



**ASX Release**

**INVESTOR PRESENTATION**

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**Monday, 28 November 2016**

**Absolute Equity Performance Fund Limited** ACN 608 552 496 (ASX:**AEG**) advises that the attached presentation will be delivered to investors and analysts.

***ENCL.***

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# Absolute Equity Performance Fund Limited

Investment Manager's update – November 2016



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# Agenda

- About the Company
- Investment Performance
- Investment Philosophy
- Investment Strategy Performance
- Investment Performance – Drawdown
- Market Observations
- Portfolio Snapshot
- Pair Trade 1
- Pair Trade 2
- Pair Trade 3
- Risk Management
- Summary

## About the Company

- The Objective is to achieve absolute returns over the medium to long term, through capital growth and income, regardless of market cycles
- The Company will seek to achieve this by investing in Pair Trades and constructing a portfolio predominantly comprised of large capitalisation Australian equities, and managed using a market neutral style that seeks to minimise equity market risk
- The Investment Strategy is the same as the strategy launched in February 2002
- The Company aims to provide shareholders with a source of return that is uncorrelated to all traditional asset classes

## Investment Philosophy

We believe it is possible to consistently identify instances where stock prices are not reflecting fundamental value. We invest on the premise that companies return to fundamental value over time.

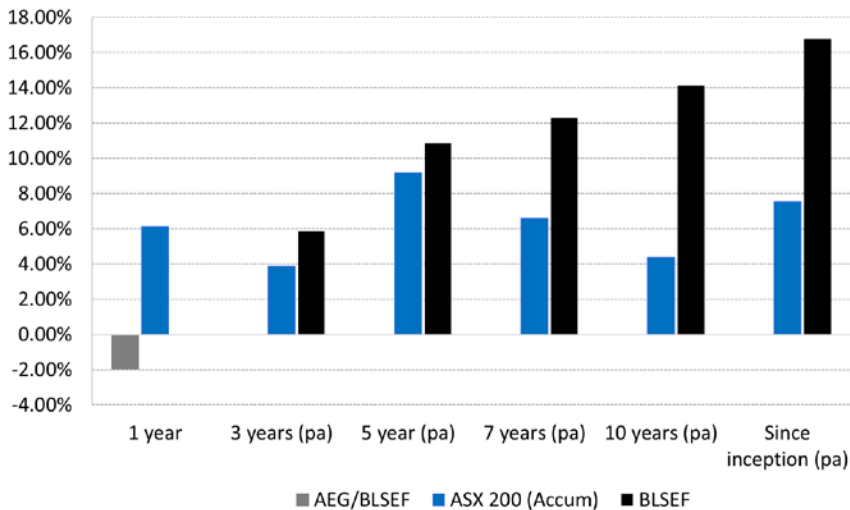
- The Investment Strategy is designed to minimise market risk by seeking to construct a portfolio that offers exposure to company risk within controlled pairs
- The Investment Manager uses fundamental analysis to identify relative value opportunities primarily amongst the S&P/ASX100 Index, and seeks to unlock this value using on average 30 to 35 Pair Trades (average position size of 1.5%)
- The Investment Strategy seeks to generate returns through fundamental analysis, diversification (an average of 60 to 70 securities) and leverage (up to 2.5x short, up to 2.5x long)



