

NAOS Absolute Opportunities Company (NAC)

ABN 49 169 448 837

MONTHLY INVESTMENT REPORT AND NTA UPDATE

NAOS

KEY CHARACTERISTICS

1. Concentrated Small/Mid Cap Exposure with a Long Term Value Focus

NAC seeks to provide investors with exposure to high quality, undervalued small-mid cap companies (market capitalisation generally >\$400 million to <\$1 billion) with an industrial bias in a concentrated structure.

2. Sustainable Growing Fully Franked Dividends

NAC's dividend has grown every year since inception with dividends usually paid on a six-monthly basis. To date all dividends have been fully franked.

3. Focus on Quality of Companies Not Quantity

Our primary focus is on developing a deep understanding and appreciation of the companies in our portfolio. We believe the best way to achieve this is to focus on a select number (typically 0-20) of high quality investment ideas in order to capitalise on our 'long term knowledge & liquidity advantage'. NAC has the ability to selectively short sell companies that the investment team believe are overvalued and of poor quality.

4. Portfolio Flexibility with a Benchmark Unaware Approach

This means we are not forced holders of stocks with large benchmark/index weightings that we are not convinced are attractive investment propositions. NAC can also hold up to 100% cash, it has been proven that holding cash offers the 'best hedge' during times of crisis.

5. Significant Alignment of Interests with Shareholders

NAOS employees/directors own over 7 million NAC shares, providing a significant alignment of interests.

6. Environmental, Social and Governance (ESG) NAOS adopts an ESG screen across its investments.

Net Tangible Asset Value Breakdown as at 28 February 2018

Pre Tax NTA:	\$1.15
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.15
Post Tax NTA:	\$1.12
Share Price	\$1.01
Historical Fully Franked Dividend Yield	5.20%

Investment Portfolio Performance & Market Insight

The NAC Investment Portfolio returned -1.99% for the month of February compared to the absolute benchmark which increased by +0.33%. This brings the inception return for 3 years and three months to +69.31% compared to the benchmark return of +16.15% and the S&P/ASX All Ordinaries Accumulation Index return of +29.14%. February was full of activity within the NAC investment portfolio, and many of the investments provided the market with their half yearly results for FY2018.

Our largest holding, MNF Group (ASX:MNF) was the main detractor to performance for the month. The market update provided by MNF confirmed that the business continues to grow organically at a strong rate, due to the unique software services that MNF provides to enterprise businesses both domestically and around the world. What took the market by surprise was the announcement of a \$3.5 million investment (that will be fully expensed in FY18) into the launch of a mobile brand called Pennytel. MNF will spend \$3.5 million initially in FY18, yet the reduction in market capitalisation since the announcement has been circa \$100 million, which we believe has been a short-term over-reaction by the wider market. MNF provided some further detail to their business plan, which included an expected EBITDA contribution from Pennytel in FY20 of \$7.9 million, based on 250,000 users.

Over the years the MNF management team has proved themselves as very conservative when it comes to both investing internally in new initiatives, as well as acquiring external business, and we believe this time is no different. Overlaying key strengths such as the competitive advantage MNF has in launching a Mobile Virtual Network Operator (MVNO) due to their back-end software, a net cash balance sheet, a strong core business with tier-1 customers such as Skype and Twilio (US: TWLO) and a highly aligned and proven management team, we believe the recent sell-off may represent an exceptional buying opportunity on a 2-3-year view.

	1 Month	6 Month	1 Year	2 Year (p.a.)	3 Year (p.a.)	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	-1.99%	+11.40%	+10.73%	+17.28%	+18.20%	+17.32%	+69.31%
Benchmark (RBA Cash Rate + 250bps)	+0.33%	+2.11%	+4.32%	+4.44%	+4.57%	+4.65%	+16.15%
Relative Performance	-2.32%	+9.29%	+6.41%	+12.84%	+13.63%	+12.67%	+53.16%
XAOAI [^]	+0.18%	+8.09%	+10.85%	+15.98%	+5.68%	+8.07%	+29.14%

*Investment Portfolio performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions. Performance has not been grossed up for franking credits received by shareholders. Since inception (p.a. and nom.) includes part performance for the month of November 2014. Returns compounded for periods greater than 12 months. ^ Refers to the S&P/ASX All Ordinaries Accumulation Index.

