

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

December 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 31 December 2016

Pre Tax NTA:	\$1.14
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.16
Post Tax NTA:	\$1.12
Share Price	\$1.15

Investment Portfolio Performance to 31 December 2016

For the calendar year the NAC investment portfolio returned +22.73% bringing the inception performance (2 years and 1 month) to +56.37%. Pleasingly, the overall volatility of the portfolio has been 25% less than the All Ordinaries Accumulation Index yet the portfolio return has been almost 4 times higher. From a contribution perspective, over CY16 there were 15 positions that contributed over 1% to the gross portfolio performance with 10 of these being domestic long positions, 3 were long international positions and 2 were short positions.

For the month of December, the main detractor to performance was our long position in Sirtex Medical (ASX: SRX). Sirtex provided a negative trading update with global dose sales of their salvage liver treatment expected to grow in the order of +5 - +11% for FY17 compared with growth of +16.4% in FY16. The company noted that the impact on earnings from this could see FY17 EBITDA in the range of zero growth vs FY16 to -12% vs FY16. The company cited an increase in competition as a key contributor to the decline in growth. Attention should also be paid to the increase in the cost base as SRX invest ahead of trial results, which may allow the SIR-Spheres treatment to be used on earlier stage patients as opposed to the current salvage market. There has been a significant increase in both research and development, and marketing and sales expenses which depending on the results of the upcoming trials could be increased or decreased and have the potential to increase earnings significantly regardless of trial outcomes.

Looking to the year ahead, with NAC having the ability to invest both long and short, together with the ability to hold a significant cash position, the investment team expect to utilise these tools as domestic market valuations and sector rotation provide opportunities both long and short. With the recent market rally the ASX-100 is trading on an FY17 P/E of 15.8 times, with industrial companies now trading on a PE of 17.6 times which are well above their long-term averages.

	1 Month	6 Month	1 Year	2 Year	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	-1.98%	+10.01%	+22.73%	+25.74%	+23.29%	+56.37%
Benchmark (RBA Cash Rate + 250bps)	+0.36%	+2.20%	+4.66%	+4.84%	+4.82%	+10.57%
Relative Performance	-2.34%	+7.81%	+18.07%	+20.90%	+18.47%	+45.80%
S&P/ASX All Ordinaries Accumulation Index (XAOAI)	+4.17%	+9.94%	+11.65%	+7.64%	+6.76%	+15.00%
MSCI ACWI (Net, Dividends Reinvested, AUD Terms)	+4.67%	+10.56%	+9.57%	+8.45%	+11.94%	+27.23%

*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 12 November 2014)

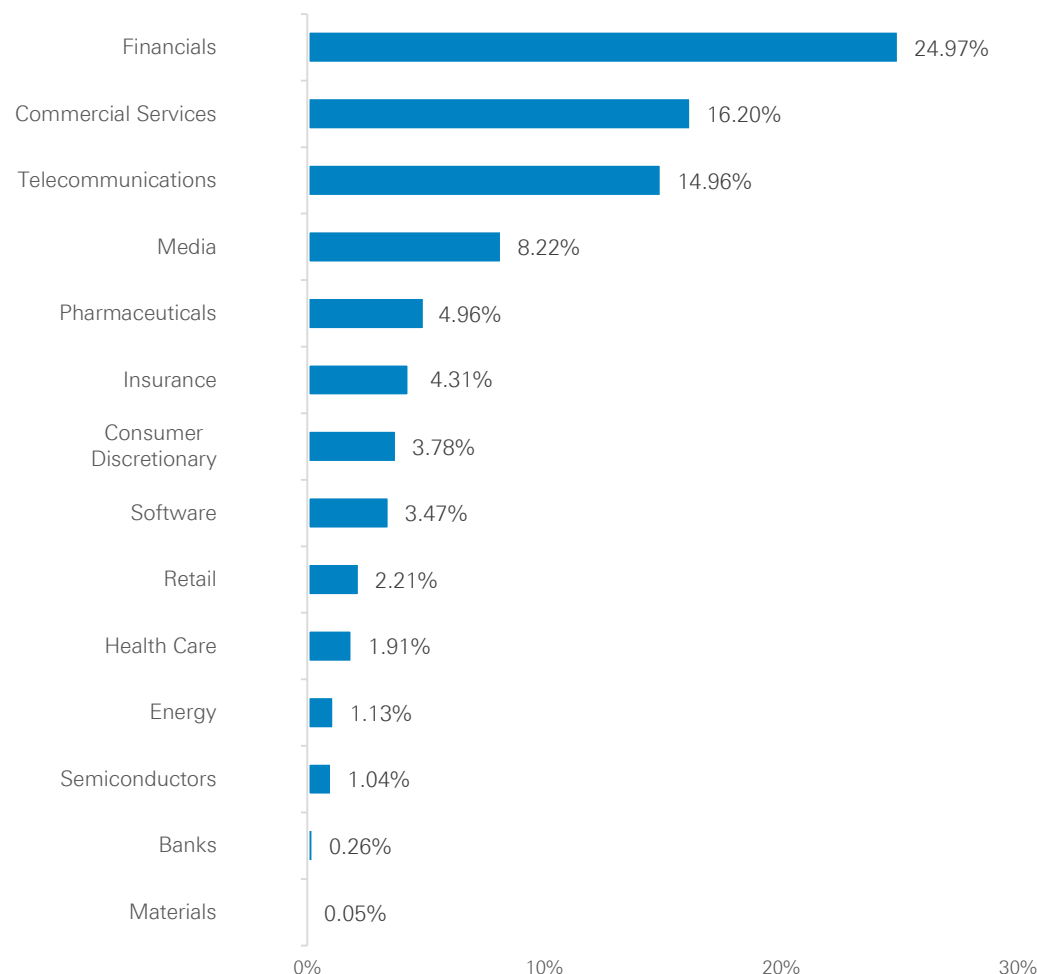
Below is a table listing the top positive contributors to NAC’s total return since inception. The purpose of the table is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio of investments that is generally limited to 0-40 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	+9.49%	Event Hospitality	+4.83%
Broadcast Services	+5.82%	Smart Group	+4.21%
My Net Fone	+5.24%	1-Page	+3.82%
Armidale Investment Corp	+4.99%	Bellamy’s Australia	+3.43%