# Investment Strategy Performance

**AEG/BLSEF Strategy vs ASX 200 Accumulation Index**

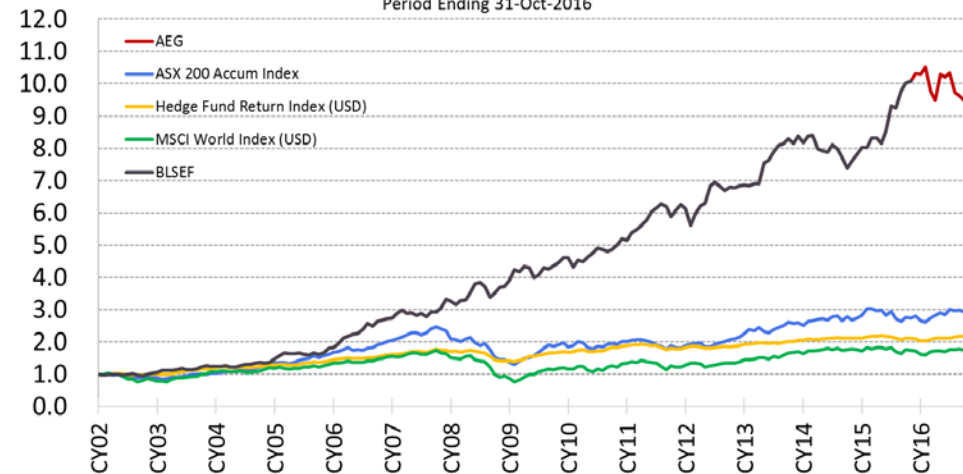
Period Ending 31-Oct-2016



Source: Bloomberg, BLSEM

**AEG/BLSEF Strategy - Cumulative Return (Net of Fees)  
Vs Other Investments**

Period Ending 31-Oct-2016



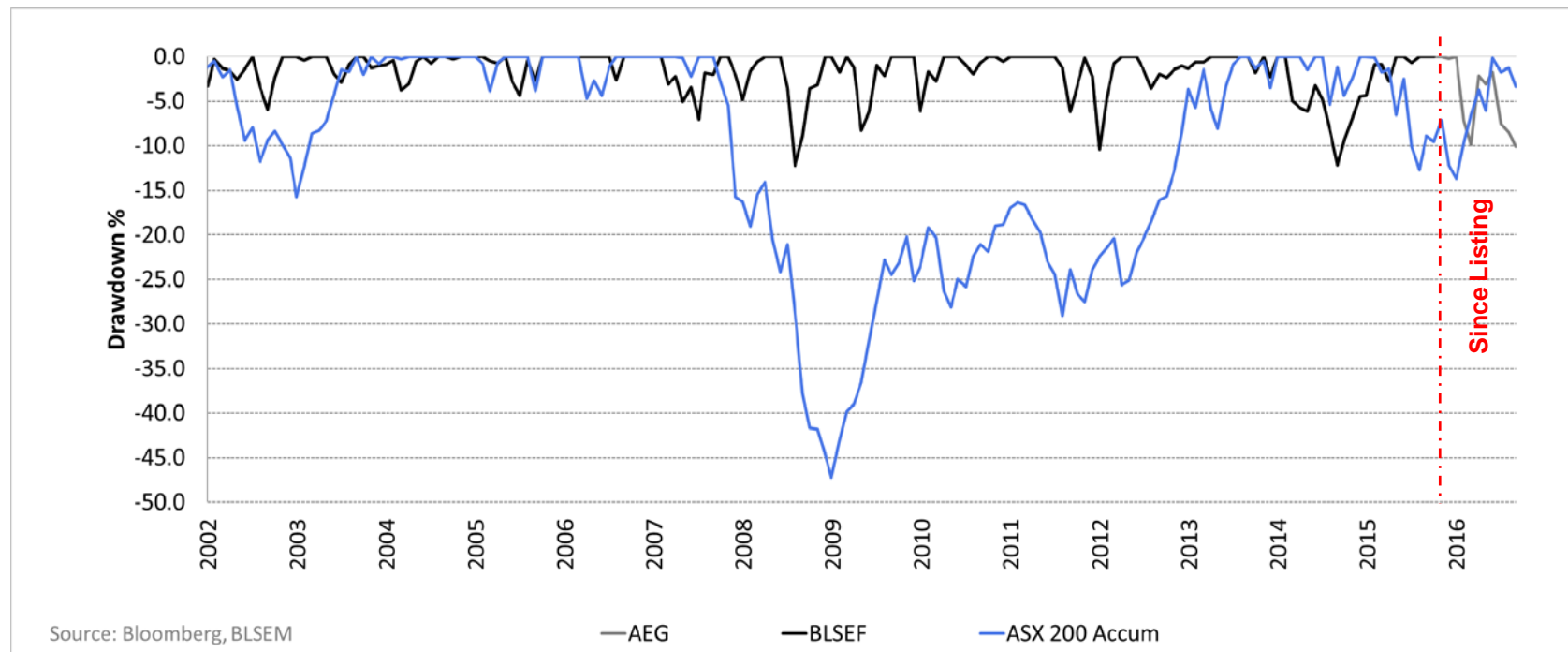
Source: Bloomberg, BLSEM

\*The above 1 year AEG/BLSEF return is a composite composed of BLSEF returns from Oct - Dec 15 and AEG reported (pretax) NTA returns from Jan 16 onwards, as AEG was listed on 16th Dec 15 and therefore a full 12 months of data is unavailable

Note: The above charts use monthly returns of the company from January 2016 to 31 October 2016. These returns are post realised tax but before unrealised tax. The monthly returns before then are net returns of the Bennelong Long Short Equity Fund (pre tax) from July 2008 to December 2015 and monthly returns before then are "pro forma" net returns of the Bennelong Securities Management Account (pre tax) February 2002 to June 2008, that have been recalculated to reflect the identical terms as BLSEF.



## Investment Performance – Drawdown History



Notes:

1. The data prior to the red line is the performance of the Investment Strategy based on the unaudited returns of BLSEF (from July 2008 to December 2015) and the unaudited pro forma returns Bennelong Securities Managed Account (from February 2002 to June 2008). The data after the red line is the performance of the Company since listing in December 2015.
2. S&P/ASX200 Accumulation Index has been chosen for comparison purposes only. The performance data for the S&P/ASX200 Accumulation Index was sourced from Bloomberg.
3. The graph is not intended to be an indication of the future performance of any asset class, index, the Investment Strategy or the Company.

