

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

January 2017

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 31 January 2017

Pre Tax NTA:	\$1.15
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.16
Post Tax NTA:	\$1.12
Share Price	\$1.14

Investment Portfolio Performance to 31 January 2017

**A gentle reminder that NAOS will be holding our bi-annual investor roadshow presentations in Sydney, Melbourne, Brisbane, Adelaide and Canberra. The presentation is open to current and prospective shareholders. If you would like to attend please register your attendance at enquiries@naos.com.au.

The NAC Portfolio returned +0.35% for January, in what was a quiet month for the portfolio ahead of reporting season. The gross exposure on the portfolio is currently sitting at around 105% and the net exposure is around 80%. This is the highest level of exposure we have had for some time now and is reflective of the number of opportunities we are seeing within our universe on both the long and short side. Over the past 6 months there has been an increased level of volatility in Australian listed mid-caps which has given us the opportunity to buy good businesses below what we believe to be fair value.

During January we commenced a new position in Elders Limited (ASX: ELD). Elders has been in existence for over 175 years and has built a strong brand in agribusiness, however in more recent times had become the victim of poor management and poor capital allocation. This resulted in a highly leveraged balance sheet, loss making businesses, and a complicated capital structure. In 2014 a new management team was implemented and a turnaround strategy put in place. The key target of the new strategy was a minimum 20% return on capital, and any activity within the business that was unable to meet that target would be exited. The turnaround strategy is now coming to fruition with an FY16 return on capital for the business of 21.2%, up considerably from the -10% achieved in FY13. However, the job isn't done yet and we believe this is why Elders still trades at such a considerable discount to its peers.

There are 3 catalysts we can see which will cause Elders to be re-rated by the market, the first being an exit of their live export business which is up for sale currently. If successfully exited this will see return on capital increase to 28.4% along with \$17m in working capital freed up and redeployed to higher returning activities. The second catalyst is a repurchase or a conversion of the Elders hybrid notes (ASX: ELDPA). Elders currently owns 72% of these notes and it is our view these will be dealt with one way or another within the next 12 months which will assist in cleaning up the capital structure. The third catalyst will be a resumption in dividends which the company flagged would happen during FY17. Elders currently trades on close to a 10x FY17 multiple with peers trading between 14-16x earnings. If the final stages of the turnaround are executed, we believe the share price could rise substantially from current levels.

	1 Month	6 Month	1 Year	2 Year (p.a.)	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	+0.35%	+6.34%	+26.17%	+24.25%	+22.50%	+56.92%
Benchmark (RBA Cash Rate + 250bps)	+0.37%	+2.18%	+4.62%	+4.84%	+4.81%	+10.98%
Relative Performance	-0.02%	+4.16%	+21.55%	+19.41%	+17.69%	+45.94%

S&P/ASX All Ordinaries Accumulation Index (XAOAI)	-0.77%	+2.65%	+17.09%	+5.64%	+6.13%	+14.12%
MSCI ACWI (Net, Dividends Reinvested, AUD Terms)	-2.21%	+5.52%	+11.17%	+8.45%	+10.34%	+24.42%

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*Investment Portfolio performance is post all operating expenses, before fees and taxes.

Positive Stock Contribution Analysis

(Contribution is what has contributed to NAC's performance since Inception of 12 November 2014)

