

# NAOS Absolute Opportunities Company (NAC)

NAOS

## MONTHLY INVESTMENT REPORT AND NTA UPDATE

March 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 March 2017

|  |         |
|--|---------|
| Pre Tax NTA:                             | \$1.13  |
| Post Tax & Pre Unrealised Gains Tax NTA: | \$1.15  |
| Post Tax NTA:                            | \$1.11  |
| Share Price                              | \$1.115 |

### Investment Portfolio Performance to 31 March 2017

For the month of March, the NAC portfolio returned +1.48%. One of the top performers for the month was Gentrack Group Limited (ASX: GTK), which announced it was acquiring a UK business called Junifer Systems, a market leading utility customer information and billing system provider for energy retailers in the UK.

The transaction was valued at NZ\$74.6m, and given GTK's market cap prior to the deal was NZ\$265m, it is a significant acquisition. We believe it to be a smart transaction, as the acquisition will expand and diversify GTK's core utility billing business, and position them as the clear market leader in the provision of customer information and billing systems to energy and water retailers in the UK.

Once the businesses are combined they will serve 32 out of 50 energy utility providers in the UK, predominantly outside of the "Big 6" large incumbent retailers. This puts GTK in a strong position to leverage the growth of independent energy retailers, smart metering and new utility models in the region.

GTK is forecasting the market share of independent energy retailers in the UK to grow from 15% to 30% by 2020. Furthermore, the imminent deregulation of the water market is likely to result in an increased number of smaller suppliers, as was the case with the electricity market post-deregulation, providing further growth opportunities for GTK.

Importantly, the three founders and another three key executives of Junifer Systems are all investing in GTK and will join the UK management team to lead the combined business. We expect the transaction to be accretive to earnings and provide a strong growth platform for the business going forward. Finally, it's worth noting this deal has brought HGCapital onto the GTK register as an 11% shareholder. HGCapital are a leading tech PE firm that have a track record of success, and we view this as a strong endorsement for GTK.

The Small Ordinaries index in Australia has stabilised lately and was relatively flat for the quarter after a fall late last year, which saw an -11.5% decline from the mid-August high to the November low. The fall created buying opportunities for us, and as a result our cash levels are now close to the lowest they have been at since NAC's inception. It is worth noting that our cash levels are not dependent on our macro-economic views, but rather a direct result of the amount of individual opportunities we find that meet our investment criteria. We do not believe we have a comparative advantage in picking the tops and bottoms of any index, so if we can find opportunities that meet our investment criteria at a reasonable price, we will look to invest regardless of wider sentiment in the index.

|                                       | 1 Month | 6 Month | 1 Year  | 2 Year (p.a.) | Inception (p.a.) | Inception (Nom.) |
|---------------------------------------|---------|---------|---------|---------------|------------------|------------------|
| NAC Investment Portfolio Performance* | +1.48%  | -3.57%  | +18.94% | +21.37%       | +20.25%          | +55.16%          |
| Benchmark (RBA Cash Rate + 250bps)    | +0.36%  | +2.14%  | +4.51%  | +4.84%        | +4.77%           | +11.75%          |
| Relative Performance                  | +1.12%  | -5.71%  | +14.43% | +16.53%       | +15.48%          | +43.41%          |

|   |        |        |         |        |        |         |
|---|--------|--------|---------|--------|--------|---------|
| S&P/ASX All Ordinaries Accumulation Index (XAOAI) | +3.16% | +9.11% | +19.49% | +4.82% | +8.02% | +20.18% |
|---|--------|--------|---------|--------|--------|---------|

\*Investment Portfolio performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions.

