

# NAOS Absolute Opportunities Company (NAC)

NAOS

## MONTHLY INVESTMENT REPORT

### AND NTA UPDATE

NOVEMBER 2014

#### 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 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: 12<sup>th</sup> November 2014**

**Benchmark: RBA Cash Rate + 250bps**

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

**Listed Options on Issue Exercisable at \$1.00 Prior 1st November 2016 (ASX: NACO): 21,500,00**

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

#### Net Tangible Asset Value Breakdown as at 30th November 2014 (NTA Diluted for Remaining NACO Options)

<b>Pre Tax NTA:</b>	<b>\$1.004 (\$1.002)</b>
<b>Post Tax &amp; Pre Unrealised Gains Tax:</b>	<b>\$1.004 (\$1.002)</b>
<b>After Tax NTA:</b>	<b>\$1.003 (\$1.002)</b>

#### Investment Portfolio Performance to 30th November 2014\*

NAC's Investment Portfolio posted a positive return for the month of November of +0.64% compared the absolute benchmark of +0.64% (RBA Cash Rate + 250 Basis Points) and the All Ordinaries Accumulation Index which fell by -3.20%.

	Since Inception (Nominal)
<b>NAC Investment Portfolio Performance*</b>	<b>+0.64%</b>
<b>Benchmark (RBA Cash Rate + 250bps)</b>	<b>+0.42%</b>
<b>All Ordinaries Accumulation Index (XAOAI)</b>	<b>-3.20%</b>
<b>Performance Relative to Benchmark</b>	<b>+0.22%</b>

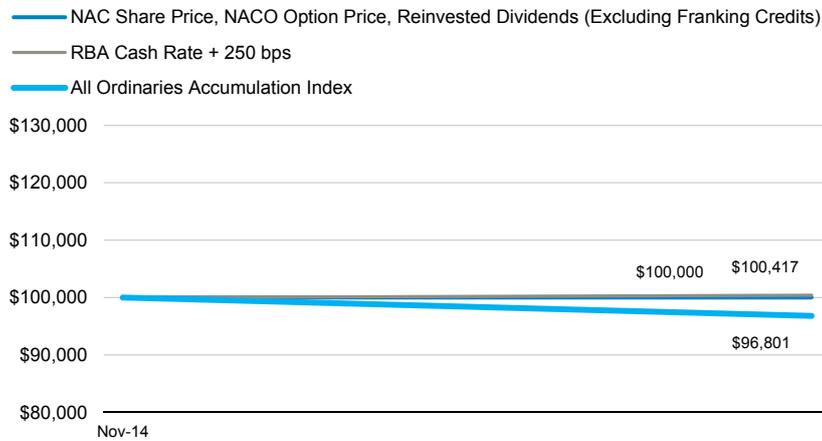
\*Investment portfolio performance is post all operating expenses, before fees, taxes. Performance has not been grossed up for franking credits received by shareholders. Inception date was 12<sup>th</sup> November 2014.

#### Positive Stock Attribution Analysis (12th November 2014 to 30<sup>th</sup> November 2014)

Below is a chart which lists the top positive contributors to NAC total return since inception. The purpose of the chart 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 -15 securities at any one time. Any security that is currently held within the investment portfolio will not be disclosed until it is no longer part of the portfolio.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
Investment A	0.24%	Investment E	0.04%
Investment B	0.11%	Investment F	0.03%
Investment C	0.11%	Investment G	0.02%
Investment D	0.04%	Investment H	-0.10%

Shareholder Return Analysis (IPO Investors)

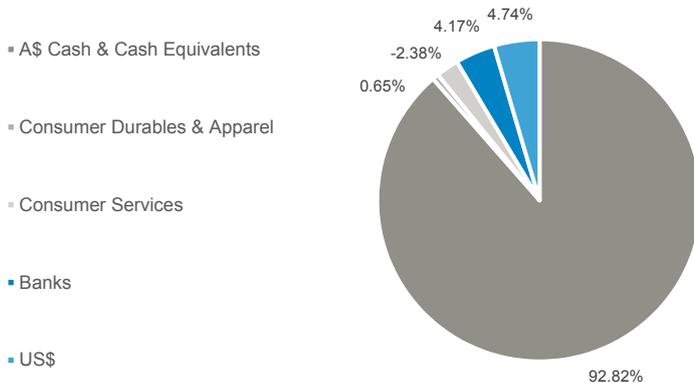


Portfolio Positioning as at 30<sup>th</sup> November 2014

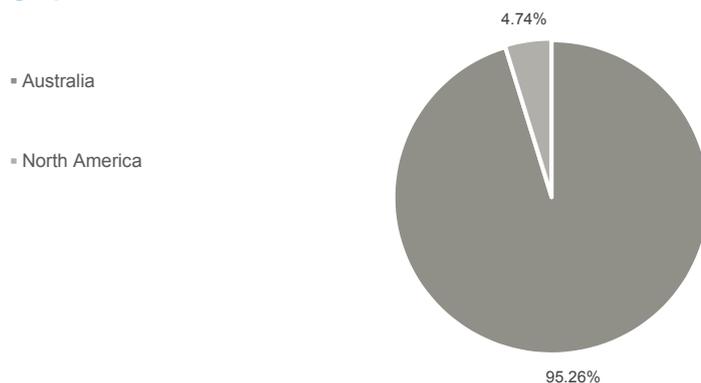
The investment portfolio has started life in a conservative format with 6 active positions, 4 long and 2 short. One of these positions is a physically backed exchange traded fund that is comprised of US Dollars. The net equity exposure remains conservative at just +8.50%.

