

NAOS Absolute Opportunities Company (NAC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

SEPTEMBER 2015

KEY CHARACTERISTICS

1. Global, Multi Asset Class Exposure

NAC invests in a range of equity, fixed income, currency and commodity securities both in Australia and Offshore, providing significant scope for capitalising on performance generating ideas. Key themes are identified and analysed for their impact at the security level, allowing the Investment Team to take advantage of fluctuations and mis-pricing situations on a cross sector, asset class and geographic basis.

2. Positive Absolute Return & Income Generation Focus

The primary focus of the Company's investment strategy is the preservation of shareholders capital and the generation of meaningful absolute returns with a lower downside volatility than traditional equity focused managed funds. 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

Investment opportunities are assessed based on their potential to generate meaningful long term performance. Of primary consideration is quality rather than quantity, resulting in a concentrated portfolio of 'Best Ideas' (typically 0-30 holdings).

4. Ability to Hold +100% in Cash

It has been proven that holding cash offers the 'best hedge' during times of crisis. Holding cash also provides flexibility and nimbleness 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. Staff are remunerated on the basis of the performance of the firm's investment vehicles through the application of a Performance Based Fee.

Net Tangible Asset Value Breakdown as at 30th September 2015

Pre Tax NTA:	\$1.08
Post Tax & Pre Unrealised Gains Tax:	\$1.06
After Tax NTA:	\$1.06

*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

Portfolio Performance & Positioning

The Naos Absolute Opportunities Fund returned +1.98% for the month of September.

September was another difficult month for equity markets with the MSCI All Country World Index having its 6th negative month out of the 9 months total so far this calendar year. 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%. In Australia, the ASX-200 Accumulation Index (XAOAI) was -15% for the quarter. During that tumultuous 3-month period, the NAC investment portfolio returned +0.91%.

The core positions in the portfolio have proven to be quite resilient in recent times, particularly given the downward trend in global markets. In an environment where investors risk appetite has been pared back and growth is hard to find we have remained focused on ensuring that our core holdings operate in areas of the global economy which are experiencing a 'structural tailwind'. Our thesis in this regard is that if economic factors are favouring a particular area of the economy, then companies in these areas have to do less to make sure their businesses are still growing. Such examples include:

In Australia: Beneficiaries of a weaker AUD, positively affecting exporters and those in the agriculture and tourism related industries.

In the US: Those benefiting from long rising interest rates and businesses operating in the housing and consumer discretionary sectors, as US consumers continue to regain their confidence.

In Europe: Those businesses set to benefit from a weaker Euro such as manufacturers and airport operators.

Whilst we are not invested in all of these sectors at present, by identifying key themes, we are able to more effectively screen the investment universe of global securities.

	1 Month	3 Months	6 Months	Inception (Nom.)
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%
Relative Performance	+1.60%	-0.26%	+2.27%	+5.78%
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 post all operating expenses, before fees and taxes.

**Positive Stock Attribution Analysis
(12th November 2014 to 30th September 2015)**

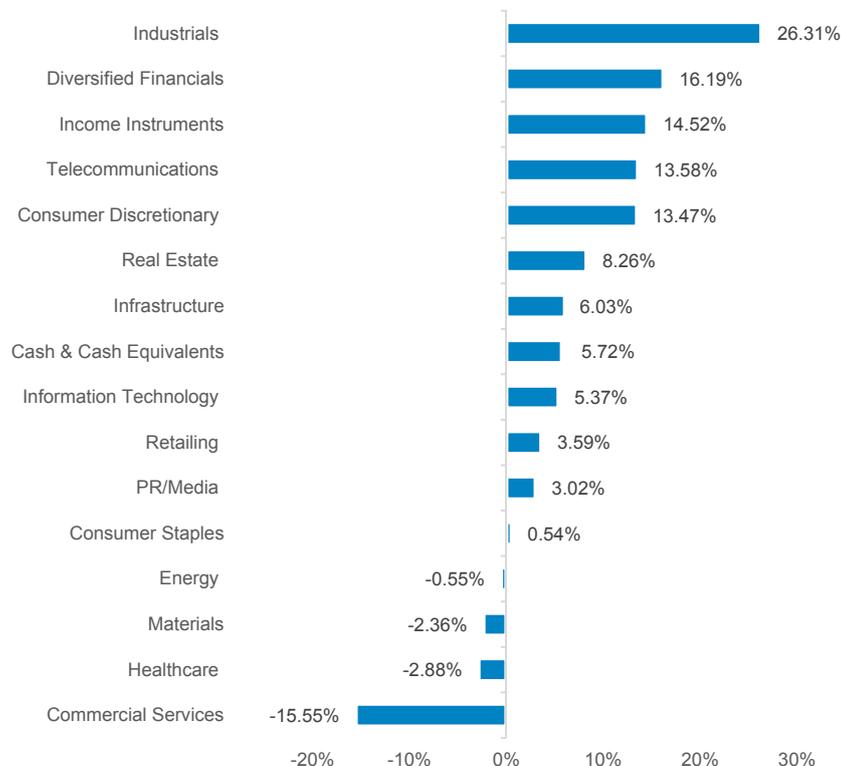
Below is a table listing the top positive contributors to NAC’s total return since inception. The purpose of the table is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a highly concentrated portfolio of investments that is generally limited to 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	+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 Analysis as at 30th September 2015