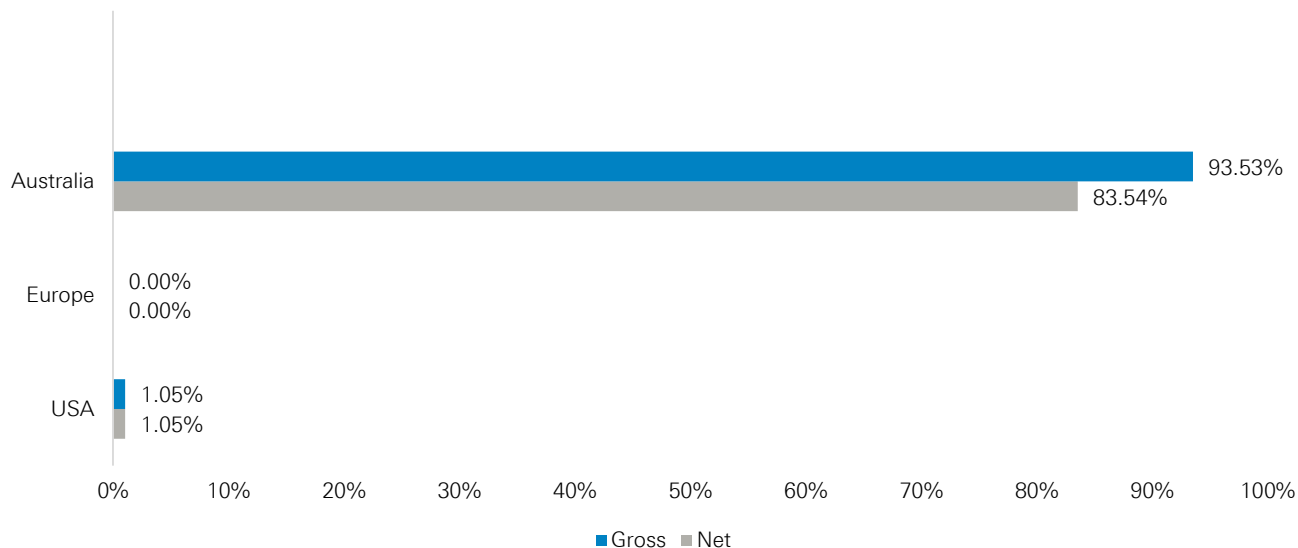
Portfolio Analysis as at 31 December 2016

As at 31 December the portfolio comprised of 21 holdings, including 19 long positions and 2 short position.