Source: Bloomberg, BLSEM, the Company





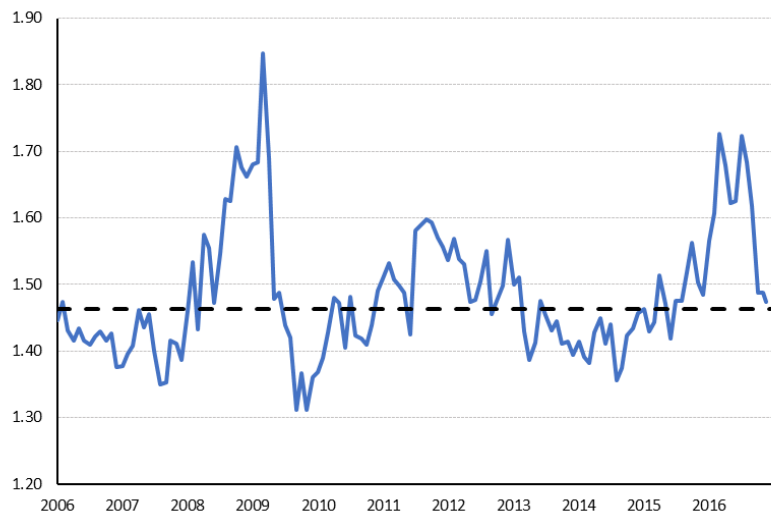
## Market Observations

Dispersion has recently reverted  
to its long-term average

Uniform premium to long-term average

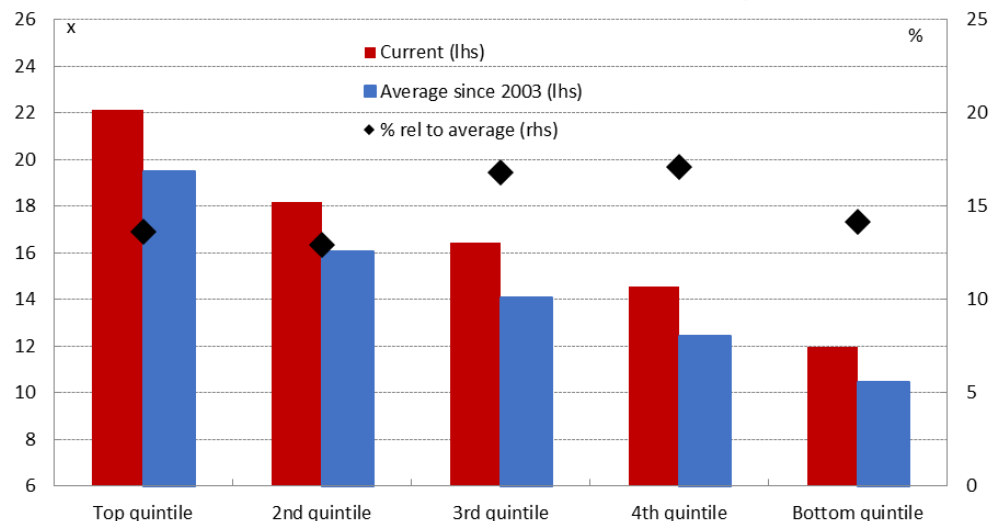
### P/E Dispersion Reversion

(80th percentile P/E divided by the 20th percentile P/E)



