

# NAOS Absolute Opportunities Company (NAC)

NAOS

## MONTHLY INVESTMENT REPORT AND NTA UPDATE

November 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 30 November 2016

Pre Tax NTA:	\$1.16
Post Tax & Pre Unrealised Gains NTA:	\$1.18
Post Tax NTA:	\$1.13
Share Price	\$1.15

\*The Above NTA Values Are Exclusive of the \$0.025 Dividend (Ex -Dividend Date 11/11/2016)

### Investment Portfolio Performance to 30 November 2016

The NAOS Absolute Opportunities portfolio produced a return of -0.63% for the month of November. The S&P ASX All Ordinaries Accumulation Index closed up 2.46% after falling almost 3% at the beginning of the month over concerns regarding the US election. Following Trump's victory, stocks rebounded while gold fell after an initial spike. The economic data in Australia was broadly weaker than expected after building approvals saw a significant decline. Pleasingly however, Australian employment numbers improved with the unemployment rate falling from 5.7% to 5.6%, which has decreased significantly from a peak of 6.3% at the beginning of 2015. The market was led higher by the banking index, with all four of the major banks now having announced increases to their home loan rates, despite the Reserve Bank making no adjustment to the official cash rate. This is known as an 'out-of-cycle' rate rise and has the effect of improving a bank's Net Interest Margin (NIM) which is the difference between their funding rates and the rate they lend to borrowers. An improved NIM can lead to improved profitability.

Since the beginning of November, there has been a notable sell-off in 'expensive growth' stocks which was triggered by a move higher in global bond yields. Low economic growth has for some time rendered returns in large cap stocks difficult to come by and as a result we have seen what we define as 'non-natural' owners of stocks within ASX listed small and mid-cap indices. This worked well for a period as it appeared returns could be found in stocks at any price, provided they showed some level of above average growth, along with a large addressable market. However, the past 8 weeks have shown us just how quickly these returns can unwind. Due to the levels of capital loss, a lot of the stocks within those indices are now being labelled as 'highly risky' due to the level of 'volatility' we have seen. We disagree with this notion and believe that now is the time where opportunities are created. As highly regarded investor Seth Klarman once said *"We steer clear of the foolhardy academic definition of risk and volatility, recognising instead, that volatility is a welcome creator of opportunity."*

	1 Month	6 Month	1 Year	2 Year	Inception (p.a.)	Inception (Nom.)
<b>NAC Investment Portfolio Performance*</b>	-0.63%	+11.66%	+35.14%	+25.95%	+25.58%	+59.54%
<b>Benchmark (RBA Cash Rate + 250bps)</b>	+0.35%	+2.21%	+4.71%	+4.84%	+4.84%	+10.18%
<b>Relative Performance</b>	<b>-0.98%</b>	<b>+9.45%</b>	<b>+30.43%</b>	<b>+21.11%</b>	<b>+20.74%</b>	<b>+49.36%</b>

<b>S&amp;P/ASX All Ordinaries Accumulation Index (XAOAI)</b>	+2.46%	+3.13%	+10.01%	+6.47%	+4.94%	+10.39%
<b>MSCI ACWI (Net, Dividends Reinvested, AUD Terms)</b>	+4.15%	+1.80%	+1.92%	+8.45%	+9.99%	+21.55%

\*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<sup>th</sup> November 2014)

