

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

June 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 valued 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 30th June 2016

Pre Tax NTA:	\$1.19
Post Tax & Pre Unrealised Gains NTA:	\$1.18
Post Tax NTA:	\$1.14

*The above NTA calculations do not account for any potential dilution from the 14,961,250 NACO options that remain on issue (expiry 30th November 2016) and which are exercisable at \$1.00

Investment Portfolio Performance to 30th June 2016

The NAC investment portfolio produced a negative return of -0.53% for the month of June, which brought the full financial year return for 2016 to +30.14%. The month of June marked a period of significant volatility in financial markets due to a vote from the UK to leave the European Union. We did not think Brexit would happen, however we prepared ourselves for the possibility that it could. We reduced our European exposure prior to the vote, however we were still unable to avoid small losses amongst the remaining positions due to the wider impact on global markets from the result. Despite the fall in the value of the portfolio for the month, we still managed to outperform the majority of global equity indices.

When looking at the year in review, pleasingly the largest detractor to the portfolio returned just -1.35% which was a short position in US Bonds. Other detractors came in the form of APN News & Media (APN AU) and Macquarie Group (MQG AU) returning -1.06% and -0.90% respectively. On the other side of the ledger, the largest gain was from a long position in Eneo Group (EGG AU) which contributed +4.23% to portfolio performance. We had a short position in 1-Page (1PG AU) which returned +3.50% and we also had long positions in SmartGroup (SIQ AU) and Bellamy's (BAL AU) which returned +3.12% and +2.82% respectively.

Pleasingly, our investment process has worked well to date. Over the course of the first 18 months in NAC we have been regularly stress tested in an environment of increasing uncertainty and volatility. Over the past 12 months we have averaged a net equity position of around 72%, meaning approximately 72% of our portfolio is in long positions. This is primarily due to our belief that betting against markets over the long term is not a profitable exercise. Despite the market exposure however, we have consistently maintained a low level of portfolio beta which has helped us to have significantly lower levels of volatility than the wider market.

	1 Month	3 Month	6 Month	1 Year	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	-0.53%	+8.95%	+11.54%	+30.14%	+24.04%	+42.12%
Benchmark (RBA Cash Rate + 250bps)	+0.37%	+1.19%	+2.40%	+4.83%	+4.95%	+8.20%
Relative Performance	-0.90%	+7.76%	+9.14%	+25.31%	+19.09%	+33.92%

S&P/ASX All Ordinaries Accumulation Index (XAOAI)	-2.28%	+4.00%	+1.55%	+2.01%	+2.80%	+4.60%
MSCI ACWI (Net, Dividends Reinvested, AUD Terms)	-3.62%	+3.85%	-0.89%	-0.60%	+8.99%	+15.08%

*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)

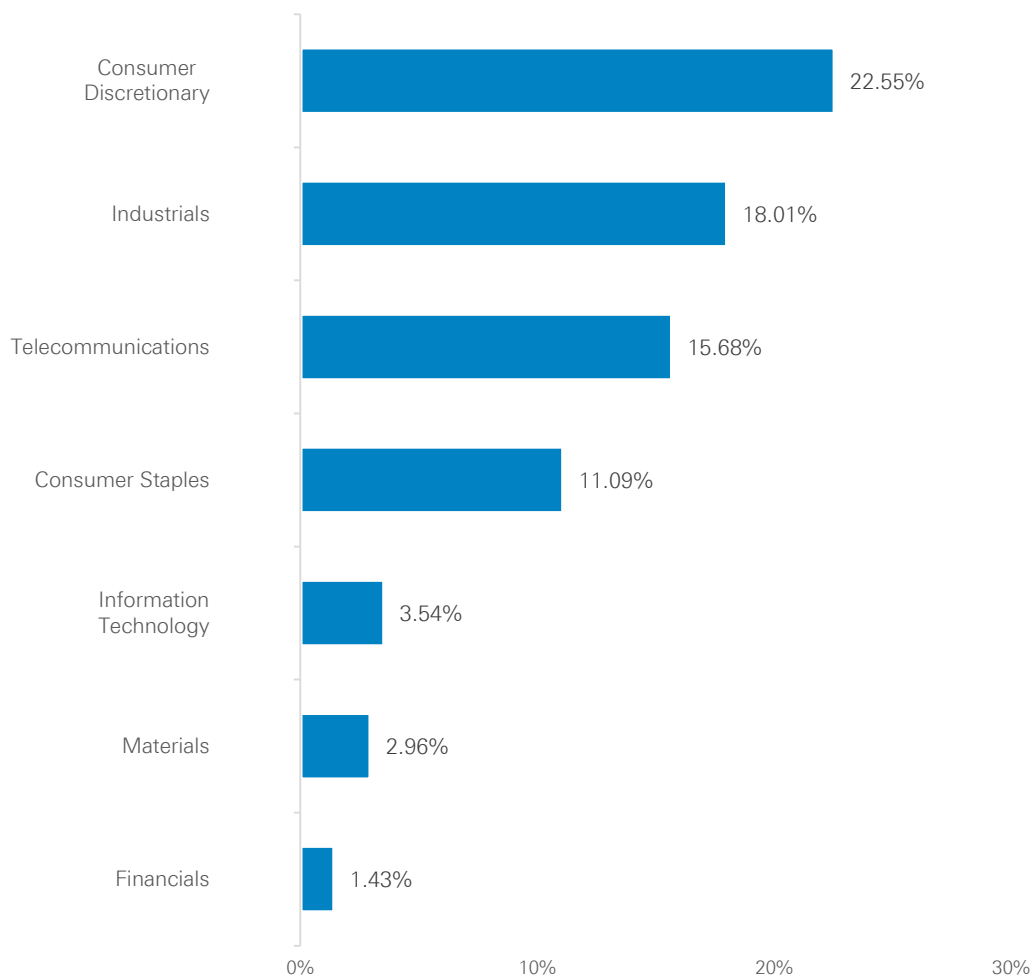
Below is a table listing the top positive contributors to NAC's total return since inception. The purpose of the table is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio 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	+8.72%	Sirtex Medical	+3.40%
Event Hospitality	+4.35%	SmartGroup Ltd	+3.14%
Enero Group	+4.23%	Bellamy's Australia	+2.82%
1-Page Ltd	+3.51%	Macquarie Atlas Roads	+2.45%