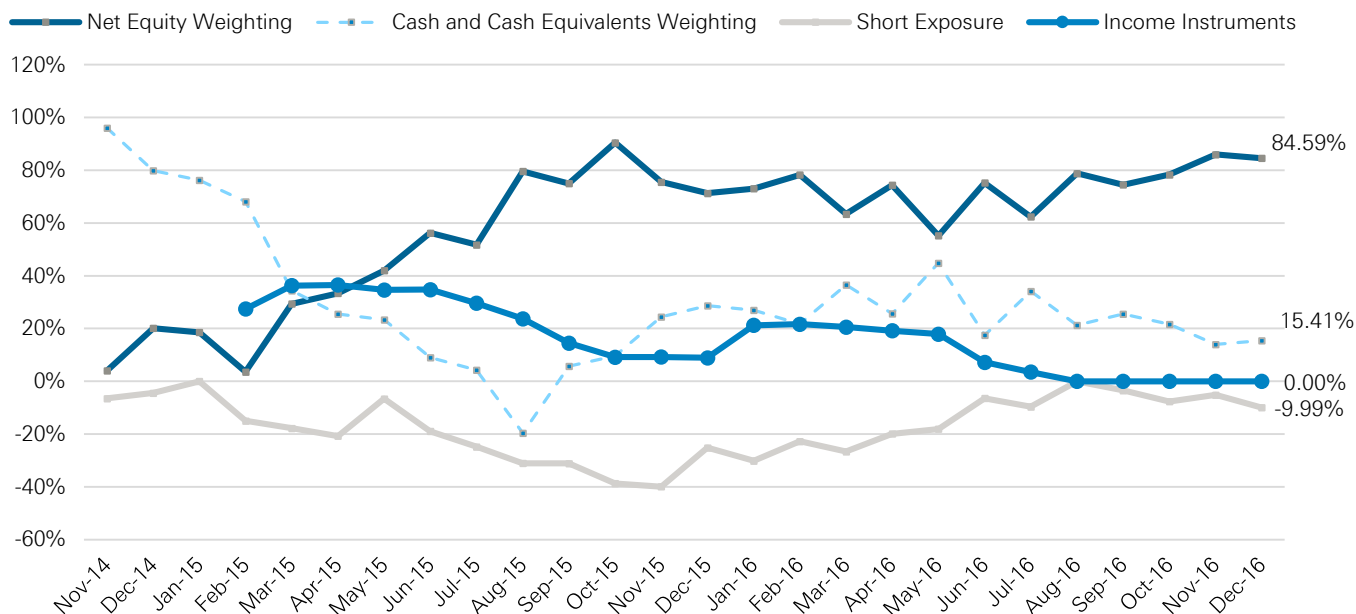
Net Industry Exposure



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 December were as follows:

- Bellamys Australia Ltd (BAL AU)
- Gentrack Group (GTK AU)
- Sirtex Medical (SRX AU)
- Automotive Holdings Group (AHG AU)
- Technology One (TNE AU)
- Platinum Asset Mgt (PTM AU)
- Websters Ltd (WBA AU)
- Dominos Pizza (DMP AU)
- Armidale Investment Corp (AIK AU)
- Elders Ltd (ELD AU)
- Synlait Milk (SNL NZ)
- Bluesky Alternatives (BLA AU)

Portfolio Characteristics – Summary Data as at 31 December 2016

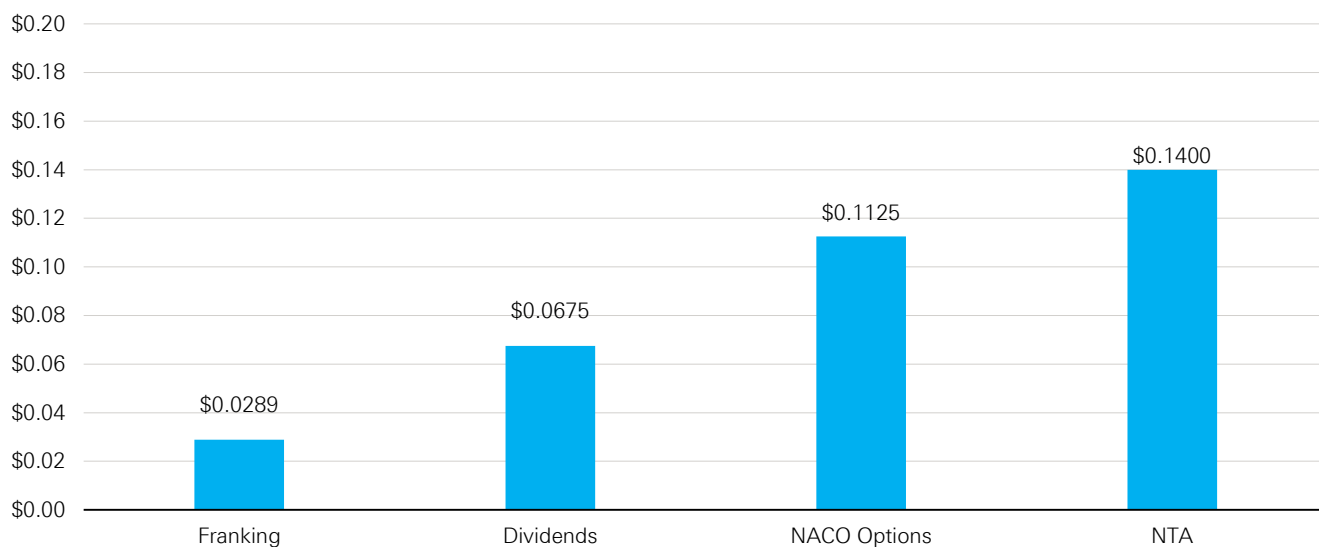
Total Number of Equity Holdings (Long & Short)	21
Total Number of Income/Debt Instruments*	0
Total Number of Holdings	21
Portfolio Weighted Market Capitalisation (AUD)	\$2.784bn
Percentage of Positive Months (NAC)	65%
Percentage of Positive Months (XAOAI)	54%
Standard Deviation of Returns (NAC)	9.65%
Standard Deviation of Returns (XAOAI)	12.62%
Correlation of Returns to XAOAI	0.44
Sortino Ratio	9.92
Downside Deviation (NAC)	2.35%
Downside Deviation (XAOAI)	7.22%
Current Estimated Portfolio Beta	0.47

