

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

August 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 August 2017

Pre Tax NTA:	\$1.08
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.09
Post Tax NTA:	\$1.07
Share Price	\$1.035
Historical Fully Franked Dividend Yield	4.83%

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 August, the NAC Investment Portfolio increased by +0.76% compared to the absolute benchmark which increased by +0.35%. This brings the inception performance of the Investment Portfolio to +51.98% compared to +13.75% for the Benchmark over 2 years and 9 months. As expected August provided the Investment Team with significant insights into our investee companies progress, with most them releasing their respective FY17 financial results.

The reporting seasons for the NAC Investment Portfolio produced no significant negative surprises for any of the core positions. Adacel Technologies (ASX: ADA), MNF Group (ASX: MNF) and BSA Limited (ASX: BSA) all reported strong results. What held the performance back over the period was a short position in a telecommunications reselling business which accounted for -0.66% of the NAC monthly performance and a short term pull back in Elders (ASX: ELD) due to market concerns around the short-term fall in domestic cattle prices, which resulted in a negative contribution of -0.65% for the month.

MNF Group announced an exceptionally strong result, with EBITDA up over 34% for the year due to excellent growth within their domestic wholesale business and wins within the government space. The next 12-24 months could well shape up to be some of the strongest yet, with excellent momentum both globally and domestically as shown through the amount of phone numbers ported in FY17, a full year's contribution from Conference Call International, and also a full year's contribution from the Point of Presence (POP) facility which opened in Hong Kong.

ADA develop and service the systems used for Air Traffic Control around the globe. The company has 90% market share of the Air Traffic Control market in the US and have won all the major large-scale simulator deployment contracts there. The company recorded an impressive result despite some timing delays on the announcement of expected contract wins. Sixty percent of ADA's earnings are now recurring in nature, and due to the large net cash balance sheet position ADA announced a special dividend of 7.75cps on top of the final 2.25cps dividend. The company continues to exhibit low capex requirements, a strong balance sheet, an active share buyback scheme and a healthy pipeline of possible contract wins.

	1 Month	6 Month	1 Year	2 Year (p.a.)	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	+0.76%	-0.60%	-1.92%	+18.58%	+16.12%	+51.98%
Benchmark (RBA Cash Rate + 250bps)	+0.35%	+2.16%	+4.33%	+4.84%	+4.71%	+13.75%
Relative Performance	+0.41%	-2.76%	-6.25%	+13.74%	+11.41%	+38.23%
S&P/ASX All Ordinaries Accumulation Index (XAOAI)	+0.79%	+2.55%	+8.91%	+9.80%	+6.56%	+19.48%

*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)

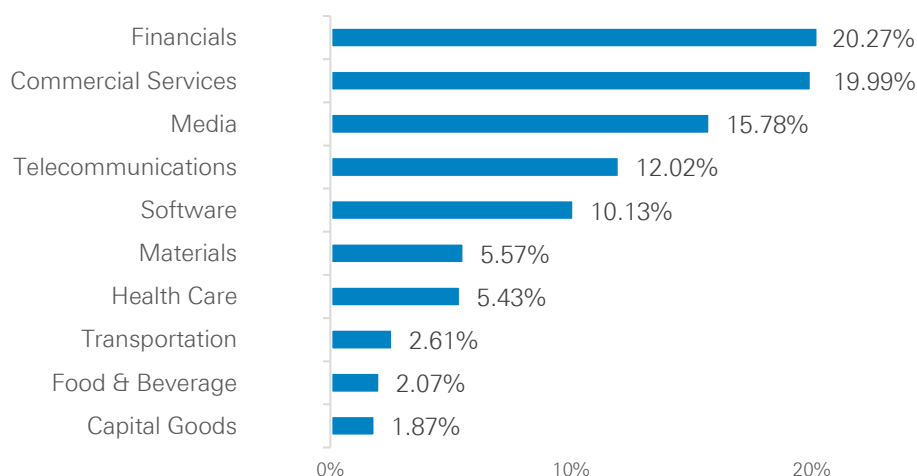
The table below lists the top positive contributors to NAC’s total return since inception. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio of investments that is generally limited to 0-30 securities at any one time. We will disclose securities in which the Company 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)
US Dollar	+9.20%	Smart Group	+4.24%
MNF Group	+7.40%	1- Page Ltd	+3.70%
BSA Ltd	+6.64%	Bellamy’s Australia	+3.33%
Event Hospitality	+4.85%	Macquarie Atlas Roads	+2.59%

