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QUARTERLY INVESTOR BRIEFING
1ST QUARTER FY-2016

NAQS Absolute Opportunities Company
(ASX:NAC)

CALL DETAILS

1. Date	Thursday 15 th October
2. Time	10.00am AEDST
3. Telephone	1800 857 029
4. Guest Access Code	10842873#
5. Questions	Please email all questions to enquiries@naos.com.au prior to the allotted call time

AGENDA

1. NCC REVIEW

- Key Objectives
- Capital Structure
- Capital Analysis
- Performance & Risk Analysis
- Positive Stock Attribution Analysis
- Net Equity Exposure
- Industry & Currency Exposure
- Sample Company Meetings

2. Market Commentary

- Australian Equity Market Review
- Global Equity Market Review
- Key Investment Themes

3. Keeping Up to Date

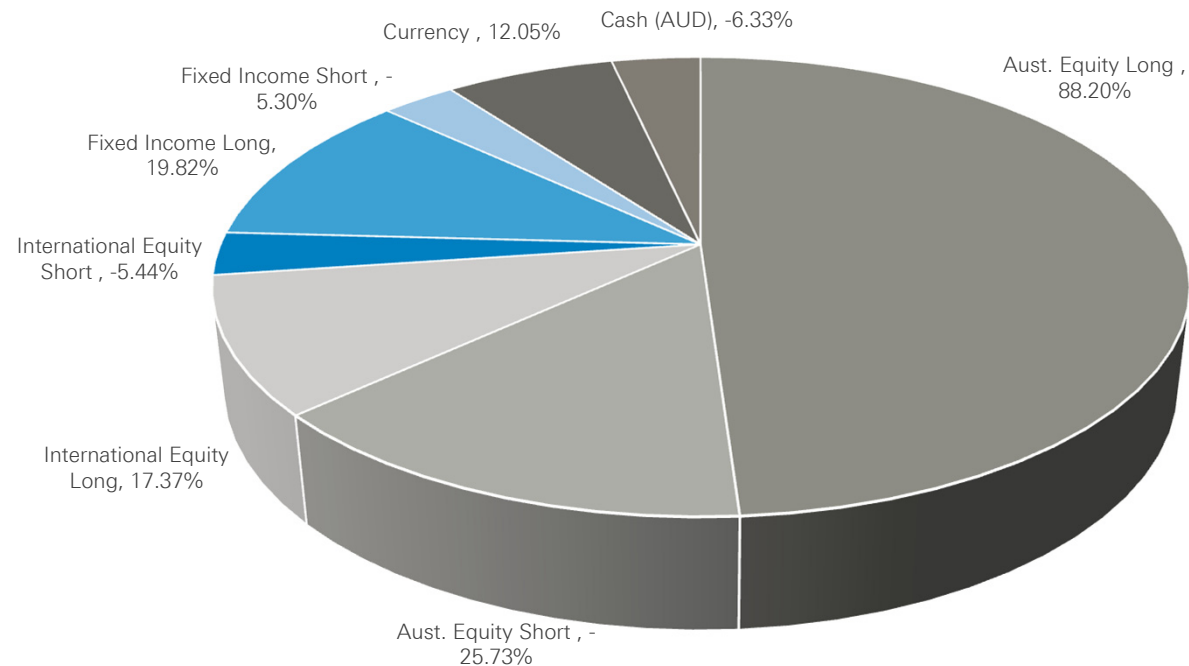
- Shareholder Communications

1. NAC Review

KEY OBJECTIVES/FEATURES:
NAOS ABSOLTUE OPPORTUNITIES COMPANY (NAC)

NAOS

- **Portfolio of Best Ideas from key Investment Themes**
- **Multi Asset Class; Generating Positive Absolute Performance across a Market Cycle**
- **+10-12% p.a.; Positive Absolute Return Focus**
- **Preservation of Shareholder Capital**
- **Target Dividend Yield of 4.00% p.a., Franked to the Maximum Extent Possible**