As at 30th September the portfolio was comprised of 30 holdings, including 15 long equity positions, 10 short equity positions and 5 income instruments. The portfolio was geographically concentrated (based on net currency exposure) in Australia (~76%) however we also maintained an exposure to the US (~14%) and Europe (~5%). During the month we also initiated a small position in a New Zealand denominated company (0.29%)

Net Industry Exposure



Market Insight

It was an immense month for economic, political and stock specific news. A few key highlights are provided below;

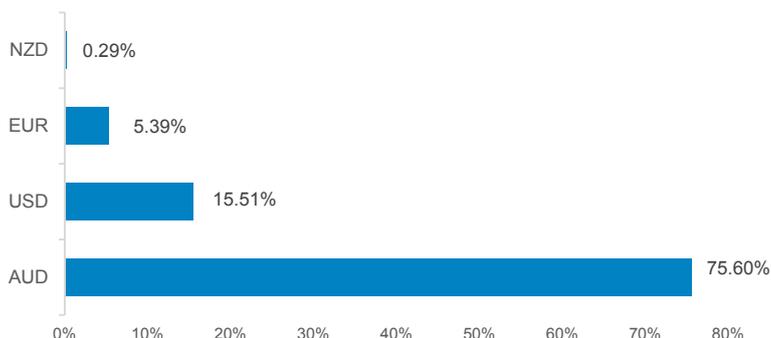
In Australia the main focus for the month was the political leadership change. While a change of Prime Minister within the current standing is not necessarily helpful to the democratic process, we feel business sentiment may react positively to the change in the short term. For all the macro and structural issues facing Australia (China, mining slowdown) there is certainly significant scope for Turnbull to change policy for the better and help transition to a more 'balanced economy' in a post mining boom world.

In the USA, the Federal Open Market Committee decided not to raise interest rates, despite unemployment falling from 5.6% at the start of the year to 5.1% in August. Weak domestic inflation on the Fed’s preferred measure was part of the story, but the Fed also pointed to “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 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.

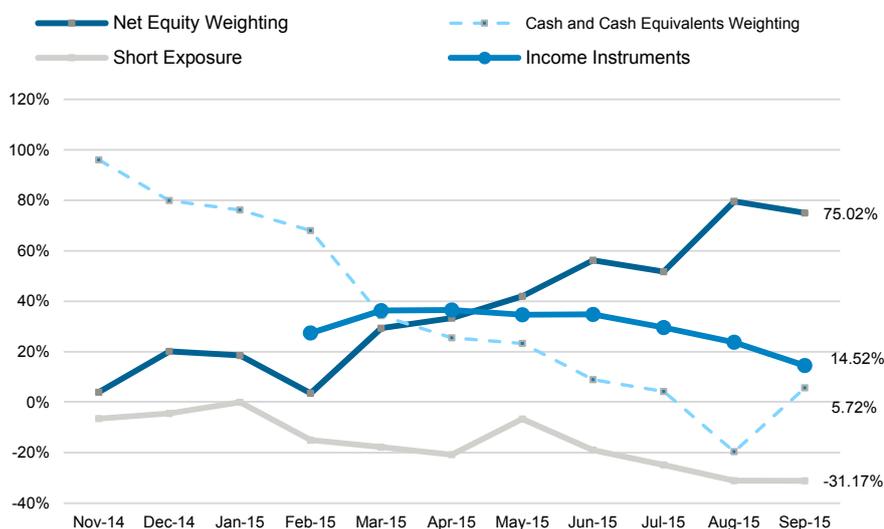
In terms of stock specific shocks; Glencore and Volkswagen were the focus of headlines over the month. Glencore had its largest one day fall on record after worries surrounding its survival in the absence of a pick-up in commodity prices came to the fore specifically around copper and coal. World coal markets are plagued by oversupply at present, as demand from China has slowed down on the basis of a push for cleaner-burning fuel, weakening growth rates and a desire to protect its own mining companies. Since the stock plunged ~30% in one day, it has since rallied 80. We don’t believe the issues have completely passed for Glencore at this point however.