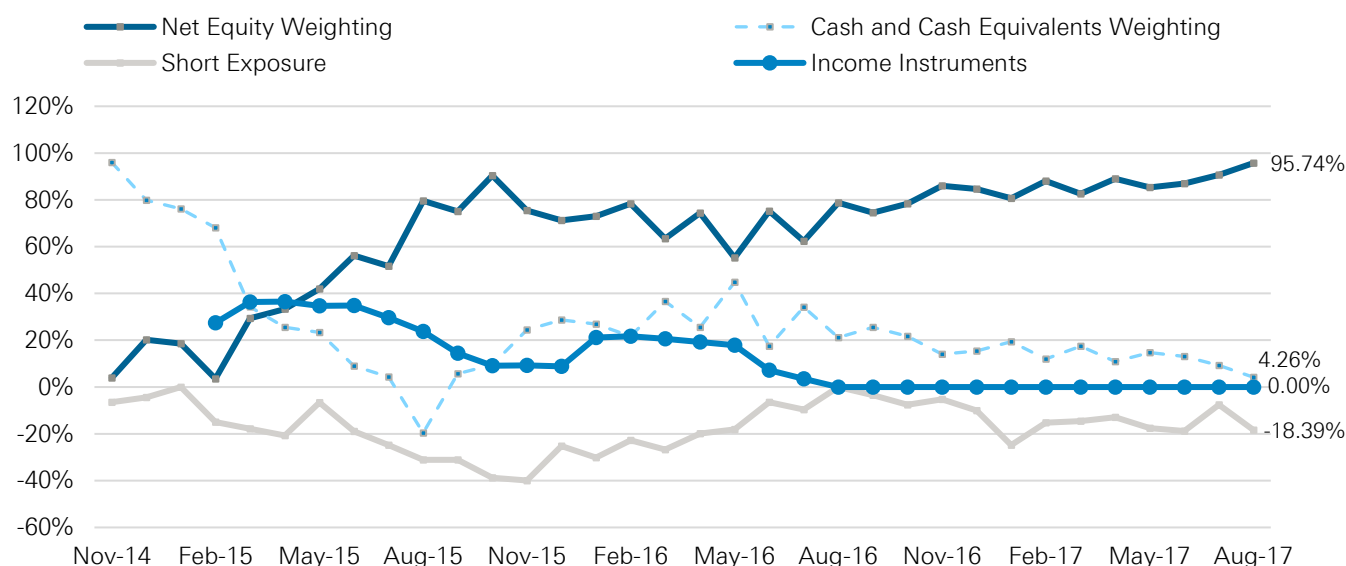
Portfolio Positioning as at 31 August 2017

As at 31 August 2017 the portfolio’s net equity exposure was ~95.74% with a subsequent cash weighting of +4.26%. As at month end, the portfolio was comprised of 22 holdings, with 19 long positions and 3 short positions. There were also no income instruments in the portfolio.

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:

- Magellan Financial Group (MFG AU)
- Service Stream Ltd (SSM AU)
- MNF Group Ltd (MNF AU)
- Elders Ltd (ELD AU)
- Kogan.Com Ltd (KGN AU)
- GWA Group Ltd (GWA AU)
- Smartgroup Corporation (SIQ AU)
- Nine Entertainment Ltd (NEC AU)
- Platinum Asset Mgt Ltd (PTM AU)
- PMP Ltd (PMP AU)
- Appen Ltd (APX AU)
- Melbourne IT Ltd (MLB AU)

Portfolio Characteristics – Summary Data as at 31 August 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.