CAPITAL STRUCTURE

AS AT 30TH SEPTEMBER 2015

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NTA ANALYSIS

Pre Tax - \$1.08

Pre Tax Pre Unrealised Gains Tax – \$1.06

Post Tax - \$1.06

OPTIONS ON ISSUE

NACO

Expiry: 30th November 2016

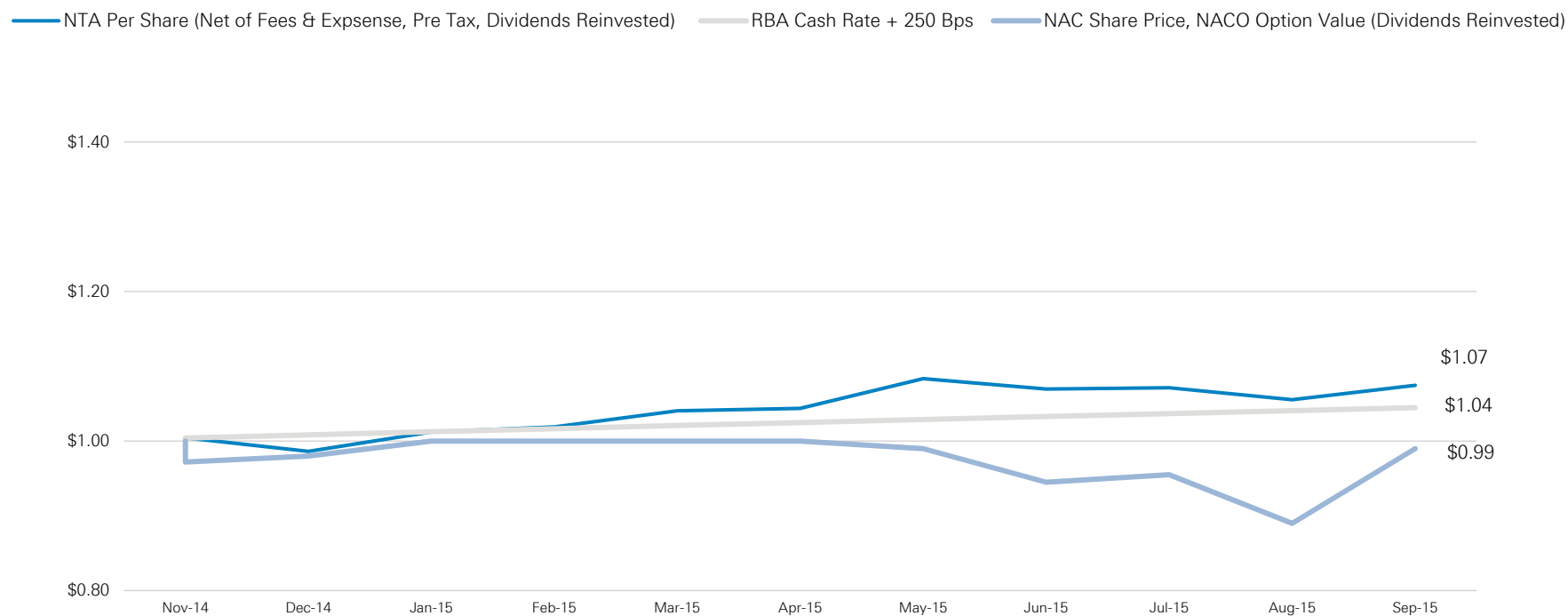
Price Exercisable: \$1.00

Share Price	\$0.95
Share Price Discount to NTA (undiluted, pre tax)	12%
Fully Franked Dividend Yield	4.21%
Gross Dividend Yield	6.01%
Shares on Issues	21,500,000
Options on Issue	21,500,000
Directors Shareholding	1,539,878

