

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

May 2016

KEY CHARACTERISTICS

1. Domestic & Global Long/Short

Exposure with a Long Term Value Focus
NAC generally invests in mid-cap equities listed domestically and globally in a concentrated long short structure. NAC has the advantage of being able to invest not only in undervalued valued 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 31st May 2016

Pre Tax NTA:	\$1.23
Post Tax & Pre Unrealised Gains NTA:	\$1.21
Post Tax NTA:	\$1.17

*The above NTA calculations do not account for any potential dilution from the 19,087,250 NACO options that remain on issue (expiry 30th November 2016) and which are exercisable at \$1.00

Investment Portfolio Performance to 31st May 2016

The NAOS Absolute Opportunities Company returned +4.83% for the month of May. Pleasingly, the NTA of the company rose for the month post 1,018,750 NACO options being exercised during the period. The balance of the options, being 19,087,250 exercisable at \$1.00 (a further 3,000,000 options have been exercised in May), will expire on 30th November 2016 if they are not exercised beforehand.

Since the time of IPO in November 2014, the fund has now produced \$0.23 in NTA growth, \$0.0425 in dividends and a further \$0.018 in franking.

Positive attribution for the month came from Smartgroup (SIQ.ASX) where we saw a key regulatory risk removed in the form of the Labor Government formally announcing they will not include changes to Fringe Benefits Tax in their policy. Our US dollar holding contributed strongly following a decrease in the RBA cash rate and we took the opportunity to close the position during the month. We also made healthy gains from our short position in Fortescue Metals Group (FMG.ASX). The stock rallied on the back of a gain in the price of Iron Ore to \$70 and we viewed the price move as short term in nature given the supply/demand dynamics of the industry.

As at the end of May we held 17 long equity positions, 5 short equity positions and 4 holdings in ASX listed corporate bonds. Our gross equity exposure was 91.45%, our net exposure was 55.23% and our cash position was 44.77%.

The portfolio continues to focus on undervalued companies within the mid-cap universe mostly within the domestic market. The Naos investment team believes the opportunities are inefficiently priced compared to companies within the ASX Top-50.

	1 Month	3 Month	6 Month	1 Year	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	+4.83%	+16.06%	+21.03%	+28.82%	+25.90%	+42.88%
Benchmark (RBA Cash Rate + 250bps)	+0.41%	+1.23%	+2.44%	+4.85%	+4.96%	+7.80%
Relative Performance	+4.42%	+14.83%	+18.59%	+23.97%	+20.94%	+35.08%
S&P/ASX All Ordinaries Accumulation Index (XAOAI)	+3.09%	+11.47%	+6.67%	-1.25%	+4.49%	+7.04%
MSCI ACWI (Net, Dividends Reinvested, AUD Terms)	+5.30%	+8.10%	+0.11%	+0.06%	+12.12%	+19.40%

*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 of 12th November 2014)

