

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

February 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 28 February 2017

Pre Tax NTA:	\$1.12
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.14
Post Tax NTA:	\$1.10
Share Price	\$1.12

Investment Portfolio Performance to 28 February 2017

The NAC Share Purchase Plan (SPP) remains open until 5pm 20 March 2017. This gives all NAC shareholders who were on the register as at 15 February 2017 the opportunity to acquire up to \$15,000 of NAC shares at a price of \$1.12 per share, without paying any brokerage, commissions or other transaction costs. Shareholders will also be entitled to the fully franked dividend of 2.5 cents per share, which will be paid on the 28 April 2017 on all shares, including those shares issued under the SPP. For any queries regarding the SPP please contact the team at enquiries@naos.com.au.

For the month of February, the NAC portfolio fell by -2.53%. February is a busy month for the NAOS team as it is the period where companies release their half year financial results to December 2016. It is often a period of increased volatility as results are compared to market expectations and stock prices move accordingly, often to extremes and this February was no exception. Overall we were pleased with the way our holdings reported and we include some highlights below.

Smartgroup Corporation Limited (ASX:SIQ) is a company we have owned since early 2015. During that time management have done an impressive job of delivering on their strategy, making a number of sensible acquisitions and creating significant value for shareholders. Despite some negative sentiment towards diminishing returns in the sector, SIQ reported an impressive result with strong cash flow and solid organic growth. As we look forward into the second half of 2017, we will see a full 12 months of earnings contribution from the recent acquisitions, as well as the continued pay down of the modest level of debt SIQ took on to fund those purchases. True to form, we also saw management buy more stock post the release of their result which is consistent with purchases they have made in the past. SIQ continues to be a business that fits well with the NAOS investment criteria and one we will continue to hold in the portfolio.

Billabong International Limited (ASX:BBG) is a relatively recent addition to the portfolio after having been in a turnaround phase for quite some time. For the first time in 3 years they have provided the market with solid full year guidance as well as some granularity around cost savings and gross margin improvements. Billabong is a company very much overlooked by the wider market, however we believe that the ~\$1bn BBG do in sales each year would suggest otherwise. To view the business simplistically, if they can return to a 10% EBITDA margin, and a similar multiple is applied to those used for other listed retailers, it could imply significant share price growth from current levels.

	1 Month	6 Month	1 Year	2 Year (p.a.)	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	-2.53%	-1.29%	+24.24%	+22.13%	+20.32%	+52.95%
Benchmark (RBA Cash Rate + 250bps)	+0.33%	+2.13%	+4.56%	+4.84%	+4.79%	+11.53%
Relative Performance	-2.86%	-3.42%	+19.68%	+17.29%	+15.53%	+41.42%

S&P/ASX All Ordinaries Accumulation Index (XAOAI)	+2.09%	+6.20%	+21.33%	+3.19%	+6.88%	+16.50%
MSCI ACWI (Net, Dividends Reinvested, AUD Terms)	+1.44%	+5.29%	+13.98%	+8.45%	+10.54%	+25.89%

*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)