CAPITAL ANALYSIS

AS AT 30TH SEPTEMBER 2015

NAOS



NAC: PERFORMANCE & POSITIVE STOCK ATTRIBUTION

SUMMARY

PRE FEES & FRANKING CREDITS, NET OF OPERATING EXPENSES
AS AT 30TH SEPTEMBER 2015

	1 Month (%)	3 Months (%)	6 Months (%)	Since Inception (Nominal)
NAC Investment Portfolio Performance	+1.98%	+0.91%	+4.64%	+10.20%
Benchmark (RBA Cash Rate +250bps)	+0.38%	+1.17%	+2.37%	+4.42%
Outperformance Relative to Benchmark	+1.60%	-0.26%	+2.27%	+5.78%

	1 Month (%)	3 Months (%)	6 Months (%)	Since Inception (Nominal)
S&P/ASX All Ordinaries Accumulation Index (XAOAI)	-2.50%	-5.79%	-11.68%	-3.39%
MSCI ACWI AC (Net, Div Reinvested, AUD terms)	-2.35%	-0.73%	-1.44%	+14.92%

Investment Portfolio Performance is **pre fees and franking credits and post all operating expenses**.

Performance has **not been grossed up for franking credits received by shareholders**.

Inception is 12th November 2014

Standard Deviation of Returns (NAC)	6.78%
Standard Deviation of Returns (XAOAI)	13.90%
Correlation of Returns to XAOAI	33.52%
Sortino Ratio	26.70
Downside Deviation	0.44%
Downside Deviation (XAOAI)	8.34%
Current Estimated Portfolio Beta	0.29

NAC: POSITIVE STOCK ATTRIBUTION SUMMARY

SINCE INCEPTION

AS AT 30TH SEPTEMBER 2015

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Investment	Contribution to Return (% NAV)	Investment	Contribution to Return (% NAV)
US Dollar	+6.30%	Iselect Limited	+1.43%
Sirtex Medical Limited	+2.20%	National Australia Bank	+0.72%
Amalgamated Holdings Limited	+1.84%	Bellamy's Australia Limited	+0.69%
Macquarie Atlas Roads	+1.47%	Sealink Travel Group	+0.66%

