

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

May 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 May 2017

Pre Tax NTA:	\$1.07
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.09
Post Tax NTA:	\$1.07
Share Price	\$1.03
Historical Fully Franked Dividend Yield	4.85%

Investment Portfolio Performance & Market Insight

The NAC Investment Portfolio fell by -0.11% for the month of May 2017 compared to the absolute benchmark which returned +0.36% and the All Ordinaries Accumulation Index (XAOAI) which fell by -2.58%. May continued the trend from April with many businesses releasing underwhelming profit guidance, examples include Sigma Health (ASX: SIG) which fell by over -30%, AHG Group (ASX: AHG) and AP Eagers Group (ASX: APE), which both fell by over 8% for the month. Widespread selling across mid-cap companies was prevalent, with many discretionary retailers under significant pressure despite no company specific announcements, such examples include Baby Bunting (ASX: BBN) and Beacon Lighting (ASX: BLX).

In terms of portfolio specific news in May, Elders Limited (ASX: ELD) reported an impressive first half result, which sees them on track to achieve their FY17 strategic targets. Back in 2014, the company embarked on a transformation of what was then a struggling, over-gearred business lacking strategic direction. The transformation included simplifying the capital structure, reducing gearing levels, a return on capital of at least 20%, an exit of low returning businesses and a targeted FY17 EBIT of \$60m. We took a position in Elders at the beginning of this year when the company had successfully executed part of their plan, but not all of it. At our February investor roadshow, we highlighted 3 catalysts that we felt would drive a re-rating in the share price, two of which have been successfully completed since then. These consisted of a buyback of the remaining Elders hybrid shares, which occurred in February, and an exit of their live export business, which they announced on the 1st of June. The final catalyst is the resumption of dividends which we are hopeful will occur later this year when the full year results are announced.

Looking forward, Elders have a 3-year plan in place to be achieved by FY20, which on our analysis targets an EBIT of \$80m. In our view, the biggest risk to achieving this are livestock prices, however we feel Elders management have been conservative, by incorporating a 20% fall in livestock prices (\$15m EBIT impact) for their targets to be hit. We feel the new Elders business is less exposed to the agriculture cycle than it previously was and we believe management can generate growth in a wide range of market conditions. Despite the recent lift in the share price, Elders is still trading on around 11x FY17, which we feel is undervaluing the business.

	1 Month	6 Month	1 Year	2 Year (p.a.)	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	-0.11%	-5.55%	+5.46%	+16.54%	+17.45%	+50.68%
Benchmark (RBA Cash Rate + 250bps)	+0.36%	+2.15%	+4.41%	+4.84%	+4.75%	+12.55%
Relative Performance	-0.47%	-7.70%	+1.05%	+11.70%	+12.70%	+38.13%
S&P/ASX All Ordinaries Accumulation Index (XAOAI)	-2.58%	+6.88%	+10.23%	+4.33%	+6.71%	+17.99%

*Investment Portfolio performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions.

Positive Stock Contribution Analysis

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

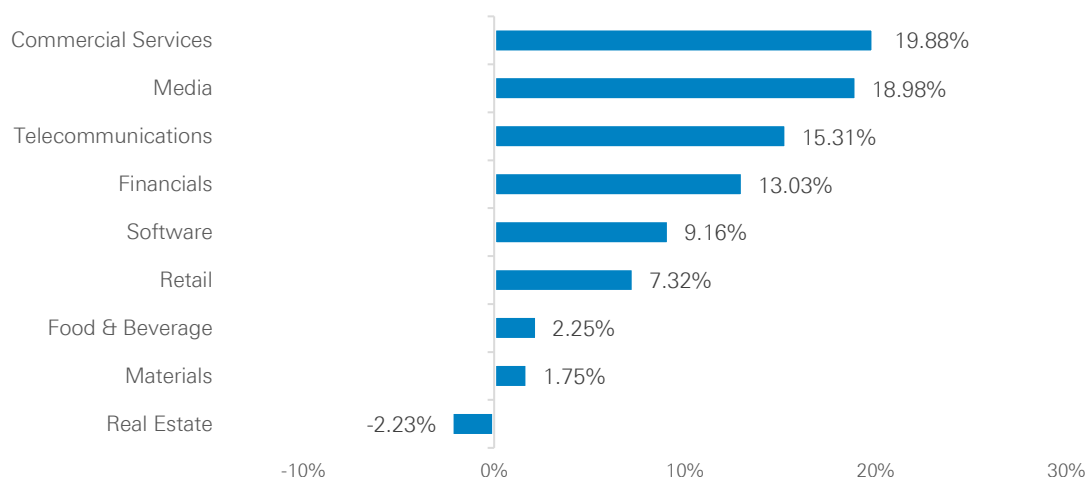
The table lists the top positive contributors to NAC’s total return since inception. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio of investments that is generally limited to 0-30 securities at any one time. 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	+9.14%	BSA Ltd	+3.89%
Enero Group	+5.20%	MNF Group	+3.78%
Event Hospitality	+4.76%	1- Page Ltd	+3.68%
Smart Group	+4.21%	Bellamy’s Australia	+3.31%