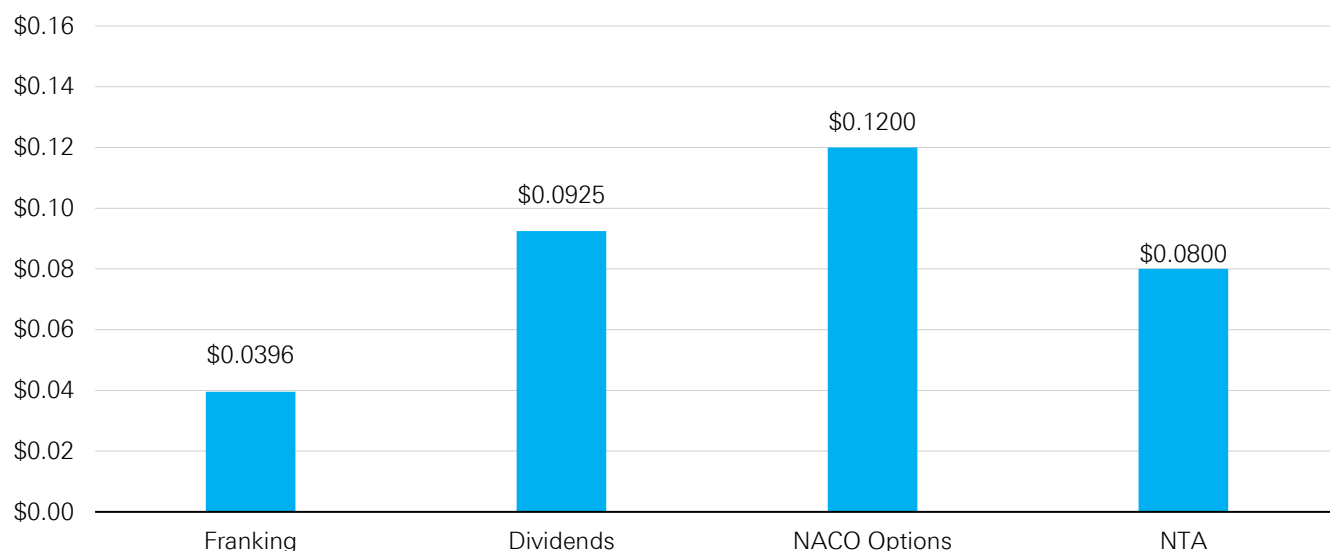
Total Number of Equity Holdings (Long & Short)	22
Total Number of Income/Debt Instruments*	0
Portfolio Weighted Market Capitalisation (AUD)	\$688.70m
Percentage of Positive Months (NAC)	62%
Percentage of Positive Months (XAOAI)	59%
Standard Deviation of Returns (NAC)	9.32%
Standard Deviation of Returns (XAOAI)	11.37%
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	0.25

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

Capital Structure - Summary Data as at 31 August 2017

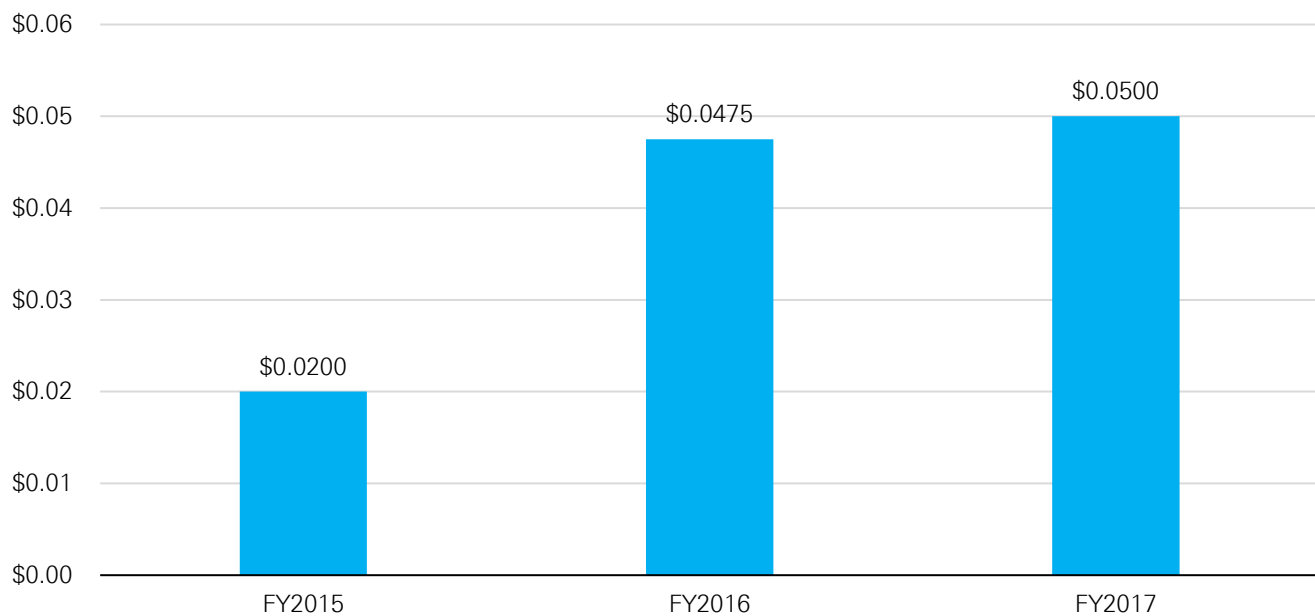
Share Price	\$1.035
Share Price Premium/(Discount) to Pre-Tax NTA	(-4.17%)
Shares on Issue	52,536,889
Directors Shareholding	6,693,760

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

Directors

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

Company Secretary

Richard Preedy

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

Julia Stanistreet

Telephone: (02) 9002 1576
Email: jstanistreet@naos.com.au

Megan Walker

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

www.naos.com.au