

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

MARCH 2015

COMPANY OVERVIEW

Investment Objective

The NAOS Absolute Opportunities Company (ASX: NAC) provides investors with exposure to domestic and international companies in a manner which has low correlation to broader equity market movements. The Company seeks to pay a minimum yield of 4.00% p.a., franked to the maximum extent possible. The Company seeks to generate income for investors through a concentrated long/short portfolio structure.

Investment Process

A unique 5 step investment process that places a strong emphasis on long term industry dynamics, management team capabilities and a track record of producing significant shareholder value over the medium to long term. Finally, catalysts are identified for each potential investment so that these investments will be re-rated by the market and trade on valuations closer to their larger counterparts.

Investment Strategy

To actively manage a concentrated portfolio (approximately 0-30 positions) of high quality ASX and internationally listed companies across a wide range of industries which investors may have otherwise limited exposure to. The Company has adopted a concentrated, absolute return, long/short strategy placing primary focus on generating positive absolute returns and not relative outperformance in all market conditions.

Inception Date: 12th November 2014

Benchmark: RBA Cash Rate + 250bps

**Shares on Issue (ASX: NAC):
21,500,000**

**Listed Options on Issue Exercisable
at \$1.00 Prior 30th November 2016
(ASX: NACO): 21,500,00**

**Dividend Yield: Targeted Minimum
4.00% p.a.**

Net Tangible Asset Value Breakdown as at 31st March 2015 (NTA Diluted for Remaining NACO Options)

Pre Tax NTA:	\$1.04 (\$1.02)
Post Tax & Pre Unrealised Gains Tax:	\$1.03 (\$1.02)
After Tax NTA:	\$1.03 (\$1.01)

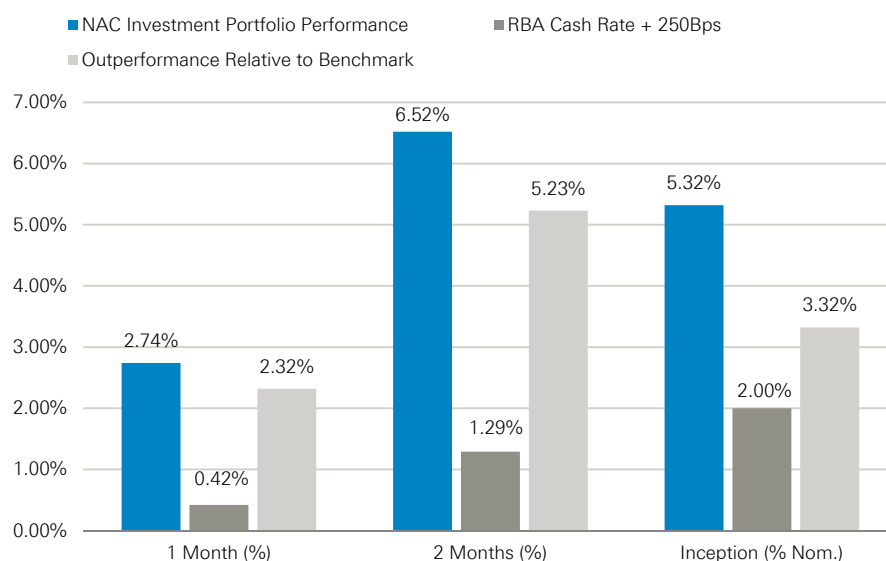
Investment Portfolio Performance to 31st March 2015

NAC's Investment Portfolio posted a positive return for the month of March of +2.74% compared positively to the benchmark return of +0.42%.

The largest contributor to portfolio performance for the month was our long position in the US dollar ETF. Our core thesis around this position is our belief that interest rates will push higher in the US, while interest rates in Australia will fall from levels that are relatively high when compared with the rest of the developed world. The AUD has come down over the past 12 months, however it is still high by historical standards especially against a backdrop of continued weakness in the Iron Ore price.

	1 Month	3 Months	Inception (Nom.)
NAC Investment Portfolio Performance*	+2.74%	+6.52%	+5.32%
Benchmark (RBA Cash Rate + 250bps)	+0.42%	+1.29%	+2.00%
Outperformance Relative to Benchmark	+2.32%	+5.23%	+3.32%