PORTFOLIO CHARACTERISTICS & RISK METRICS

SUMMARY

AS AT 30TH SEPTEMBER 2015

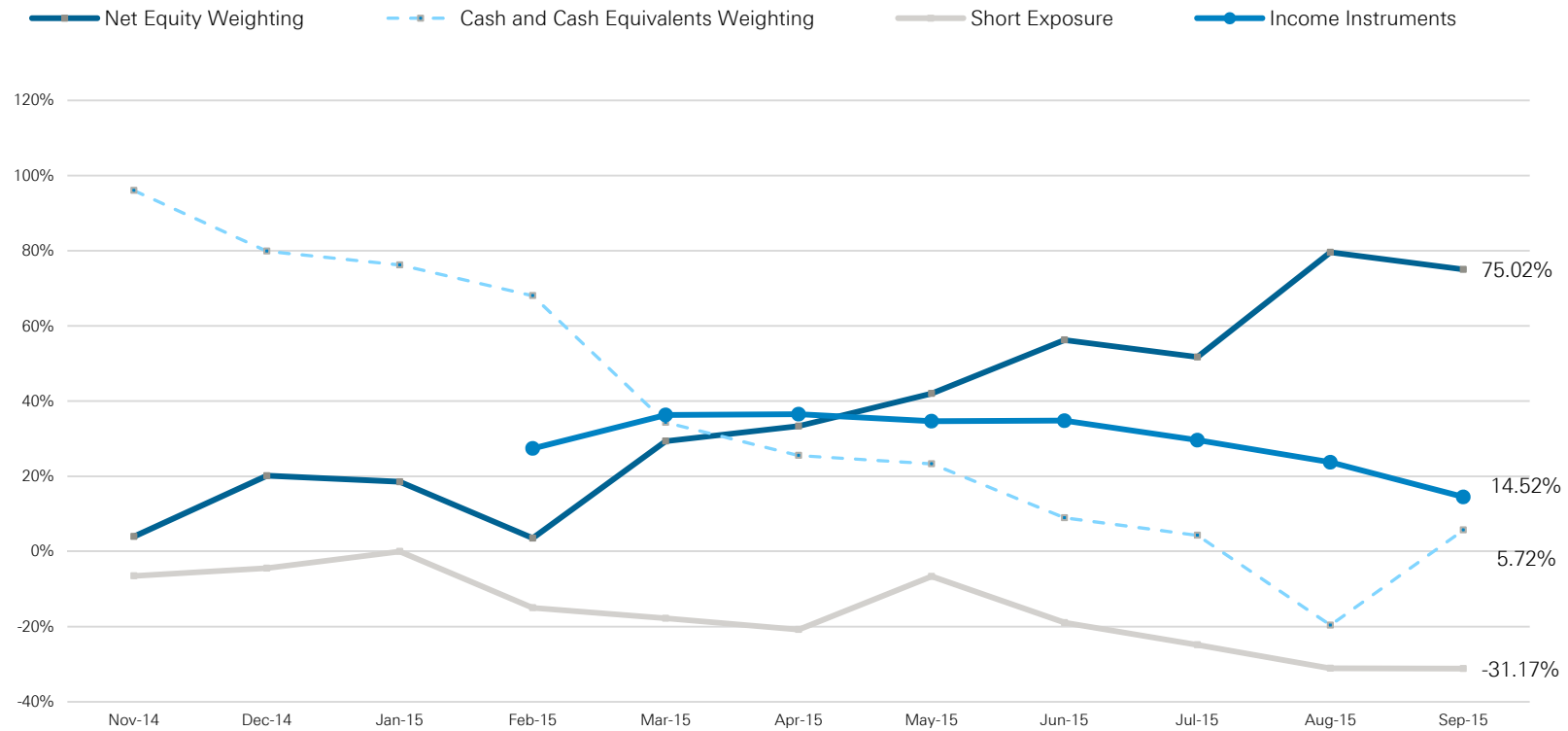
NAOS

Portfolio Characteristics

Total Number of Equity Holdings (Long & Short)	25
Total Number of "Income" Instruments*	5
Total Number of Holdings	30
Portfolio Weighted Market Capitalisation	\$13.6bn
Percentage of Positive Months (NAC)	73%
Percentage of Positive Months (XAOAI)	45%
Standard Deviation of Returns (NAC)	6.78%
Standard Deviation of Returns (XAOAI)	13.90%
Correlation of Returns to XAOAI	33.52%
Sortino Ratio	26.70
Downside Deviation	0.44%
Downside Deviation (XAOAI)	8.34%
Current Estimated Portfolio Beta	0.29