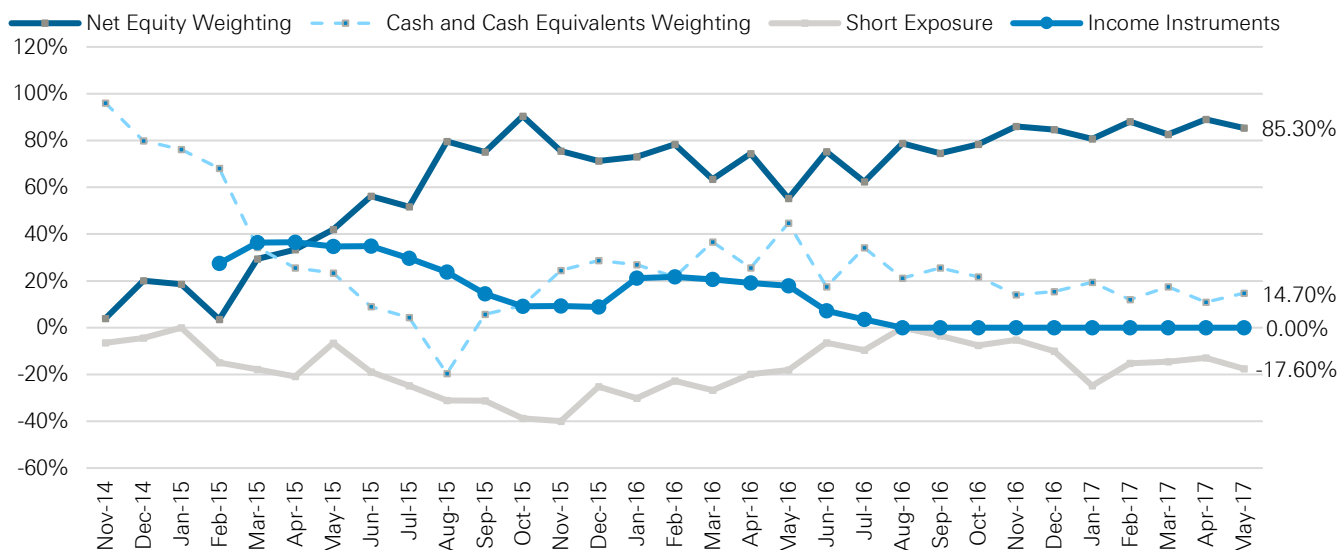
Portfolio Analysis as at 31 May 2017

As at 31 May 2017 the portfolio comprised of 19 holdings, with 16 long positions and 3 short positions.

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:

- BSA Ltd (BSA AU)
- Adacel Technologies Ltd (ADA AU)
- Consolidated Operations Group (COG AU)
- Eclipx Group Ltd (ECX AU)
- Elders Ltd (ELD AU)
- Gentrak Group Ltd (GTK AU)
- Amaysim Australia Group (AYS AU)
- Hub24 Limited (HUB AU)
- MNF Group Ltd (MNF AU)
- Smartgroup Ltd (SIQ AU)
- Lovisa Holdings (LOV AU)
- BTG PLC (BTG LSE)

Portfolio Characteristics – Summary Data as at 31 May 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 investor's 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.