## NAOS Absolute Opportunities Company (NAC)

Monthly Investment Report and NTA Update | March 2017

### Positive Stock Contribution Analysis

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

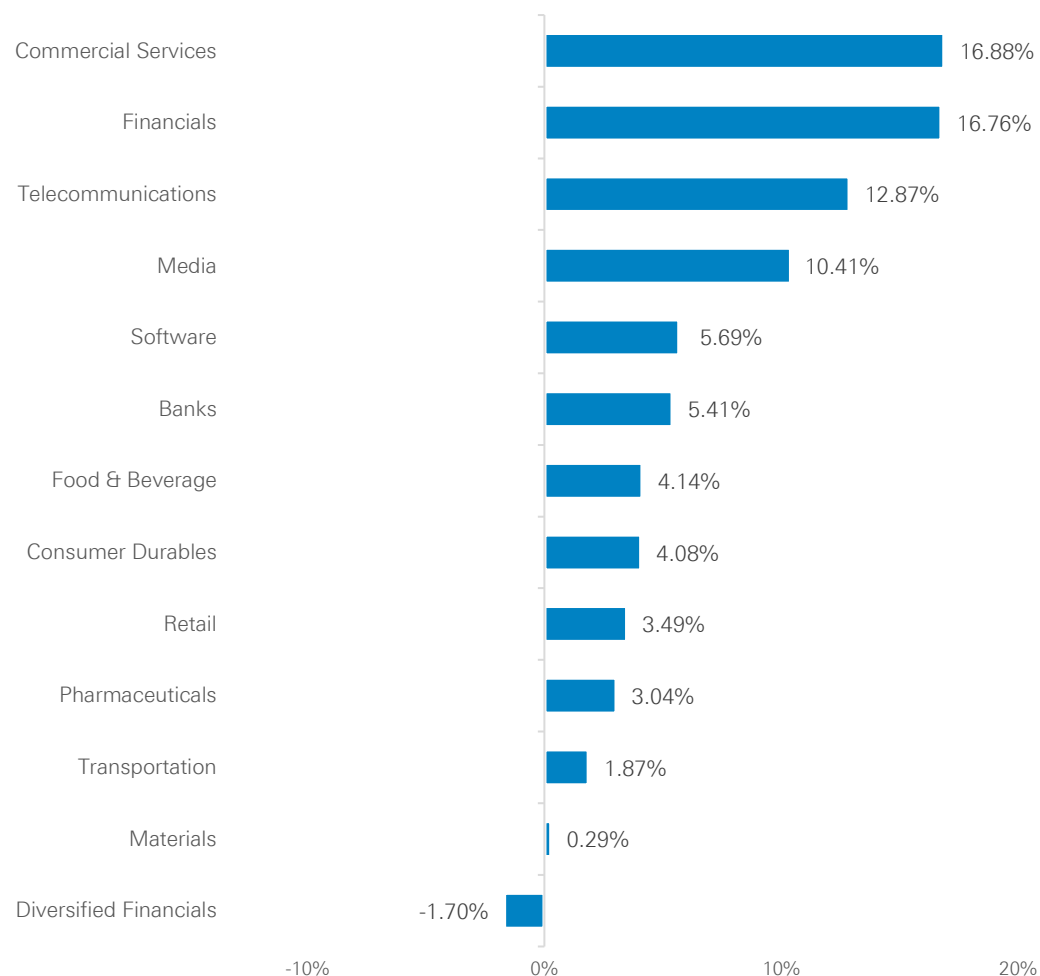
Below is a table listing the top positive contributors to NAC's total return since inception. The purpose of the table is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio 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          | +9.39%                        | Smart Group              | +4.36%                        |
| MNF Group          | +5.46%                        | Armidale Investment Corp | +4.36%                        |
| Broadcast Services | +5.14%                        | 1-Page                   | +3.77%                        |
| Event Hospitality  | +4.86%                        | Bellamy's Australia      | +3.39%                        |

