

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

JANUARY 2015

COMPANY OVERVIEW

Investment Objective

The NAOS Absolute Opportunities Company (ASX: NAC) provides investors with exposure to domestic and international companies in a manner which has low correlation to broader equity market movements. The Company seeks to pay a minimum yield of 4.00% p.a., franked to the maximum extent possible. The Company seeks to generate income for investors through a concentrated long/short portfolio structure.

Investment Process

A unique 5 step investment process that places a strong emphasis on long term industry dynamics, management team capabilities and track record of producing significant shareholder value over the medium to long term. Finally, catalysts are identified for each potential investment so that these investments will be re-rated by the market and trade on valuations closer to their larger counterparts.

Investment Strategy

To actively manage a concentrated portfolio (approximately 0-30 positions) of high quality ASX and internationally listed companies across a wide range of industries which investors may have otherwise limited exposure to. The Company has adopted a concentrated, absolute return, long/short strategy placing primary focus on generating positive absolute returns and not relative outperformance in all market conditions.

Inception Date: 12th November 2014

Benchmark: RBA Cash Rate + 250bps

**Shares on Issue (ASX: NAC):
21,500,000**

**Listed Options on Issue Exercisable
at \$1.00 Prior 30th November 2016
(ASX: NACO): 21,500,000**

**Dividend Yield: Targeted Minimum
4.00% p.a.**

Net Tangible Asset Value Breakdown as at 31st January 2015 (NTA Diluted for Remaining NACO Options)

Pre Tax NTA:	\$1.01 (\$1.01)
Post Tax & Pre Unrealised Gains Tax:	\$1.01 (\$1.01)
After Tax NTA:	\$1.01 (\$1.00)

Investment Portfolio Performance to 31st December 2014

NAC's Investment Portfolio posted a positive return for the month of January of +2.77% compared to the absolute benchmark of +0.42% (RBA Cash Rate + 250 Basis Points) and the MSCI ACWI All Cap Index, which rose by +3.68% (AUD, Net Dividends Reinvested).

	Since Inception (Nominal)
NAC Investment Portfolio Performance*	+1.62%
Benchmark (RBA Cash Rate + 250bps)	+1.08%
MSCI ACWI All Cap Index (AUD, Net Div Reinvested)	+9.67%
Performance Relative to Benchmark	+0.54%

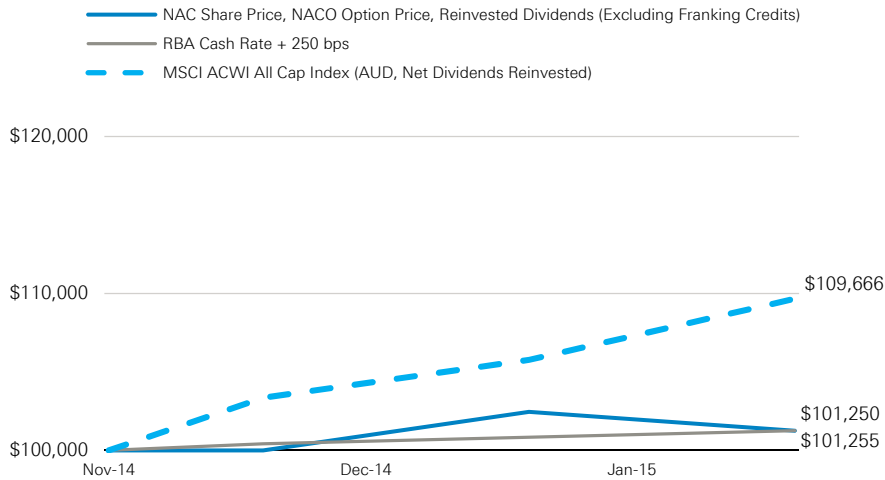
Investment portfolio performance is post all operating expenses, before fees, taxes. Performance has not been grossed up for franking credits received by shareholders. Inception date was 12th November 2014. The MSCI ACWI All Cap Index captures large, mid, small and micro cap representation across 23 Developed Markets (DM) countries and large, mid and small cap representation across 23 Emerging Markets (EM) countries. With 14,330 constituents, the index is comprehensive, covering approximately 99% of the global equity investment opportunity set.