Source: UBS

### P/E on 12m forward earnings

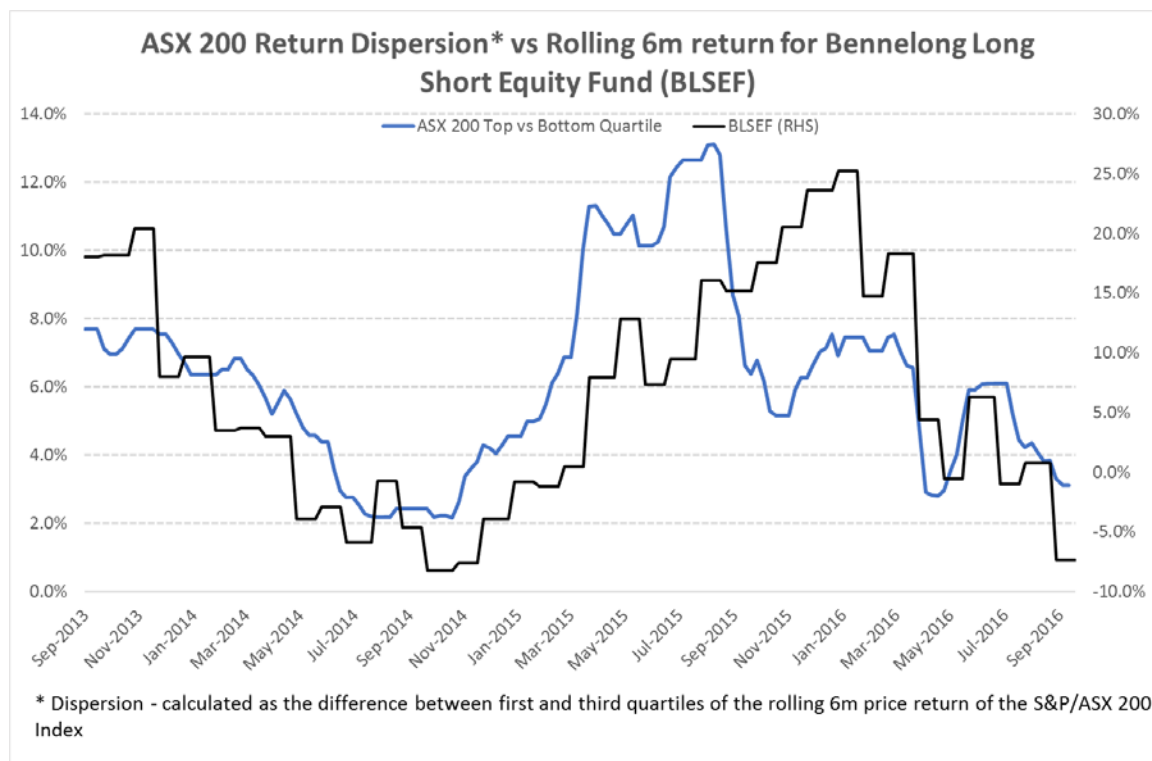


Source: Deutsche Bank



## Market Observations

Return dispersion has been decreasing since August 2015



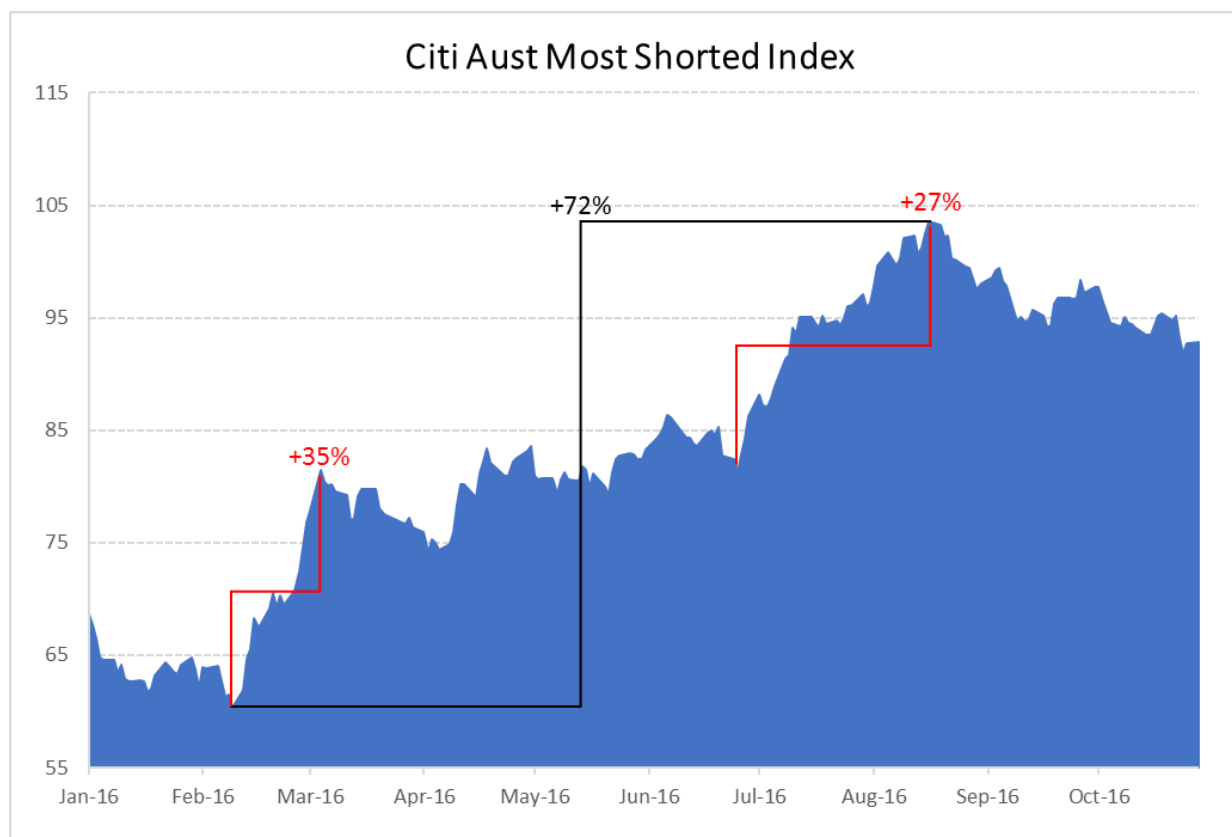
Source: Bloomberg, BLSEM





## Market Observations

Australia's most shorted stocks have run hard, low quality stocks have experienced a bull market this year



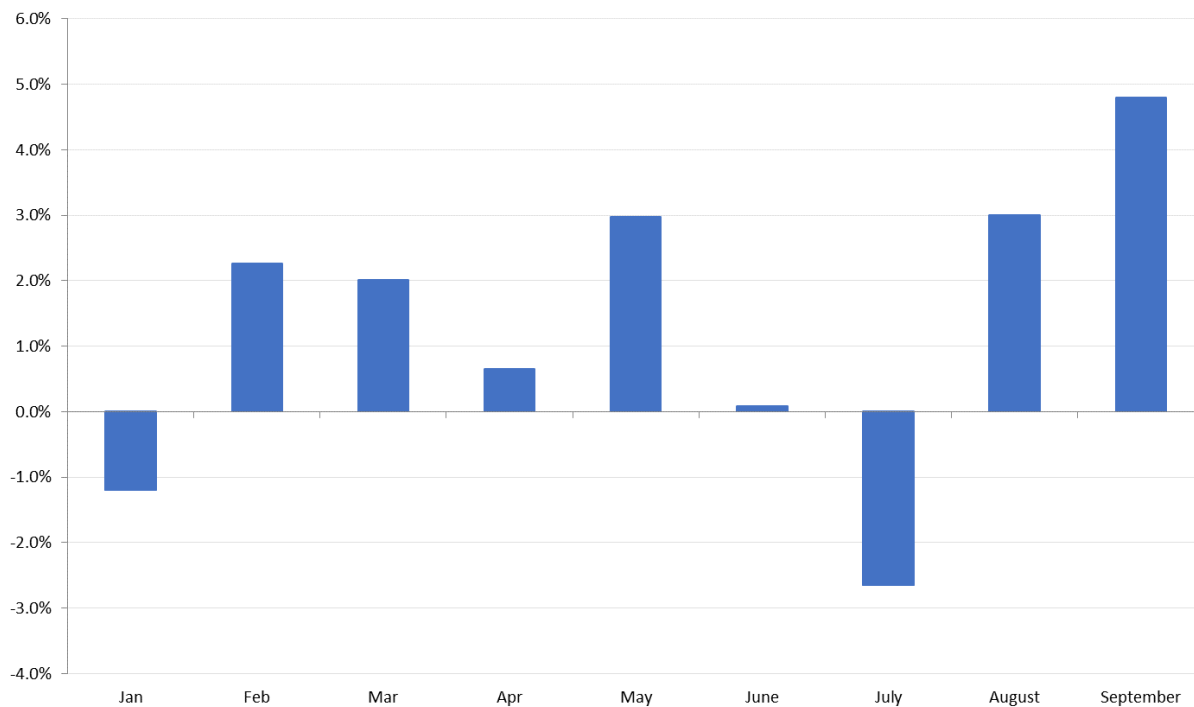
Source: Citi, Bloomberg



## Market Observations

**Low P/E Stocks have outperformed high P/E stocks in 2016**

**Return of Low P/E stocks vs High P/E stocks**  
(Top Quintile - Bottom Quintile ASX200)



Source: Macquarie Securities

\*Above chart measures returns of the top 20% value stocks (represented by low P/E stocks) compared to the bottom 20% value stocks (represented by high P/E stocks) of the ASX 200



