

Absolute Equity Performance Fund Limited Monthly NTA and Performance Update

As at 31 December 2016

Net Tangible Assets (NTA)

NTA before tax	\$0.943
NTA after tax	\$0.998

Since the outstanding Loyalty Options have a \$1.10 strike, conversions when the NTA is less than \$1.10 will not result in NTA dilution. \$ currency notation refers to Australian Dollars.

Fourth Quarter Directors' Commentary

The Absolute Equity Performance Fund Limited (AEG) has concluded its first full year of operation. The past year was a difficult one for many absolute return funds, both domestically and internationally. Some of the best known names had a very challenging year, and AEG was unfortunately amongst them.

The Investment Strategy we employ will celebrate its 15th anniversary in February 2017. This is an impressive history on many levels. For example, the Strategy has an annualised return of 16.1%¹ since inception. It has also successfully navigated difficult market events such as the GFC, where it experienced a -12.2%² drawdown and recovered within six months.

Despite the disappointing start as a listed company, the 2016 performance was well within the range of expected losses for a Strategy that has equity-like risk levels. The Company faced an almost perfect storm where 2016 was a highly unusual year. Whilst not as visibly dramatic as 2008/9, the year was highly disruptive in its own way in terms of market structure. In the market rally we have seen, overvalued companies have become stretched further and undervalued companies have seen less of a rise than the fundamentals justify. The thesis behind the stock pairs in our portfolio is therefore stronger than ever. It is a testament to the experience of our Investment Manager that despite the pressure a drawdown brings, the team continues to stand its ground both in terms of the implementation of the Strategy and the stock pairs they are invested in.

We cannot rule out a continuation of the current trend for a while longer, since these are unprecedented markets and a reflection of the times. But we believe in our Investment Manager's process and discipline and that company fundamentals will prevail. Based on historical reversals after the Strategy has underperformed, the improvement in AEG's performance could be abrupt, perhaps explaining why we see good support for the Shares and a maintenance of a fairly consistent premium to NTA, despite a challenging year.

The Directors of AEG would like to wish you a happy, healthy and prosperous 2017, and thank you for your continued commitment and support.

The Monthly NTA and Performance Update continues overleaf.

NTA* Performance

1 month	-3.31%
Since inception	-11.44%

*Before tax

Company Details

ASX codes	Shares: AEG , Options: AEGO
Listing date	16 December 2015
Share price	\$1.000
NTA* per share	\$0.943
Market capitalisation	\$92,408,028
Shares on issue	92,408,028
Options on issue	70,515,907
Option expiry date	16 November 2017

*Before tax

Portfolio Snapshot

Long exposure	Month End	50.8%
Short exposure	Month End	-49.2%
Net market exposure	Month End	1.6%

Most Profitable Pairs for the Month

Long	Oil Search (OSH)	Short	Santos (STO)
Long	Qantas (QAN)	Short	Flight Centre (FLT)
Long	CSL (CSL)	Short	Sonic Health (SHL)

Least Profitable Pairs for the Month

Long	Ramsay Health (RHC)	Short	Primary (PRY) / Healthscope (HSO)
Long	Star Entertainment (SGR)	Short	Metcash (MTS) / Woolworths (WOW)
Long	Resmed (RMD)	Short	Ansell (ANN)

Contact Details

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Footnotes

1, Source: Bennelong Long Short Equity Fund (BLSEF), December 2016 Monthly Performance Update Newsletter. Please note that this refers to the performance of BLSEF and not AEG. 2, Source: Page 39, AEG Replacement Prospectus. Past performance is not a reliable indicator of future performance.

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Performance

A disappointing December ended a disappointing year. Obviously we are continuously reviewing our positions and as professional investors we are never totally comfortable with the portfolio and are always vigilant as to what can go wrong. During December we made several stock and weightings changes in line with our assessment of risk and reward but on the whole we maintained our core stocks and strategies as we continue to see them delivering positive performance in the future.

Macro factors dominated markets in 2016 driven by policy (central banks) and politics (Chinese Government stimulus, OPEC, Brexit, Trump, etc.). It was a year where bottom up stock picking was treacherous. The last time we saw such a shift in markets was during the GFC. Chart 1 below shows the short term returns by style (Australia in black) and Chart 2 shows the longer term style returns for the Australian equity market. Basically the only style that added value in 2016 was Cyclical Value (Chart 1), following six consecutive years of underperformance (Chart 2).

