

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

JUNE 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 assessing company valuation, long term industry dynamics and management team capabilities; with particular focus on their track record of producing significant shareholder value over the medium to long term.

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

Share Price at 30th June 2015: \$0.91

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.**

**Total Directors Shareholding in NAC:
1,039,878 Ordinary Shares**

Net Tangible Asset Value Breakdown as at 30th June 2015

Pre Tax NTA:	\$1.07
Post Tax & Pre Unrealised Gains Tax:	\$1.06
After Tax NTA:	\$1.05

*The above NTA calculations do not account for any potential dilution from the 21,500,000 NACO options that remain on issue (expiry 30th November 2016) and which are exercisable at \$1.00

Investment Portfolio Performance to 30th June 2015

NAC's Investment Portfolio posted a return for the month of -1.51% compared to the absolute benchmark of +0.39% (RBA Cash Rate + 250 Basis Points). For the same period, the MSCI ACWI Index fell by 3.20% in Australian dollar terms and the XAOAI fell by 5.40%. Given the aggressive sell off in markets around the globe it should come as no surprise that our short positions were the best performers in the portfolio for the month.

One of our short positions, Mineral Resources (ASX: MIN), was one of the largest contributors to positive performance generation over the month. MIN offers contract crushing services to the Australian iron ore industry. The rationale for our short on MIN has its basis in the fact that as iron ore prices continue to come under pressure and given the highly correlated nature of MIN's performance to that of its customers, the company's performance/share price should experience downward pressure too. We also believe that MIN's newly embarked 'Bulk Ore Transport System' project presents significant downside risk to the group, much of which has not been priced in by the market. During the month of June, two primary events impacted heavily on MIN's share price 1) The Company presented to delegates at a Morgan Stanley conference and provided guidance for the full year that was lower than market expectations and 2) The price of iron ore continued to drift lower, negatively affecting MIN's customer base.

Key detractors to portfolio performance for the month included some of our core positions such as Amalgamated Holdings and some of our European positions such as Hella. With regards to Europe, while we maintain some exposure to the region we believe we are well hedged to protect the portfolio from any near term volatility.

	1 Month	3 Months	6 Months	Inception (Nom.)
NAC Investment Portfolio Performance*	-1.51%	+3.74%	+10.49%	+9.24%
Benchmark (RBA Cash Rate + 250bps)	+0.39%	+1.18%	+2.49%	+3.21%
Outperformance Relative to Benchmark	-1.90%	+2.56%	+8.00%	+6.03%

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

Positive Stock Attribution Analysis (12th November 2014 to 30th June 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. Positions in the table below may have been held either on the long or short side of the portfolio at any given point in time.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
US Dollar ETF	+4.90%	National Australia Bank Limited	+1.04%
Sirtex Medical Limited	+2.41%	Macquarie Group Limited	+0.72%
Iselect Limited	+1.77%	Reece Australia Limited	+0.73%
Amalgamated Holdings Limited	+1.44%	James Hardie Industries	+0.62%

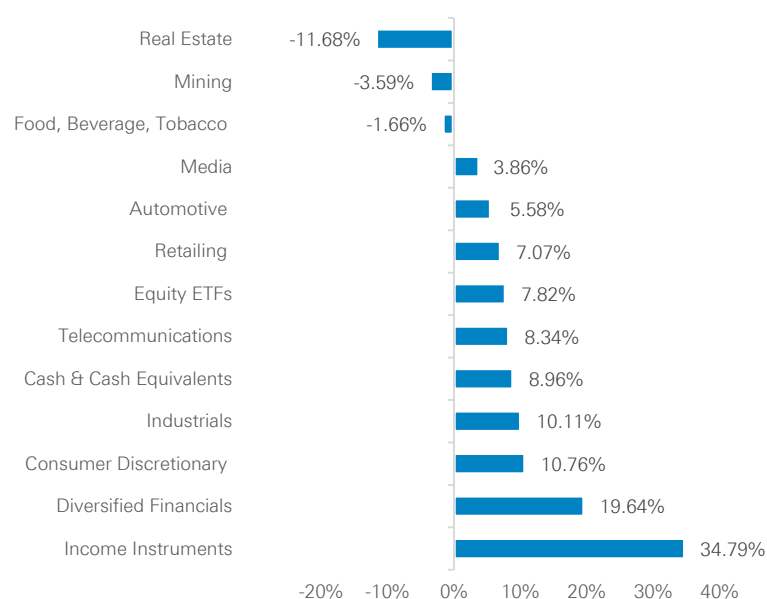
Portfolio Positioning as at 30th June 2015

Given the portfolio's global focus, in recent times we have received questions from investors about whether we have been involved in the meteoric rise of the China markets. The answer is 'No'. While the returns generated in these markets have looked exceptionally attractive and an easy route to quick gain, in the words of Charlie Munger (Berkshire Hathaway); 'I am very sceptical of any investment which appears to offer quick return'. Over the last two weeks of June the Chinese markets reversed their upward trajectory and finished the month down by -7.25%.