In the case of Volkswagen, an emission cheating scandal saw the stock fall ~40% during the days following this announcement. Along with the fall, it brought the rest of the sector down with it as worries spread that other companies may be doing the same. BMW promptly released a statement clarifying it was not doing so. With events such as this it is very hard to initially quantify what the overall extent of the financial damage to the specific company could be. However when the rest of the sector sells off in unison, we feel this can often create exciting investment opportunities within the sector.

Net Portfolio 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. A selection of the unlisted and listed companies the team had contact with during the month of September were as follows:

- 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)

Market Insight Cont....

Given the large shocks in the economy at present and the impact it is having on share prices, we have been fielding calls from our investors on concerns surrounding “where to from here?”

While we are not suggesting that investors dive head first into ‘buy the dip’ mode, we are seeing some encouraging signs. These signs provide some support to our view that we don’t believe the bull market we have seen in the US is over and we don’t believe we are about to slip into a global recession.

Looking at some of the pertinent points:

1. The recent significant fall in oil price has meant that consumers around the world have had the equivalent of a meaningful tax cut.
2. Economic stimulus is still being heavily injected into global economies from central banks.
3. The fall in the US dollar is helping economies outside of that region, including Australia.
4. With the latest sell-off we have not seen a sustained rush into safe haven assets like treasuries or gold (except of course Aussie gold producers who have benefitted significantly from currency moves).
5. Despite a weaker payrolls number out recently, the US is close to full employment. If we start to see wage and price inflation result from that, it could be the catalyst needed to drive the global economy forward.

For now, the portfolio still remains well hedged and we will take advantage of what we believe are excellent risk adjusted opportunities as they arise.

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

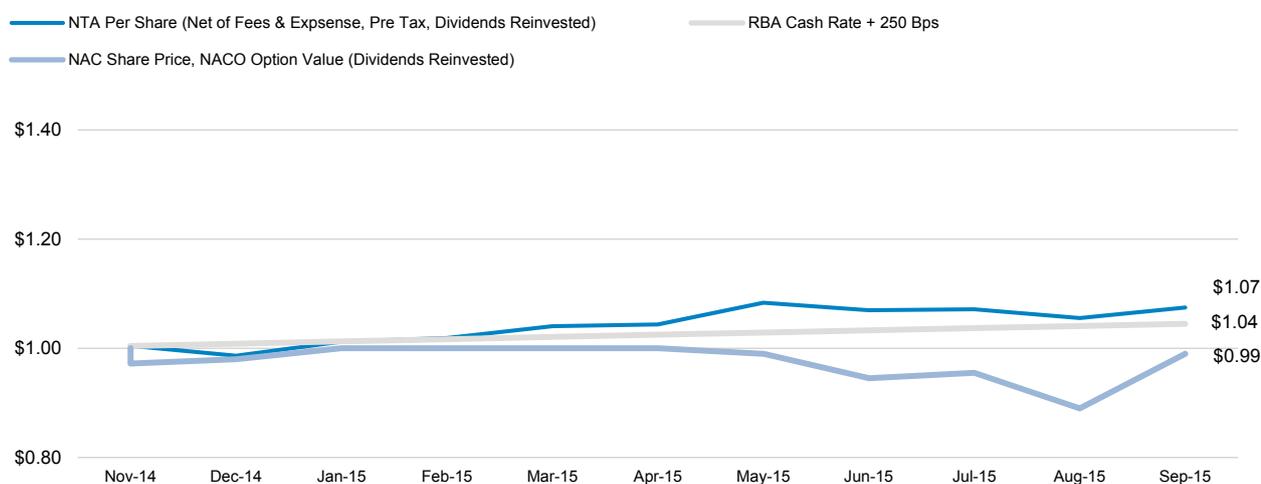
Total Number of Equity Holdings (Long & Short)	25
Total Number of "Income" Instruments*	5
Total Number of Holdings	30
Portfolio Weighted Market Capitalisation	\$13.6bn
Percentage of Positive Months (NAC)	73%
Percentage of Positive Months (XAOAI)	45%
Standard Deviation of Returns (NAC)	6.78%
Standard 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

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

Capital Management - Summary Data as at 30th September 2015

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

NTA Per Share (Post Expenses & Fees, Pre Tax, Dividends Reinvested), RBA Cash Rate + 250Bps, NAC Share Price & NACO Option Value



Description of Statistical Terms/Glossary

Portfolio Weighted 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 less than 1 indicated that a security/portfolio should be less 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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Warwick Evans (Director)
Sebastian Evans (Director)

Company Secretary

Lawrence Adams

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Robert Miller (Portfolio Manager)
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