

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

April 2017

KEY CHARACTERISTICS

1. Domestic Mid-Cap 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 30 April 2017

Pre Tax NTA:	\$1.08
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.09
Post Tax NTA:	\$1.07
Share Price	\$1.095

Investment Portfolio Performance to 30 April 2017

The NAC Investment Portfolio returned -2.78% for the month of April compared to the absolute benchmark which increased by +0.35%. This brings the inception return for 2 years and 5 months to +50.85% which compares to the benchmark return of +12.14% and the All Ordinaries Accumulation Index return of +21.12%.

There was one notable stock specific event in the portfolio for the month of April with Shaver Shop (ASX: SSG) upgrading its guidance, which was recently downgraded in December. Shaver Shop has had a short life as a public Company, listing in July last year at \$1.05, however as is often the case with retail stocks, market conditions shifted quite rapidly. In December, the Company announced that sales were likely to be lower than originally anticipated and the shares fell to 70c, at which point we initiated a small position, however our timing proved to be too early. The stock continued to fall to 50c, and we took this opportunity to increase our position. We believed that the issues the company were experiencing were short term in nature, that the management team is highly competent and aligned with shareholders, the company has no balance sheet issues, and importantly the directors of Shaver Shop had started buying stock for themselves. During April, Shaver Shop confirmed they had seen conditions improve and subsequently upgraded their earnings guidance. This occurred much quicker than we anticipated and the stock price rallied accordingly.

The key positive contributors to the NAC Investment Portfolio were Shaver Shop, Gentrack (ASX: GTK) and CBL Corporation (ASX: CBL). Unfortunately, these were more than offset by the major negative contributors which included Sirtex Medical (ASX: SRX), MNF Group (ASX: MNF) and Consolidated Operating Group (ASX: COG). None of the major negative contributors had any stock specific announcements and within the first week of May both MNF and COG have made pleasing announcements, with MNF reaffirming their FY2017 guidance for circa 20% EBITDA growth, and COG announcing the acquisition of a large finance broking business which will be funded through a 1 for 4 rights issue. Pleasingly, our holding in Grays eCommerce Group (ASX: GEG) received a takeover offer from Eclix Group (ASX: ECX).

The continued volatility within the mid-cap space of the market has increased the amount of long term value opportunities for the NAC Investment Portfolio. Many so-called market darlings have experienced significant share price decreases for a variety reasons such as earnings downgrades, small cap fund managers losing funds, and continued rotation out of mid-cap into large cap. The challenge for the Naos investment team is to find the companies that are being valued on todays earnings, with strong cash flow generation and balance sheets that will allow them to grow over the longer term, whereas the market is currently discounting this growth significantly.

	1 Month	6 Month	1 Year	2 Year (p.a.)	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	-2.78%	-6.04%	+10.68%	+19.41%	+18.16%	+50.85%
Benchmark (RBA Cash Rate + 250bps)	+0.35%	+2.14%	+4.46%	+4.84%	+4.76%	+12.14%
Relative Performance	-3.13%	-8.18%	+6.22%	+14.57%	+13.40%	+38.71%

S&P/ASX All Ordinaries Accumulation Index (XAOAI)	+0.78%	+12.41%	+16.65%	+6.01%	+8.08%	+21.12%
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*Investment Portfolio performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions.

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Positive Stock Contribution Analysis