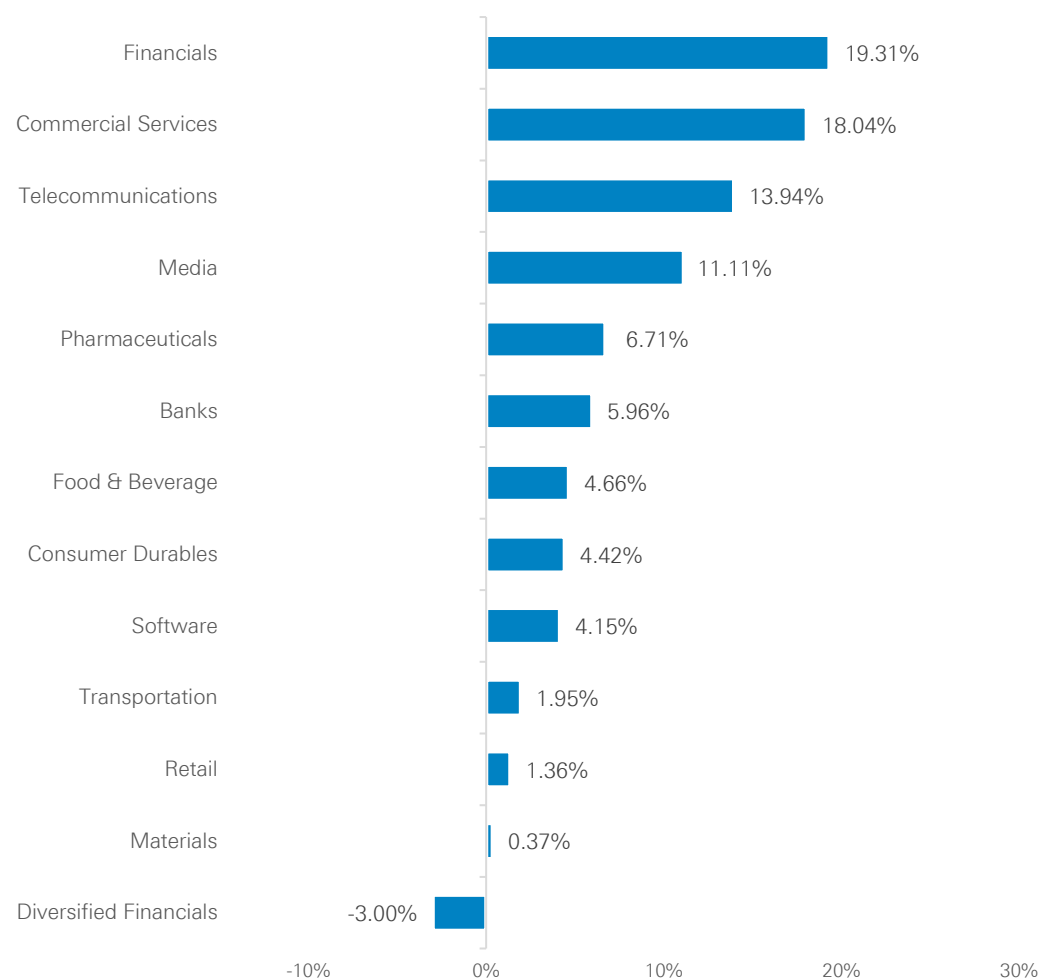
Below is a table listing the top positive contributors to NAC's total return since inception. The purpose of the table is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio 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	+9.25%	Event Hospitality	+4.70%
My Net Fone	+5.15%	Smart Group	+4.23%
Armidade Investment Corp	+4.98%	1-Page	+3.72%
Broadcast Services	+4.83%	Bellamy's Australia	+3.34%

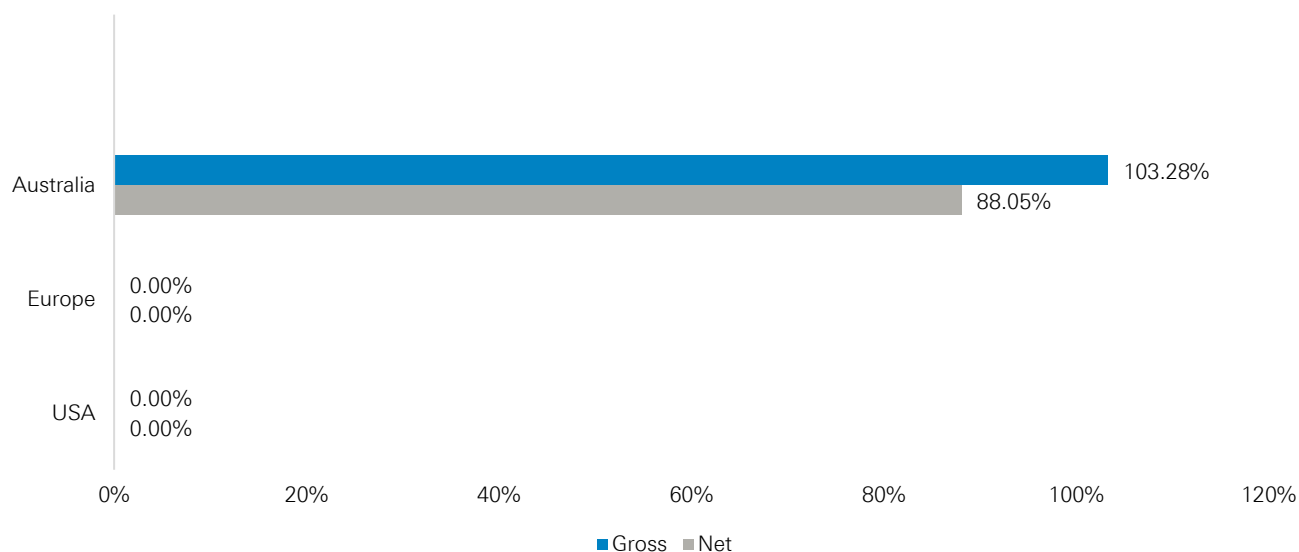
Portfolio Analysis as at 28 February 2017

As at 28 February 2017 the portfolio comprised of 21 holdings, with 18 long positions and 3 short positions.