In terms of portfolio activity, during June we increased our exposure to Europe by implementing a position in an Italian listed retailer. The company is well capitalised, has a strong balance sheet position, presents a strong brand to market and has plans to expand their retail presence through new retail outlets globally over the medium term. The company is also set to benefit from improving US and European consumer confidence levels.

As at 30th June, the NAC portfolio had 19 Equity Holdings (13 longs, 6 shorts), 9 Income Instruments and 2 ETF's.

Industry Exposure



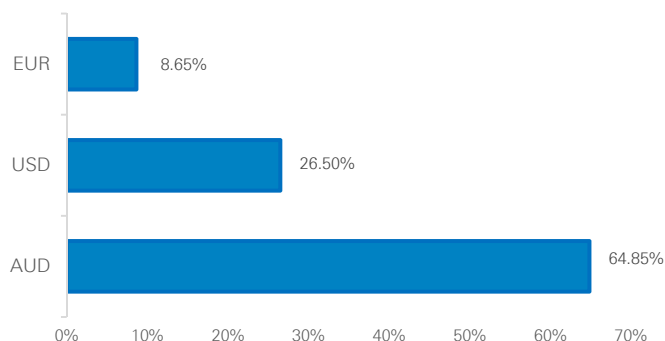
Market Insight

In Australia it was 'confession season', a time of year where Companies own up about how their numbers are looking for the upcoming reporting period vs the consensus. During the month we saw a raft of downgrades to the earnings outlook for some companies, with the most notable including Flight Centre, Seek, Qube Logistics, Mineral Resources, Nine Entertainment, Virtus Health and Seven West Media. For the most part the downgrades seemed to be quite stock specific with the exception of both Seven West and Nine, which are both operating traditional media businesses where the competitive landscape is being challenged by new advertising mediums and TV audiences are in decline.

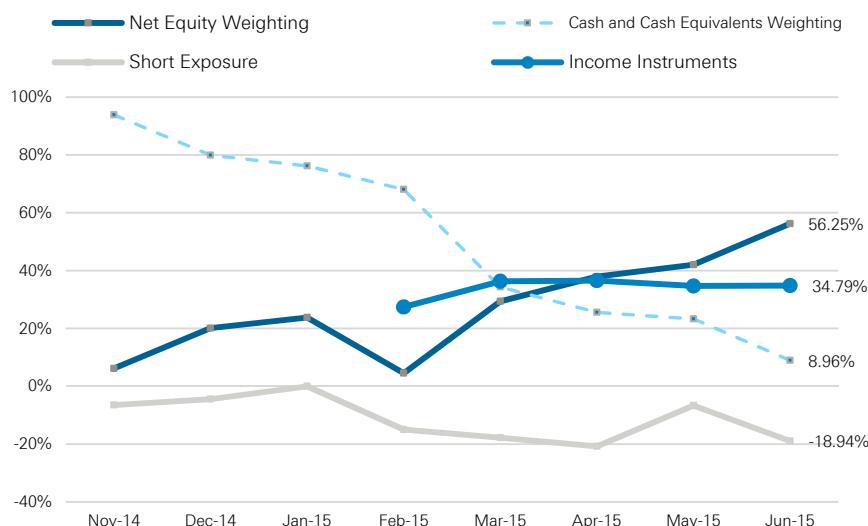
One consistency we are noting amongst the downgrades however is the severity in which share prices can move, often reflecting an over-reaction to the news at hand. Part of the reason for this is the global interest rate policies being adopted by many central banks. Ultra low interest rates have caused select share markets around the world to trade well above their historical average P/E ratios. When returns offered by bonds and term deposits are at all-time lows, investors turn to the share market in search of an acceptable return. The issue we have in Australia is that not all parts of our economy are firing, and as such, investors direct their investable funds to the same small basket of stocks. When the P/E of these stocks becomes elevated, it removes the margin of safety for any hiccups in the underlying businesses and therefore, if even a hint of a downgrade becomes apparent, investors rush for the exits. Indeed a lot of outperformance generated by money managers in recent times has been in simply avoiding these 'landmines.'

Looking to overseas, the macroeconomic news was dominated by Greece. While we track macroeconomic data and news closely, our view on Greece is that the market rarely gets knocked out by the punch it sees coming. To put it another way, often these well publicised events will create a heightened level of short term volatility, but in this case it has not changed our current view that we see Europe as being an attractive place to invest. Just as we saw in the US last year with concerns over the budget ceiling and the end of QE, often these events will create short term noise around scary headlines which creates opportunities for the long term investor. Investors need to ask themselves..... Is the European Union better or worse without Greece?