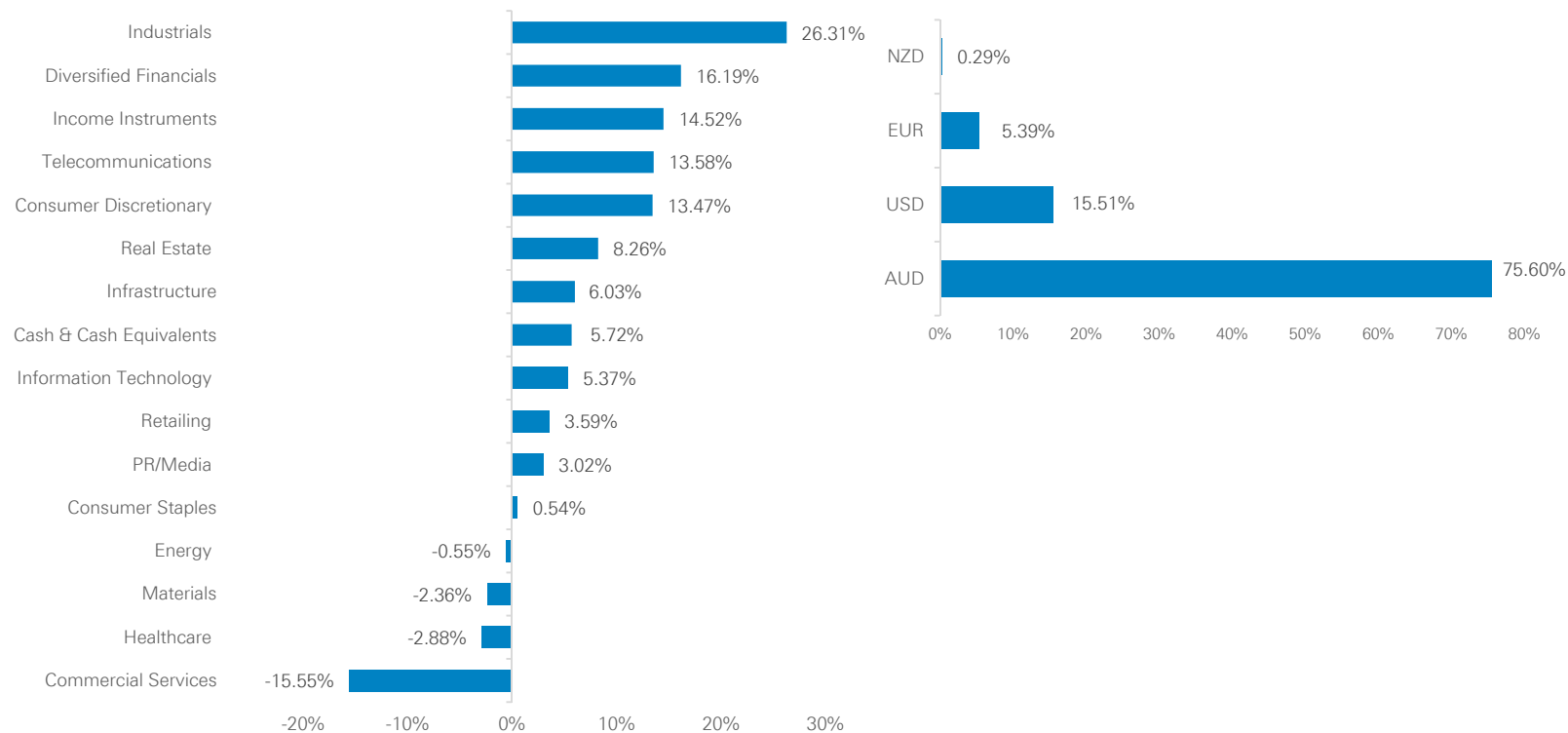
NAC:PORTFOLIO STRUCTURE **HISTORICAL NET EQUITY AND CASH WEIGHTINGS** AS AT 30TH SEPTEMBER 2015

NAOS



NAC: PORTFOLIO STRUCTURE
ALLOCATION BY INDUSTRY/SECTOR & CURRENCY (NET)
 AS AT 30TH SEPTEMBER 2015

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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. NAOS' Investment Team has direct contact with many listed and unlisted companies across a wide range of industries. The table below provides an insight into the types of companies that NAOS has engaged with.

• Pulte Group (PHM.US)	• Bellamy's Australia (BAL)
• 3P Learning (3PL)	• Retail Food Group (RFG)
• Smart Group Corp (SIQ)	• Alibaba (BABA.US)
• Pershing Square (PSH.NA)	• VIP Shop (VIPS.US)
• Baby Bunting (IPO)	• Austbrokers Holding (AUB)
• Mantra Group (MTR)	• Sealink Travel Group (SLK)

2. Market Outlook/Commentary

Australian Equity Market Review

Domestic equity markets capped off a horror quarter with the ASX-200 finishing down -15% for the three month period.

