

# NAOS Absolute Opportunities Company (NAC)

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## MONTHLY INVESTMENT REPORT AND NTA UPDATE

DECEMBER 2014

### 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:** 12<sup>th</sup> November 2014

**Benchmark:** RBA Cash Rate + 250bps

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

**Listed Options on Issue Exercisable at \$1.00 Prior 1st November 2016 (ASX: NACO):** 21,500,00

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

### Net Tangible Asset Value Breakdown as at 31<sup>st</sup> December 2014 (NTA Diluted for Remaining NACO Options)

Pre Tax NTA:	\$0.99 (N/A)
Post Tax & Pre Unrealised Gains Tax:	\$0.99 (N/A)
After Tax NTA:	\$0.99 (N/A)

### Investment Portfolio Performance to 31<sup>st</sup> December 2014

NAC's Investment Portfolio posted a negative return for the month of December of -1.80% compared the absolute benchmark of +0.64% (RBA Cash Rate + 250 Basis Points) and the MSCI ACWI All Cap Index which rose by +2.43% (AUD, Net Dividends Reinvested). The primary driver of underperformance in the NAC investment portfolio was participation in an IPO which did not meet expectations.

	Since Inception (Nominal)
NAC Investment Portfolio Performance*	-1.36%
Benchmark (RBA Cash Rate + 250bps)	+1.00%
MSCI ACWI All Cap Index (AUD, Net Div Reinvested)	+2.34%
Performance Relative to Benchmark	-2.36%

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 12<sup>th</sup> November 2014.

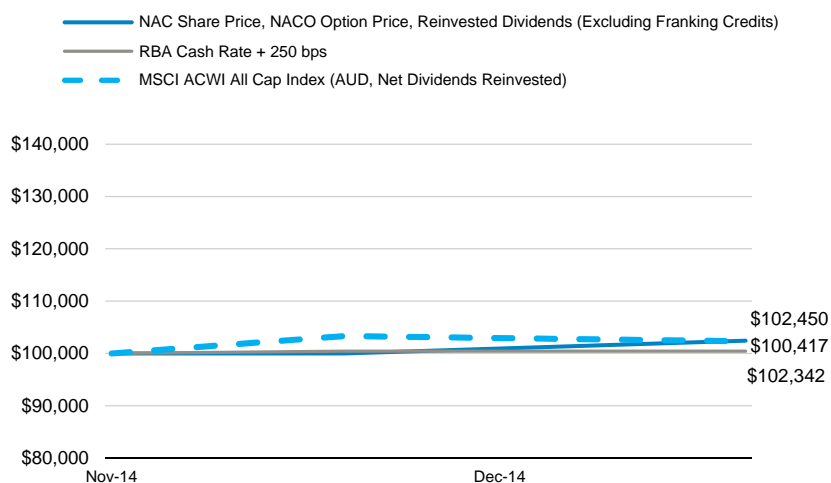
The MSCI ACWI All Cap Index captures large, mid, small and micro cap representation across 23 Developed Markets (DM) countries\* and large, mid and small cap representation across 23 Emerging Markets (EM) countries. With 14,330 constituents, the index is comprehensive, covering approximately 99% of the global equity investment opportunity set.

### Positive Stock Attribution Analysis (12<sup>th</sup> November 2014 to 31<sup>st</sup> December 2014)

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. Any security that is currently held within the investment portfolio will not be disclosed until it is no longer part of the portfolio.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
Investment A	0.27%	Investment E	0.19%
Investment B	0.26%	Investment F	0.11%
Investment C	0.26%	Investment G	0.11%
Investment D	0.23%	Investment H	0.04%

### Shareholder Return Analysis (IPO Investors)



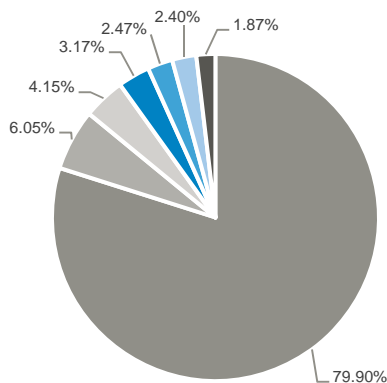
### Portfolio Positioning as at 31<sup>st</sup> December 2014

The investment portfolio has started life in a conservative format with 6 active positions, 4 long and 2 short. One of these positions is a physically backed exchange traded fund that is comprised of US Dollars. The net equity exposure remains conservative at just +8.50%.

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

- Cash & Cash Equivalents
- Consumer Services
- Capital Goods
- Banks
- Real Estate
- Consumer Durables & Apparel
- Media



### Market Insight

The S&P ASX200 Accumulation Index finished the year with a total return of +5.7% or just +1.1% in capital growth when dividends are removed. The local bond market on the other hand produced its best gain since 2002.

