NAOS Absolute Opportunities Company (NAC)

MONTHLY INVESTMENT REPORT AND NTA UPDATE

JULY 2015

N Λ O S

KEY CHARACTERISTICS

1. Global, Multi Asset Class Exposure
Our ability to invest in a range of equity, fixed income, currency and commodities securities both in Australia and internationally provides us with the flexibility to capitalise on performance generating situations that would otherwise not be available through a traditional share portfolio. Our flexible mandate focus' on taking advantage of fluctuations and mis-pricing situations in investment markets both domestically and offshore.

2. Positive Absolute Return Focus
Our primary focus is the preservation of shareholders capital and the generation of meaningful absolute returns. We adopt a long/short approach to our portfolio implementation such that we can take advantage of both upward and downward movements in security prices. 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
When assessing investment opportunities we look for those ideas that offer meaningful, long term value accretion to shareholders. We place primary consideration on quality over quantity resulting in a concentrated portfolio of 'Best Ideas' (typically 0-30 holdings). When assessing our equity investments we adopt a value driven approach, further supporting our objective of long term gain.

4. Ability to Hold +100% in Cash
We believe cash offers the 'best hedge' during times of crisis. We also believe holding cash allows us greater flexibility to take advantage of security mispricing opportunities as and when they arise.

5. Demonstrating a Significant Alignment of Interests with Shareholders
NAOS employees/directors own a significant amount of shares and options in NAC. Our performance is also closely tied to the performance of the investment portfolio through the application of a Performance Based Fee.

Net Tangible Asset Value Breakdown as at 31st July 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 31ST July 2015

The Naos Absolute Opportunities Company had a positive start to the Financial Year returning +0.31% for the month vs the benchmark return of +0.40%.

The largest contributor to positive performance for the month was our USD ETF holding. We initiated our exposure to US dollars just after the portfolio's inception in November '14 and since this time it has remained as a core portfolio holding. Given the recent sharp movements in the AUD to USD and in light of how quickly this has occurred, we made the decision to trim some of our exposure to this holding over the course of the month and as such realised profit for the portfolio. While over the long term we expect to continue to benefit from our position, and in light of the RBA's recent comments to market via their policy minutes; *"Members noted that the exchange rate had thus far offered less assistance than would normally be expected in achieving balanced growth in the economy and that further depreciation seemed both likely and necessary"* post comments, we believed it was a prudent time to trim our position and look for an opportunity of weakness in future to once again build our exposure.

The largest detractor to portfolio performance for the month was our holding in Reece Australia. The downward move in the company's share price, we believe, is temporary and it has not altered our strong view of Reece as a leader in its market or the fact that it has a proven management team who have a close alignment of interests to that of shareholders. We also believe the Company is currently trading at reasonable valuation levels.

	1 Month	3 Months	6 Months	Inception (Nom.)
NAC Investment Portfolio Performance*	**+0.31%**	**+3.57%**	**+7.81%**	**+9.55%**
Benchmark (RBA Cash Rate + 250bps)	**+0.40%**	**+1.20%**	**+2.43%**	**+3.63%**
Outperformance Relative to Benchmark	**-0.09%**	**+2.37%**	**+5.38%**	**+5.92%**

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

Positive Stock Attribution Analysis (12th November 2014 to 31st July 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.

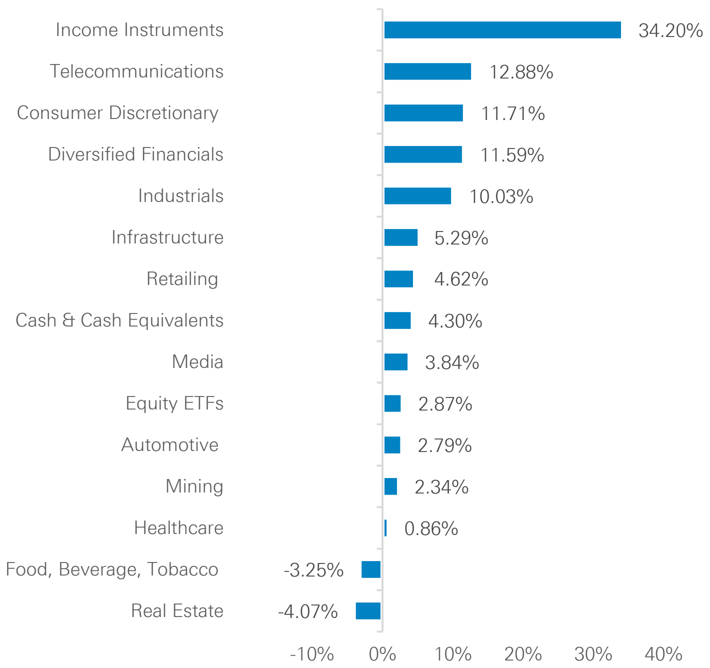
Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
US Dollar ETF	+5.79%	National Australia Bank Limited	+1.05%
Sirtex Medical Limited	+1.75%	Macquarie Group Limited	+0.71%
Iselect Limited	+1.43%	Village Roadshow	+0.63%
Amalgamated Holdings Limited	+1.35%	Macquarie Atlas Roads	+0.58%