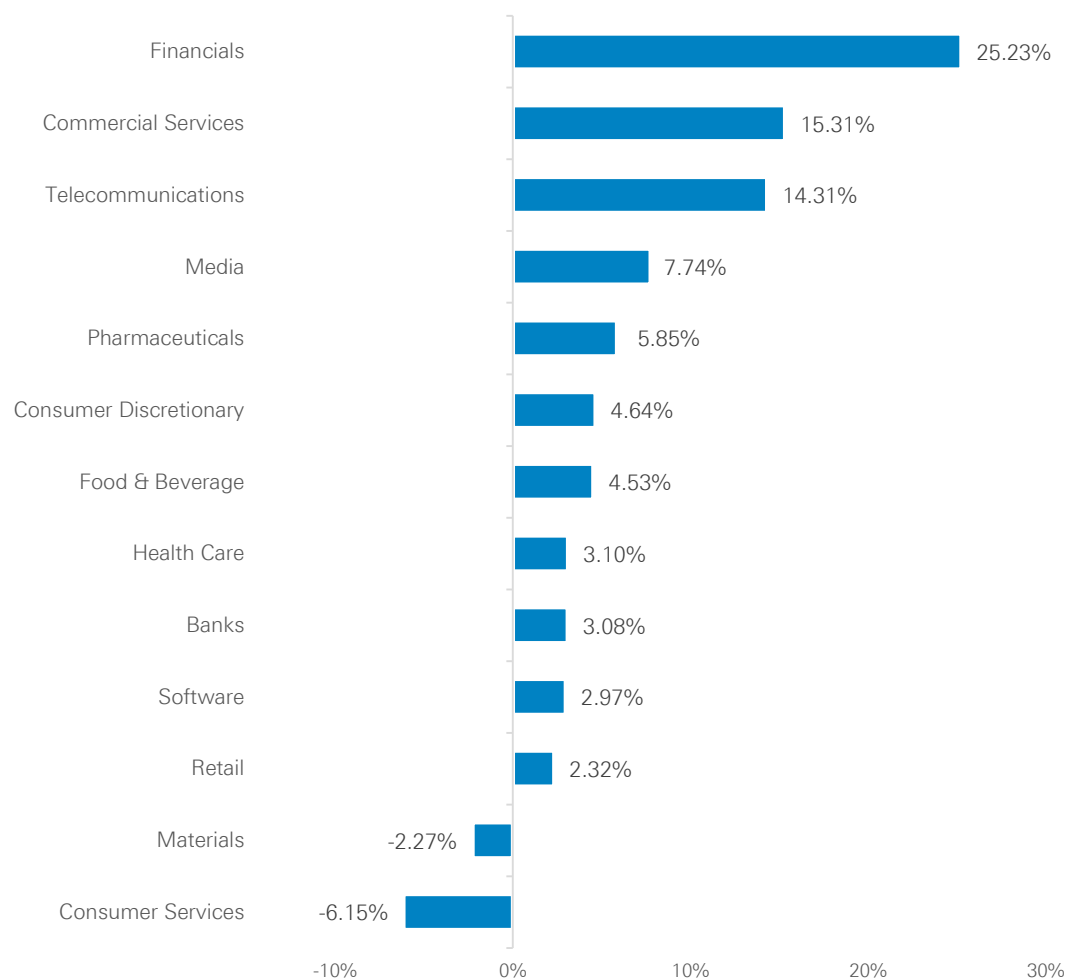
Below is a table listing the top positive contributors to NAC's total return since inception. The purpose of the table is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio 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	+9.50%	My Net Fone	+4.64%
Armidade Investment Corp	+7.59%	Smart Group	+4.35%
Broadcast Services	+5.10%	1-Page	+3.82%
Event Hospitality	+4.83%	Bellamy's Australia	+3.43%

