+6.54%	+2.76%	-3.65%	+2.60%	+3.83%
MSCI ACWI (Net, Dividends Reinvested, AUD Terms)	+2.33%	+1.32%	-6.67%	-1.66%	+8.96%	+13.39%

*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)

(12th November 2014 to 30th April 2016)

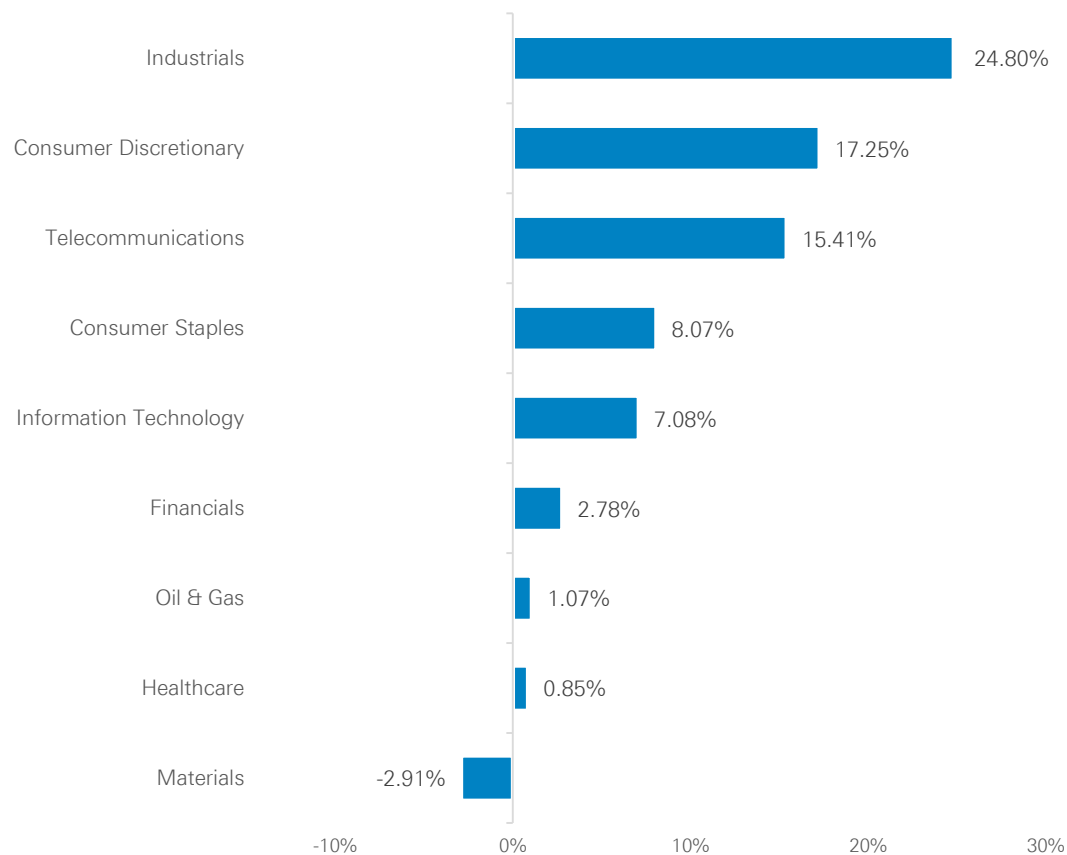
Below is a table listing the top positive contributors to NAC’s total return since inception. The purpose of the table is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio 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	+7.72%	Macquarie Atlas Roads	+2.36%
Event Hospitality	+4.22%	Bellamy’s Australia	+2.23%
Enero Group	+3.38%	BWX Limited	+1.81%
1-Page	+3.36%	iSelect Limited	+1.77%
Sirtex Medical	+3.24%	Smartgroup	+1.67%