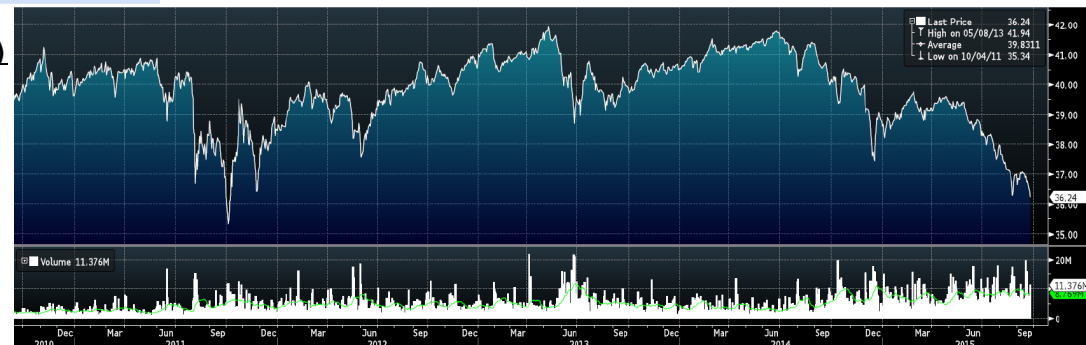
Poor market performance in September was driven by a number of key economic and market events including; The Federal Reserve not raising interest rates due to two 'one- off' events affecting inflation levels, worries about slowing global economic growth driven by emerging markets, namely China and falling commodity prices leading to fears of global deflation.

From a risk perspective, the key indicators NAOS consider are government bond yields, corporate bond yields and CDS spreads.



CORPORATE CDS SPREADS – 5 YEARS (BLOOMBERG)

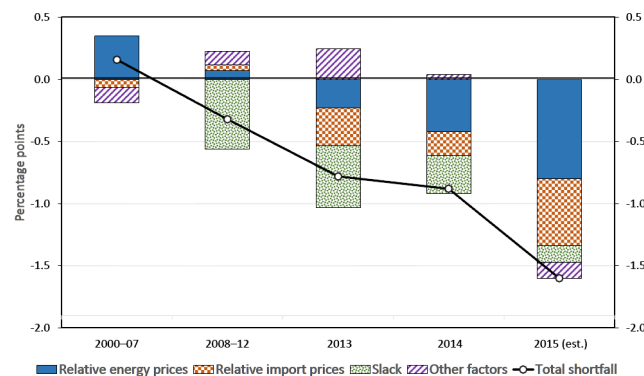
JUNK BOND ETF – 5 YEARS (BLOOMBERG)



Global Macro Review

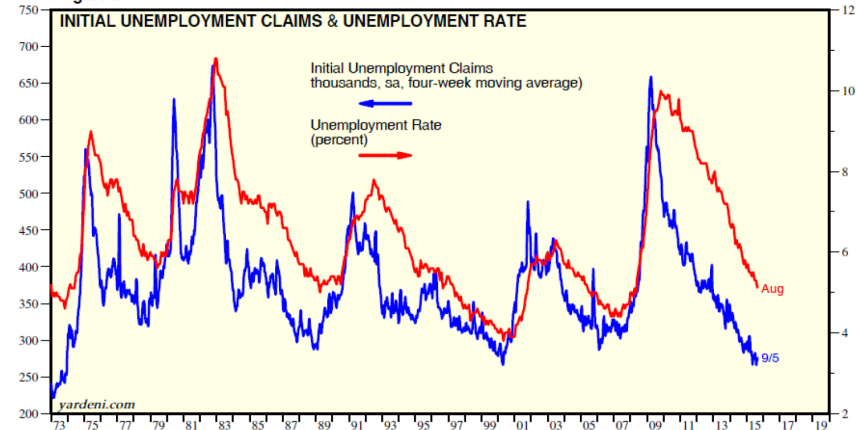
- MSCI All Country World Index posted its 6th negative month out of the 9 months to 30th September. The index also had its worst quarter since 2011, falling by 9.9% in USD terms, while the S&P 500 temporarily dipped into unofficial correction territory with a decline of more than 10%.
- News from the US included the Federal Open Market Committee not raising interest rates, despite unemployment falling from 5.6% at the start of the year to 5.1% in August. Fed blamed weak domestic inflation and “recent global economic and financial developments” that may have the potential to restrain economic activity and “put further downward pressure on inflation in the near term.” Fed chair Janet Yellen also highlighted concerns about the slowdown in China and other emerging markets as well as the disinflationary influence of some further appreciation in the US dollar
- Still some areas in the Global Economy that are experiencing a ‘structural tailwind’, including;
 - US Housing and Consumer Discretionary
 - EU Manufacturers and Airport Operators

Why Has PCE Inflation Fallen below 2 Percent?