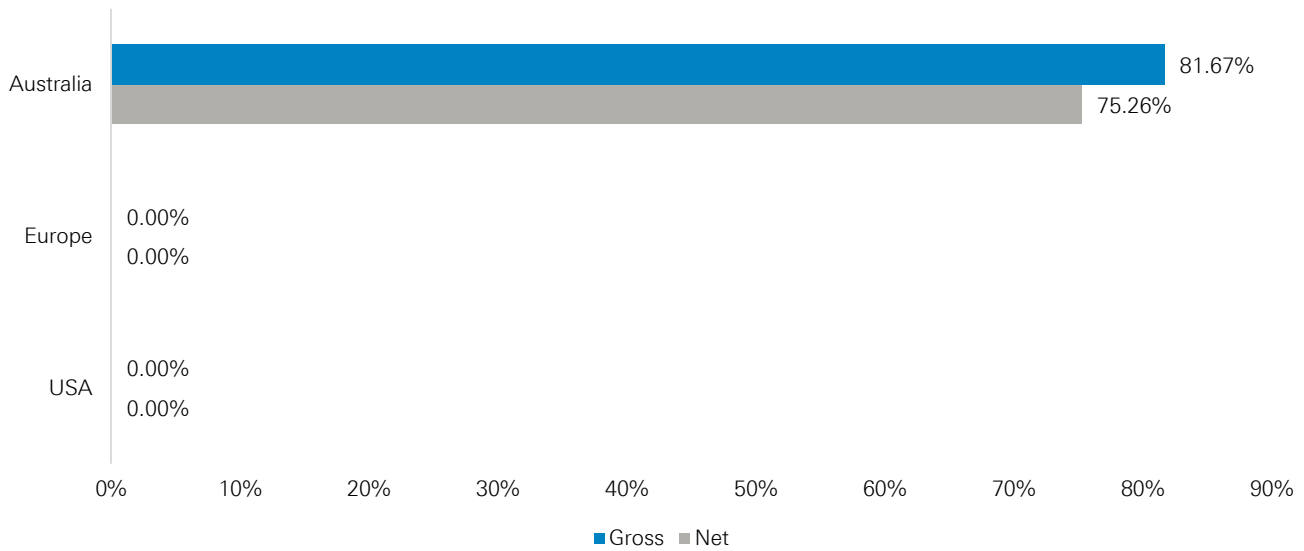
Portfolio Analysis as at 30th June 2016

As at 30th June the portfolio comprised of 19 holdings, including 15 long equity positions, 2 short equity positions and 2 income instruments.