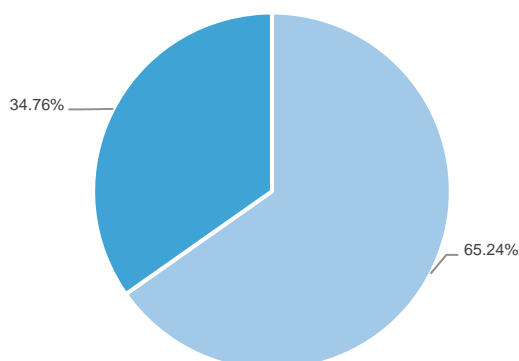
There were a number of notable events and key themes that shaped both global and domestic equity market movements over the period, the most prominent of which was the continued strength of the US economy which has seen the best growth in over 11 years (a 5% annualised rate in 3Q14), leading to a significant strengthening of the USD against the AUD (the AUD fell by over 21% in CY2014) and many other major currencies such as the Japanese Yen and Euro. Another major theme was the significant fall in commodity prices, both in bulks and metals alike. Since June the crude oil price has fallen by over 50% together with Iron Ore, Thermal Coal, Coking Coal, Gold and Copper also falling significantly over CY2014. The primary driver of such significant movements is the Chinese economy moving gradually from investment in large one off capital expenditure items to being more consumption based.

Looking forward into CY2015, things remain interesting for domestic equity markets. Firstly, equity market valuations remain elevated with the FY15 P/E for the ASX-200 currently at 15.27 with EPS growth of 8.39% over the same period. As the previous 2-3 years of EPS growth have been driven by margin expansion through cost cutting, any EPS growth over FY15 and FY16 will need to be driven by revenue growth. We also expect an increase in consumer confidence and business confidence over the medium term on the basis of record low interest rates, significant growth in residential real estate valuations, low oil/petrol prices and a sharp devaluation of the AUD/USD. Some impediments to growth and confidence still remain, such as uncertainty with regard to government policy especially with regards to issues affecting the general population such as child care rebates, increases in GST or changes to the taxation of self-managed super fund earnings.

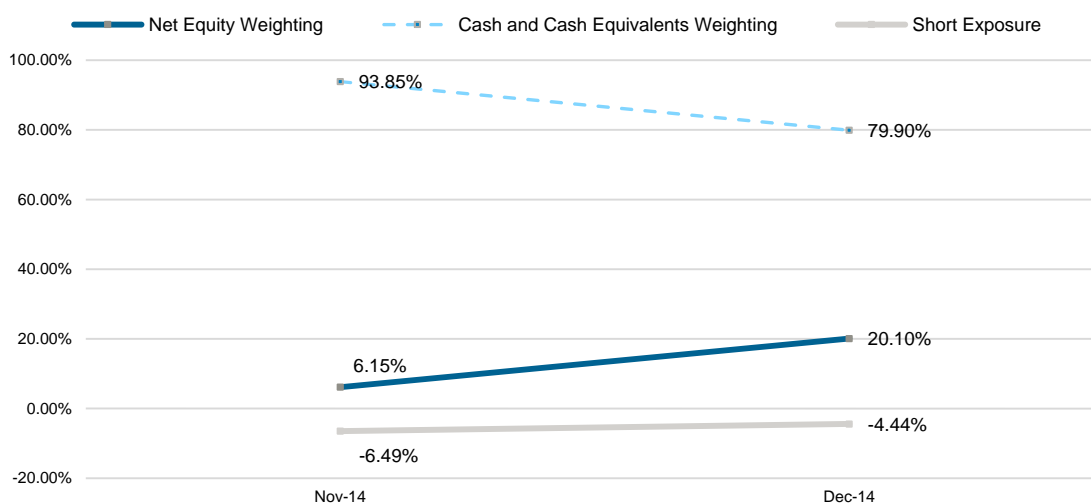
CY2015 is shaping up as a year that will benefit stock pickers as opposed to index mirroring strategies where one tide lifts all. Companies that have a sustainable competitive advantage and pricing power will continue to benefit, along with those companies that are clear beneficiaries from thematic such as a lower AUD and/or lower oil prices.

### Geographic Breakdown

■ Australia ■ North America



### 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. During the month of December the Investment Management Team had direct and indirect contact with over 19 unlisted and listed companies of which several are listed below:

- Iselect Limited (ISU)
- Estia Health Limited (EHE)
- Altium Limited (ALU)
- Sirtex Medical Limited (SRX)
- Ten Network Holdings Limited (TEN)
- Technology One Limited (TNE)
- Hansen Technology Limited (HSN)
- Virtus Health Limited (VRT)
- Webjet Limited (WEB)
- Steadfast Group Limited (SDF)
- Gilead Sciences Inc. (GILD)
- DP World (DPW)

**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

**CORPORATE DIRECTORY**

**Directors**

David Rickards (Independent Chairman)  
Warwick Evans (Director)  
Sebastian Evans (Director)

**Company Secretary**

Lawrence Adams  
Investment Team  
Sebastian Evans (Chief Investment Officer)  
Jeffrey Kim (Portfolio Manager)  
Robert Miller (Portfolio Manager)  
Ben Rundle (Portfolio Manager)

**Business Development**

Anneke Senden

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**ENQUIRIES**

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