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

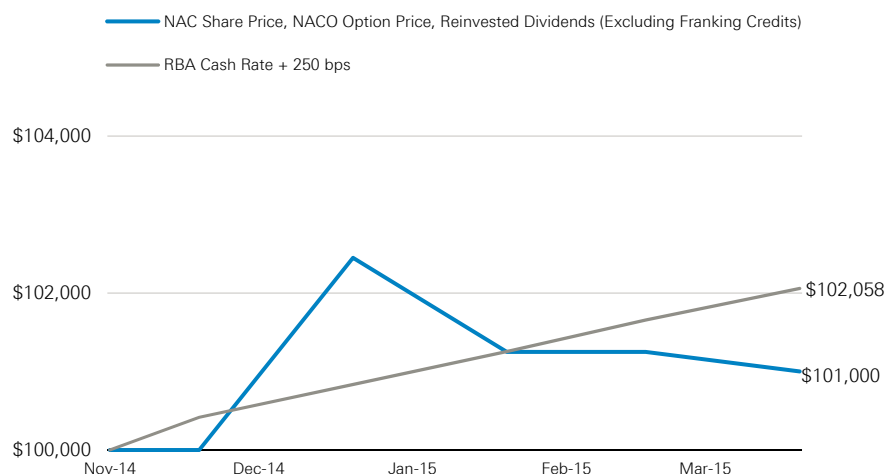


Positive Stock Attribution Analysis (12th November 2014 to 31st March 2015)

Below is a table which lists the top positive contributors to NAC 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 highly concentrated portfolio of investments that is often 0-30 securities at any one time. All of the below may either have been a long or short position.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
USD ETF	+4.01%	Amalgamated Holdings Limited	+0.51%
Iselect Limited	+1.01%	Reece Australia Limited	+0.49%
National Australia Bank	+0.78%	Macquarie Atlas Roads	+0.44%
Village Roadshow Limited	+0.60%	Monadelphous Group Limited	+0.35%

Shareholder Return Analysis (IPO Investors)



Portfolio Characteristics – Summary Data

Total Number of Equity Holdings	15
Total Number of "Income" Instruments	8
Total Number of Holdings	25
Median Market Capitalisation	\$2.57bn
Percentage of Positive Months	80% (4 out of 5)
Best Monthly Return	+2.77%
Worst Monthly Return	-1.66%

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

Market Insight

Over the course of the month the best performing index [of the ones we track closely] was the Shanghai Composite which was up +12.36%. Barron's cites 2 themes driving this performance;

- First, by cutting interest rates, Beijing is signalling that its priority has shifted from structural reform to stabilizing growth; and
- Second, Chinese money has to go somewhere now that the real-estate boom is over.

Germany's DAX was the 2nd best performer, it finished up +5.04% for the month, whilst Australia took a breather from the strong start to the year and posted a loss of -1.12%.

The largest contributor to NAC's portfolio performance for the month was our long position in the US dollar ETF. Our core thesis around this position is our belief that interest rates will push higher in the US, while interest rates in Australia will fall from levels that are relatively high when compared with the rest of the developed world. The AUD has come down over the past 12 months, however it is still high by historical standards. The chart below shows the price of the AUD since 1971



As you can see, by historical standards there is still room for the AUD to move lower. The prices of Australia's two biggest exports, Iron Ore & Coal have also come down substantially in recent months and Glen Stevens (Governor of the RBA) recently commented that the Australian dollar "remained above most estimates of its fundamental value, particularly given the significant declines in key commodity prices."

Cont....

Portfolio Positioning as at 31st March 2015

Over the month of March we added to our long position in James Hardie. Despite a recovery in financial markets in the US, single family housing starts have not recovered to anywhere near pre-GFC levels. Despite this James Hardie has managed to grow revenue over the period by taking market share from its competitors and successfully putting through price rises in its products. It has also been able to do this from a market dominant position and is now a firm leader in the US housing industry. We are starting to see improving labour conditions and evidence of wage inflation in the US which we feel will continue to benefit the housing industry in the region.

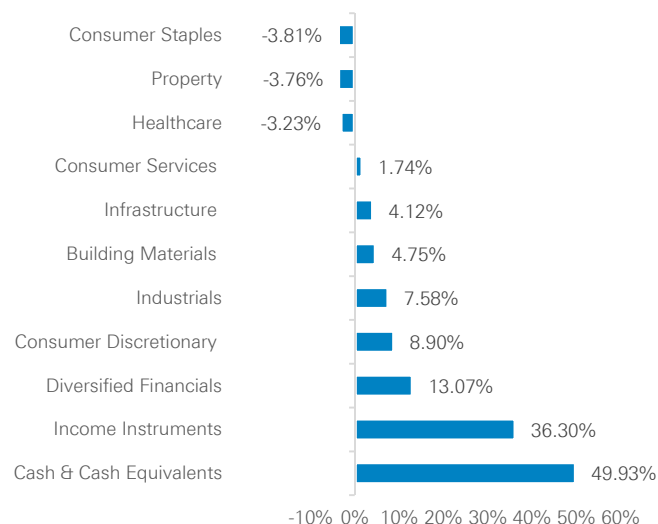
NAC also added to our position in Amalgamated Holdings on price weakness. The falling AUD has made domestic travel in Australia far more attractive to both domestic and incoming overseas travellers which is benefitting the groups portfolio of hotels. Their cinema exhibition business is not only a second derivative of this theme but is also seeing an improvement in the quality of films being shown. Finally, a recent transaction of the Perisher Ski resort which is the closest comparable to AHD's Thredbo resort gives us confidence that the value of AHD's Thredbo holding may be understated in terms of its carrying value on their balance sheet.

