



## Absolute Equity Performance Fund Limited Monthly NTA and Performance Update

As at 31 January 2022

### NTA Per Share and Share Price

NTA before tax	\$1.085
NTA after tax	\$1.094
Share price	\$0.960

\$ currency notation refers to Australian Dollars.

### Manager Performance Commentary

*We are disappointed with our recent performance. We are acutely aware that recent investors in the Strategy have not experienced our longer-term returns. We believe patience will be rewarded. The underpinnings of our long-term performance remain intact; 1) a market that offers opportunity to profit, 2) a sound and differentiated investment strategy, and 3) an experienced and dedicated team (who are also large investors in the Strategy).*

*At the heart of our long-short pairing strategy is a focus on being long companies with above average value creation attributes and funding these positions via shorting companies with limited opportunity to create value. Market sentiment and thematic factors constantly influence short term returns, while value creation defines long term returns. This featured in January given fundamental company news was overall favourable for the portfolio but was overwhelmed by macro events. Share prices ultimately anchor to earnings and free-cash-flow performance.*

For January, performance was -6.23%. A more hawkish stance by the Fed triggered a rotation out of higher multiple stocks which was a headwind for some of our pairs.

Fundamental news for our portfolio was overall favourable. Amongst our longs JB Hi-Fi announced a preliminary result with strong sales and profit, ahead of forecasts. James Hardie upgraded profit forecasts; however, they terminated their CEO for bullying behaviour. ResMed delivered second quarter earnings which demonstrated double digit revenue growth despite being constrained by supply chain issues. Mineral Resources delivered a weak quarterly with low price realisation in the iron ore division, however the key for the outlook is strong iron ore and lithium prices and various organic growth opportunities. PointsBet delivered a quarterly in which the US segment missed forecasts as the company focussed on avoiding unprofitable customer acquisition in a very competitive, and in pockets irrational, environment.

Amongst our shorts the notable news was a large downgrade from Ansell in the aftermath of booming conditions during COVID. In addition, Ansell disclosed product from a supplier has been banned by US Customs due to that supplier using slave labour. This is the second of Ansell's suppliers to be banned in two months. While Ansell's earnings reset brings expectations back to near pre-COVID levels, we see no let-up in challenges given the large industry supply response alongside Ansell becoming more capital intensive as it builds its own plants to reduce exposure to forced labour practices.

Other than PointsBet fundamental news was not a driver of returns in our top or bottom pairs.

### NTA\* Performance

1 month	-6.23%
3 months	-6.30%
12 months	-10.84%
Since inception (annualised)	3.73%

\*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
Dividend yield <sup>†</sup>	5.42%
Grossed up dividend yield <sup>†</sup>	7.74%
Shares on issue	90,379,949
NTA*	\$98,086,713

\* Before tax. <sup>†</sup>Last two semi-annual dividends paid, divided by the share price stated above. This yield was fully franked at a rate of 30%.

### Most Profitable Pairs for the Month

Long	Worley (WOR)	Short	Downer EDI (DOW)
Long	CSL (CSL)	Short	Sonic Healthcare (SHL)
Long	Woolworths (WOW)	Short	Coles (COL) / Treasury Wine (TWE)

### Least Profitable Pairs for the Month

Long	PointsBet (PBH)	Short	SkyCity Entertainment (SKC)
Long	ALS (ALQ)	Short	Aurizon (AZJ)
Long	James Hardie (JHX)	Short	CSR (CSR)

### Portfolio Snapshot

Long exposure	Month End	49.9%
Short exposure	Month End	-50.1%
Net market exposure	Month End	-0.2%
Gross market exposure*	Month End	\$396,816,417
Leverage factor (x NTA)	Month End	4.0
Average leverage factor (x NTA)	Since Inception	4.5

\* Sum of long and short positions in the Portfolio

### Contact Details

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Website	<a href="http://www.aepfund.com.au">www.aepfund.com.au</a>

# Absolute Equity Performance Fund Limited

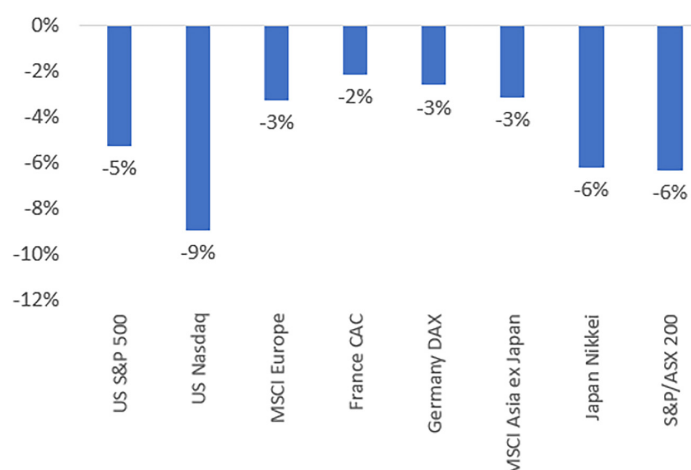
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### Market Observations

