

NAOS Absolute Opportunities Company (NAC)

ABN 49 169 448 837

MONTHLY INVESTMENT REPORT AND NTA UPDATE

NAOS

KEY CHARACTERISTICS

1. Concentrated Small/Mid Cap Exposure with a Long Term Value Focus

NAC seeks to provide investors with exposure to high quality, undervalued small-mid cap companies (market capitalisation generally >\$400 million to <\$1 billion) with an industrial bias in a concentrated structure.

2. Sustainable Growing Fully Franked Dividends

NAC's dividend has grown every year since inception with dividends usually paid on a six-monthly basis. To date all dividends have been fully franked.

3. Focus on Quality of Companies Not Quantity

Our primary focus is on developing a deep understanding and appreciation of the companies in our portfolio. We believe the best way to achieve this is to focus on a select number (typically 0-20) of high quality investment ideas in order to capitalise on our 'long term knowledge & liquidity advantage'. NAC has the ability to selectively short sell companies that the investment team believe are overvalued and of poor quality.

4. Portfolio Flexibility with a Benchmark Unaware Approach

This means we are not forced holders of stocks with large benchmark/index weightings that we are not convinced are attractive investment propositions. NAC can also hold up to 100% cash, it has been proven that holding cash offers the 'best hedge' during times of crisis.

5. Significant Alignment of Interests with Shareholders

NAOS employees/directors own over 7 million NAC shares, providing a significant alignment of interests.

6. Environmental, Social and Governance (ESG) NAOS adopts an ESG screen across its investments.

Net Tangible Asset Value Breakdown as at 31 December 2017

Pre Tax NTA:	\$1.17
Post Tax & Pre Unrealised Gains Tax NTA:	\$1.18
Post Tax NTA:	\$1.13
Share Price	\$1.055
Historical Fully Franked Dividend Yield	4.74%

Investment Portfolio Performance & Market Insight

The NAC Investment Portfolio returned +3.18% for the month of December compared to the absolute benchmark which increased by +0.36%. This brings the inception return for 3 years and one month to +73.21% which compares to the benchmark return of +15.35% and the All Ordinaries Accumulation Index return of +29.34%.

360 Capital Group (ASX: TGP) entered the NAC Investment Portfolio at the beginning of December. TGP is run and founded by Tony Pitt. NAOS has closely followed Tony and his team since he took control of TGP back in 2013. In a short period, Tony built a large property funds management business before selling the majority of it to Centuria Capital (ASX: CNI) at the end of 2016. The current value of TGP is underpinned by their last stated net tangible asset backing (NTA) of 95c per share, the bulk of which is comprised of cash, listed investments as well as a large stake in Asia Pacific Data Centre Group (ASX: AJD). AJD has recently announced their intention to wind up the trust which may lead to further appreciation in their NTA through a formal sales process. Furthermore, TGP has announced 4cps in earnings per share for the first half of 2018 and remains very well positioned for the current point in the property cycle through its low exposure to direct property investments.

A notable portfolio event for the month came from Capitol Health (ASX: CAJ) who announced a takeover bid for listed competitor Integral Diagnostics (ASX: IDX). CAJ also announced that they intend to acquire two smaller private businesses being I-RAD and Radiology Tasmania. Our initial investment thesis in CAJ was driven by a number of key factors; a strong balance sheet with net cash of ~\$45m, a new management team, as well as an improvement in industry conditions and regulatory environment. We believe the acquisitions will bring significant cost out opportunity as well as further scale benefits to the business. At the current share price, we believe that the market is undervaluing the 'post transaction' business due to both the uncertainty of the transactions going through as well as the difficulty in assessing what the business will look like on a steady run rate post the corporate activity.

	1 Month	6 Month	1 Year	2 Year (p.a.)	3 Year (p.a.)	Inception (p.a.)	Inception (Nom.)
NAC Investment Portfolio Performance*	+3.18%	+14.21%	+10.77%	+16.58%	+20.54%	+19.15%	+73.21%
Benchmark (RBA Cash Rate + 250bps)	+0.36%	+2.13%	+4.32%	+4.48%	+4.63%	+4.66%	+15.35%
Relative Performance	+2.82%	+12.08%	+6.45%	+12.10%	+15.91%	+14.49%	+57.86%
XAOAI [^]	+2.03%	+9.31%	+12.47%	+12.05%	+9.23%	+8.55%	+29.34%

*Investment Portfolio performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions. Performance has not been grossed up for franking credits received by shareholders. Since inception (p.a. and nom.) includes part performance for the month of November 2014. Returns compounded for periods greater than 12 months. [^] Refers to the S&P/ASX All Ordinaries Accumulation Index

Positive Stock Contribution Analysis

(Contribution is what has attributed to NAC’s performance since Inception of 12 November 2014)