Note: Deviation of PCE inflation (fourth quarter to fourth quarter) from 2 percent, total and portion attributable to specific factors. Other factors includes the effects of changes in relative food prices. Source: Federal Reserve Board staff calculations. See the appendix for further details.

Figure 3.



Source: US Department of Labor.

Key Investment Themes - International

Short US Biotech

The number of Biotech IPO's has been the highest on record with 166 from 2011-2105. Earnings growth for the sector is expected to slow over the forward period. The price to sales ratio remains at a record high but has lost momentum over the last 6 months. The Biotech index has had an uninterrupted run of gains for over 5 years the longest in history. A majority of valuations are predicated on low risk free rates used in Discounted Cash Flow Valuations. Significant regulatory risk in regards to new US leadership and focus on cost vs. patient outcome.

Long Rising US Interest Rates

Unemployment claims have reached historical lows, similar to 2005, 1999 and 1988. Inflation has remained low due to two significant factors being lower import prices and lower oil prices. The last time the US raised rates the USD fell and equities increased importantly rates increased by 200bps over the next 12 months implying bonds were an excellent short. Focus on cyclical domestic equities such as financials, consumer discretionary and housing related.

Short Equities with US Denominated Debt and Little USD Earnings

A significant of Chinese listed companies have borrowing in Hong Kong dollars to reduce their interest rate expense. Many of these companies do not have USD earnings that will offset the rise in debt as the USD increases over time. The interest expense will increase twice as fast due to the size of debt increasing as well as the interest rate being tied to the treasury yield.

Long EU Quality Defensive Equities

Based on the historical performance of US equities post Quantitative Easing the key outperformers were the high quality defensive sectors such as healthcare, consumer staples, infrastructure and REITS. In Europe Naos will continue to focus on similar names especially in regards to leveraged infrastructure plays which benefit from lower rates and increased economic activity as well as other companies with hard assets leveraged to tourism and inbound travel.

Key Investment Themes – Domestic

Long Stock Specific Undervalued Growth

The consensus expectations for growth within the ASX-Industrials remains close to 5% for FY16.

We remain focussed on companies that can generate growth through company specific management initiatives that are not tied to the domestic economy due to their size.

Such examples include BBG through cost out initiatives, MNF through acquisition/organic customer growth and AHD through organic growth of the hotels business.

Other areas where there is industry tailwinds include agriculture due to growth in exports through the lower AUD and an increase in volumes and IT services recovering after project work was held back in FY14-15.

Short Stock Specific Low Quality Opportunities

In weak markets, companies with high enterprise values and/or P/E's together poor cash flow conversion will inevitably be found out and de-rated by the market.

A key focus of Naos is the underlying organic revenue growth of any business that has made significant acquisitions over the past 12-24 potentially disguising the true revenue growth figure.

3. Keeping Up To Date

KEEPING UP TO DATE – SHAREHOLDER COMMUNICATION

NAOS

WEBSITE

- The News and Media section of our website is updated regularly. The most recent information to be added to the site includes:
 1. Interview with Mitchell Sneddon of the Eureka Report – discussing aspects of NAOS and NAC. Includes moderated questions from a live audience to Sebastian Evans, CIO and MD of NAOS.
 2. Recent articles in the AFR and SMH where Sebastian Evans shares his views of the current economic climate and certain stocks in the NAOS investment universe.

TWITTER

- Follow NAOS on Twitter under the name (handle) of #NaosAssetManagement

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