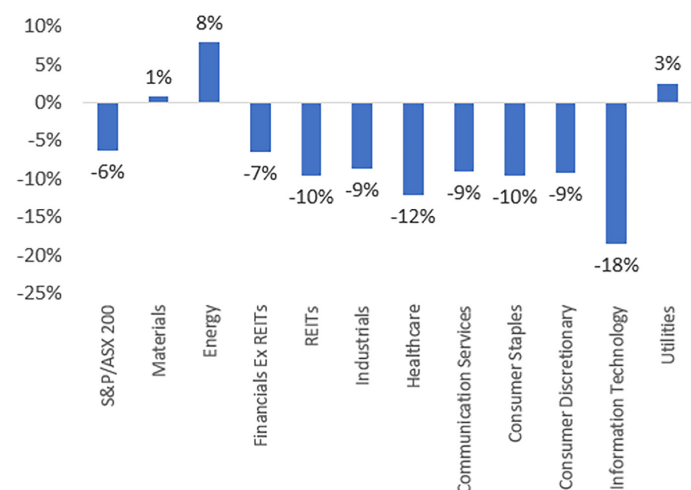
Global share markets have had a volatile start to the new year reflecting concerns about the unwind of pandemic stimulus measures (both fiscal and monetary), on-going disruption from COVID, and elevated corporate earnings risks from cost pressures. Understandably the US Nasdaq sold off the most (having previously gained the most) and similarly technology was the weakest sector for the Australian market (see second chart). A notable exception to declines was the energy sector which rallied on the back of crude oil price strength.

Share Market Indices - January 2022



Source: Bloomberg

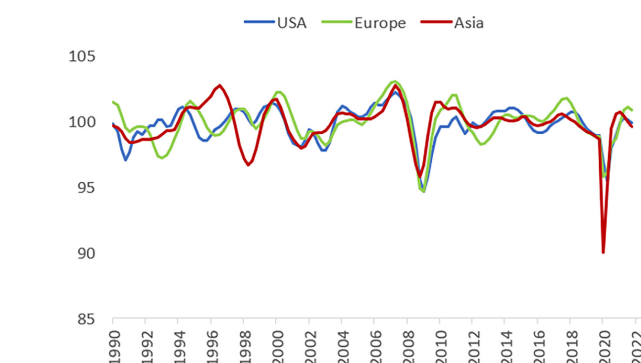
ASX 200 by Sector - January 2022



Source: Bloomberg

As noted in our prior monthly letter, market conditions have not been normal the last 2 years. Stimulus and liquidity have turbo-charged equity returns to well-above long-term averages. Without a step-up in earnings growth, which looks unlikely in the face of softening forward indicators (see following chart) and cost pressures, it is hard to be optimistic. The latter issue of cost pressures is of particular interest given the way it has evolved from initially challenging only those companies making goods (e.g. raw materials, supply logistics) to now services companies as tightening labour markets pressure wage inflation. As per the following table, labour is the dominant operating cost for service-oriented companies and those lacking pricing power will be challenged.

OECD Lead Economic Indicator



Source: Bloomberg

Select ASX 100 Services-Oriented Companies

Company	Service provided	Labour as a % of Total Operating Costs
Computershare	Corporate	84%
Coles	Retail	76%
Downer	Maintenance / labour	73%
Reece	Plumbing supplies	68%
Ramsay	Hospital	66%
Medibank	Health insurance	64%
Sonic	Pathology	62%
Flight centre	Travel	61%
ANZ	Banking	56%
Telstra	Telecommunications	53%

Source: Bloomberg

### 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

### 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.

### Company Secretary

Lisa Dadswell

### Directors

Marc Fisher (Chair)  
Will Harrison  
Daniel Liptak

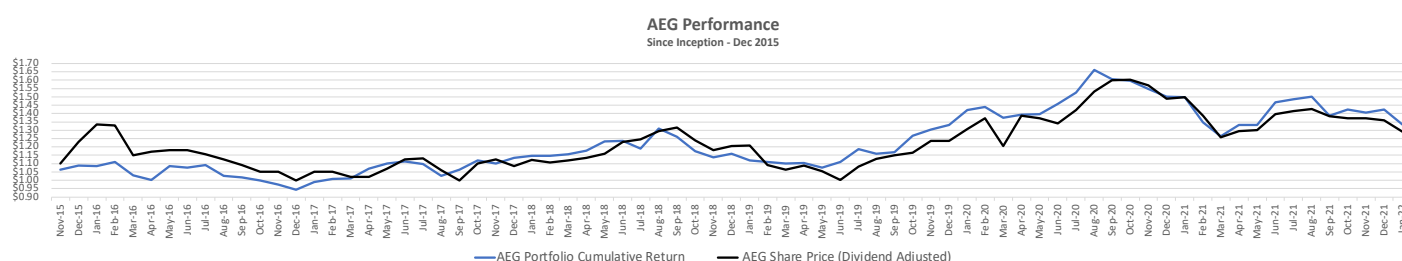
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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	-6.23%												-6.23%
2021	-0.22%	-10.12%	-6.13%	5.33%	0.13%	10.08%	1.30%	1.09%	-7.70%	2.78%	-1.31%	1.25%	-5.12%
2020	6.68%	1.23%	-4.44%	1.21%	0.34%	4.31%	4.80%	8.83%	-3.32%	-0.67%	-3.05%	-3.01%	12.60%
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%

\*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

This monthly report has been prepared by Absolute Equity Performance Fund Limited with commentary provided by the Investment Manager, Bennelong Long Short Equity Management Pty Ltd (ABN 63 118 724 173). This document has been prepared for the purpose of providing general information only. It is not an offer or invitation for subscription or purchase, or a recommendation of any financial product and is not intended to be relied upon by investors in making an investment decision. This report does not take into account individual investors' investment objectives, particular needs or financial situation. While every effort has been made to ensure the information in this report is accurate, its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance.