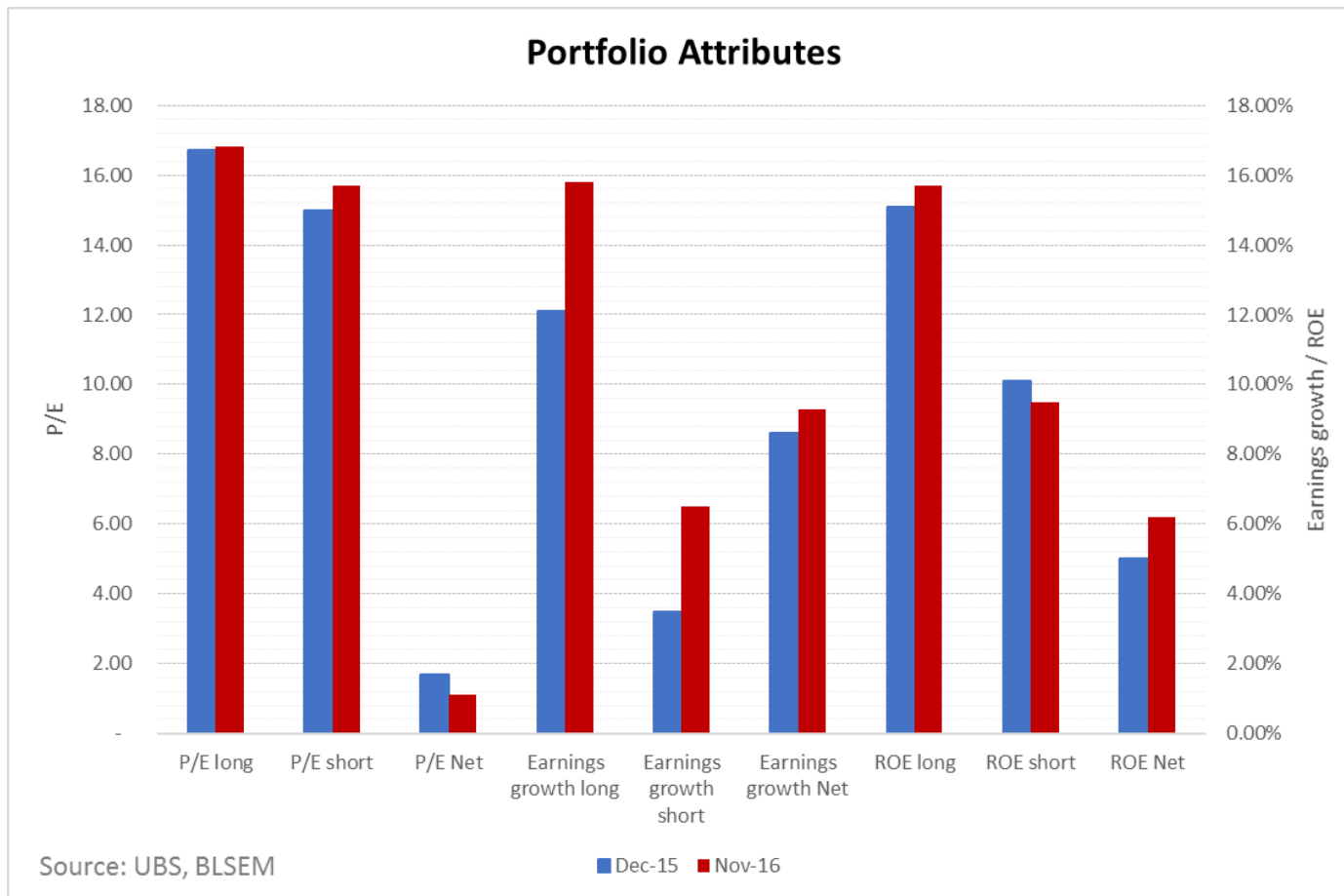
## Market Observations

...but over the long-term high P/E stocks have delivered significantly higher earnings growth than low P/E stocks