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

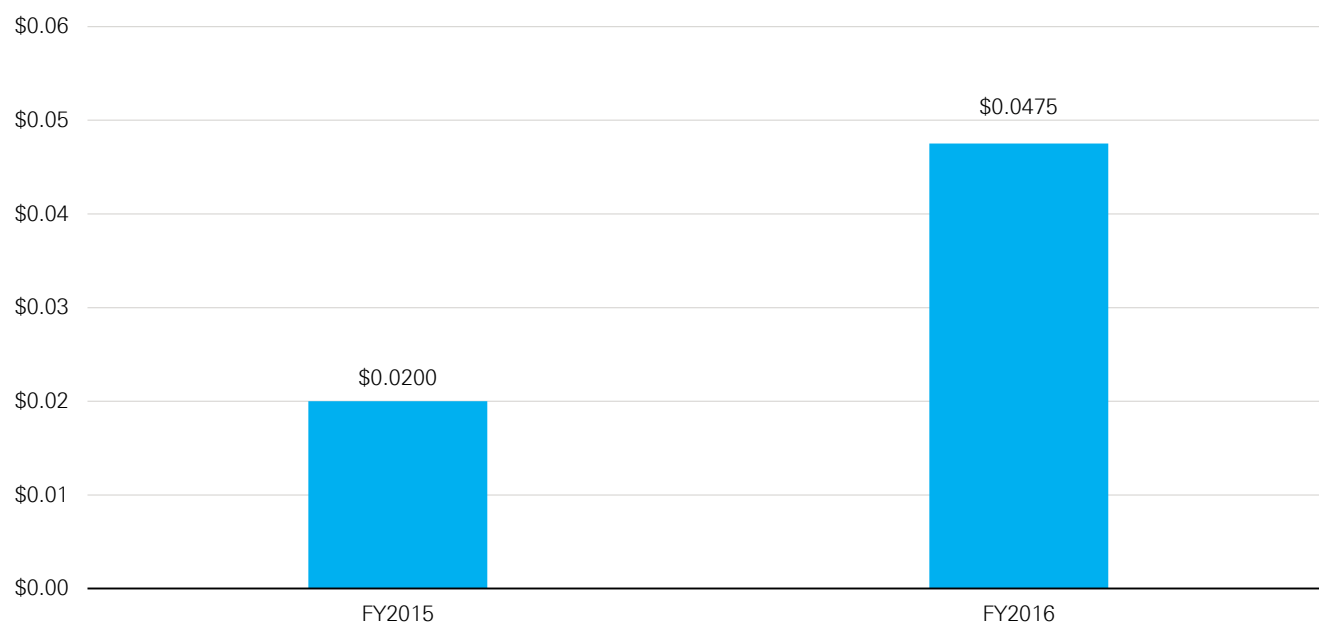
Capital Management - Summary Data as at 31 December 2016

Share Price	\$1.15
Share Price Discount/Premium to NTA (Undiluted, Pre-Tax)	0.88%
Historical Fully Franked Dividend Yield	4.13%
Historical Gross Dividend Yield	5.90%
Shares on Issue	43,000,000
Directors Shareholding	5,051,051

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 34 MLC Centre, 19 Martin Place, Sydney NSW 2000. NAOS Telephone: 61 2 9002 1576

CORPORATE DIRECTORY

Directors

David Rickards (Independent Chairman)
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

Julia Stanistreet

Communications & Marketing

Megan Walker

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