The investment team continues to focus on stock specific names that will provide positive absolute returns regardless of market movements or opportunities that the team believes are significantly overvalued by the market and offer excellent shorting opportunities. Shorting opportunities are those deemed to have a clear catalyst to realizing potential gains.

Industry Breakdown



Geographic Breakdown



Market Insight

The month of November proved once again to be challenging for domestic equities. The ASX-200 index fell by -3.30% and the Small Ordinaries Accumulation Index fell even further, by -3.80%. Leading the market lower once again were soft commodity prices in the form of Iron Ore, which fell to \$69.80, and the WTI Spot Oil price, which fell by over 17.50% to \$65.95 over the period. With lower bulk commodity prices placing more pressure on Australia's terms of trade, the Australian dollar continued its slide lower finishing at \$0.851 or a fall of almost 3 cents over the month. Another notable move, especially considering that a clear majority of economists believe the next domestic interest rate move will be higher, was the fall in the Australian 10 year bond yield, which has now fallen below 3.00% for the first time in 4 years (see chart below). It is worth noting that every sector of the Australian equity market significantly underperformed their global sector counterparts.

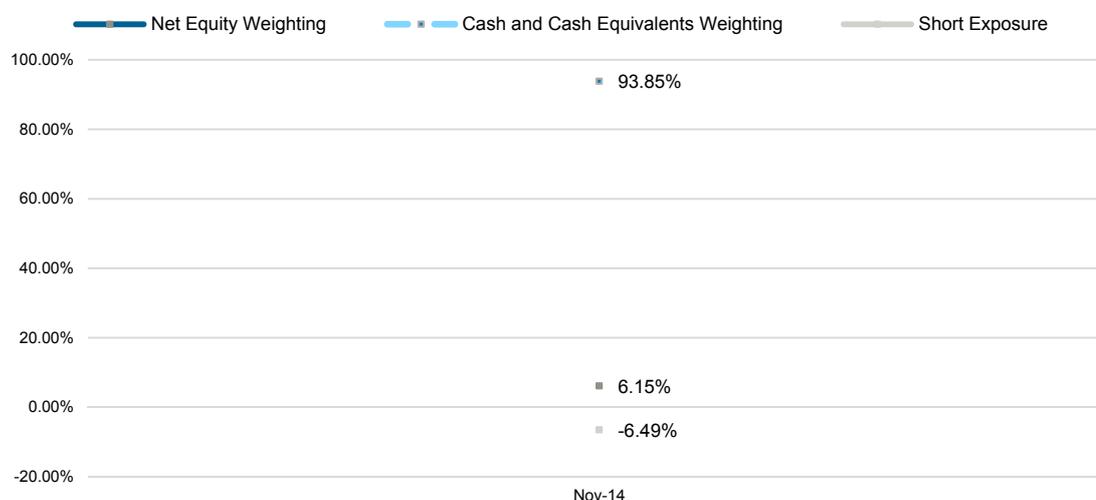
As NAOS has stressed for some time, the market continues to offer value for certain specific companies however we see very little market strength to drive the tide higher and assist the equity market over the coming 12 months. This trend was apparent in November with a number of household companies experiencing significant falls, even outside of the resources sectors. Some notable names included Myer Holdings (-16.5%), Woolworths (-13.6%) and Challenger Financial (-8.4%). On a positive note, there were a number of companies that fought the general market trend and produced significant positive returns. These included Qantas Airways (+14.3%), Recall Holdings (+9.9%) and Dulux Group (+8.7%).

Globally, equity markets posted gains as the S&P500 reposted a number of record highs through the month due to strong US economic data and the Republicans gaining control of both houses in Congress in the mid-term elections. European equities also performed strongly even on the back of poor economic data. The market reacted positively to a strengthened case for a US style quantitative easing program within the ECB leading to increased liquidity and interest rates that will remain lower for longer.



Source: Bloomberg

## 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. During the month of November the Investment Management Team had direct and indirect contact with over 43 unlisted and listed companies of which several are listed below:

- Transfield Services Limited (TSE)
- Breville Group Limited (BRG)
- Gilead Sciences Inc (GILD)
- Yahoo Inc (YHOO)
- Ten Network Holdings Limited (TEN)
- GrainCorp Limited (GNC)
- Estia Health Limited (EHE)
- APN News & Media (APN)
- Amalgamated Holdings Limited (AHD)
- Aust. Agricultural Company Limited (AAC)
- Qantas Airways Limited (QAN)
- ALS Limited (ALQ)

### 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

### CORPORATE DIRECTORY

#### Directors

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

#### Company Secretary

Lawrence Adams  
Investment Team  
Sebastian Evans (Portfolio Manager)  
Tom Granger (Assistant Portfolio Manager)  
Jeffrey Kim (Investment Analyst)  
Robert Miller (Investment Analyst)

#### Business Development

Anneke Senden

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#### ENQUIRIES

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