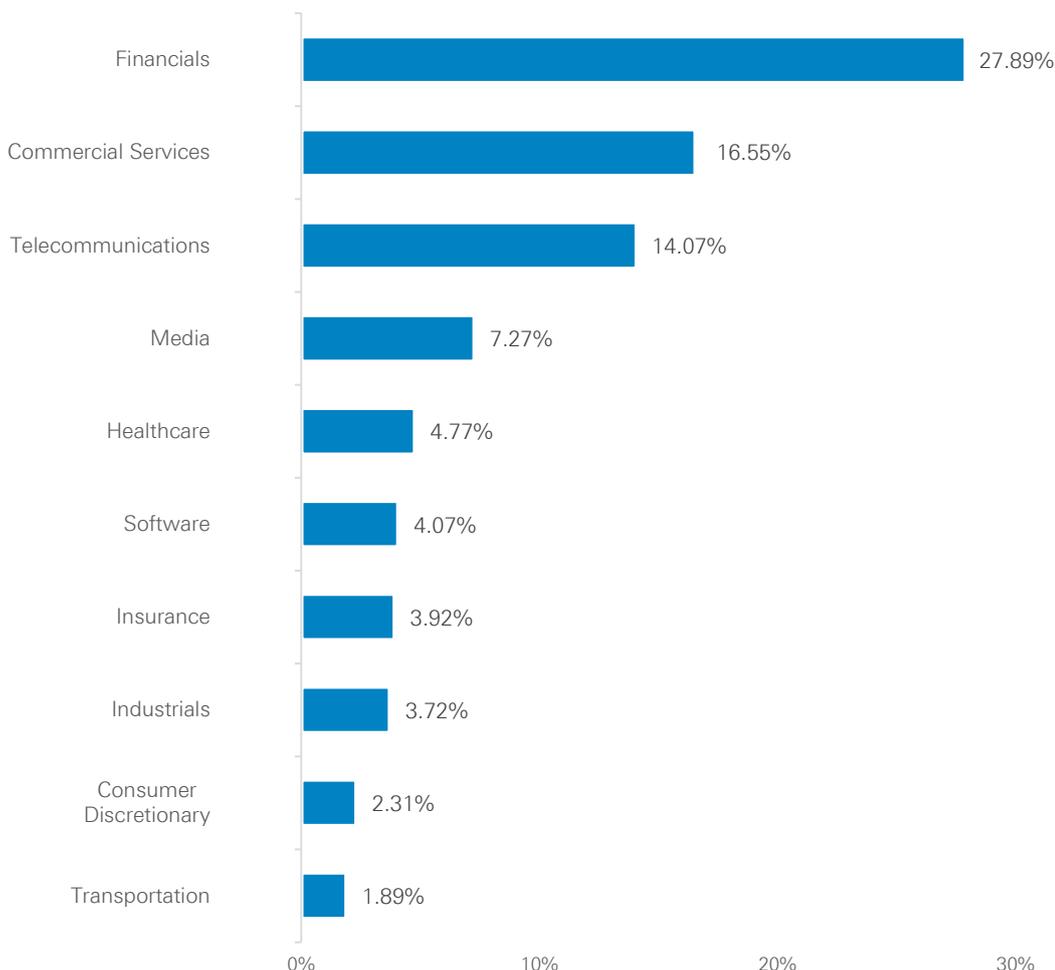
Below is a table listing the top positive contributors to NAC’s total return since inception. The purpose of the table is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio 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	+9.78%	My Net Fone	+4.94%
Armidale Investment Corp	+7.20%	1-Page	+3.93%
Broadcast Services	+5.10%	Sirtex Medical	+3.88%
Event Hospitality	+4.97%	Smart Group	+3.83%