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

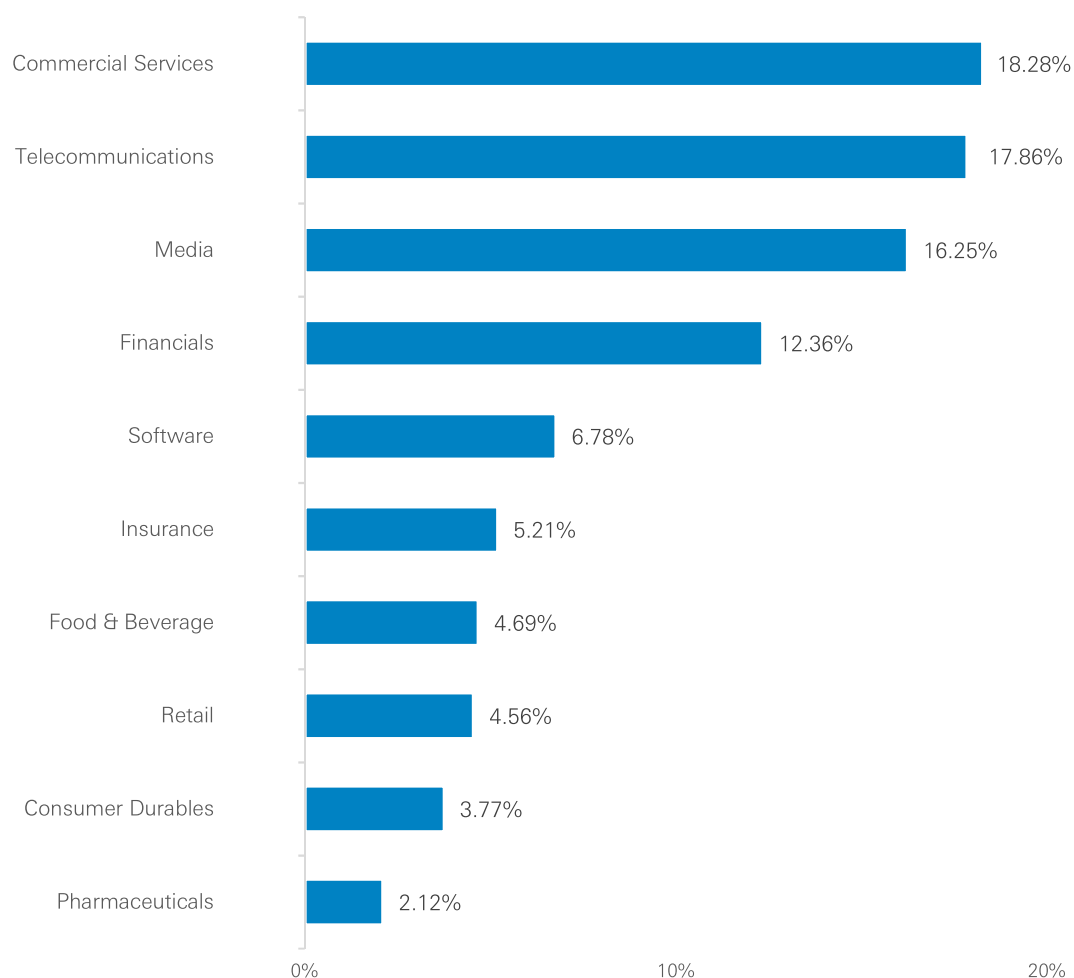
Below is a table listing the top positive contributors to NAC's total return since inception. The purpose of the table is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio 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	+9.16%	Smart Group	+4.22%
BSA Ltd	+4.95%	1-Page	+3.69%
Event Hospitality	+4.76%	Bellamy's Australia	+3.31%
MNF Group	+4.23%	Consolidated Operations Group	+2.65%

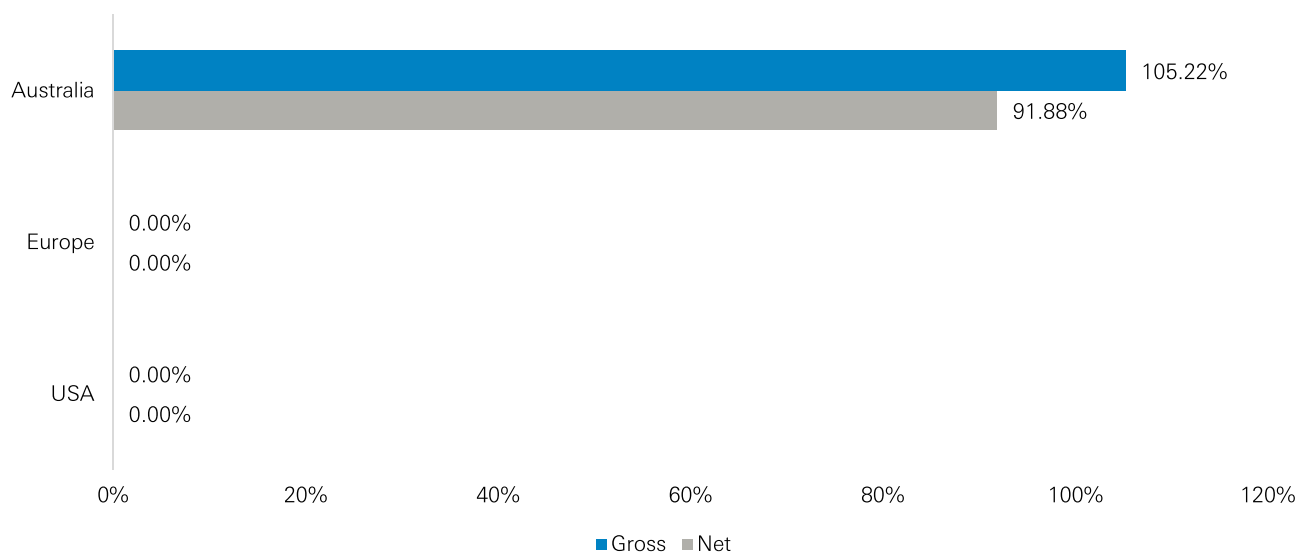
Portfolio Analysis as at 30 April 2017

As at 30 April 2017 the portfolio comprised of 19 holdings, with 16 long positions and 3 short positions.