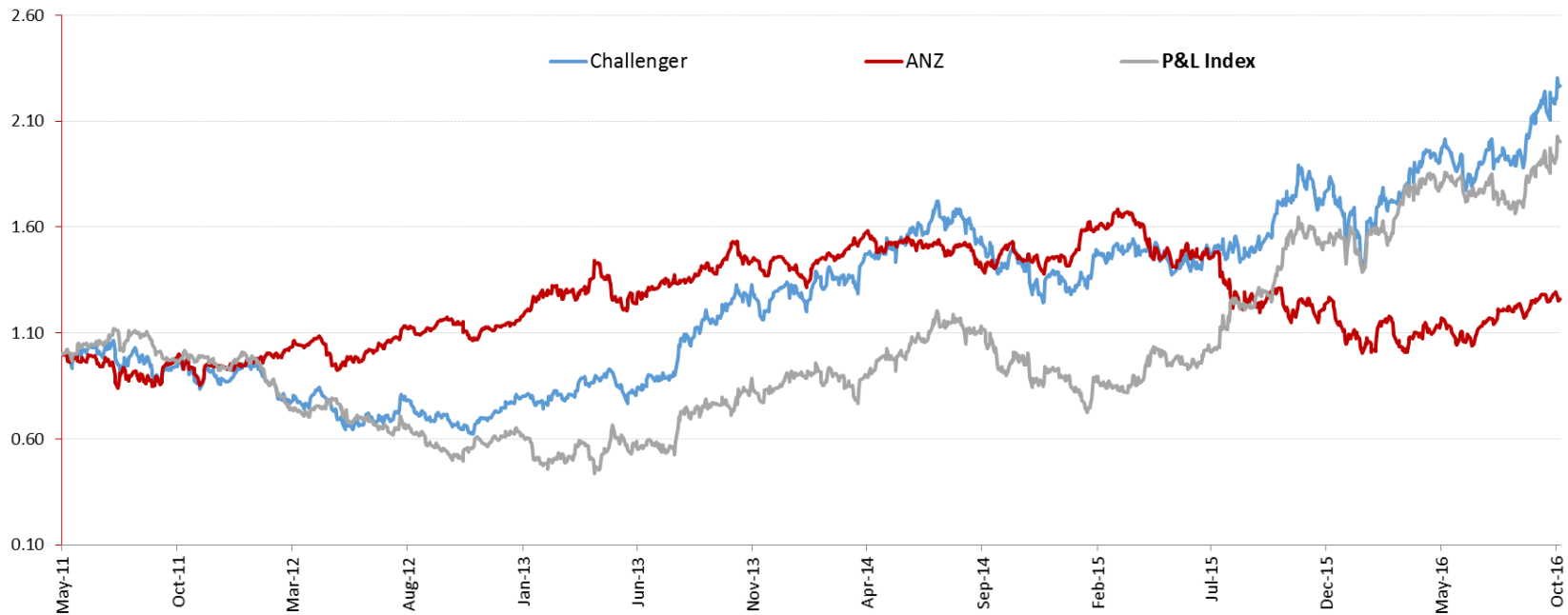


## Portfolio Snapshot Comparison – Listing vs current



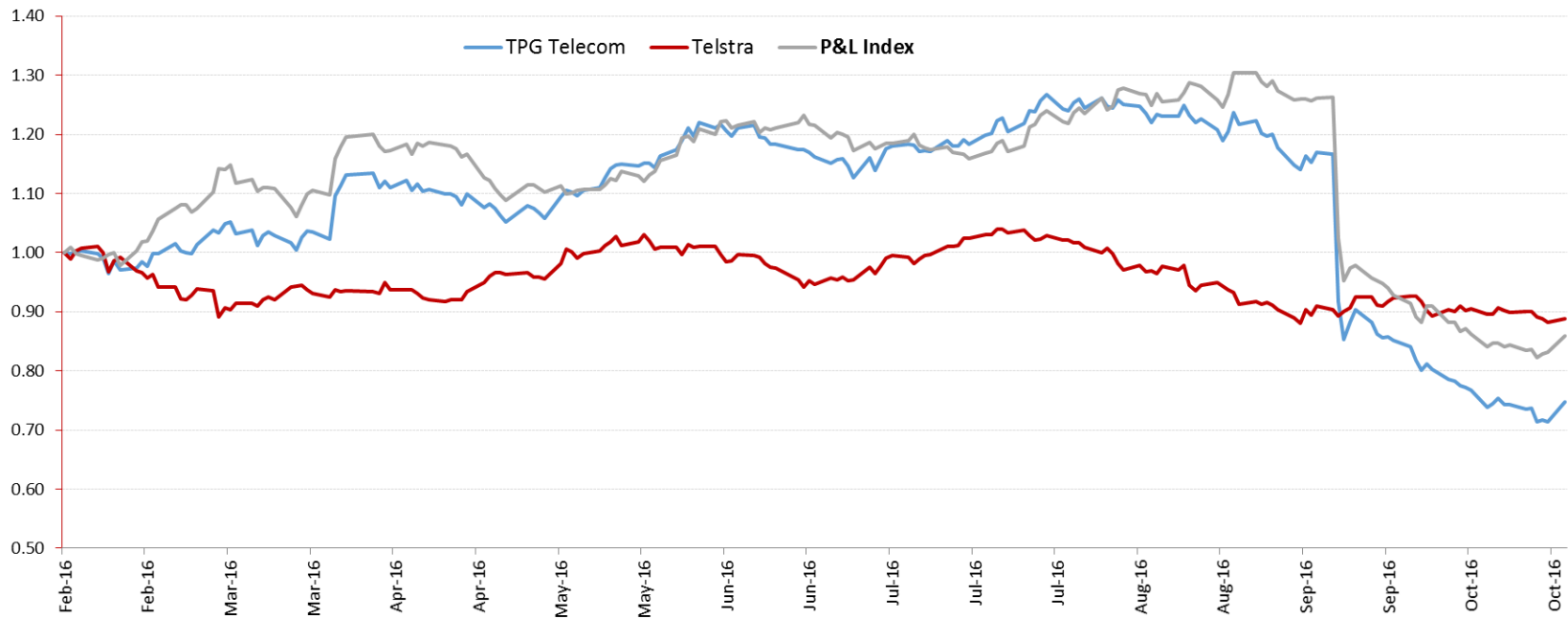


## Case Study 1 – Challenger (long) / ANZ (short)



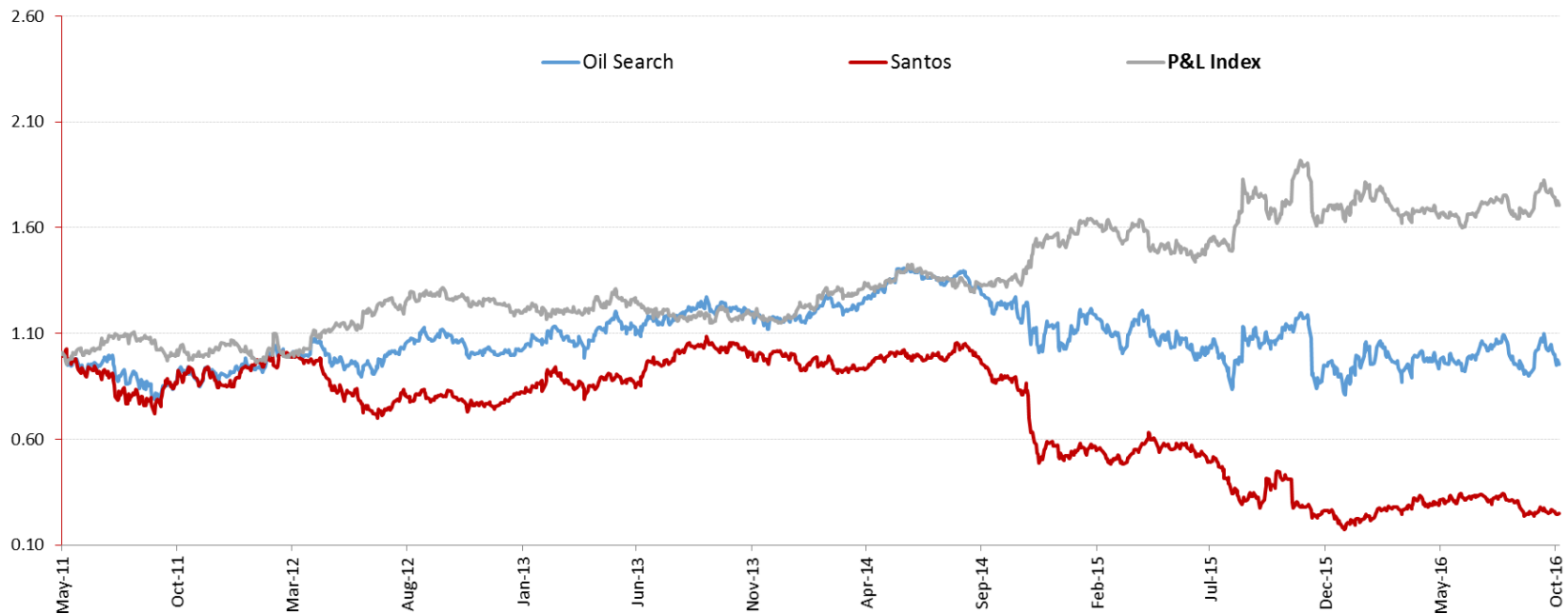
Source: Bloomberg, BLSEM

## Case Study 2 – TPG Telecom (long) / Telstra (short)



Source: Bloomberg, BLSEM