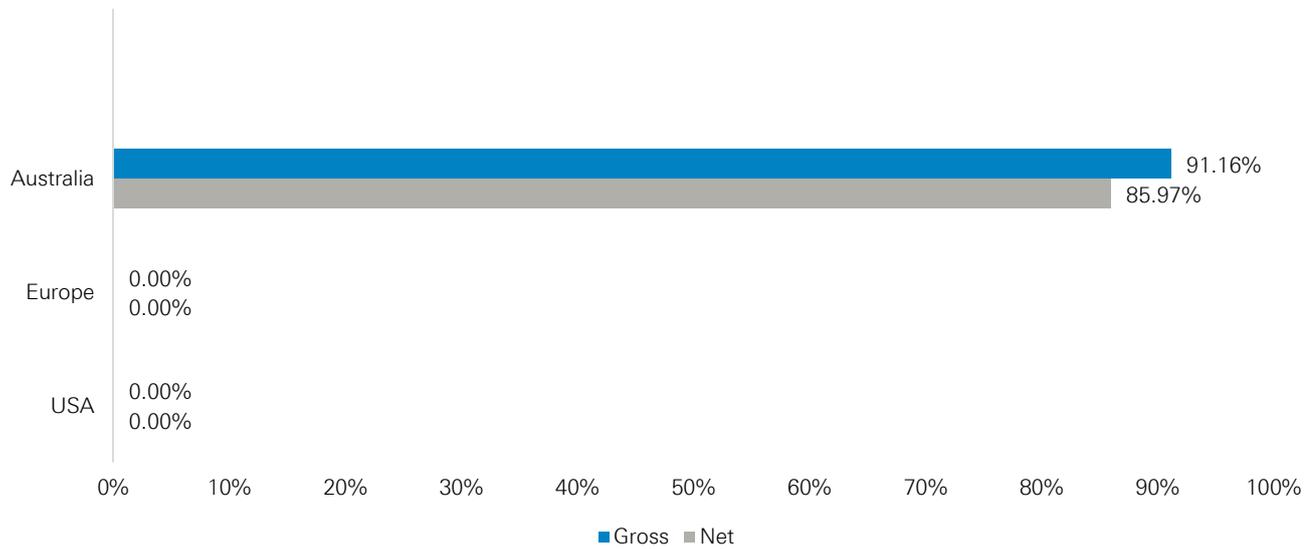
**Portfolio Analysis as at 30 November 2016**

As at 30<sup>th</sup> November the portfolio comprised of 17 holdings, including 16 long positions and 1 short position.

