

Absolute Equity Performance Fund Limited Monthly NTA and Performance Update

As at 30 June 2020

Net Tangible Assets Per Share

NTA before tax	\$1.266
NTA after tax	\$1.194

\$ currency notation refers to Australian Dollars.

Performance Commentary

Portfolio performance for June was 4.31%. Elevated volatility and regular and sharp mood swings continue to create an environment that is very difficult to navigate. Commentators are struggling to reconcile equity market strength with a dire outlook for economies. We operate on the basis that fundamentals rule the long term, but liquidity can swing the short term. We have referred in recent months to the scale of central bank liquidity injections which has an influence on asset prices.

At the same time the challenging environment has exposed strengths in many of the companies in our long portfolio and weaknesses in many of the companies in our short portfolio.

Somewhat unusually each stock on both sides of our top four pairs made a positive contribution to performance during June.

Our equal top pairs for the month were long TPG / short Telstra and the three-legged pair long JBH / short SUL and MYR. Performance was driven by a very strong share price performance by TPG on consummation of the merger with Vodafone. We retain a very positive view for the outlook for the new TPG. JBH, SUL and MYR each made a positive contribution during the month. JBH released a very strong trading update which have been few and far between this year. JBH's performance reflects outstanding management execution over a long period and an outstanding business. SUL had a capital raising during the month and reported a patchy trading update. MYR has been notably silent on their operating performance. Long JHX / short CSR was our third best pair. JHX upgraded earnings during the month. Again, upgrades have been rare and in James Hardie's case reflects exceptional management and a strong business, operating in a difficult environment.

We had no material negative pairs.

Market Observations

Global equity market indices continued their strong run in June, although in retrospect the gains recorded over the month seem to not reflect what was an eventful month in geopolitics, economics and world affairs. Early in June, markets rallied strongly on optimism surrounding the reopening of many economies after several months of lockdown to halt the spread of Covid-19, principally in the US and Europe, this was boosted by a surprising rebound in job creation in the US, where May non-farm payrolls grew by 2.5m when forecasts had predicted a decline of 7m.

	S&P500	ASX200	Eurostoxx50	MSCI Asia ex Japan	Nikkei 225
June % change	1.8%	2.5%	6.0%	7.9%	1.9%

Source: Bloomberg

NTA* Performance

1 month	4.31%
3 months	5.93%
12 months	31.25%
Since inception (annualised)	7.08%

* Before tax. These calculations are unaudited and intended to illustrate the performance of the investment portfolio minus corporate expenses. They are calculated including dividends. 'Since inception (annualised)' is annualised NTA performance since listing at \$1.065 after listing related expenses.

Company Details

ASX code	AEG
Listing date	16 December 2015
Share price	\$1.120
NTA* per share	\$1.266
Dividend yield [†]	5.80%
Grossed up dividend yield [†]	8.29%
Shares on issue	92,152,920
NTA*	\$116,642,400

* Before tax. [†]Dividends paid over the past 12 months, divided by the share price stated above. Includes a Special Dividend of 1.5c paid on October 11 2019. This yield was fully franked at a rate of 30%.

Most Profitable Pairs for the Month

Long	TPG Telecom (TPM)	Short	Telstra (TLS)
Long	JB Hi-Fi (JBH)	Short	Super Retail (SUL) / Myer (MYR)
Long	James Hardie (JHX)	Short	CSR (CSR)

Portfolio Snapshot

Long exposure	Month End	50.1%
Short exposure	Month End	-49.9%
Net market exposure	Month End	0.2%
Gross market exposure*	Month End	\$516,259,710
Leverage factor (x NTA)	Month End	4.4
Average leverage factor (x NTA)	Since Inception	4.6

* Sum of long and short positions in the Portfolio

Contact Details

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This initial optimism was replaced with significant volatility as news began to emerge of a second wave of infection in key parts of the US and also in Australia, while the pandemic has started to overwhelm parts of the developing world, particularly Latin America. Social unrest in the US in response to the Black Lives Matters movement, led to rioting and mass protests in violation of social distancing rules and trade tensions between superpowers the US and China re-emerged.

In Australia, markets embraced risk as lockdown restrictions eased. This is evident in sector moves, where Utilities (-1.4%) and REITs (-2.7%) declined whilst Materials (+2.3%), Financials (+4.4%) Consumer Discretionary (+5.1%) and IT (+6.0%) led the way higher.

Many companies chose to use the improvement in equity markets to raise equity during the month, which is hardly a ringing endorsement for the outlook for growth nor the value of equity. The list of companies that raised equity in June includes Challenger Limited, Qantas, Super Retail, Sky City, Kogan, Iress and Vicinity.

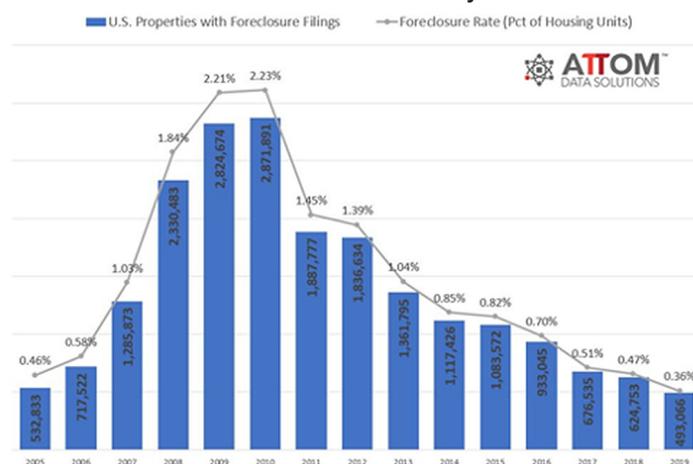
We have now reached the halfway point in 2020 and as can be seen from the table below, equity markets have recovered much of their losses from the March lows. In fact, at one point in June the S&P500 in the US was actually up for the year, that is despite the US experiencing its worst economic contraction since the Great Depression. Clearly central bank liquidity measures have forced investors out of bonds and fixed income and into other asset classes such as equities.