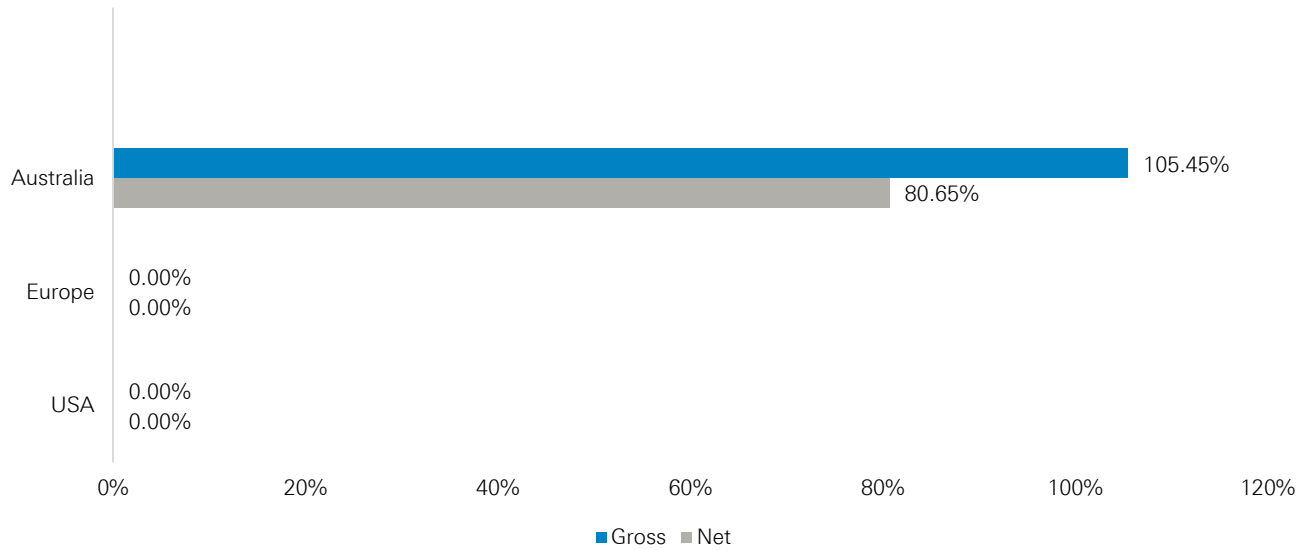
Portfolio Analysis as at 31 January 2017

As at 31 January 2017 the portfolio comprised of 21 holdings, with 16 long positions and 5 short positions.