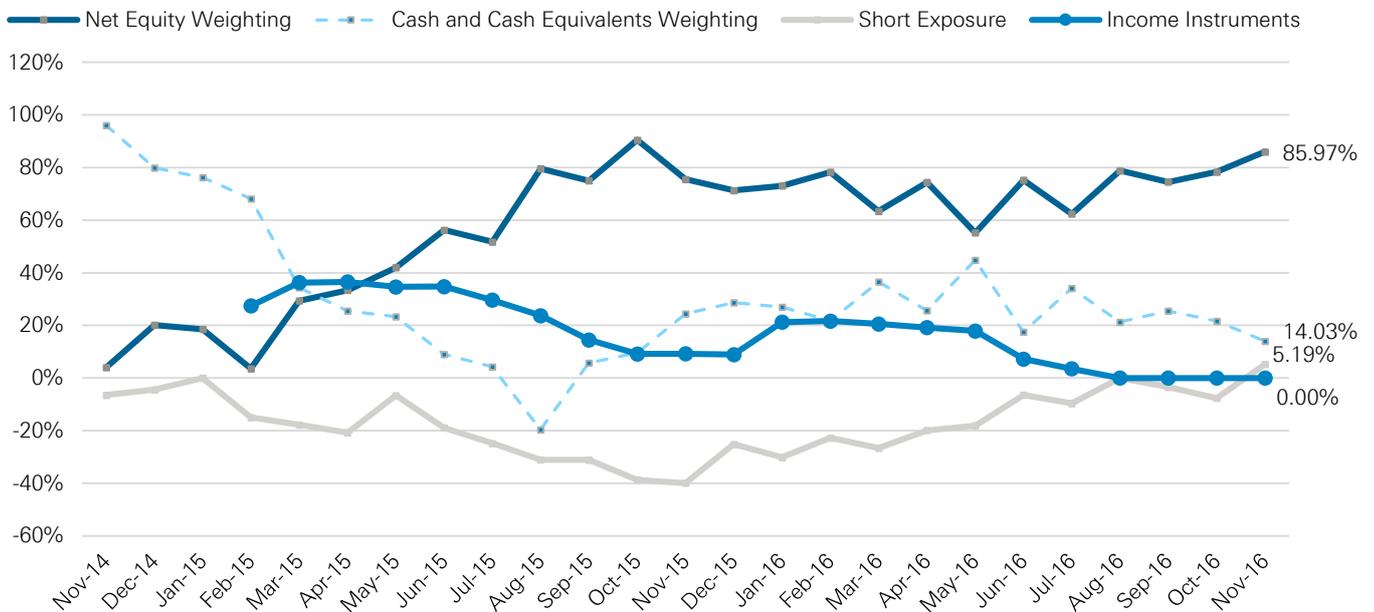
**Net Industry Exposure**



Geographical Equity Exposure



Net Equity Exposure



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### Monthly Investment Report and NTA Update | November 2016

#### 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 November were as follows:

- BSA Ltd (BSA AU)
- AMA Group (AMA AU)
- Netcomm Wireless (NTC AU)
- MNF Group (MNF AU)
- RCG Corp (RCG AU)
- Biostime International (1112 HK)
- Armidale Investment Corp (AIK AU)
- Gentrack Group (GTK AU)
- Platinum Asset Mgt (PTM AU)
- Scottish Pacific (SCO AU)
- Keyword Studios (KWS LN)
- Samsonite International (1910 HK)

#### Portfolio Characteristics – Summary Data as at 30<sup>th</sup> November 2016

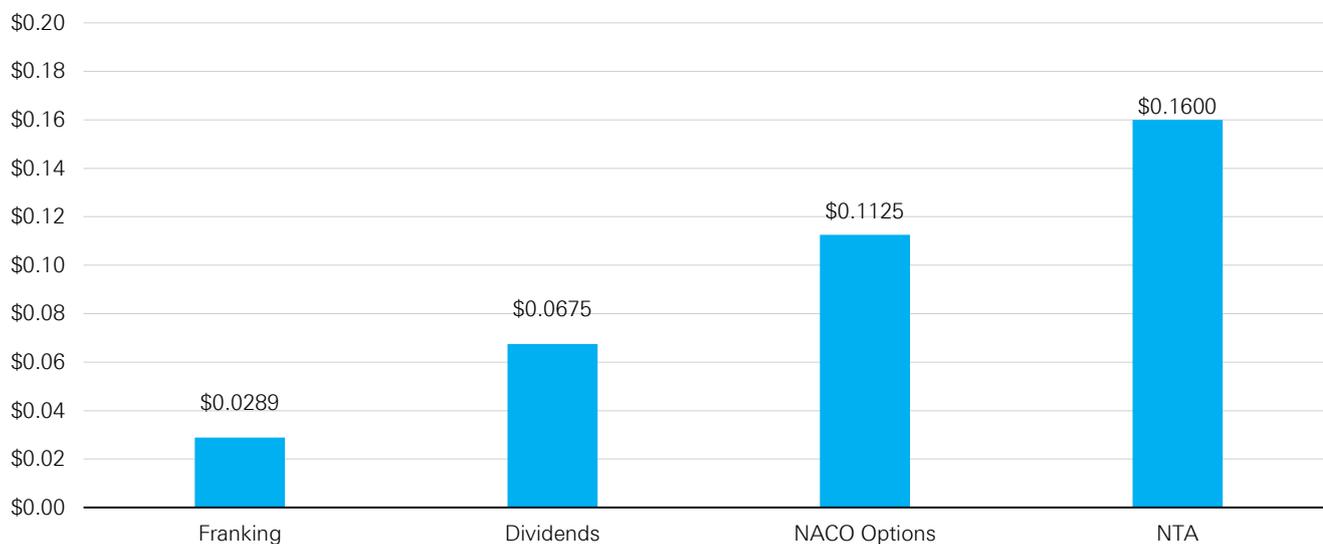
Total Number of Equity Holdings (Long & Short)	17
Total Number of Income/Debt Instruments*	0
Total Number of Holdings	17
Portfolio Weighted Market Capitalisation (AUD)	\$827.4m
Percentage of Positive Months (NAC)	72%
Percentage of Positive Months (XAOAI)	52%
Standard Deviation of Returns (NAC)	9.47%
Standard Deviation of Returns (XAOAI)	12.63%
Correlation of Returns to XAOAI	0.52
Sortino Ratio	11.10
Downside Deviation (NAC)	2.30%
Downside Deviation (XAOAI)	7.22%
Current Estimated Portfolio Beta	0.5142