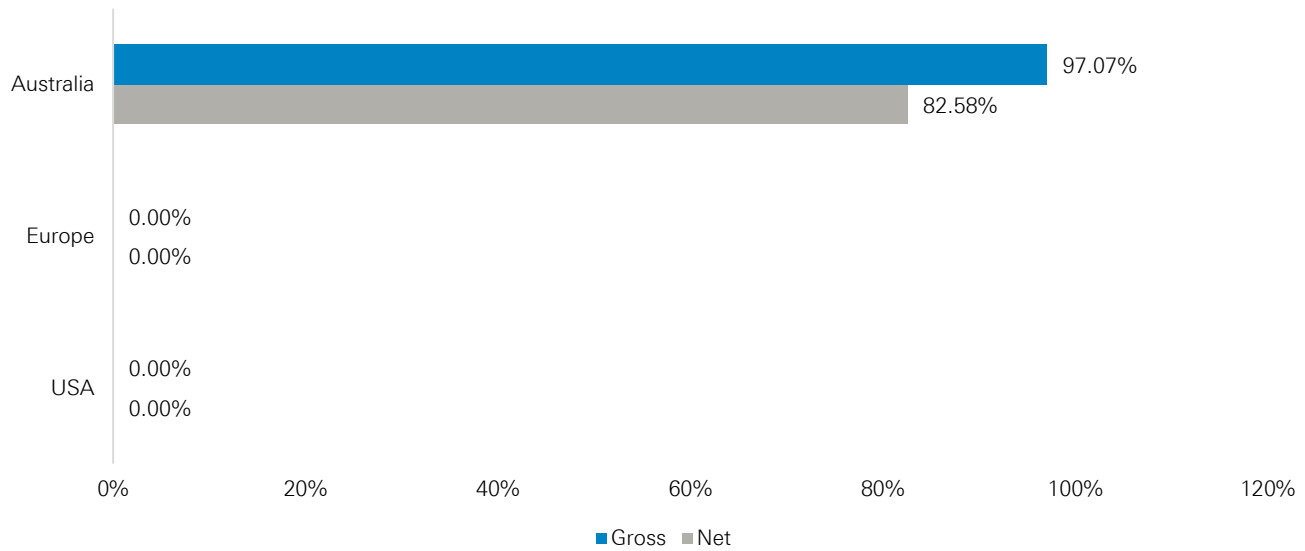
### Portfolio Analysis as at 31 March 2017

As at 31 March 2017 the portfolio comprised of 22 holdings, with 18 long positions and 4 short positions.