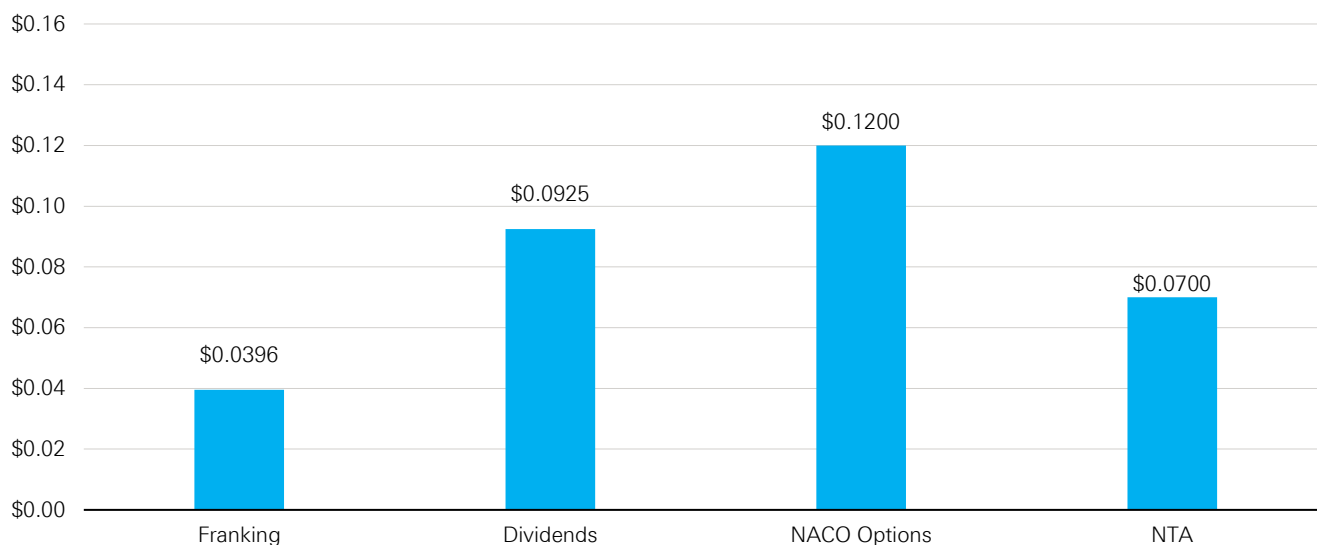
Total Number of Equity Holdings (Long & Short)	19
Total Number of Income/Debt Instruments*	0
Portfolio Weighted Market Capitalisation (AUD)	\$315.61m
Percentage of Positive Months (NAC)	61%
Percentage of Positive Months (XAOAI)	55%
Standard Deviation of Returns (NAC)	9.67%
Standard Deviation of Returns (XAOAI)	11.90%
Correlation of Returns to XAOAI	0.39
Sortino Ratio	5.75
Downside Deviation (NAC)	3.04%
Downside Deviation (XAOAI)	6.91%
Current Estimated Portfolio Beta	0.35

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

Capital Structure - Summary Data as at 31 May 2017

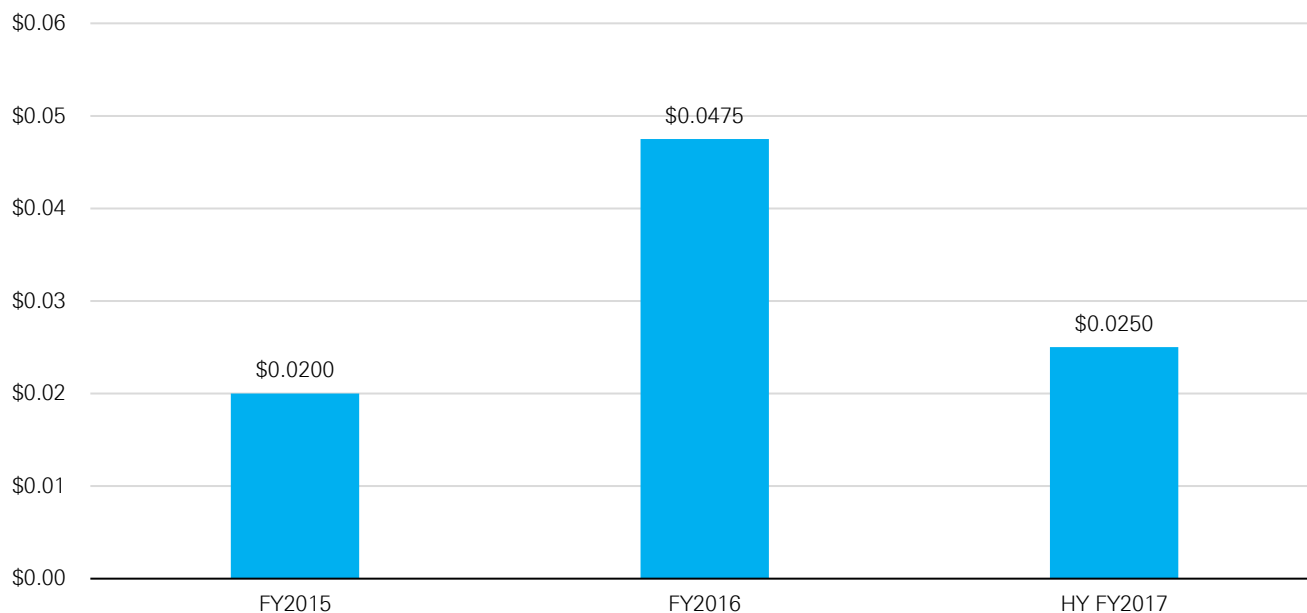
Share Price	\$1.03
Share Price Premium/(Discount) to Pre-Tax NTA	(-3.74%)
Shares on Issue	52,536,889
Directors Shareholding	6,643,760

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:

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

Sebastian Evans (Chief Investment Officer)
Ben Rundle (Portfolio Manager)
Jeffrey Kim (Portfolio Manager)
Robert Miller (Portfolio Manager)
Chadd Knights (Investment Analyst)

Chief Financial/Operating Officer

Richard Preedy

Business Development Manager

Julia Stanistreet

Communications & Marketing

Megan Walker

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