Positive Stock Attribution Analysis (12th November 2014 to 31st January 2015)

Below is a chart which lists the top positive contributors to NAC total return since inception. The purpose of the chart 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 highly concentrated portfolio of investments that is often 0-30 securities at any one time. All of the below may either of been a long or short position.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
USD ETF	+2.44%	APN News & Media Limited	+0.24%
National Australia Bank	+0.75%	Amalgamated Holdings Limited	+0.14%
Village Roadshow Limited	+0.58%	Reece Australia Limited	+0.12%
Wesfarmers Limited	+0.24%	Nextdc Limited	+0.12%

Shareholder Return Analysis (IPO Investors)



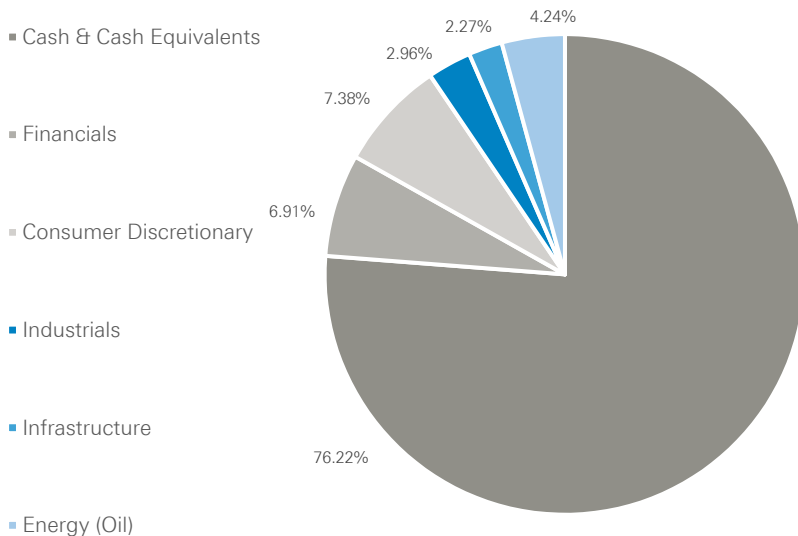
Portfolio Positioning as at 31st January 2015

We implemented four new positions into the NAC portfolio during the month of January. The key themes we are looking to capitalise on are the fall in the Australian dollar and the positive impact it should have on the Australian tourism industry, a decrease in Australian interest rates by the RBA and falling oil prices.

As at the end of the month the portfolio was comprised of 10 long positions and no short positions.

The investment team continues to focus on stock specific names that will provide positive absolute returns regardless of market movements or opportunities that the team believes are significantly overvalued by the market and offer excellent shorting opportunities. Shorting opportunities are those deemed to have a clear catalyst to realizing potential gains.

Industry Breakdown



Market Insight

The New Year started very positively for the Australian equity market with the S&P/ASX-200 rising +3.0% for the month of January. The Small Ordinaries Accumulation Index lagged its larger counterparts finishing the month with a positive return of just +0.91%.

It was an extremely eventful month with the market attention focussed on the plunging oil price and the European Central Banks (ECB) launch of their long awaited stimulus program.

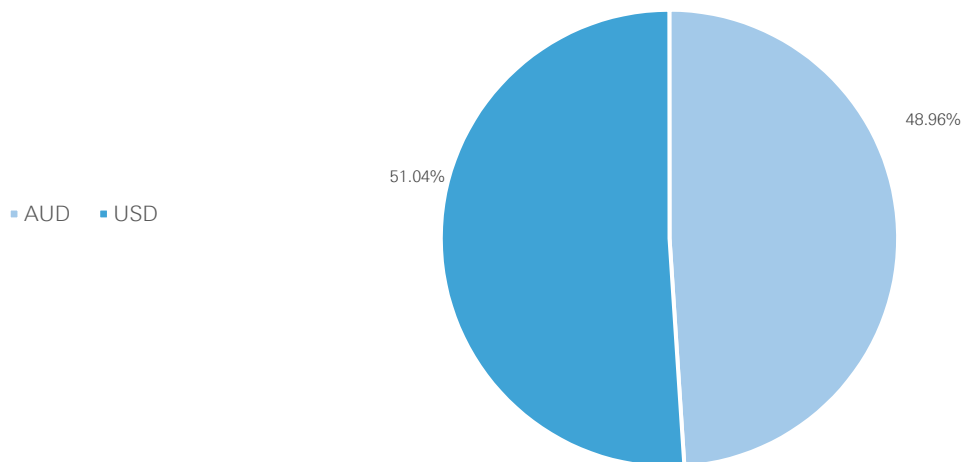
The oil price fell more than -17% in the month of January which resulted in the energy sector in the ASX falling by -6.5%.