Positive Stock Contribution Analysis

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

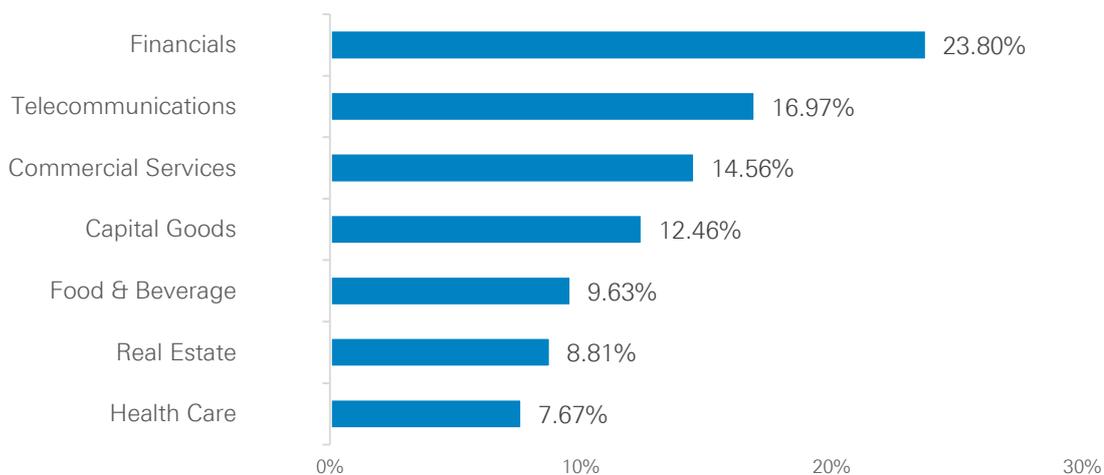
The table below lists the top positive contributors to NAC’s total return since inception. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio of investments that is generally limited to 0-20 securities at any one time. We will disclose securities in which NAC has a current substantial holding, or when we have exited the position. Positions in the table below have **either been a long or short position** in the portfolio at some point in time.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
MNF Group	+9.80%	Elders Ltd	+4.27%
BSA Ltd	+6.68%	Gentrack Group	+3.37%
Smart Group	+5.59%	Enero Group	+2.84%
Event Hospitality	+5.41%	Moelis Australia	+2.35%

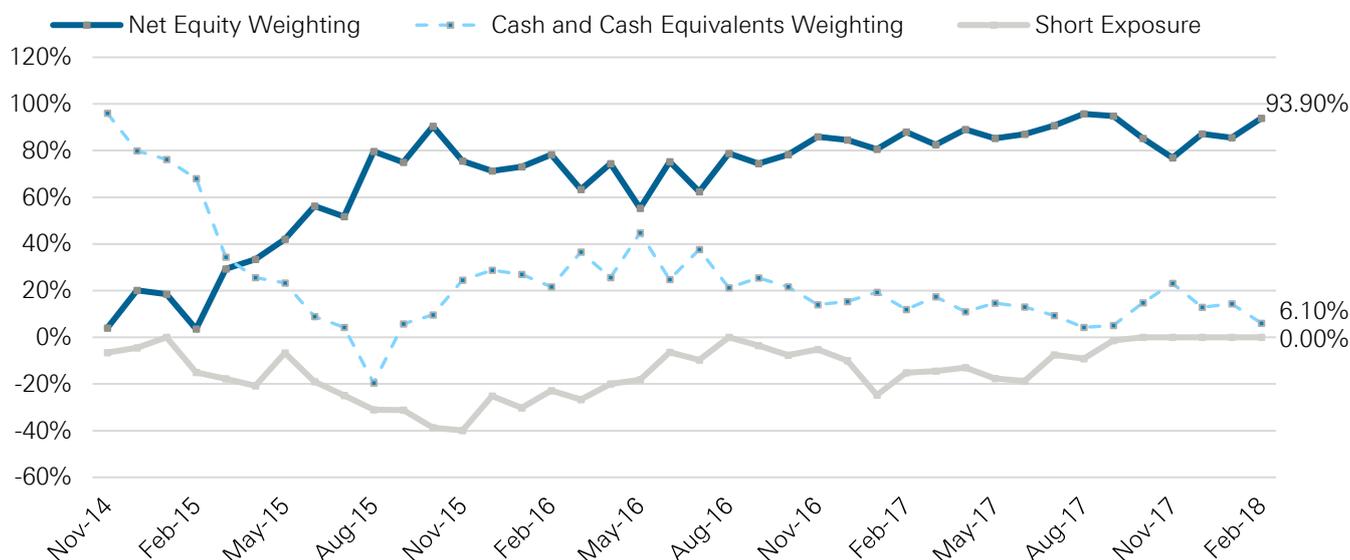
Portfolio Positioning as at 28 February 2018