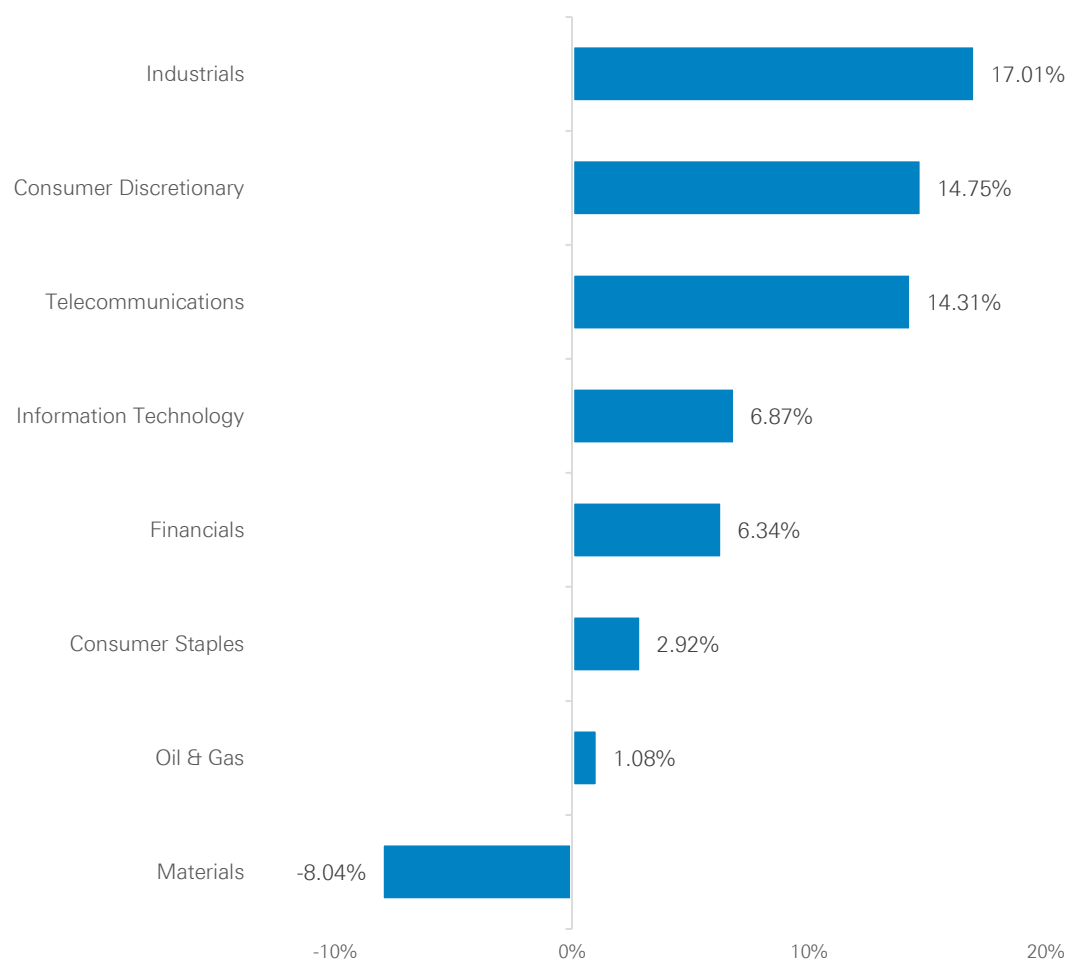
Below is a table listing the top positive contributors to NAC's total return since inception. The purpose of the table is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio of investments that is generally limited to 0-30 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	+8.77%	Smart Group	+3.45%
Event Hospitality	+4.43%	Sirtex Medical	+3.42%
Enero Group	+3.84%	Bellamy's Australia	+2.84%
1-Page Ltd	+3.53%	Macquarie Atlas Roads	+2.46%

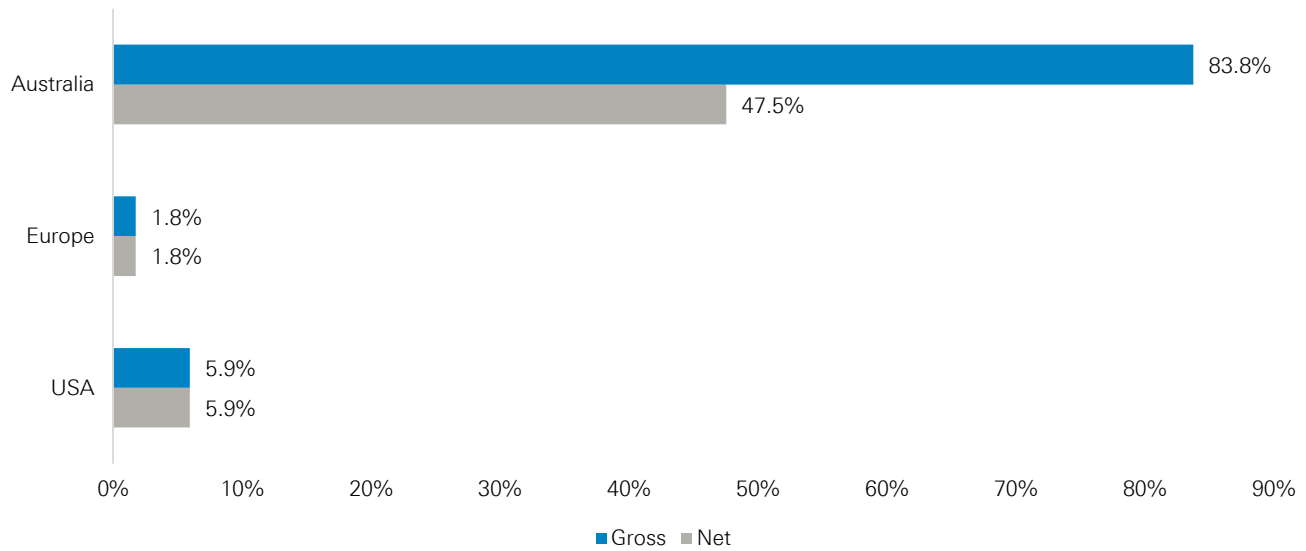
Portfolio Analysis as at 31st May 2016

As at 31st May the portfolio comprised of 26 holdings, including 17 long equity positions, 5 short equity positions and 4 income instruments.