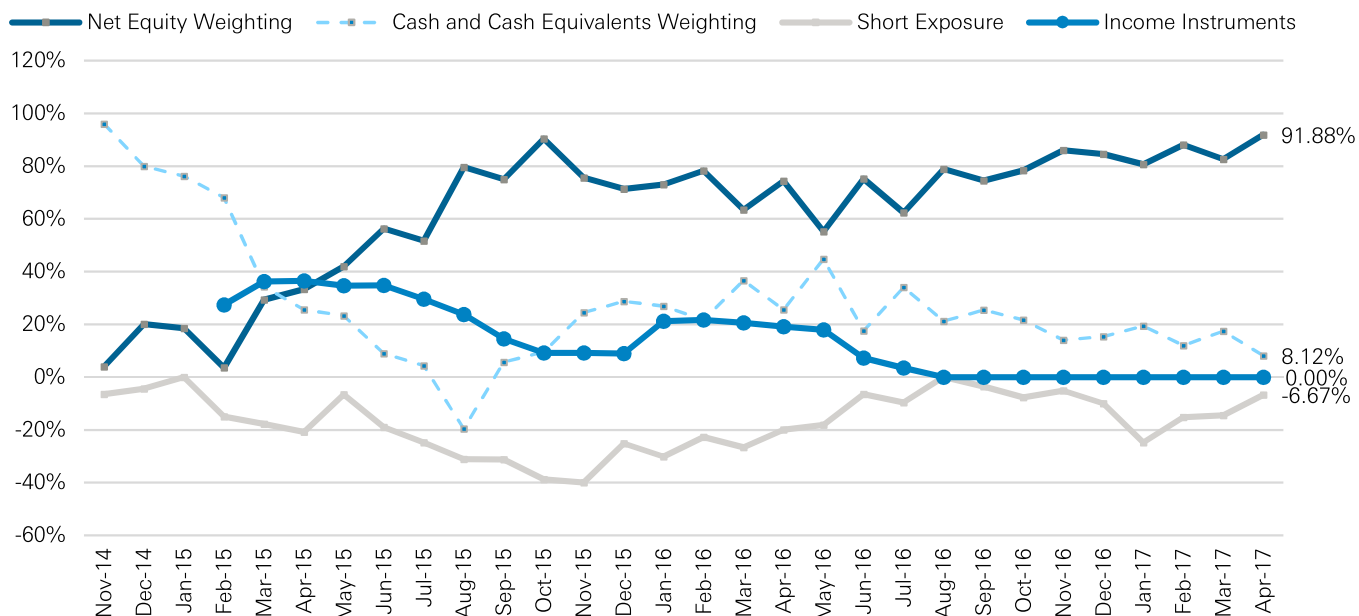
Net Industry Exposure



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 April were as follows:

- Auswide Bank Ltd (ABA AU)
- Amaysim Australia Ltd (AYS AU)
- Consolidated Operations Group (COG AU)
- IVE Group (IGL AU)
- CSG Limited (CSV AU)
- Sirtex Medical Ltd (SRX AU)
- MNF Group (MNF AU)
- Hub24 Limited (HUB AU)
- Blackmores Ltd (BKL AU)
- Quick Service Restaurants (Unlisted)
- NIB Holdings (NHF AU)
- Steadfast Group (SDF AU)

Portfolio Characteristics – Summary Data as at 30 April 2017

Total Number of Equity Holdings (Long & Short)	19
Total Number of Income/Debt Instruments*	0
Total Number of Holdings	19
Portfolio Weighted Market Capitalisation (AUD)	\$334.36m
Percentage of Positive Months (NAC)	63%
Percentage of Positive Months (XAOAI)	57%
Standard Deviation of Returns (NAC)	9.79%
Standard Deviation of Returns (XAOAI)	11.79%
Correlation of Returns to XAOAI	0.38
Sortino Ratio	6.38
Downside Deviation (NAC)	2.85%
Downside Deviation (XAOAI)	7.17%
Current Estimated Portfolio Beta	0.37