As at 28 February 2018 the portfolio’s net equity exposure was ~93.90% with a subsequent cash weighting of +6.10%. As at month end, the portfolio was comprised of 11 holdings, with 11 long positions and 0 short positions.

Net Industry 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 companies the team had contact with during the month were as follows:

- GUD Holdings Limited (GUD AU)
- Japara Healthcare Ltd (JHC AU)
- Smartgroup Corporation Ltd (SIQ AU)
- Pacific Smiles Group (PSQ AU)
- MNF Group Ltd (MNF AU)
- RCR Tomlinson Ltd (RCR AU)
- Moelis Australia Ltd (MOE AU)
- HUB24 Ltd (HUB AU)
- Service Stream Ltd (SSM AU)
- Cleanaway Waste Management (CWY AU)

Portfolio Characteristics – Summary Data as at 28 February 2018

Below are a number of historical portfolio risk measures. Our aim in providing these metrics is to demonstrate to investors how NAC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and also to preserve investors' capital. A glossary of the terms used below and the method used for calculating them can be found on the last page of this report.

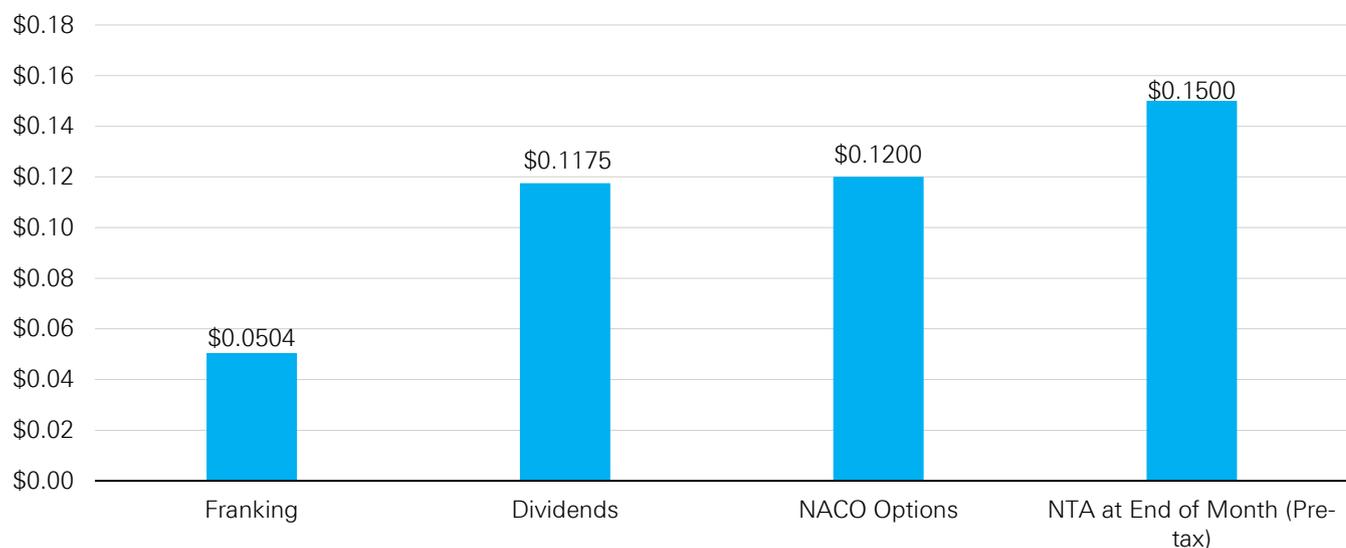
Total Number of Equity Holdings (Long & Short)	11
Total Number of Income/Debt Instruments*	0
Average Market Capitalisation of the Portfolio's Equity Holdings	\$490 million
Percentage of Positive Months (NAC)	63%
Percentage of Positive Months (XAOAI)	63%
Standard Deviation of Returns (NAC)	9.37%
Standard Deviation of Returns (XAOAI)	10.72%
Correlation of Returns to XAOAI	0.39
Sortino Ratio	5.32
Downside Deviation (NAC)	2.87%
Downside Deviation (XAOAI)	5.88%
Current Estimated Portfolio Beta	0.69