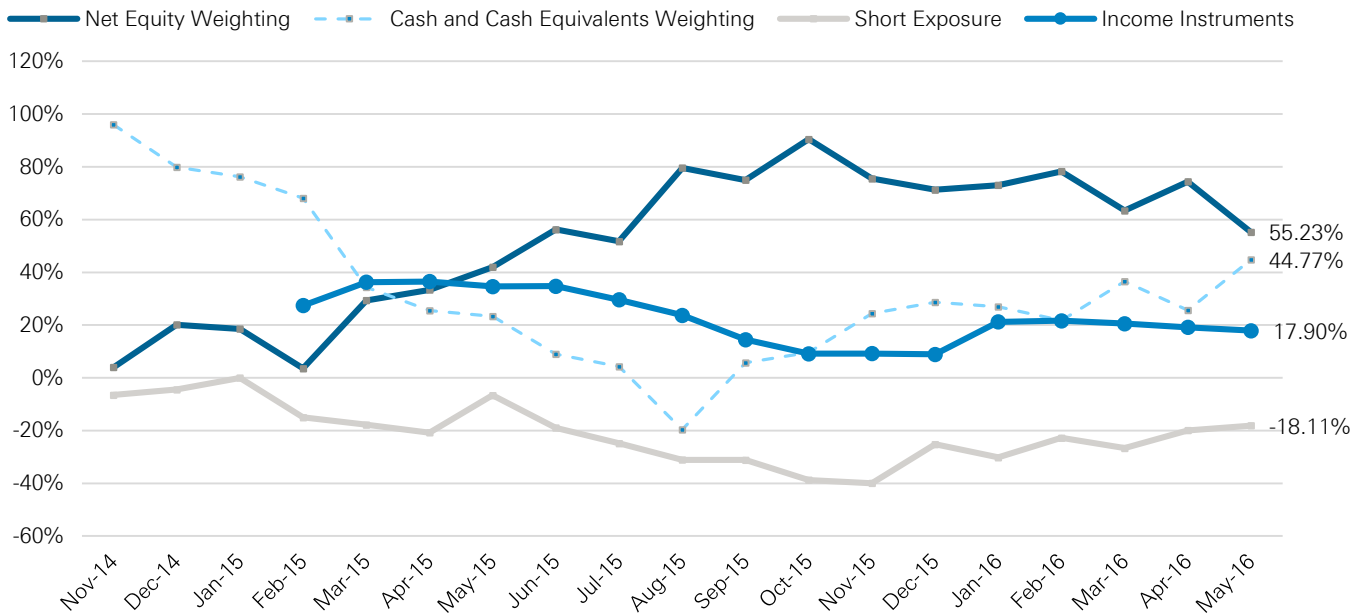
Net Industry Exposure



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 May were as follows:

- Gentrack Group (GTK AU)
- APN News & Media Ltd (APN AU)
- BT Investment Management (BTT AU)
- Ramelius Resources (RMS AU)
- Shaver Shop (TBC)
- Pacific Smiles Ltd (PSQ AU)
- Pushpay Holdings (PAY NZ)
- Oz Forex (OFX AU)
- WPP AUNZ (WPP AU)
- Link Administration (LNK AU)

Portfolio Characteristics – Summary Data as at 31st May 2016

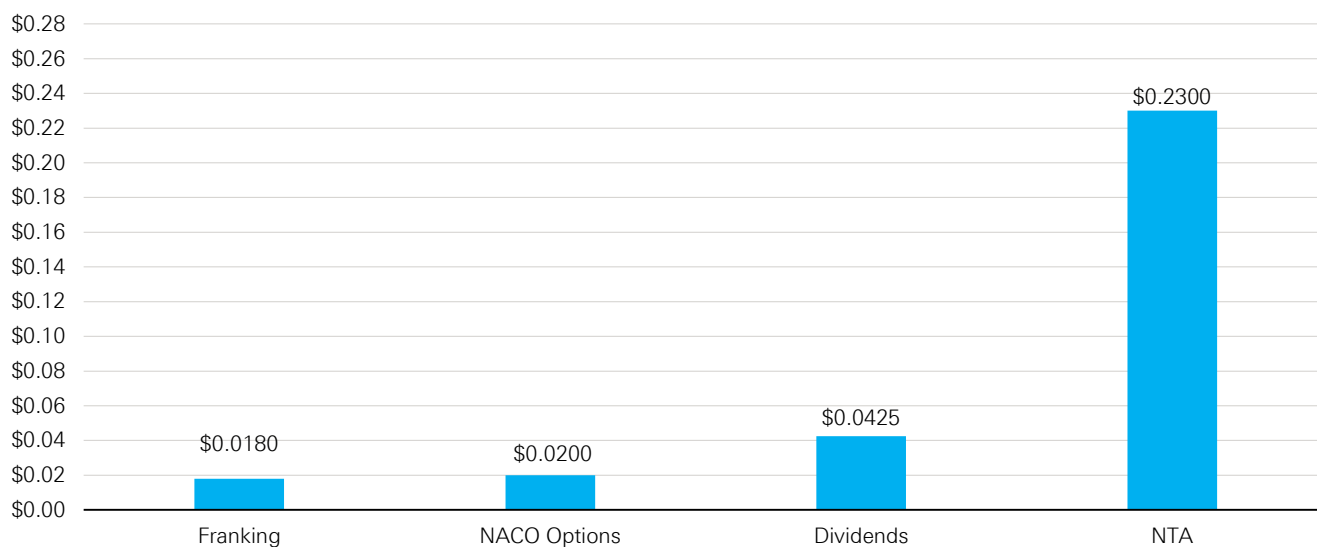
Total Number of Equity Holdings (Long & Short)	22
Total Number of Income/Debt Instruments*	4
Total Number of Holdings	26
Portfolio Weighted Market Capitalisation (AUD)	\$13.64bn
Percentage of Positive Months (NAC)	74%
Percentage of Positive Months (XAOAI)	53%
Standard Deviation of Returns (NAC)	9.83%
Standard Deviation of Returns (XAOAI)	13.21%
Correlation of Returns to XAOAI	0.57
Sortino Ratio	16.48
Downside Deviation (NAC)	1.57%
Downside Deviation (XAOAI)	8.09%
Current Estimated Portfolio Beta	0.024