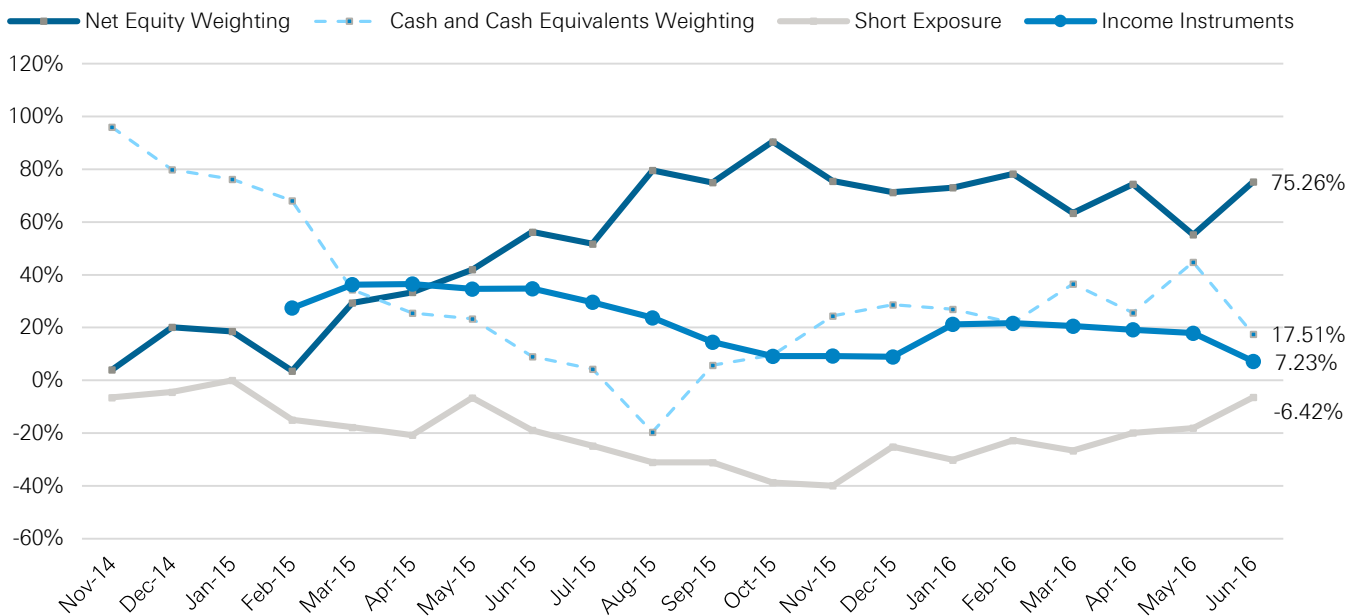
Net Industry Exposure



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 June were as follows:

- Technology One (TNE AU)
- SmartGroup Ltd (SIQ AU)
- Infigen Energy (IFN AU)
- WPP AUNZ (WPP AU)
- Shaver Shop (SSG AU)
- Mantra Group (MTR AU)
- Cover-more Group (CVO AU)
- Dominos Pizza (DMP AU)
- Ten Network (TEN AU)
- Burson Group (BAP AU)

Portfolio Characteristics – Summary Data as at 30th June 2016

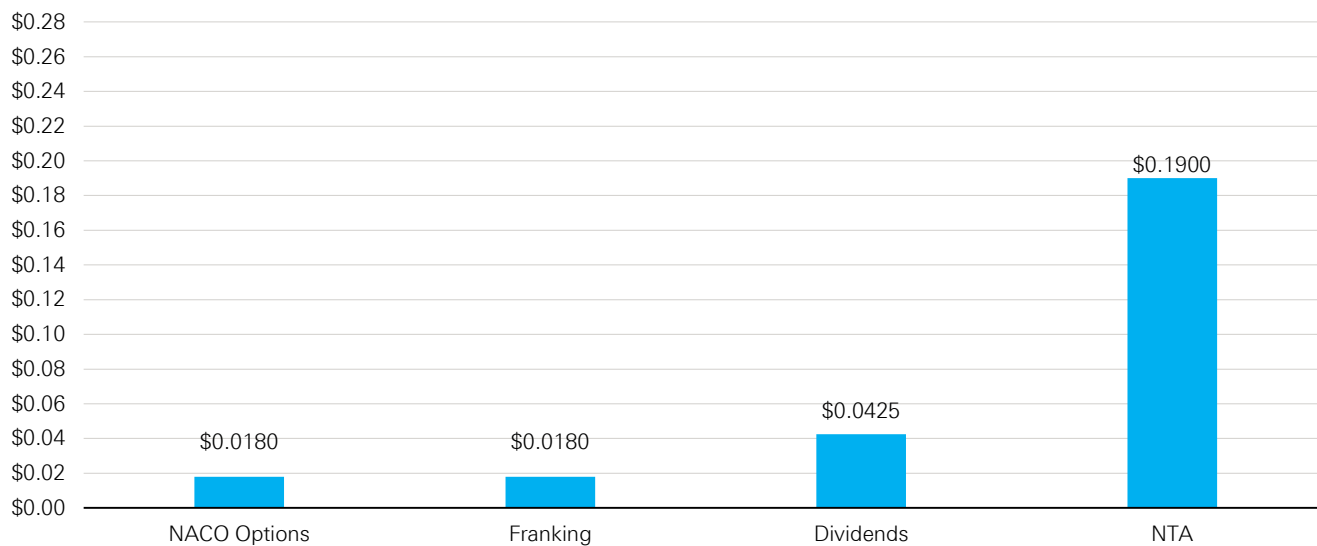
Total Number of Equity Holdings (Long & Short)	17
Total Number of Income/Debt Instruments*	2
Total Number of Holdings	19
Portfolio Weighted Market Capitalisation (AUD)	\$1.17bn
Percentage of Positive Months (NAC)	70%
Percentage of Positive Months (XAOAI)	50%
Standard Deviation of Returns (NAC)	9.77%
Standard Deviation of Returns (XAOAI)	13.04%
Correlation of Returns to XAOAI	0.58
Sortino Ratio	12.13
Downside Deviation (NAC)	1.98%
Downside Deviation (XAOAI)	7.71%
Current Estimated Portfolio Beta	0.059