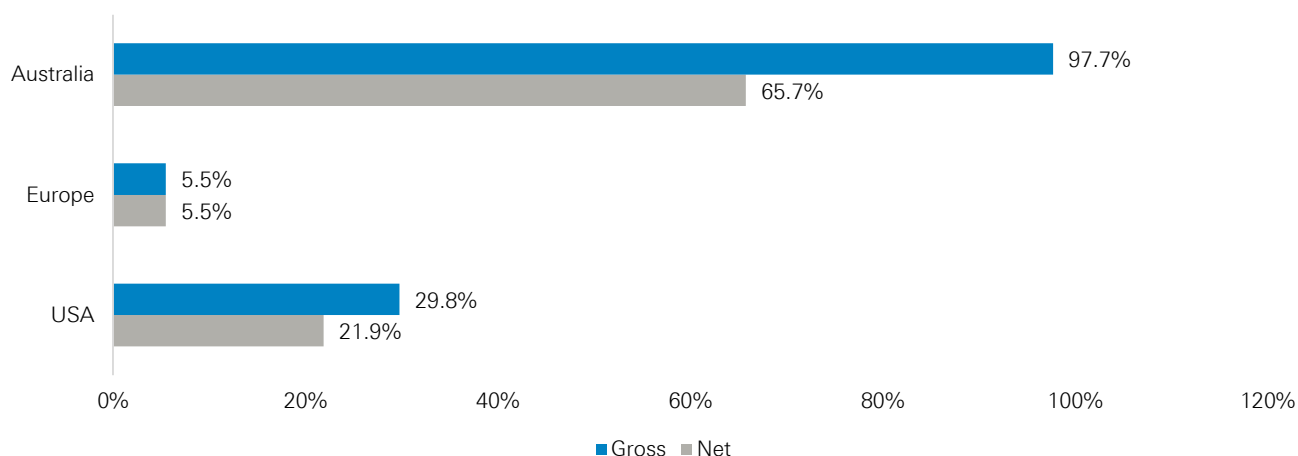
Portfolio Analysis as at 30th April 2016

As at 30th April the portfolio comprised of 32 holdings, including 21 long equity positions, 7 short equity positions and 4 income instruments.

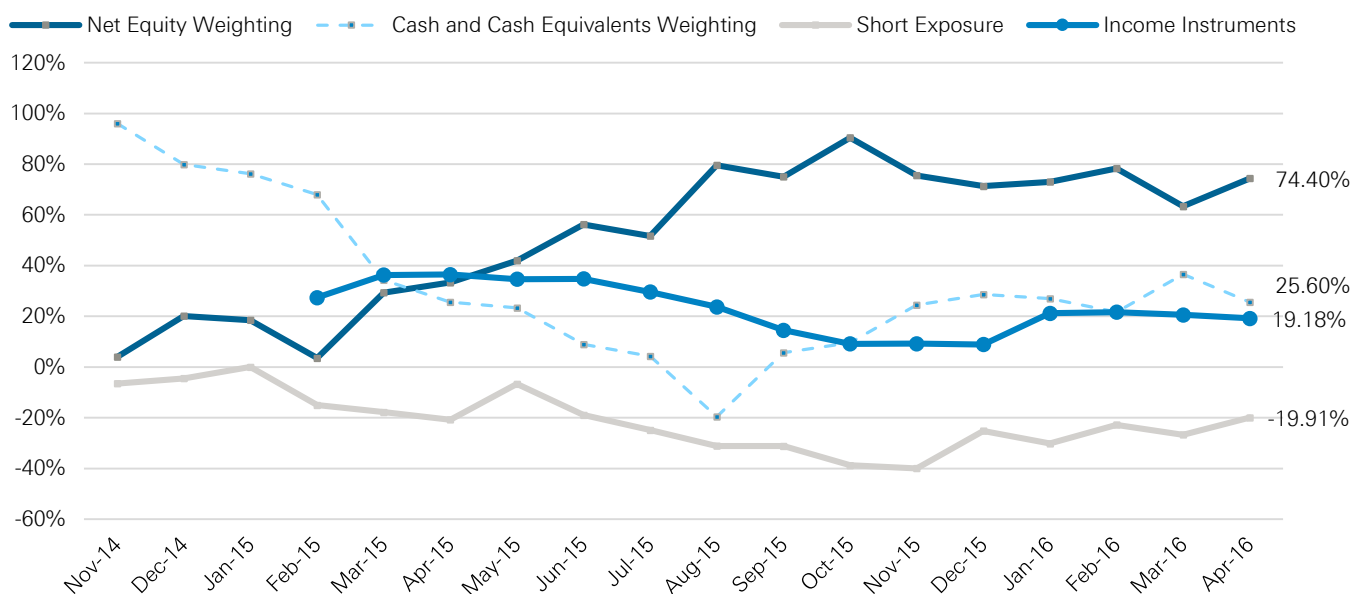
Net Industry Exposure



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 April were as follows:

- Berkshire Hathaway (BRK US)
- Sotheby’s (BID US)
- Barnes & Noble (BKS US)
- Interactive Corp (IAC US)
- OnDeck (ONDK US)
- WisdomTree Investments (WETF US)
- Shutterstock (SSTK US)
- American Express (AXP US)
- Tellit Communications (TCM LN)
- Smart Group (SIQ AU)

Portfolio Characteristics – Summary Data as at 30th April 2016

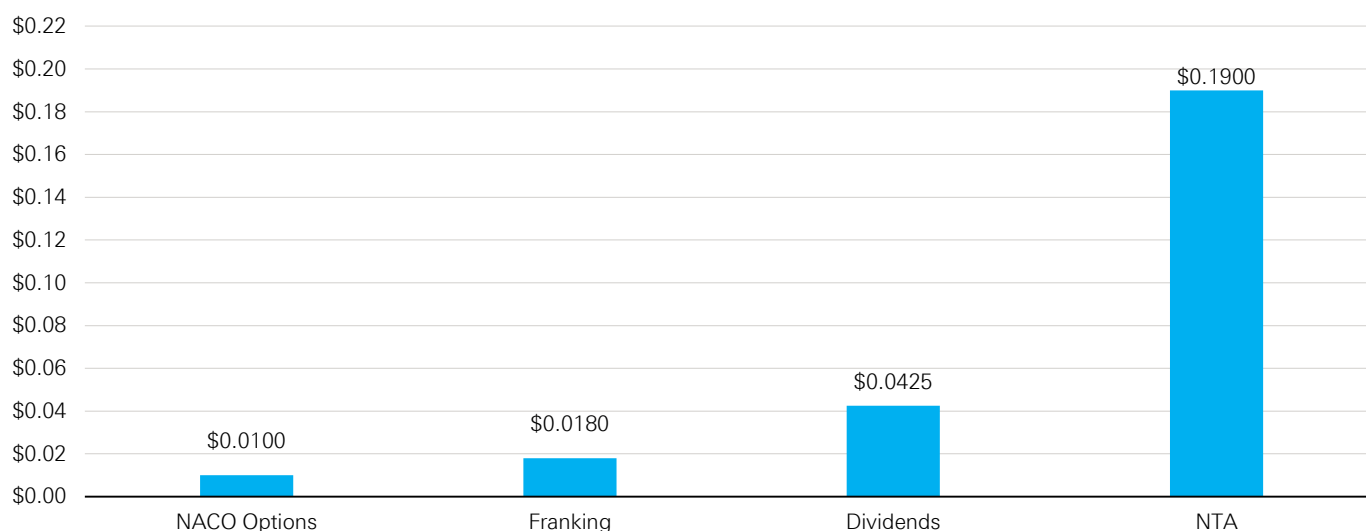
Total Number of Equity Holdings (Long & Short)	28
Total Number of Income/Debt Instruments*	4
Total Number of Holdings	32
Portfolio Weighted Market Capitalisation (AUD)	\$1.12bn
Percentage of Positive Months (NAC)	71%
Percentage of Positive Months (XAOAI)	47%
Standard Deviation of Returns (NAC)	9.81%
Standard Deviation of Returns (XAOAI)	13.39%
Correlation of Returns to XAOAI	0.53
Sortino Ratio	14.98
Downside Deviation (NAC)	1.57%
Downside Deviation (XAOAI)	7.83%
Current Estimated Portfolio Beta	-0.03

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

Capital Management - Summary Data as at 30th April 2016

Share Price	\$1.01
Share Price Discount/Premium to NTA (Undiluted, Pre-Tax)	-17.82%
Historical Fully Franked Dividend Yield	4.45%
Historical Gross Dividend Yield	6.32%
Shares on Issue	22,894,000
Options on Issue	20,106,000
Directors Shareholding	2,480,203

Historical Shareholder Return Breakdown



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 4 Domain House, 139 Macquarie Street Sydney NSW 2000. NAOS Telephone: 61 2 9947 2566

CORPORATE DIRECTORY

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Warwick Evans (Director)
Sebastian Evans (Director)

Company Secretary

Julie Coventry

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Ben Rundle (Portfolio Manager)
Jeffrey Kim (Portfolio Manager)
Robert Miller (Portfolio Manager)

Chief Financial/Operating Officer

Richard Preedy

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