Mario Draghi led the ECB into an unprecedented era for Europe with a 1.1 trillion Euro quantitative easing program to help stave off deflation and promote economic growth. As per the previous year, this has further stoked the demand for yield within the ASX and this was no more apparent in two household names being Telstra which touched a 13 year high and Commonwealth Bank which briefly touching the \$90 level.

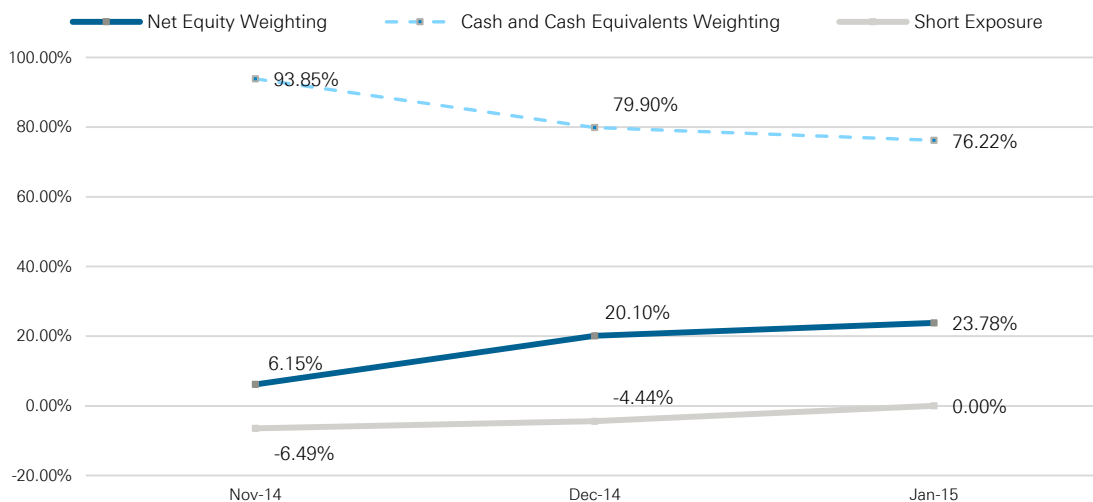
In the US, consumer spending and sentiment levels remained elevated but surprisingly economic growth for the fourth quarter was softer than expected as consumers in the US, much like their counterparts within Australia, paid down debt from surplus cash flow due to lower petrol prices as opposed to increasing their consumption levels.

Market consolidation picked up the pace with a number of notable bids taking place in January. This included job recruitment firm Chandler MacLeod and the proposed merger between Programme Maintenance and Skilled Engineering. The private equity backed bid for engineering firm Bradken failed due to the inability to secure financing. Interestingly, out of the last ten bids made by private equity eight have not been completed highlighting the increased risk of deal execution when a listed company is formally approached by private equity firms.

Currency 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 Investment Management Team has contact with many listed and unlisted companies across a wide range of industries. A sample of the companies we engaged with during the month of January are as follows:

- Altium Limited (ALU)
- Donaco International Limited (DNA)
- Resmed (RMD)
- Sandisk Corp (SNDK)
- Karoon Gas Australia Limited (KAR)
- Virtus Health Limited (VRT)
- Alibaba Group Holdings (BABA)
- Yahoo Inc (YHOO)
- Life Health Care Group (LHC)

Disclaimer:

This report has been prepared by NAOS Asset Management Ltd. Information retained in this report does not represent 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 the offer documents and should seek their own financial product advice. Information in this report has been given in good faith. Returns are compounded for periods greater than 12 months. The Investment Manager of the Company is NAOS Asset Management Ltd (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

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Warwick Evans (Director)
Sebastian Evans (Director)

Company Secretary

Lawrence Adams
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Jeffrey Kim (Portfolio Manager)
Robert Miller (Portfolio Manager)
Ben Rundle (Portfolio Manager)

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