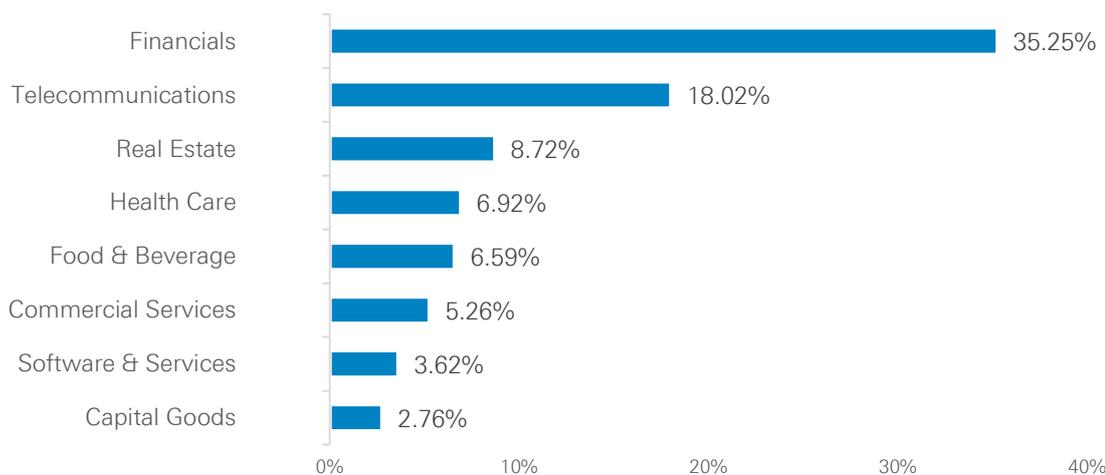
The table below lists the top positive contributors to NAC’s total return since inception. The purpose of the information is to illustrate that the performance the investment team derive over time is not simply from one or two positions, but from a variety of positions, even with a concentrated portfolio of investments that is generally limited to 0-20 securities at any one time. We will disclose securities in which NAC has a current substantial holding, or when we have exited the position. Positions in the table below have **either been a long or short position** in the portfolio at some point in time.

Investment	Contribution to Return (%NAV)	Investment	Contribution to Return (%NAV)
MNF Group	+12.68%	Smart Group	+4.84%
BSA Ltd	+6.83%	Gentrack Group	+3.48%
Event Hospitality	+5.53%	Enero Group	+2.90%
Elders Ltd	+5.16%	Moelis Australia	+2.28%

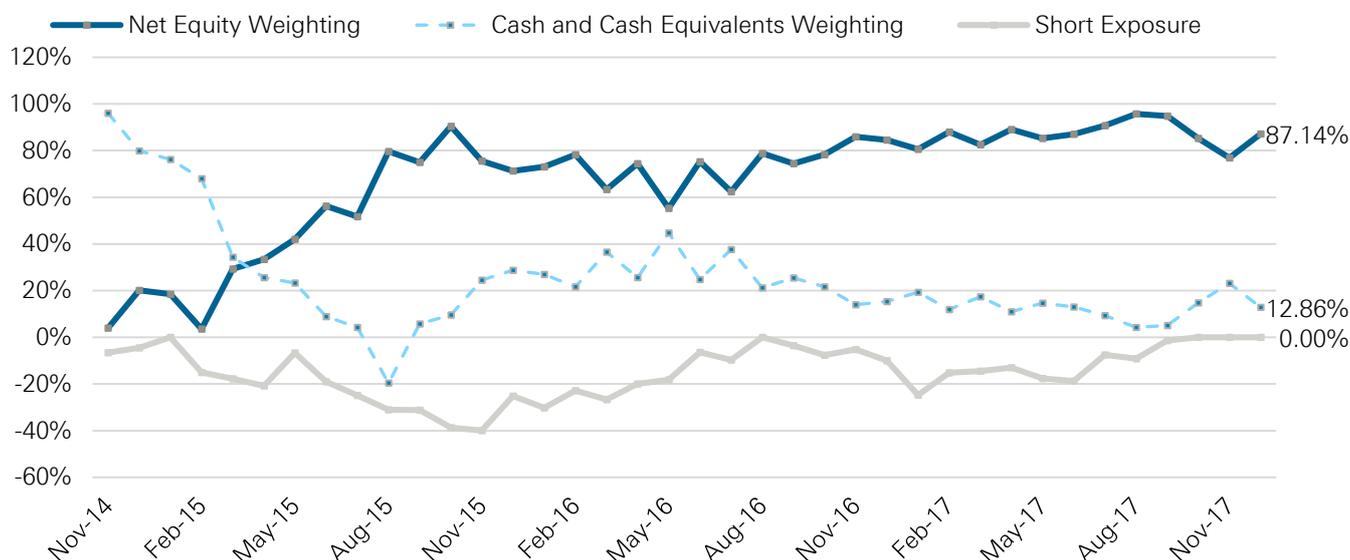
Portfolio Positioning as at 31 December 2017

As at 31 December 2017 the portfolio’s net equity exposure was ~87.14% with a subsequent cash weighting of +12.86%. As at month end, the portfolio was comprised of 13 holdings, with 13 long positions and 0 short positions.