Portfolio Positioning as at 31st July 2015

As at 31st July the portfolio held a total of 32 holdings comprising 21 equity positions (15 long and 6 short), 7 income positions and 4 ETF's. The portfolio was geographically concentrated in Australia however we do maintain an exposure also to the US (17.28%) and Europe (8.84%). We maintain our conservative stance, with the portfolio's net equity exposure sitting at 61.08% as at the end of the month.

Events in Greece and China have resulted in high levels of volatility in share prices and a risk off sentiment by investors both here and internationally over the past few months. In this environment, using our similar positioning in June as an example, we remain confident that, as we did then, we will be successful in protecting shareholders capital and producing positive returns in the portfolio. However, given our positioning, should sentiment shift and markets experience an aggressive rally, it is unlikely that we will participate in the full effect of a performance upswing.

Industry Exposure



Market Insight

July was another volatile month in global equity markets, with trade being driven by political worries more so than underlying fundamentals.

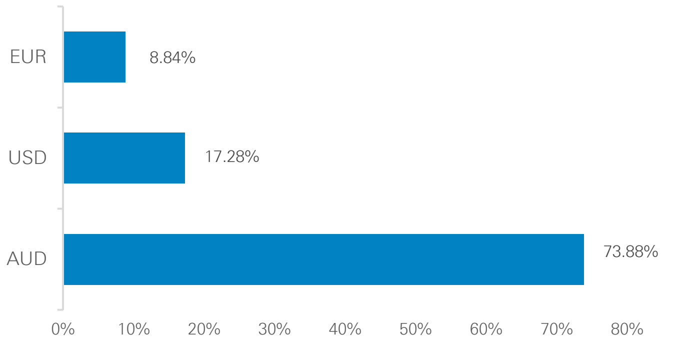
Starting with China, we saw another aggressive sell-off during the month with the Shanghai Composite falling by ~14%. Whilst the portfolio has no direct holdings in Chinese listed companies, we are cognisant that further knocks in investor confidence levels could negatively affect the share prices of locally listed companies, particularly those who sell to China like Australia's commodity producers.

July in the US brought with it 'Reporting Season'. Pleasingly, investors were mainly surprised on the upside, largely due to downbeat expectations going into the period. Stocks in the Technology sector including Amazon, Netflix, Google and Facebook all posted very strong results and as such were the best performers over the period. Other notable positive results came from the investment banks who benefited from an increase in M&A activity as well as increased trading volumes. On the opposite end of the spectrum were the oil companies as the price of crude fell over 20% for the month.

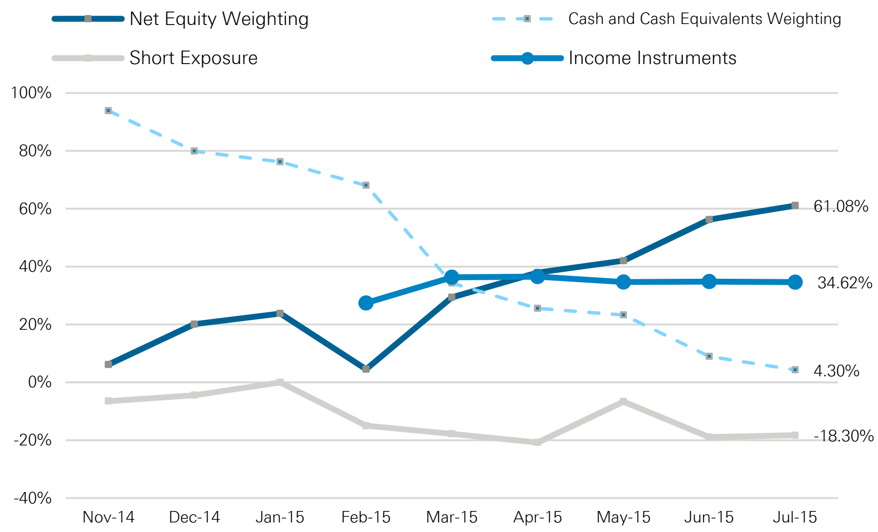
We continue to find some of our best opportunities in Europe at present, largely as a result of these markets trading around the ebbs and flows in Greece's debt situation. As a result of heightened, continuing volatility we continue to see some excellent buying opportunities.