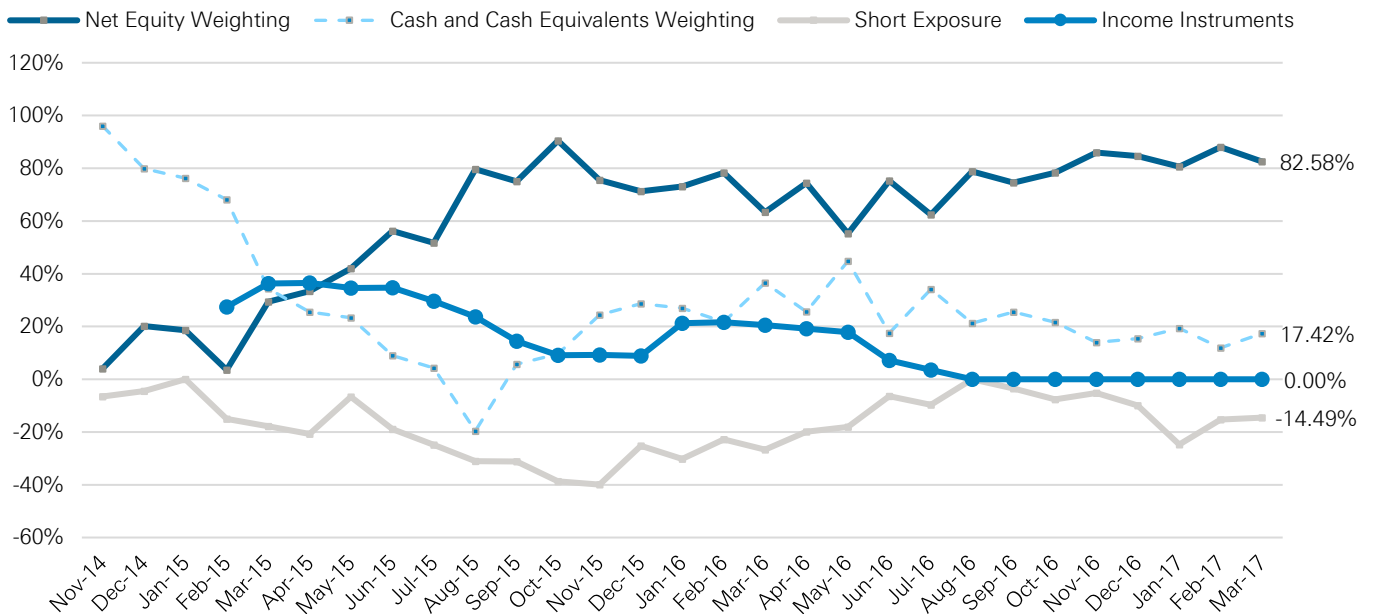
#### Net Industry Exposure



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 March were as follows:

- Sirtex Medical Ltd (SRX AU)
- Armidale Investment Corp (AIK AU)
- Adacel Technologies Ltd (ADA AU)
- Gentrack Group Ltd (GTK AU)
- Tourism Holdings Group (THL NZ)
- Blue Sky Alternatives Ltd (BLA AU)
- PMP Ltd (PMP AU)
- Pro Medicus Ltd (PME AU)
- Dicker Data Ltd (DDR AU)
- BSA Ltd (BSA AU)
- Biostime Ltd (1112 HK)
- AccorHotels (AC EN)

## Portfolio Characteristics – Summary Data as at 31 March 2017

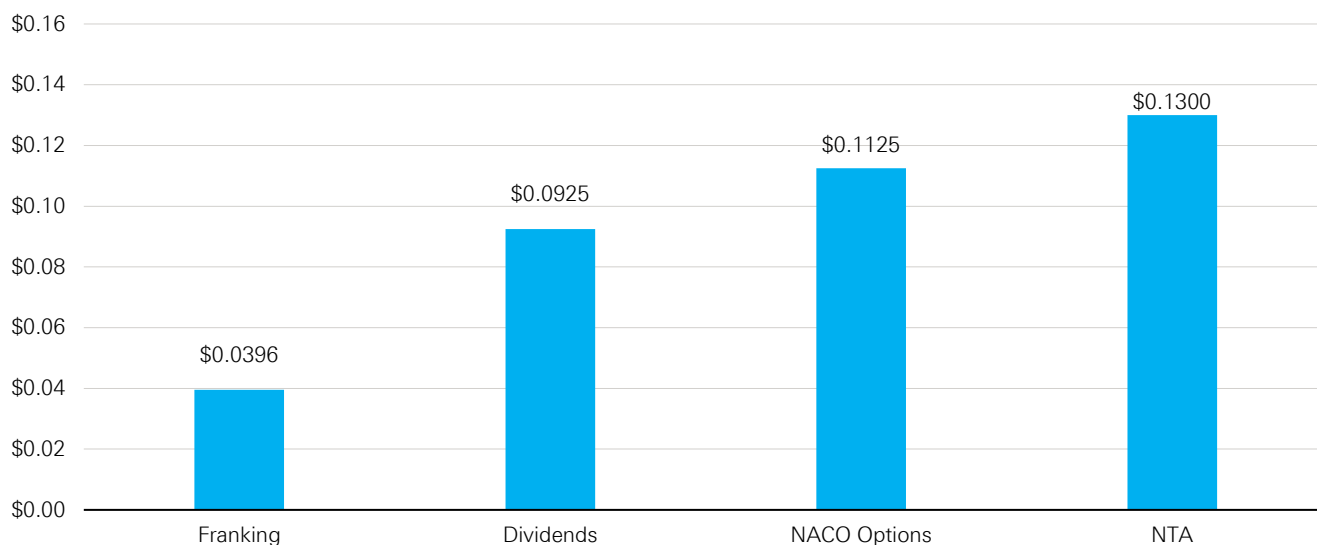
|  |           |
|--|-----------|
| Total Number of Equity Holdings (Long & Short) | 22        |
| Total Number of Income/Debt Instruments*       | 0         |
| Total Number of Holdings                       | 22        |
| Portfolio Weighted Market Capitalisation (AUD) | \$464.54m |
| Percentage of Positive Months (NAC)            | 66%       |
| Percentage of Positive Months (XAOAI)          | 55%       |
| Standard Deviation of Returns (NAC)            | 9.57%     |
| Standard Deviation of Returns (XAOAI)          | 12.13%    |
| Correlation of Returns to XAOAI                | 0.40      |
| Sortino Ratio                                  | 7.77      |
| Downside Deviation (NAC)                       | 2.61%     |
| Downside Deviation (XAOAI)                     | 7.17%     |
| Current Estimated Portfolio Beta               | 0.31      |