Net Industry Exposure



Net Equity Exposure



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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. 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 companies the team had contact with during the month were as follows:

- HUB24 Ltd (HUB AU)
- Scottish Pacific Group (SCO AU)
- Webster Limited (WBA AU)
- Navigator Global Investments Ltd (NGI AU)
- Bingo Industries Ltd (BIN AU)
- Oceania Healthcare Ltd (OCA AU)
- Consolidated Operations Group (COG AU)
- Fletcher Buildings Ltd (FBU AU)
- Collins Foods Ltd (CKF AU)
- PSC Insurance Group (PSI AU)

Portfolio Characteristics – Summary Data as at 31 December 2017

Below are a number of historical portfolio risk measures. Our aim in providing these metrics is to demonstrate to investors how NAC is placed from a risk adjusted basis to meet its objective, being to outperform the benchmark over the long term, and also to preserve investors' capital. A glossary of the terms used below and the method used for calculating them can be found on the last page of this report.

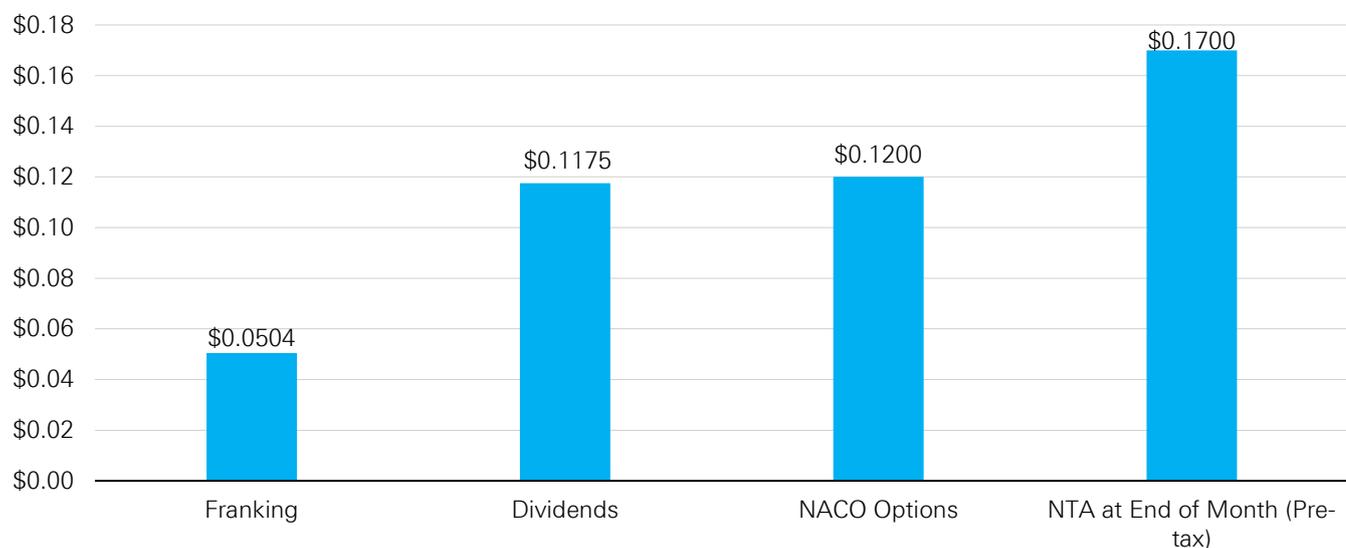
Total Number of Equity Holdings (Long & Short)	13
Total Number of Income/Debt Instruments*	0
Average Market Capitalisation of the Portfolio's Equity Holdings	\$724.50 million
Percentage of Positive Months (NAC)	66%
Percentage of Positive Months (XAOAI)	63%
Standard Deviation of Returns (NAC)	9.37%
Standard Deviation of Returns (XAOAI)	10.98%
Correlation of Returns to XAOAI	0.39
Sortino Ratio	5.65
Downside Deviation (NAC)	3.02%
Downside Deviation (XAOAI)	6.91%
Current Estimated Portfolio Beta	0.34