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

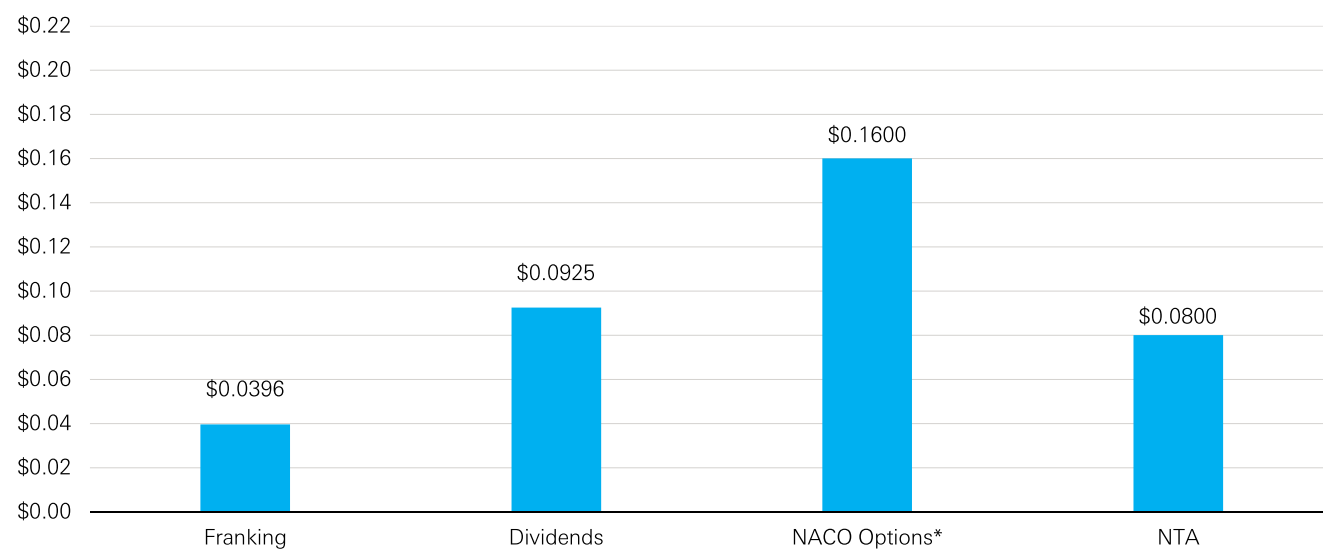
Capital Management - Summary Data as at 30 April 2017

Share Price	\$1.095
Share Price (Discount)/Premium to NTA (Undiluted, Pre-Tax)	1.39%
Historical Fully Franked Dividend Yield	4.57%
Historical Gross Dividend Yield	6.52%
Shares on Issue	52,536,889
Directors Shareholding	6,643,760

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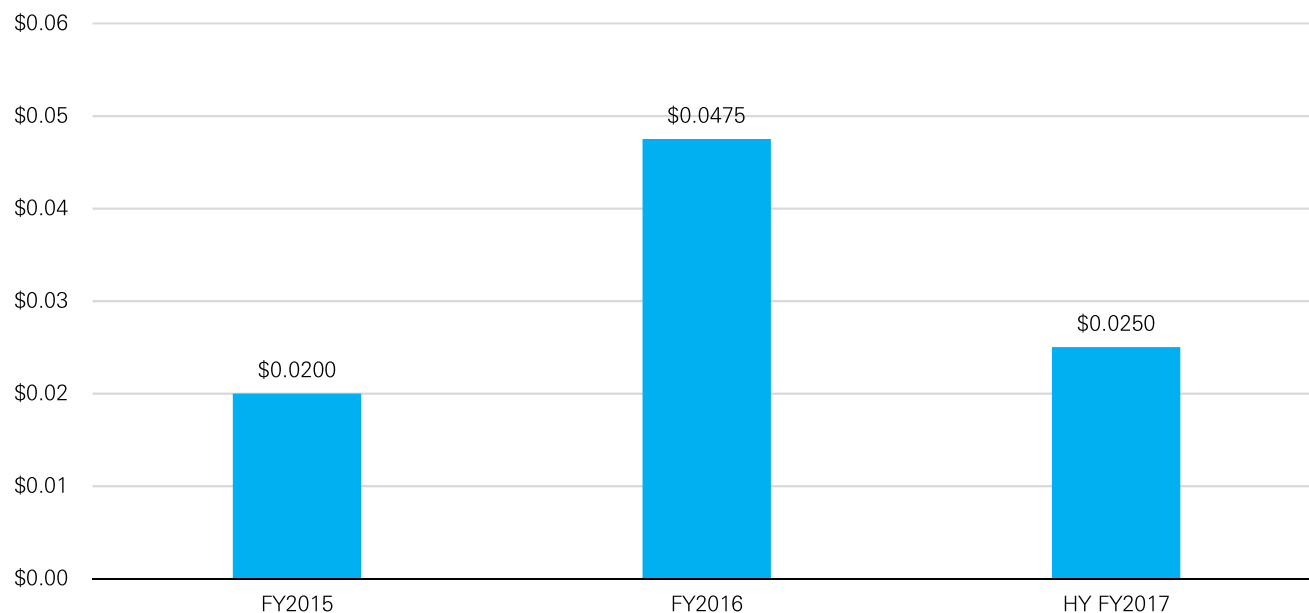
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Historical Shareholder Return Breakdown



*Assumes an intrinsic NACO value of \$0.16 cents per option at expiry (30 November 2016).

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

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Registered Office
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