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

Capital Structure - Summary Data as at 28 February 2018

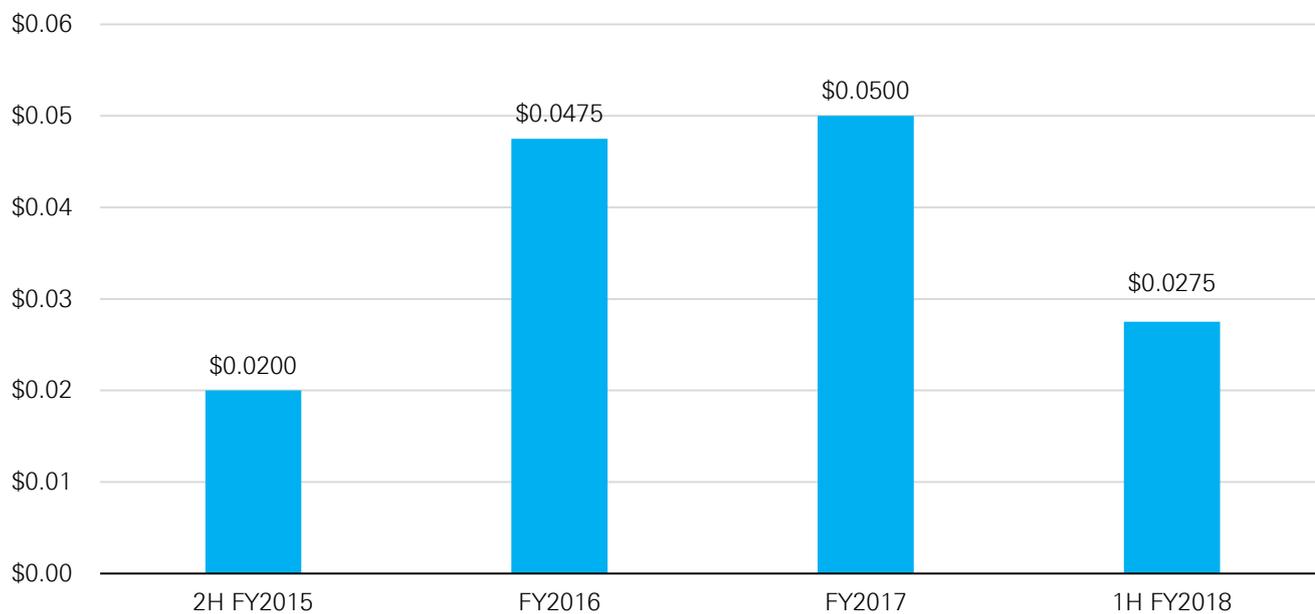
Share Price	\$1.01
Share Price Premium/(Discount) to Pre-Tax NTA	(-12.17%)
Shares on Issue	52,536,889
Directors Shareholding	6,907,917

Historical Shareholder Return Breakdown



*Assumes an intrinsic NACO value of \$0.12 cents per option at expiry (30 November 2016) based on pre-tax NTA on this date diluted for remaining options.

Dividend Profile – Historical Fully Franked Dividends (Cents per share)



Description of Statistical Terms/Glossary

Average Market Capitalisation of the Portfolio's Equity Holdings – The sum of, the percentage of each individual position relative to the total value of all Equity Holdings multiplied by each company's respective market capitalisation (Cash and Income/Debt securities are excluded).

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 – S&P/ASX All Ordinaries Accumulation Index

Important Information:

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CORPORATE DIRECTORY

Directors

David Rickards (Independent Chairman)
Warwick Evans (Director)
Sebastian Evans (Director)

Company Secretary

Rajiv Sharma

Investment Team

Sebastian Evans (Chief Investment Officer)
Jeffrey Kim (Portfolio Manager)
Robert Miller (Portfolio Manager)
Ben Rundle (Portfolio Manager)
Chadd Knights (Investment Analyst)

Chief Financial/Operating Officer

Richard Preedy

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Rajiv Sharma

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Julia Stanistreet

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