

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

July 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 31st July 2016

Pre Tax NTA:	\$1.21
Post Tax & Pre Unrealised Gains NTA:	\$1.20
Post Tax NTA:	\$1.17

*The above NTA calculations do not account for any potential dilution from the 13,601,250 NACO options that remain on issue (expiry 30th November 2016) and which are exercisable at \$1.00

****A gentle reminder that NAOS will be holding our inaugural semi-annual investor roadshow presentations in Sydney, Melbourne, Brisbane, Adelaide and Canberra. The presentation is open to current and prospective shareholders though RSVP is essential for catering requirements so please register your attendance at enquiries@naos.com.au**

Investment Portfolio Performance to 31st July 2016

The NAC investment portfolio produced a return of +3.81% for the month of July. Global equity markets kicked off the new financial year with an impressive rally which caught many investors by surprise. As we have stated in previous reports, due to our conservatively positioned portfolio we will tend to underperform a significant rise in equity markets and we hope to outperform and preserve capital when the market falls.

Within the portfolio SmartGroup (SIQ.ASX) was the best performer for the month. SIQ is a stock we have been publicly bullish on for the past 12 months. It is a company which produces very impressive free cash flow and requires little capital expenditure to do so. We rate the management team of SIQ very highly and they hold a significant number of shares in the company, many of which have been bought on the market.

During the month SIQ announced the acquisition of an unlisted novated leasing operator called Selectus. We believe the acquisition is a sensible one and a positive step forward for SIQ to grow the novated leasing side of their business. In order to fund the acquisition SIQ conducted a book build placement, the demand for which was so strong, the money was raised at an almost 7% premium to the last traded price. As a further example of management aligning themselves with shareholders, some of the management team acquired more stock on market post the capital raising.

Readers will notice within the industry exposure breakdown on page 2 of this report that the portfolio did not have any gold exposure. The portfolio did have a 5% exposure to gold during the month, however prior to month end we sold out of our position. We will look to replace this in the future as we believe gold does provide a hedge against significant market instability.

	1 Month	3 Month	6 Month	1 Year	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	+3.81%	+8.26%	+18.64%	+34.70%	+25.44%	+47.56%
Benchmark (RBA Cash Rate + 250bps)	+0.39%	+1.17%	+2.39%	+4.81%	+4.93%	+8.61%
Relative Performance	+3.42%	+7.09%	+16.25%	+29.89%	+20.51%	+38.95%

S&P/ASX All Ordinaries Accumulation Index (XAOAI)	+6.29%	+7.07%	+14.08%	+4.02%	+6.37%	+11.18%
MSCI ACWI (Net, Dividends Reinvested, AUD Terms)	+2.46%	+3.99%	+5.36%	-3.94%	+10.07%	+17.91%

*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 12th November 2014)

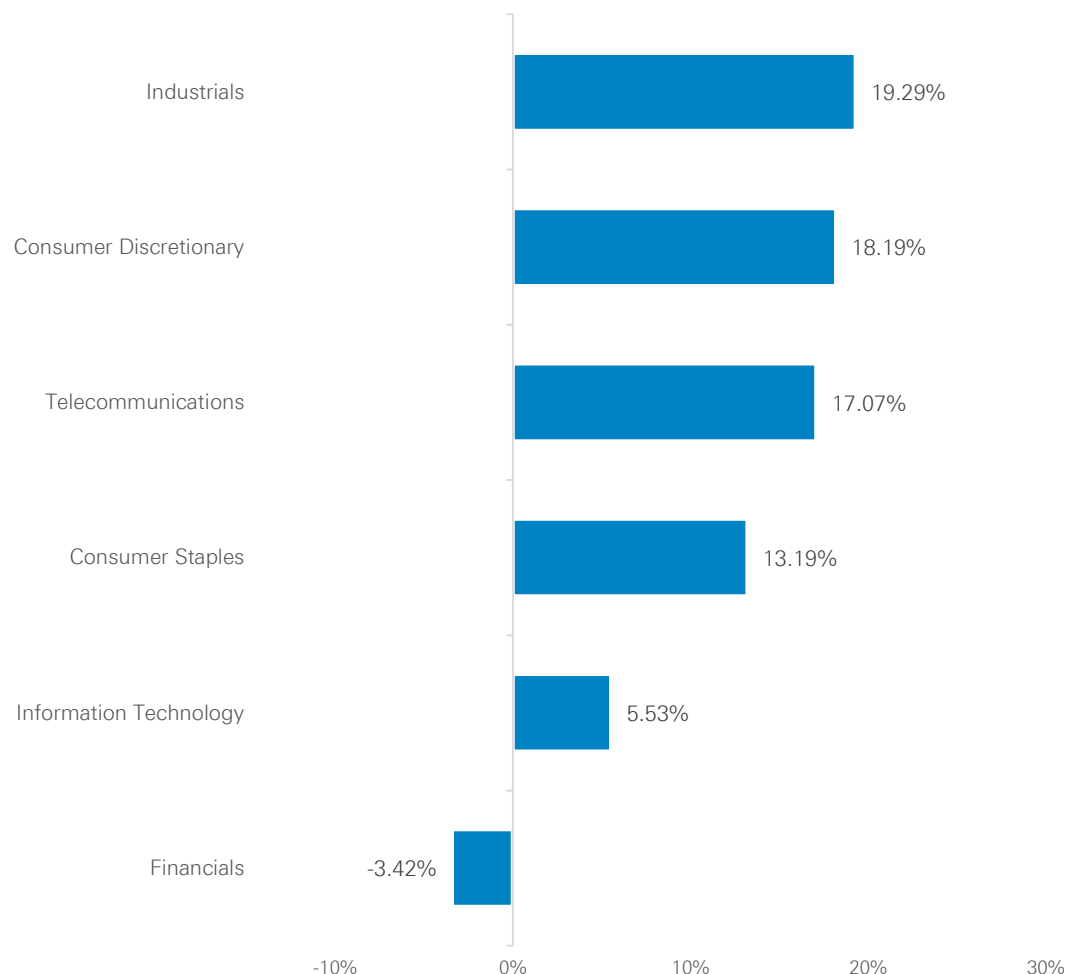
Below is a table listing the top positive contributors to NAC’s total return since inception. The purpose of the table is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio 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	+9.06%	Enero Group	+3.71%
Event Hospitality	+4.52%	BSA Ltd	+3.67%
Sirtex Medical	+4.37%	1-Page Ltd	+3.63%
SmartGroup Ltd	+4.30%	Bellamy’s Australia	+2.92%