Currency 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. During the month of June, the NAOS Investment Team engaged with over 33 unlisted and listed companies, a selection of those met with is provided as follows.

- Burson Group (ASX:BAP)
- CSG Limited (ASX:CSV)
- Precision Castparts (PCP US)
- MMA Offshore (ASX:MRM)
- Autonation (AN US)
- Mineral Resources (ASX:MIN)
- Arena REIT (ASX:ARF)
- Super Retail (ASX:SUL)
- Baby Bunting (Unlisted)
- APN Outdoor (ASX:APN)
- TOX Free Solutions (ASX:TOX)
- My Net Phone (ASX:MNF)

Market Insight Cont....

In the US we are continuing to see strong underlying trends for the housing industry. The data has been strong with new home sales of +2.2% for the month. There has been M&A activity with KB Homes and Standard Pacific agreeing to a merge and builders have been reporting strong growth in underlying demand. We continue to have a favourable view of the sector in this context.



For a larger version of the chart above please copy and paste the link following into your browser: <http://naos.com.au/wp-content/uploads/2015/07/US-Housing-Starts.png>

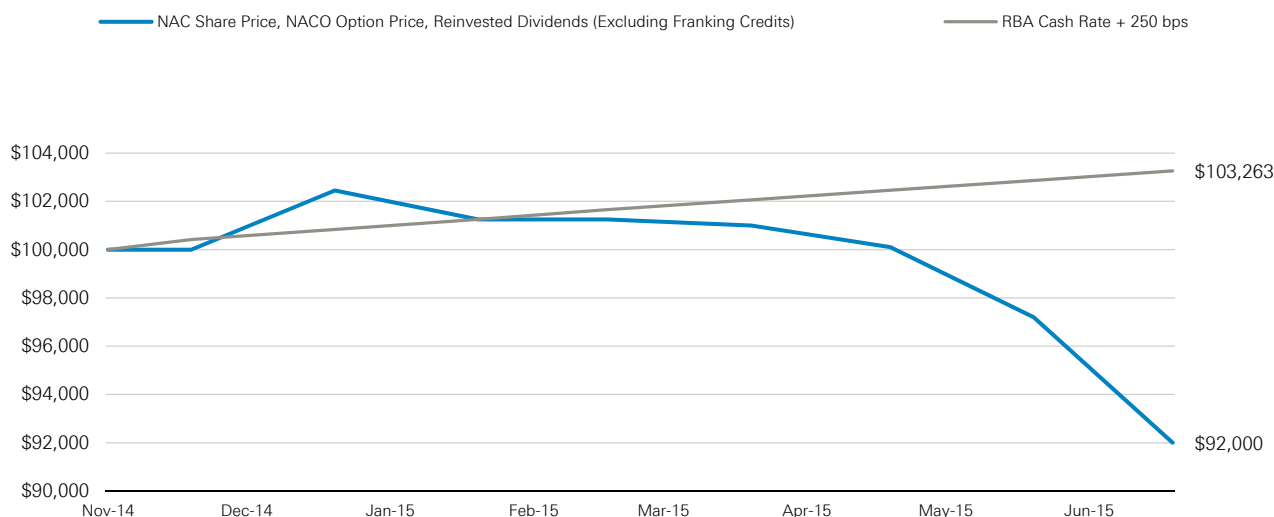
Portfolio Characteristics – Summary Data (as at 30th June 2015)

Total Number of Equity Holdings (Long & Short)	19
Total Number of "Income" Instruments*	9
Total Number of Holdings	30
Median Market Capitalisation	\$905mn
Percentage of Positive Months (NAC)	75%
Percentage of Positive Months (XAOAI)	50%
Standard Deviation of Returns (NAC)	7.24%
Standard Deviation of Returns (XAOAI)	12.20%
Correlation of Returns to XAOAI	28.56%
Sortino Ratio	48.35
Downside Deviation	0.26%
Downside Deviation (XAOAI)	6.35%
Current Estimated Portfolio Beta	0.19

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

Capital Management - Summary Data

Shareholder Return Analysis (IPO Investors)



As at 30th June 2015

Fully Franked Dividend Yield	Targeted 4.00% p.a.
Shares on Issues	21,500,000
Options on Issue	21,500,000 (strike at \$1.00)
Directors Shareholding	1,039,878

Description of Statistical Terms/Glossary

Portfolio Weighted Average Market Capitalisation – The portfolio weight of each individual position multiplied by each companies 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 Sharp 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).

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 1 means that the security/portfolio will be less than volatile than the market.

XAOAI – All Ordinaries Accumulation Index (XAOAI)

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 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

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Sebastian Evans (Director)

Company Secretary

Lawrence Adams

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