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

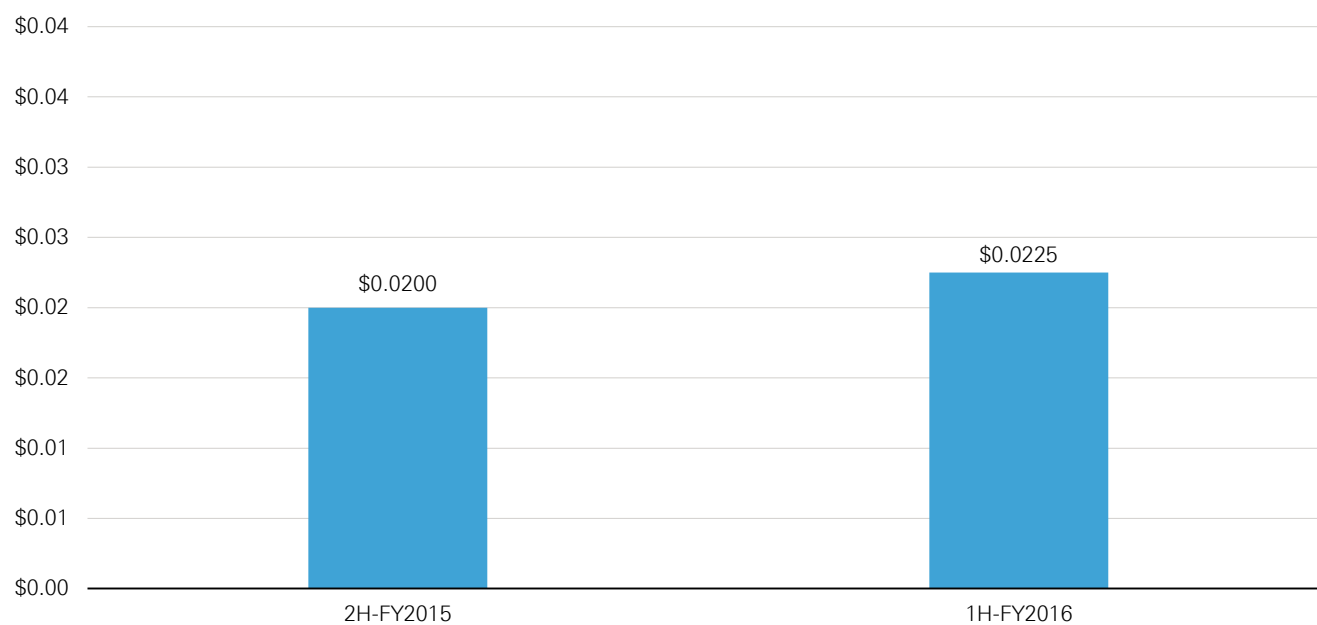
Capital Management - Summary Data as at 31st May 2016

Share Price	\$1.02
Share Price Discount/Premium to NTA (Undiluted, Pre-Tax)	-20.58%
Historical Fully Franked Dividend Yield	4.54%
Historical Gross Dividend Yield	6.49%
Shares on Issue	23,912,750
Options on Issue	19,087,250
Directors Shareholding	2,480,203

Historical Shareholder Return Breakdown



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

CORPORATE DIRECTORY

Directors

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Warwick Evans (Director)
Sebastian Evans (Director)

Company Secretary

Julie Coventry

Investment Team

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

Chief Financial/Operating Officer

Richard Preedy

Business Development

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ENQUIRIES

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