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

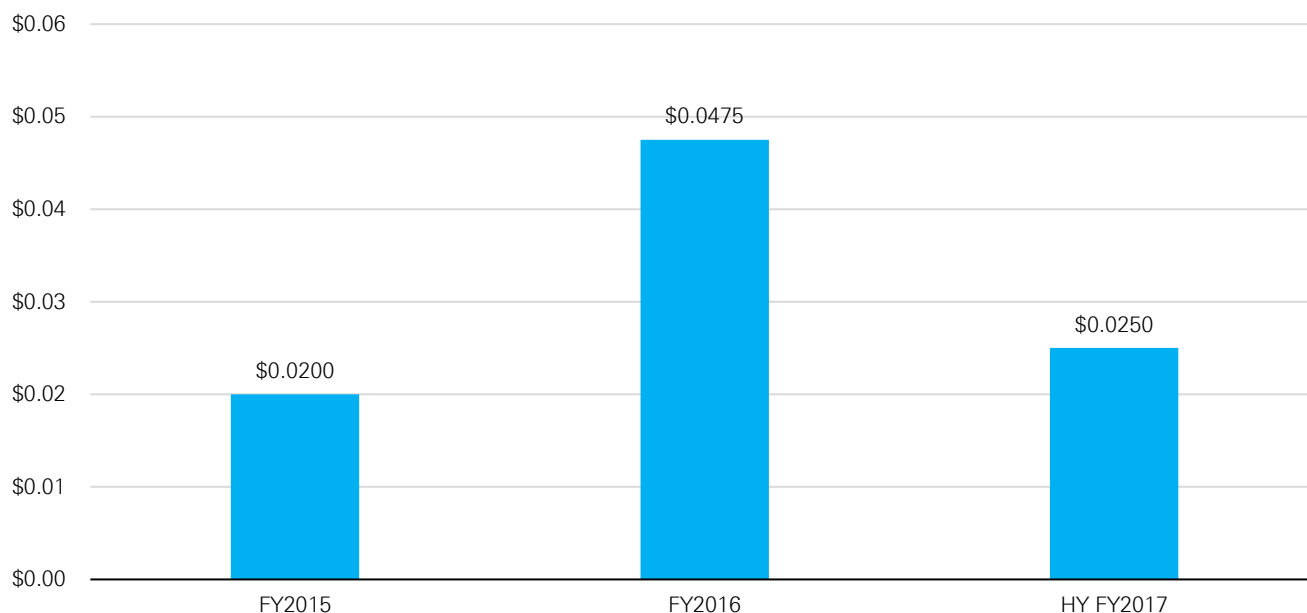
## Capital Management - Summary Data as at 31 March 2017

|  |            |
|--|------------|
| Share Price  | \$1.115    |
| Share Price (Discount)/Premium to NTA (Undiluted, Pre-Tax) | -1.33%     |
| Historical Fully Franked Dividend Yield                    | 4.48%      |
| Historical Gross Dividend Yield                            | 6.41%      |
| Shares on Issue  | 52,410,791 |
| Directors Shareholding                                     | 6,618,019  |

### 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

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Facsimile: 1300 653 459

#### Investment Manager

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Sydney NSW 2000  
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#### Auditor

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Level 25, Grosvenor Place  
225 George Street  
Sydney NSW 2000

#### Registered Office

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#### ENQUIRIES

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