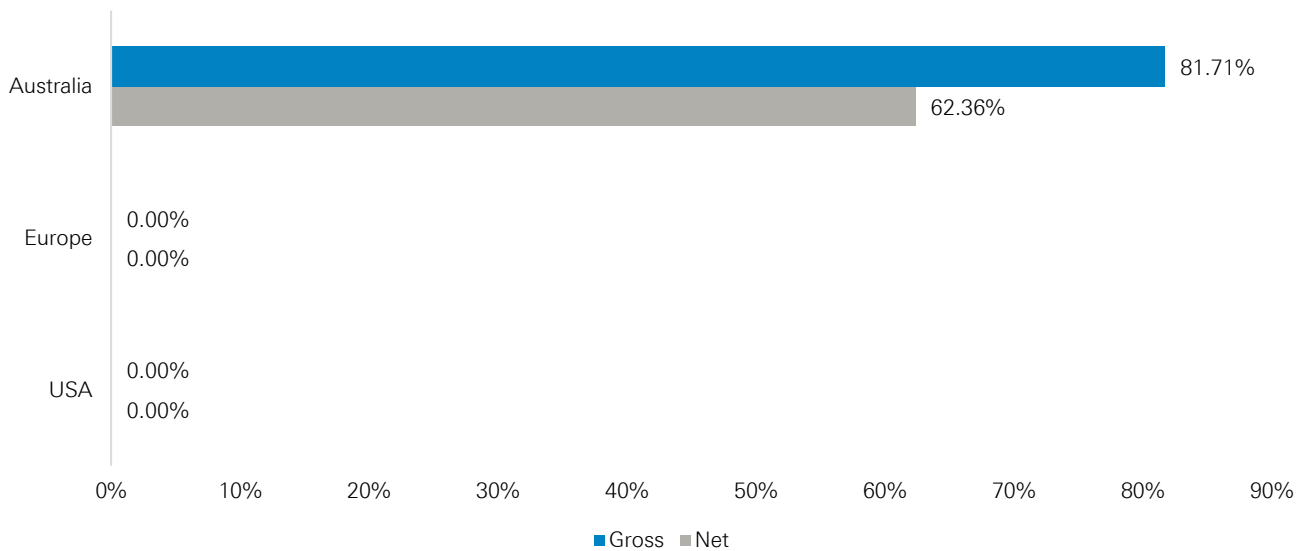
Portfolio Analysis as at 31st July 2016

As at 31st July the portfolio comprised of 17 holdings, including 13 long equity positions, 3 short equity positions and 1 income instrument.