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

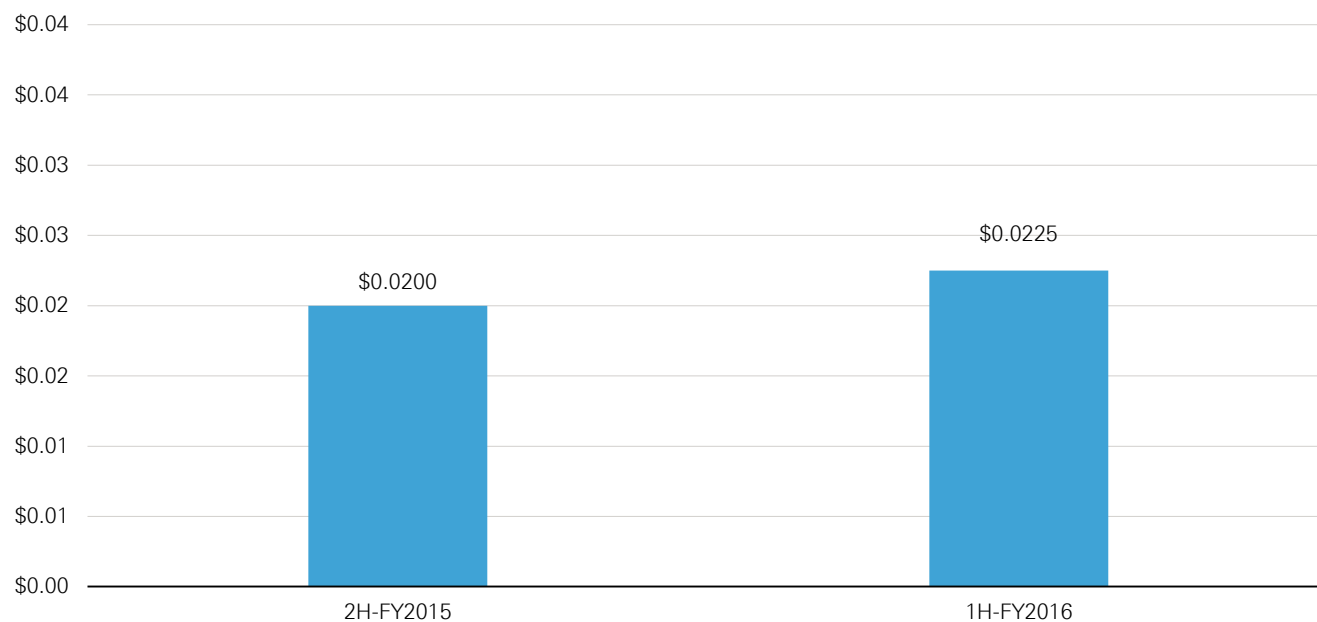
Capital Management - Summary Data as at 30th June 2016

Share Price	\$1.00
Share Price Discount/Premium to NTA (Undiluted, Pre-Tax)	16%
Historical Fully Franked Dividend Yield	4.54%
Historical Gross Dividend Yield	6.49%
Shares on Issue	28,038,750
Options on Issue	14,961,250
Directors Shareholding	2,480,203

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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ENQUIRIES

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