## Case Study 3 - Oil Search (long) / Santos (short)

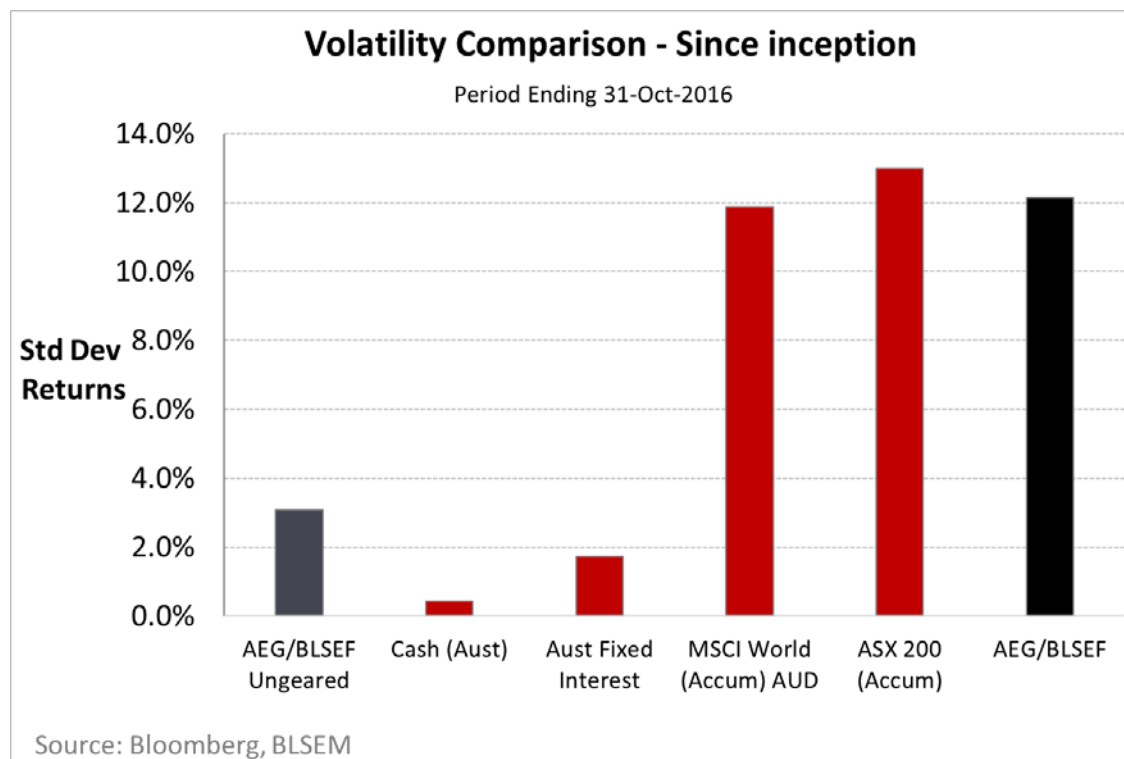


Source: Bloomberg, BLSEM



## Risk Management

- Risk is controlled at the stock level
- Ungearred strategy is low volatility
- Gearing applied to a low volatility portfolio