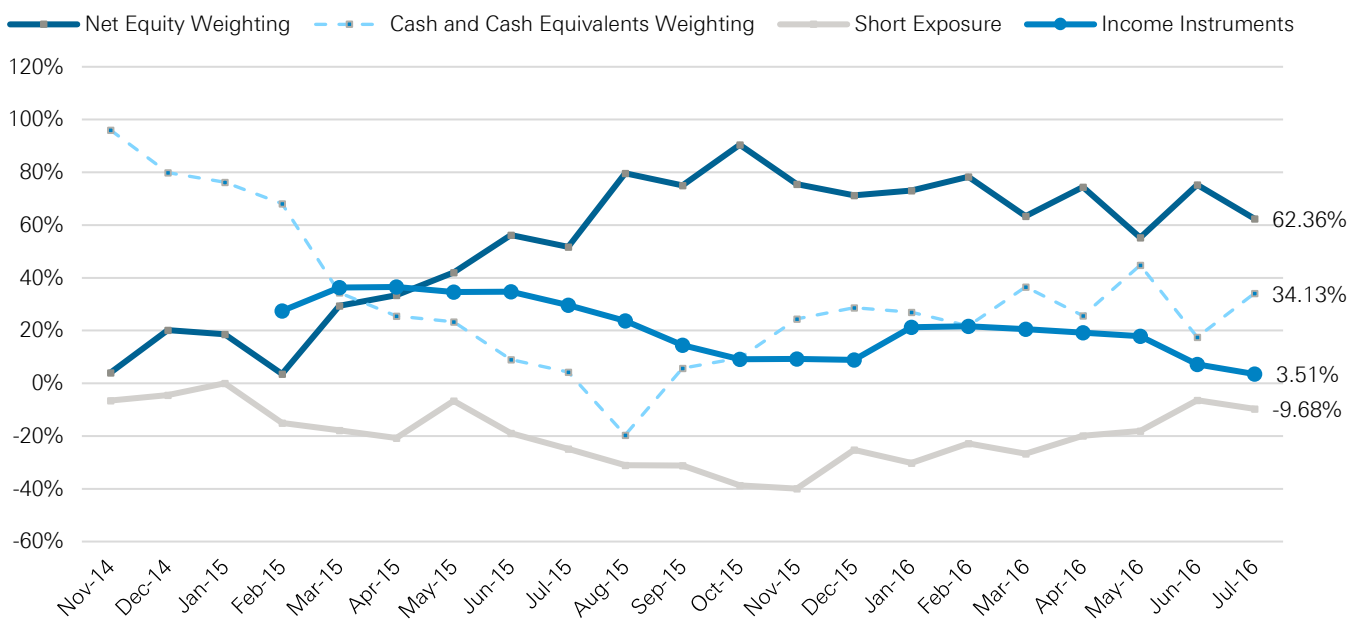
Net Industry Exposure



Geographical Equity Exposure



Net Equity Exposure



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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 July were as follows:

- Sigma Pharmaceuticals (SIP AU)
- SmartGroup Ltd (SIQ AU)
- Pro Medicus Ltd (PME AU)
- Whitehaven Coal (WHC AU)
- CSR Ltd (CSR AU)
- Qantm IP (IPO)
- St Barbara Mines (SBM AU)
- Oroton Ltd (ORL AU)
- G.U.D Holdings (GUD AU)
- Elanor Investor Group (ENN AU)

Portfolio Characteristics – Summary Data as at 31st July 2016

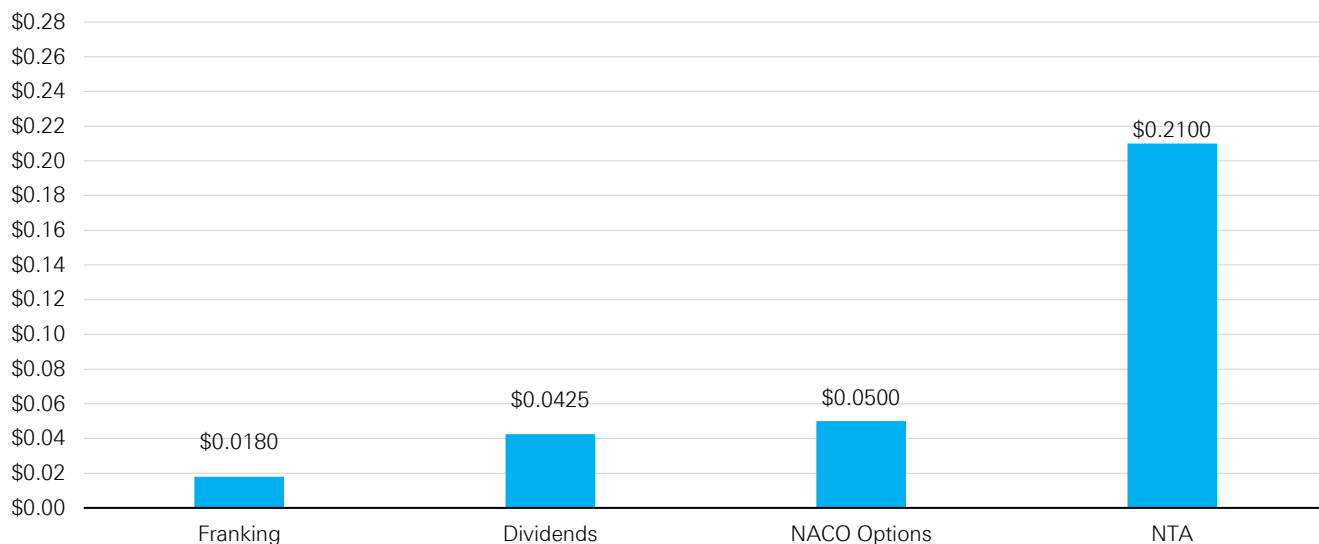
Total Number of Equity Holdings (Long & Short)	16
Total Number of Income/Debt Instruments*	1
Total Number of Holdings	17
Portfolio Weighted Market Capitalisation (AUD)	\$1.25bn
Percentage of Positive Months (NAC)	71%
Percentage of Positive Months (XAOAI)	52%
Standard Deviation of Returns (NAC)	9.64
Standard Deviation of Returns (XAOAI)	13.47
Correlation of Returns to XAOAI	59.19
Sortino Ratio	12.72
Downside Deviation (NAC)	2.00
Downside Deviation (XAOAI)	7.71
Current Estimated Portfolio Beta	0.0846