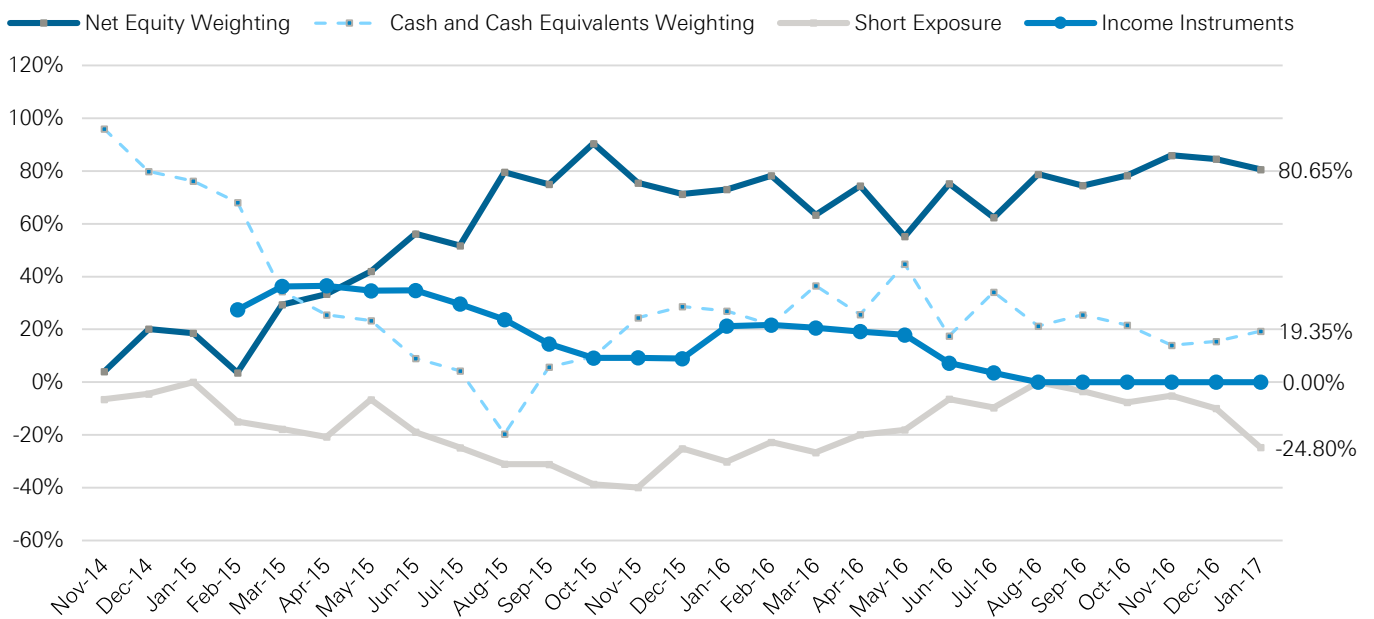
Net Industry Exposure



Geographical Equity 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 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 December were as follows:

- Bellamys Australia Ltd (BAL AU)
- MNF Group Ltd (MNF AU)
- Sirtex Medical (SRX AU)
- Oz Minerals Ltd (OZL AU)
- Navitas Ltd (NVT AU)
- 360 Capital Group (TGP AU)
- GUD Holdings (GUD AU)
- Comvita Limited (CVT NZ)
- Bega Cheese Limited (BGA AU)
- Telit Communications (TCM UK)
- GoCompare.com Group (GOCO UK)
- KB Home (KBH US)

Portfolio Characteristics – Summary Data as at 31 January 2017

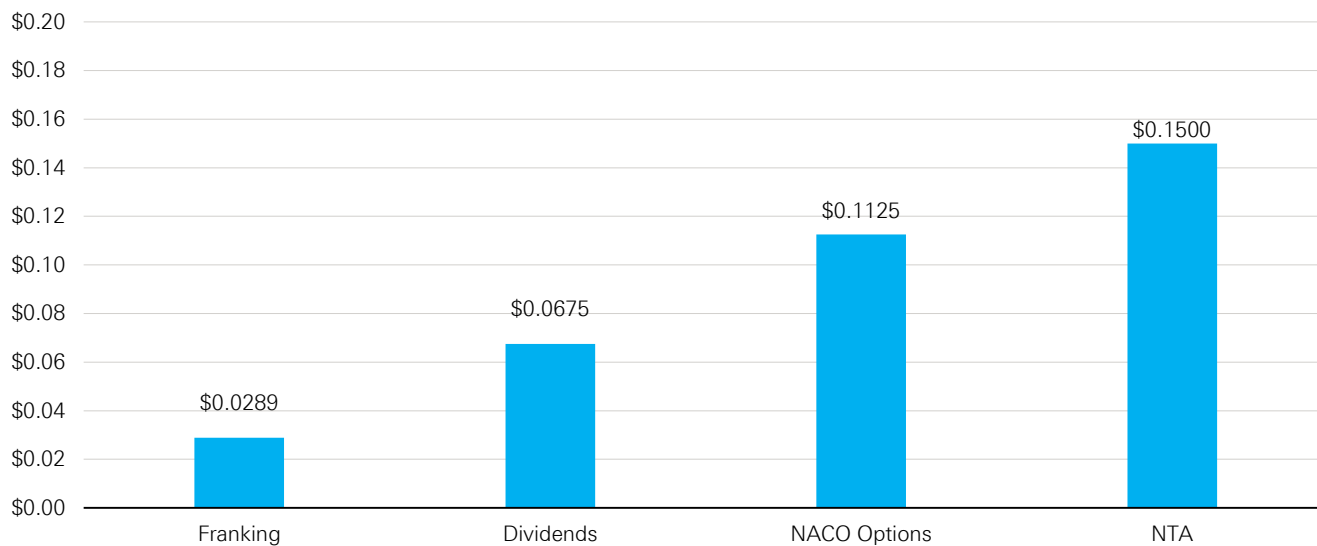
Total Number of Equity Holdings (Long & Short)	21
Total Number of Income/Debt Instruments*	0
Total Number of Holdings	21
Portfolio Weighted Market Capitalisation (AUD)	\$599.9m
Percentage of Positive Months (NAC)	67%
Percentage of Positive Months (XAOAI)	52%
Standard Deviation of Returns (NAC)	9.51%
Standard Deviation of Returns (XAOAI)	12.42%
Correlation of Returns to XAOAI	0.44
Sortino Ratio	9.58
Downside Deviation (NAC)	2.35%
Downside Deviation (XAOAI)	7.17%
Current Estimated Portfolio Beta	0.40