Back at home, July also saw some domestic listed companies begin their reporting to market. Primary Health Care (ASX:PRY) was one, putting its profit warning out after the market had closed, revealing its underlying earnings per share growth had been revised down by 5 per cent from previous guidance of growth of between 5 to 12 per cent. Others to report included BHP Billiton (ASX: BHP), who wrote down the value of its US shale gas assets by $2.8 billion and announced to market that it had cut capex. The Company also revealed that there was a risk that the business would not be cash flow positive. The primary driver of the bad news was the negative impact of falling oil prices and tough conditions in the US gas market, where gas prices remain very low. Perpetual (ASX: PPT) was yet another Company that came to market with negative news, revealing that funds under management fell to $30.2 billion from $34.7 billion in March.

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 July, the NAOS Investment Team engaged with over 35 unlisted and listed companies, a selection of those met with is provided as follows.

- Ooh Media (OML AU)
- Moleskin (MSK IM)
- Infrastructure Wireless Italiane (INW IM)
- Plaggio (PIA IM)
- Skechers (SKX US)
- Columbia Sportswear (COLM US)
- Pulte Group (PHM US)
- My Net Fone (MNF AU)
- Hella KGaA Hueck (HLE GR)
- HFA Holdings (HFA AU)
- Navitas (NVT AU)
- Dr Horton (DHI US)

Market Insight Cont….

With August being the primary month for company reporting we are hopeful that the tide will change and we will see some surprise to the upside, particularly given how downbeat analysts forecasts and resultant expectations have been.

Portfolio Characteristics – Summary Data (as at 31st July 2015)

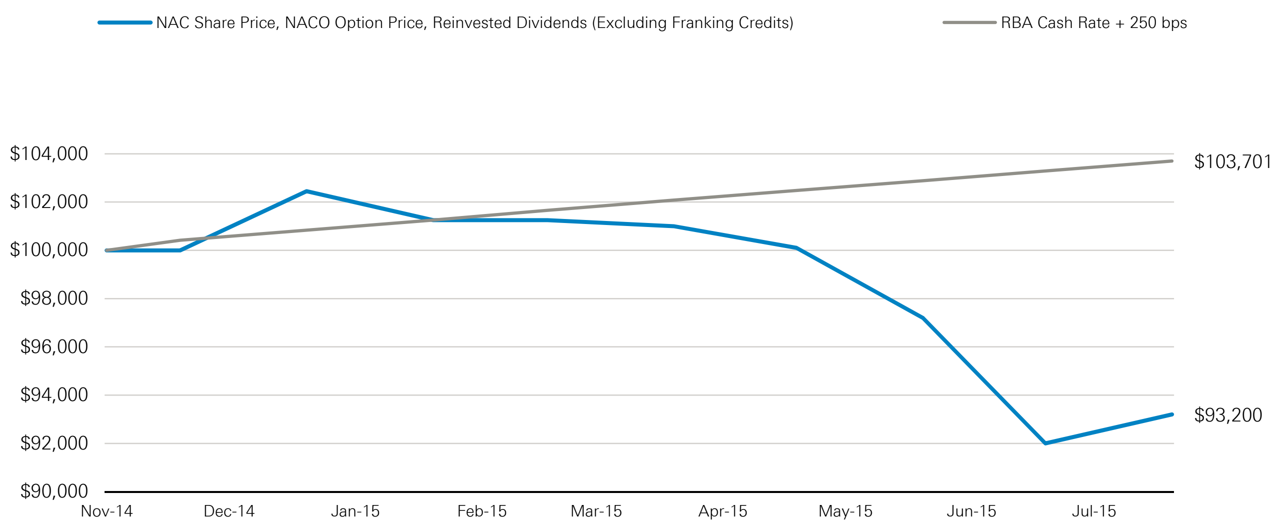
Total Number of Equity Holdings (Long & Short)	21
Total Number of "Income" Instruments*	7
Total Number of ETF's	4
Total Number of Holdings	32
Median Market Capitalisation	$11,814mn
Percentage of Positive Months (NAC)	78%
Percentage of Positive Months (XAOAI)	44%
Standard Deviation of Returns (NAC)	6.90%
Standard Deviation of Returns (XAOAI)	12.25%
Correlation of Returns to XAOAI	22.34%
Sortino Ratio	67.31
Downside Deviation	0.20%
Downside Deviation (XAOAI)	6.13%
Current Estimated Portfolio Beta (XAOAI)	0.28

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

Capital Management - Summary Data as at 31st July 2015

Share Price	$0.92
Discount to NTA (undiluted, pre tax)	-14%
Fully Franked Dividend Yield	Target 4.00% p.a
Shares on Issues	21,500,000
Options on Issue	21,500,000 (strike at $1.00, expire 30th November 2016)
Directors Shareholding	1,039,878

Shareholder Return Analysis (IPO Investors)



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

XAOAI – All Ordinaries Accumulation Index (XAOAI)

CORPORATE DIRECTORY

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Warwick Evans (Director)
Sebastian Evans (Director)

Company Secretary
Lawrence Adams

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Ben Rundle (Portfolio Manager)

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