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

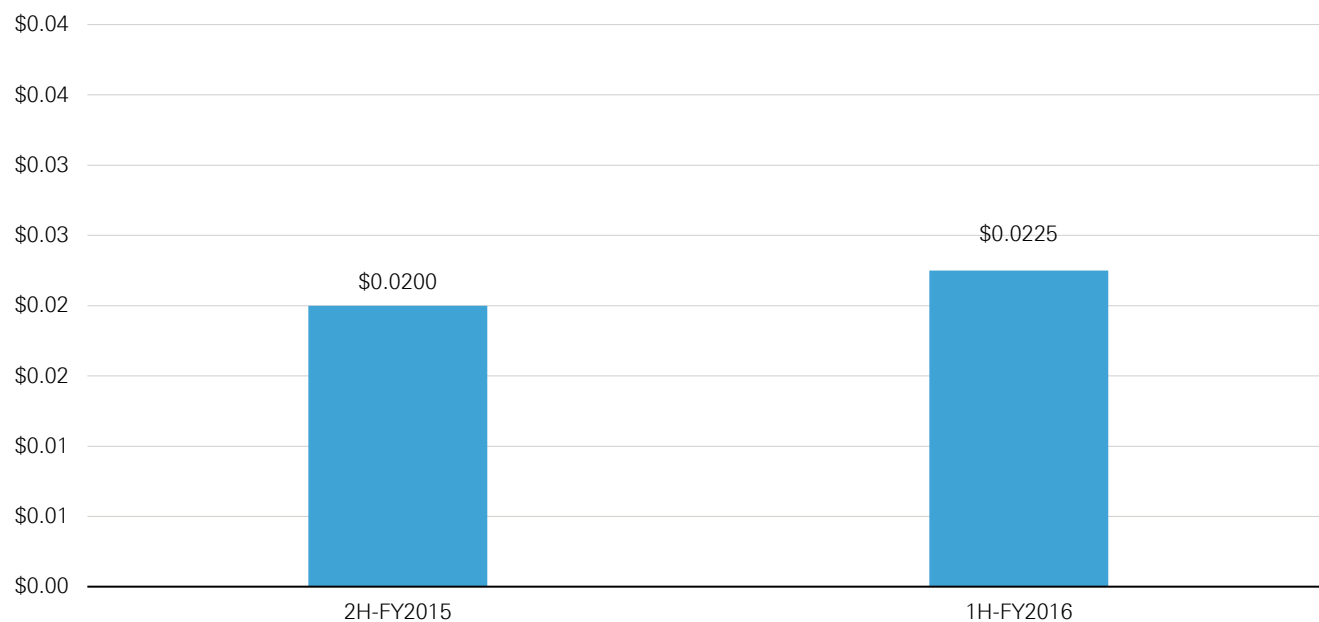
Capital Management - Summary Data as at 31st July 2016

Share Price	\$1.055
Share Price Discount/Premium to NTA (Undiluted, Pre-Tax)	-12.8%
Historical Fully Franked Dividend Yield	4.02%
Historical Gross Dividend Yield	5.74%
Shares on Issue	29,398,750
Options on Issue	13,601,250
Directors Shareholding	2,696,328

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

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Registered Office

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ENQUIRIES

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