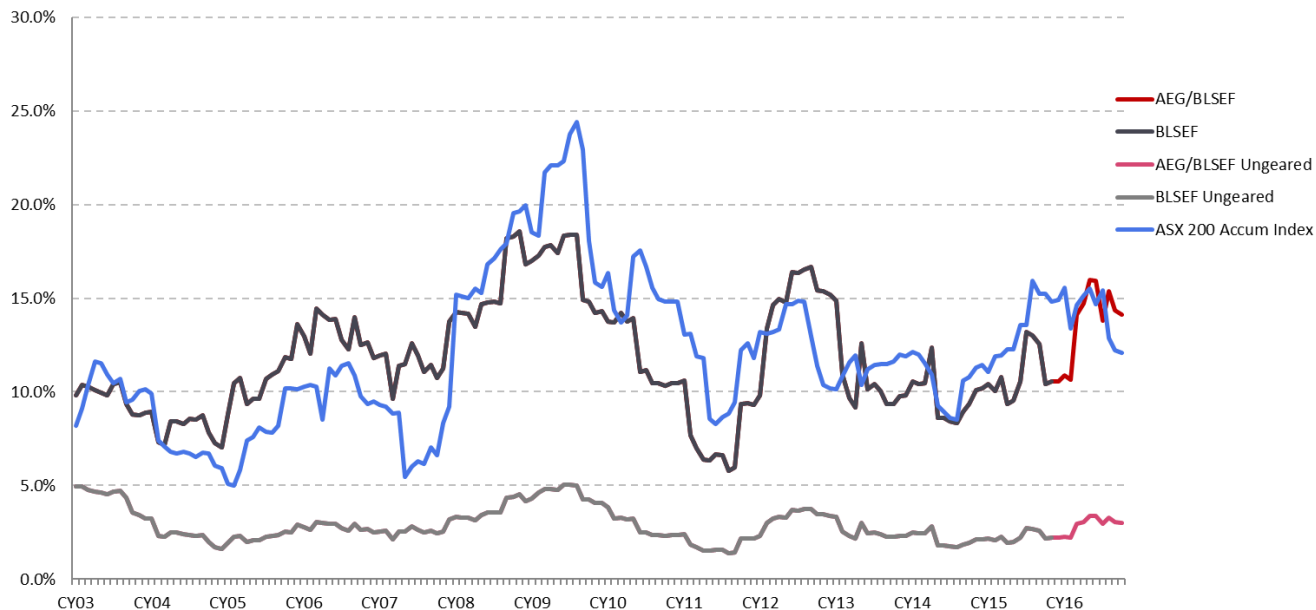


\*The above AEG/BLSEF data is a composite composed of Bennelong Securities Long Short Equity Fund returns (Managed Account) Feb 02 to June 08, BLSEF returns from Jul 08 to Dec 15 and AEG reported (pretax) NTA returns from Jan 16 onwards.

## Risk Management – Volatility History

### Historical Volatility Comparison (12m Rolling Std Dev Monthly Annualised) \*

Period Ending 31-Oct-2016



Source: Bloomberg, BLSEM

\*The above AEG 12m rolling standard deviation incorporates BLSEF monthly returns as AEG has only been listed since Dec 15.

# Investment Manager

## **Richard Fish, Senior Portfolio Manager**

- 30 years market experience in Australian equities (ANZ McCaughan, Bain Securities, MacNab Clarke & Partners)
- Bachelor of Business Degree and Diploma from Securities Institute of Australia

## **Sam Shepherd, Senior Portfolio Manager**

- 22 years market experience in Australian equities (Credit Suisse, JP Morgan, Norwich Investment Management)
- Bachelor of Commerce Degree and Diploma from Securities Institute of Australia

## **Sam Taylor, Senior Investment Analyst**

- 15 years experience in Australian equities (Ocean Financial Group, Hartleys, Intersuisse)
- Bachelor of Business Degree

## **Steven Lambeth, Senior Investment Analyst**

- 10 years experience in Australia (JCP Investment Partners, Wallara Asset Management, Towers Perrin)
- Bachelor of Commerce with Honours and CFA Institute charterholder (since 2003)

## **Justin Hay, Senior Investment Analyst**

- 18 years experience (Optimal Australia, Goldman Sachs Australia)
- Bachelor of Commerce with Honours and CFA Institute charterholder

## **Daniel Sanelli, Investment Analyst**

- Bachelor of Commerce
- 2 years financial markets experience



## Investment Manager / Company Details

- **Style** – Absolute Return Australian Equities
- **Domicile** – Australia
- **Investment Manager** – Bennelong Long Short Equity Management Pty Ltd
- **Company's Market Cap** - \$96.9m\*
- **Assets Under Management of Manager** – A\$736m (as at 31st October 2016)
- **Management Fee** – 1.5% ex-GST
- **Performance Fee** – 20.0% ex-GST (high water mark)
- **Prime Broker** - UBS AG, Australia Branch
- **Custodian** – UBS Nominees Pty Ltd
- **Administrator** – Custom House Fund Services (Australia) Pty Ltd

\*As at 31<sup>st</sup> October 2016

## Communications



Regular shareholder  
emails



Monthly NTA  
announcement



Half & full year  
financial results



Website  
[www.aepfund.com.au](http://www.aepfund.com.au)



Media



Independent research

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