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

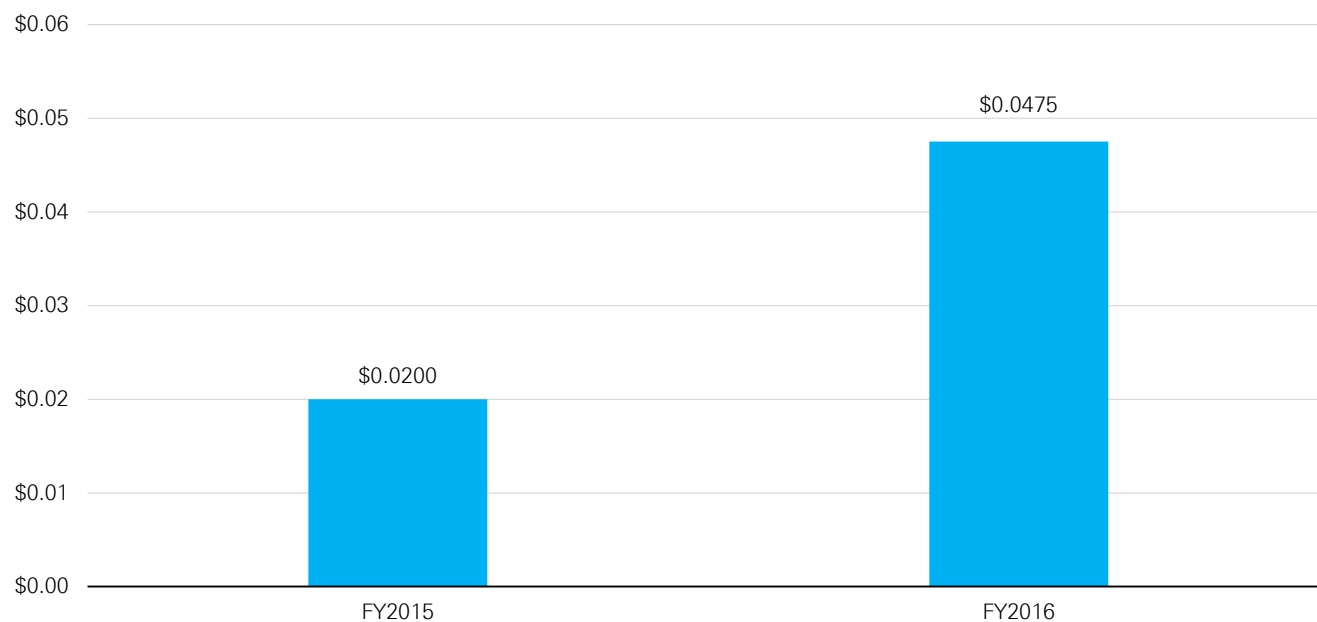
Capital Management - Summary Data as at 31 January 2017

Share Price	\$1.14
Share Price (Discount)/Premium to NTA (Undiluted, Pre-Tax)	-0.87%
Historical Fully Franked Dividend Yield	4.17%
Historical Gross Dividend Yield	5.95%
Shares on Issue	43,000,000
Directors Shareholding	6,551,051

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

Boardroom Pty Limited
12/225 George Street
Sydney NSW 2000
Telephone: 1300 737 760
Facsimile: 1300 653 459

Investment Manager

NAOS Asset Management Limited
Level 34, MLC Centre
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

Julia Stanistreet

Telephone: (02) 9002 1576
Email: jstanistreet@naos.com.au

Megan Walker

Telephone: (02) 9002 1577
Email: mwalker@naos.com.au
Email: enquires@naos.com.au
www.naos.com.au