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

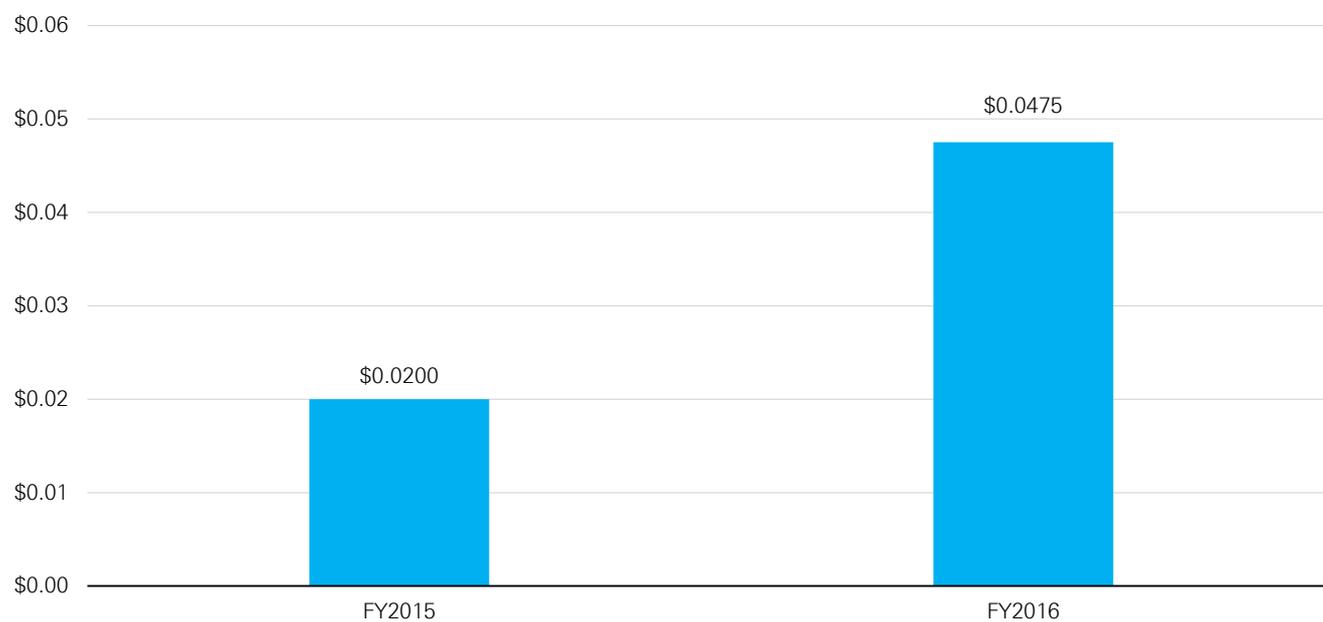
#### Capital Management - Summary Data as at 30<sup>th</sup> November 2016

Share Price	\$1.15
Share Price Discount/Premium to NTA (Undiluted, Pre-Tax)	-0.43%
Historical Fully Franked Dividend Yield	4.13%
Historical Gross Dividend Yield	5.90%
Shares on Issue	42,792,598
Options on Issue	207,402
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

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

Julia Stanistreet

#### Communications & Marketing

Megan Walker

#### Share Registry

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Facsimile: 1300 653 459

#### Investment Manager

NAOS Asset Management Limited  
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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

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