	S&P500	ASX200	Eurostoxx50	MSCI Asia ex Japan	Nikkei 225
At March Low	-30.7%	-32.0%	-36.3%	-27.2%	-30.0%
Recovery from Low	38.6%	29.7%	35.6%	29.5%	34.6%
6 mth to 30 June	-4.0%	-11.8%	-13.6%	-5.7%	-5.8%

Source: Bloomberg

This creates a “phony war” feel to current market behaviour. Liquidity is forcing up equity prices and the market commentators create a narrative to explain the moves based on reopening and economic recovery. However, there are significant challenges from the current economic contraction that don't feel adequately reflected in equity prices. For example, in May 2020 US lenders started foreclosure filing on 4,356 property owners, 86% lower than the previous comparison period and pales into insignificance compared to 2.8m foreclosures in 2009. Government policy around the world has prevented creditors from calling in debts from failing borrowers and we know that zombie companies and households can be very harmful to an economic recovery.

U.S. Historical Foreclosure Activity and Rates



A second issue is the “fiscal cliff” which is the amount of Government support that households and businesses are currently enjoying but which must be replaced for the economy to continue to prosper from this point. In Australia that adds to \$172bn of emergency fiscal stimulus in 1H20, more than 15% of GDP, which ends abruptly in September. Whilst programs may be extended or replaced, total stimulus will decline, and this will find its way into lower revenues and earnings of corporate Australia.

This commentary was provided by Bennelong Long Short Equity Management Pty Ltd.

Company Overview

The Company's portfolio of investments is managed by Bennelong Long Short Equity Management Pty Ltd, using the same market neutral investment strategy behind the award winning Bennelong Long Short Equity Fund.

Directors

Marc Fisher (Chair)

Andrew Reeve-Parker

Raymond Da Silva Rosa

Company Secretaries

Jeff Phillips

Lisa Dadswell

Investment Objective

The Absolute Equity Performance Fund Limited aims to generate positive returns regardless of the overall equity market performance, through employing a 'market neutral' equity strategy.

Investment Manager

Bennelong Long Short Equity Management Pty Ltd.

Investment Team

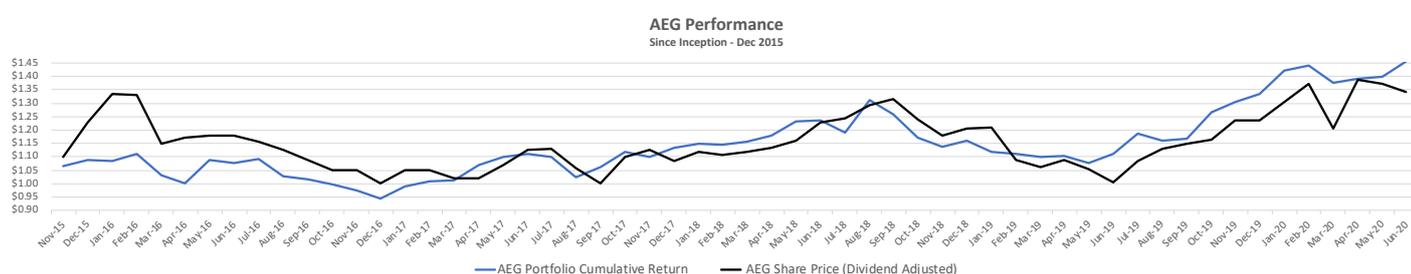
Sam Shepherd	Portfolio Manager
Sam Taylor	Head of Research
Steven Lambeth	Senior Analyst
Justin Hay	Senior Analyst
Daniel Sanelli	Analyst

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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	6.68%	1.23%	-4.44%	1.21%	0.34%	4.31%							9.32%
2019	-3.51%	-0.84%	-0.90%	0.52%	-2.53%	3.04%	6.99%	-2.29%	0.56%	8.50%	2.88%	2.31%	14.94%
2018	1.27%	-0.15%	0.76%	1.98%	4.75%	0.08%	-3.67%	10.22%	-3.87%	-6.90%	-3.16%	2.05%	2.29%
2017	4.91%	2.06%	0.17%	5.83%	2.80%	1.15%	-1.28%	-6.62%	3.61%	5.26%	-1.58%	2.93%	20.19%
2016	-0.23%	2.28%	-7.20%	-2.89%	8.53%	-0.92%	1.38%	-5.90%	-1.06%	-1.73%	-2.32%	-3.31%	-13.39%
2015	-	-	-	-	-	-	-	-	-	-	-	2.25%	2.25%

*Before tax. These calculations are unaudited and intended to illustrate the performance of the investment portfolio minus corporate expenses. They are calculated on a pre-dividend NTA basis.



*These calculations are unaudited. 'AEG Portfolio Cumulative Return' is intended to illustrate the performance of the investment portfolio net of corporate expenses and manager fees, and including the hypothetical reinvestment of dividends.



Important Disclaimer

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