NAC is close to making our first investment in Europe. We have identified some key themes in the region which we expect our investment to benefit from. These macro themes are as follows;

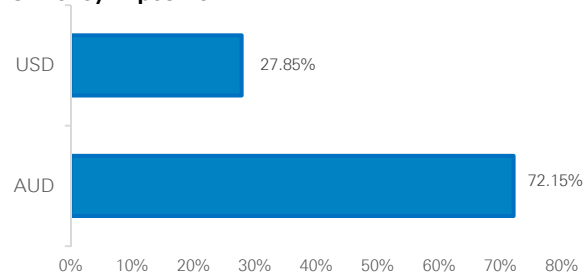
1. Falling Euro
2. Low interest rate environment
3. Low oil prices

We expect to make this investment in due course.

Industry Exposure (Equity & Income Instruments)



Currency Exposure



Market Insight Cont...

"Price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal"

A contributor on the short side of the portfolio has been GPT. The underlying, organic growth in earnings for GPT remains subdued with the EPS improvement largely driven by acquisitions and lower debt costs. Given the gearing is approaching 30% and the acquisition market remaining hot, not to mention interest rates are at record lows, we feel it will be more challenging for GPT to beat its growth targets in future years. GPT currently trades at a c20% premium to the value of its Net Tangible Assets (NTA).

Over the past two months we have been evaluating equity prospects in Europe and we have come close to making our first investment in the region. We want to focus our work on sectors of the economy that will benefit from 4 particular factors being;

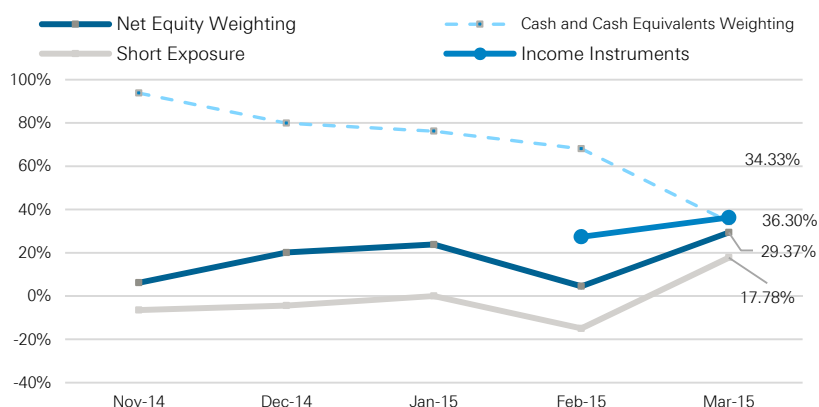
1. European Quantitative Easing
2. Persistently low Euro bond yields
3. Falling Euro currency
4. Falling oil prices

We have identified a number of stocks that fit the above criteria and will be making our first capital allocation decision in due course.

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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 Investment Management Team has contact with many listed and unlisted companies across a wide range of industries and geographies. During the month of March the NAOS Investment Team engaged with over 60 unlisted and listed companies, a selection of those met with is provided as follows.

- James Hardie (JHX)
- Veda Group (VED)
- Adelaide Brighton Cement (ABC)
- Tox Free Solutions (TOX)
- linet (IIN)
- Monadelphous Group (MND)
- Recall (REC)
- Transfield Services (TSE)
- Kathmandu (KMD)
- Shine Corporate (SHJ)
- SAI Limited (SAI)
- AP Eagers (APE)

Disclaimer:

This report has been prepared by NAOS Asset Management Ltd. Information retained in this report does not represent 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. Information in this report has been given in good faith. Returns are compounded for periods greater than 12 months. The Investment Manager of the Company is NAOS Asset Management Ltd (ABN 23 107 624 126, AFSL 273529). NAOS Address: Level 4 Domain House, 139 Macquarie Street Sydney NSW 2000. NAOS Telephone: 61 2 9947 2566

CORPORATE DIRECTORY

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

Company Secretary

Lawrence Adams
Investment Team
Sebastian Evans (Chief Investment Officer)
Jeffrey Kim (Portfolio Manager)
Robert Miller (Portfolio Manager)
Ben Rundle (Portfolio Manager)

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Anneke Senden

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