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

Capital Structure - Summary Data as at 31 December 2017

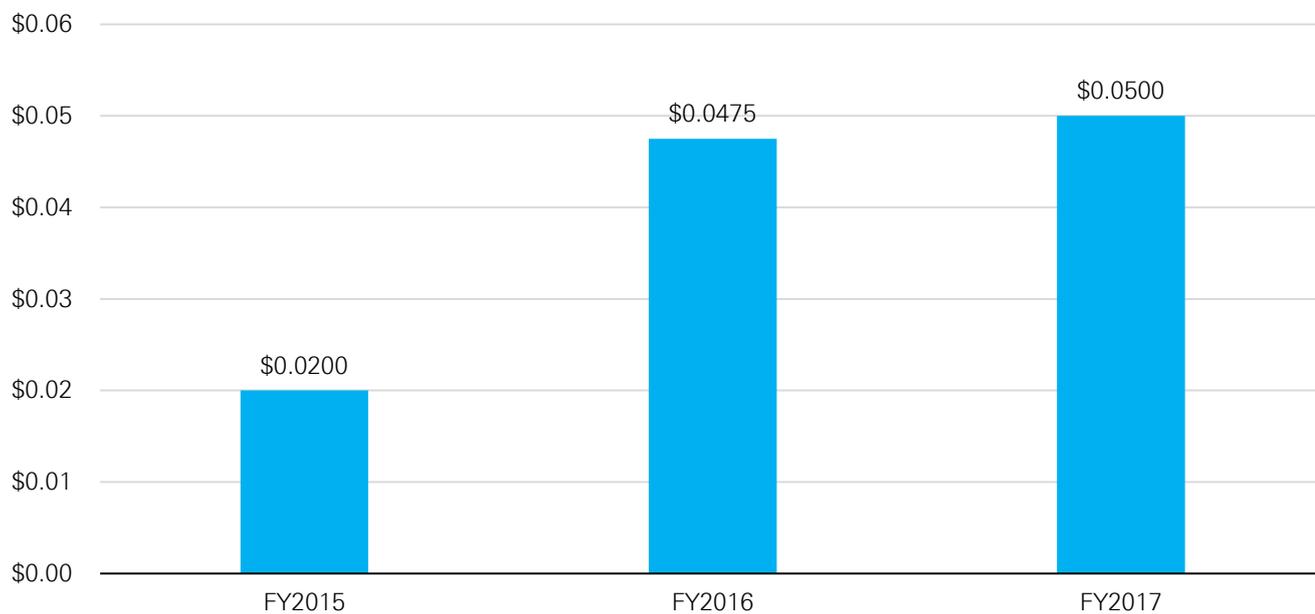
Share Price	\$1.055
Share Price Premium/(Discount) to Pre-Tax NTA	(-9.83%)
Shares on Issue	52,536,889
Directors Shareholding	6,718,583

Historical Shareholder Return Breakdown



*Assumes an intrinsic NACO value of \$0.12 cents per option at expiry (30 November 2016) based on pre-tax NTA on this date diluted for remaining options.

Dividend Profile – Historical Fully Franked Dividends (Cents per share)



Description of Statistical Terms/Glossary

Average Market Capitalisation of the Portfolio's Equity Holdings – The sum of, the percentage of each individual position relative to the total value of all Equity Holdings multiplied by each company's respective market capitalisation (Cash and Income/Debt securities are excluded).

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 Sharpe 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

Important Information:

This material has been prepared by NAOS Asset Management Limited (ABN 23 107 624 126, AFSL 273529) (NAOS) as investment manager of the listed investment company referred to herein (Company). This material is provided for general information purposes only and must not be construed as investment advice. It does not take into account the investment objectives, financial situation or needs of any particular investor. Before making an investment decision, investors should consider obtaining professional investment advice that is tailored to their specific circumstances. Past performance is not necessarily indicative of future results and neither NAOS nor the Company guarantees the future performance of the Company, the amount or timing of any return from the Company, or that the investment objectives of the Company will be achieved. To the maximum extent permitted by law, NAOS and the Company disclaims all liability to any person relying on the information contained herein in relation to any loss or damage (including consequential loss or damage), however caused, which may be suffered directly or indirectly in respect of such information. This material must not be reproduced or disclosed, in whole or in part, without the prior written consent of NAOS.

CORPORATE DIRECTORY

Directors

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

Company Secretary

Rajiv Sharma

Investment Team

Sebastian Evans (Chief Investment Officer)
Jeffrey Kim (Portfolio Manager)
Robert Miller (Portfolio Manager)
Ben Rundle (Portfolio Manager)
Chadd Knights (Investment Analyst)

Chief Financial/Operating Officer

Richard Preedy

Senior Legal Counsel

Rajiv Sharma

Business Development Manager

Julia Stanistreet

Communications & Marketing

Megan Walker

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ENQUIRIES

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