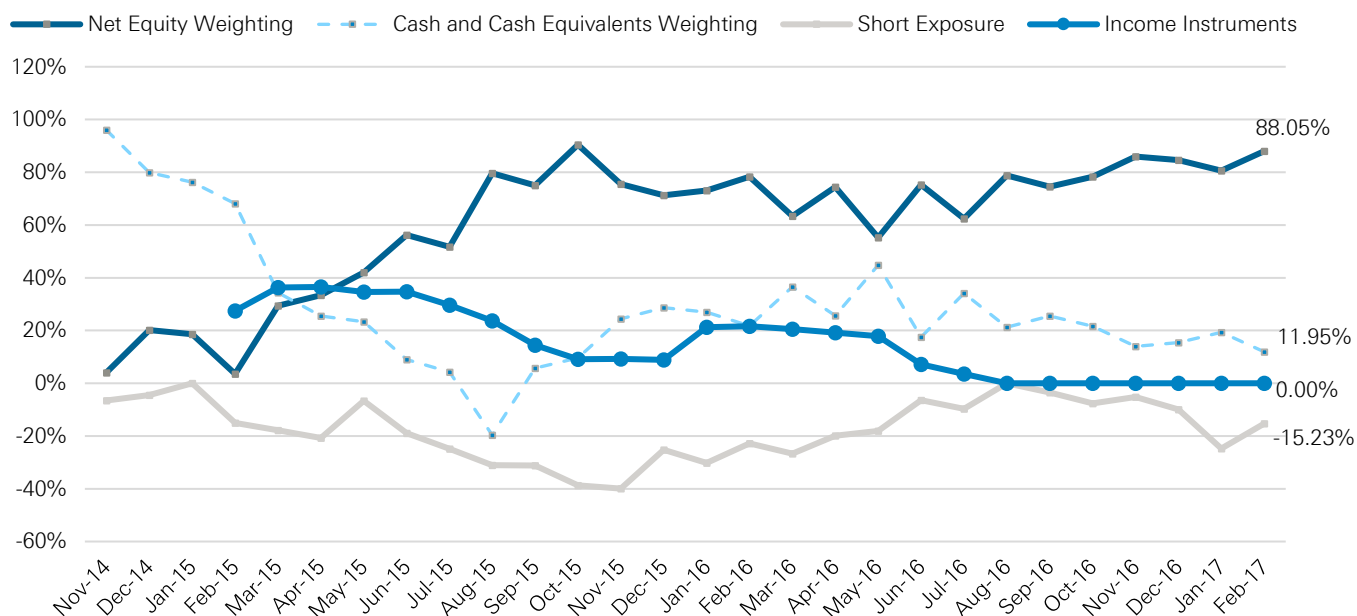
Net Industry Exposure



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 February were as follows:

- Bellamys Australia Ltd (BAL AU)
- MNF Group Ltd (MNF AU)
- Eclipx Group Ltd (ECX AU)
- Carsales Ltd (CAR AU)
- Service Stream Ltd (SSM AU)
- Blue Sky Alternatives Ltd (BLA AU)
- Smartgroup Corporation (SIQ AU)
- WPP AUNZ Ltd (WPP AU)
- Billabong International Ltd (BBG AU)
- BSA Ltd (BSA AU)
- iSelect Ltd (ISU AU)
- Elders Ltd (ELD AU)

Portfolio Characteristics – Summary Data as at 28 February 2017

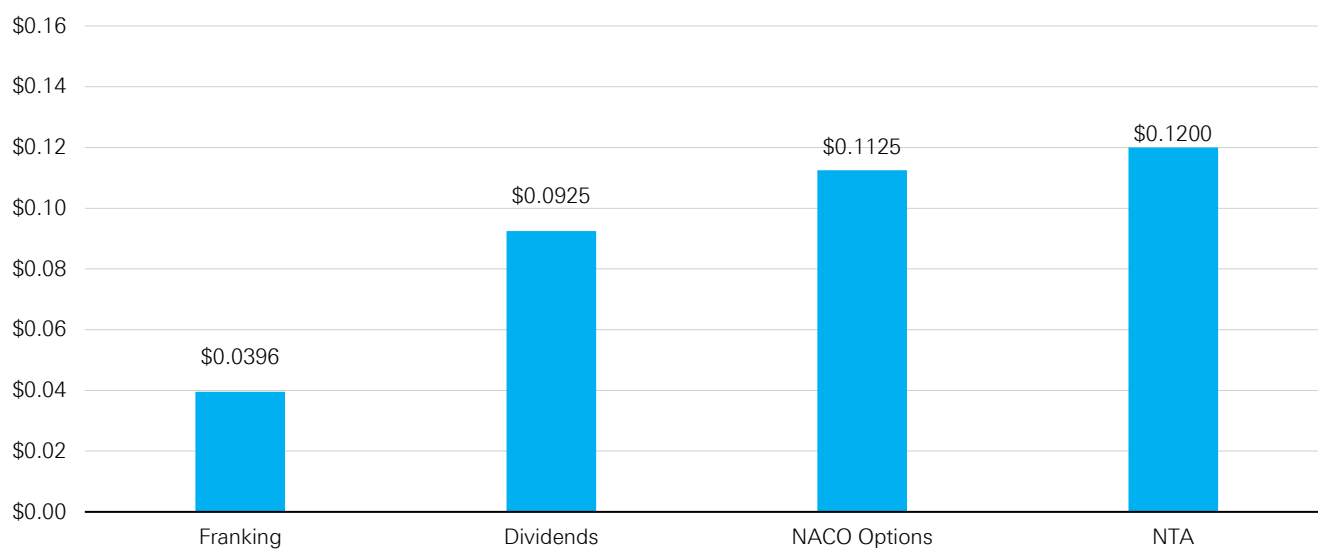
Total Number of Equity Holdings (Long & Short)	21
Total Number of Income/Debt Instruments*	0
Total Number of Holdings	21
Portfolio Weighted Market Capitalisation (AUD)	\$489.1m
Percentage of Positive Months (NAC)	64%
Percentage of Positive Months (XAOAI)	54%
Standard Deviation of Returns (NAC)	9.73%
Standard Deviation of Returns (XAOAI)	12.24%
Correlation of Returns to XAOAI	0.40
Sortino Ratio	7.84
Downside Deviation (NAC)	2.59%
Downside Deviation (XAOAI)	7.17%
Current Estimated Portfolio Beta	0.30

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

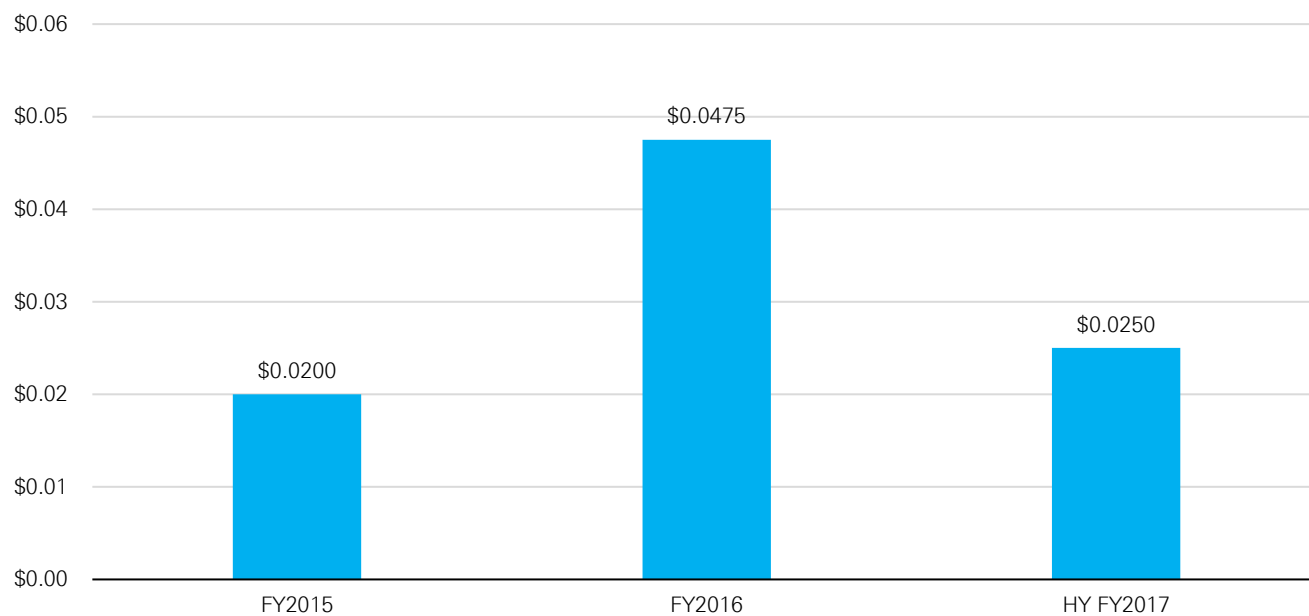
Capital Management - Summary Data as at 28 February 2017

Share Price	\$1.12
Share Price Discount/(Premium) to NTA (Undiluted, Pre-Tax)	0.00%
Historical Fully Franked Dividend Yield	4.46%
Historical Gross Dividend Yield	6.38%
Shares on Issue	49,242,598
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

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