Chart 1: Regional Style Performance in 2016

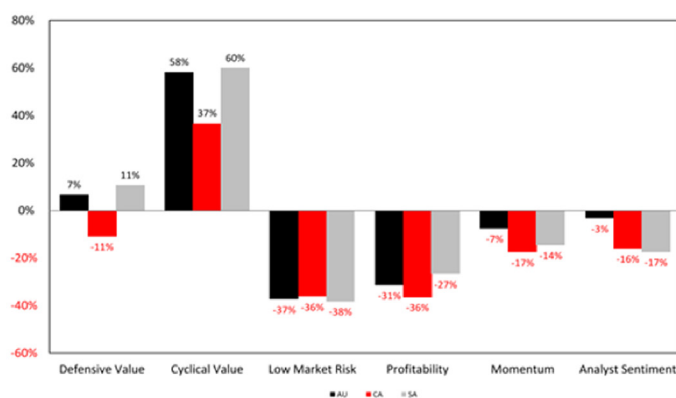


Chart 2: Australia Style Performances



Although our process is not constrained by a particular investing style, a proportion of our long positions migrate towards companies with superior forecast growth and returns, characterised in the charts as Low Market Risk stocks.

Our shorts often reflect inferior forecast growth or high volatility in earnings (characterised in the charts as Cyclical Value). Clearly the portion of the portfolio exposed to this style has not worked in 2016.

We don't believe now is the time to adjust this strategy for the following reasons:

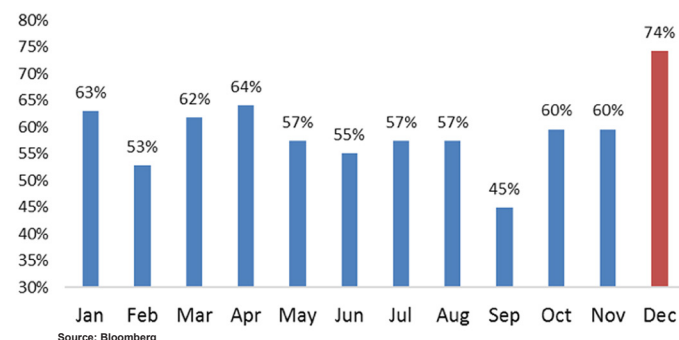
- This move by Cyclical Value has been large and looks overbought on a short-term basis but it has been non-consensus in terms of positioning and has caught many investors underweight and the flow of funds may continue to support it. This flow may moderate but not negate the degree of reversion.
- Rising global bond yields in response to growth are generally supportive of equity markets and Cyclical Value. We have been reluctant to embrace this style rotation and have persisted with a cautious view on the 2017 earnings growth outlook. On a risk basis, the trade looks extended and we remain concerned that euphoria has overtaken fundamentals. Election promises of US fiscal stimulus packages remain undefined and unfunded (tax cuts and increased spending?), China debt levels remain a concern and Australian housing and consumer cycles look overdone.
- The geopolitical outlook is more problematic than we can remember and has been discounted by equity markets assuming strong economic growth as loose monetary policy is augmented by fiscal stimulus. We wonder how tolerant or accommodative the central bankers will be if growth does actually accelerate.

In summary, we made some stock selection errors over 2016 as well as facing some unpleasant stock specific surprises, however markets were particularly unhelpful for fundamental investors on a global basis. Whilst we are bitterly disappointed with this year's performance, the team has confidence in the fund strategy and the process. We are fully committed to producing results commensurate with our historical returns.

Market Commentary

December saw share markets display their typical Christmas cheer with gains across all the major markets. History shows that December is the highest probability month for a positive return with the US S&P 500 gaining 74% of the time since 1928 (Chart 3). Such a high success rate stands in contrast to the September month, which historically has fallen more times than it has risen (i.e. only 45% of Septembers since 1928 have ended higher than they started).

Chart 3: Percentage of times the S&P 500 has risen for a given calendar month (period 1928 to 2016)



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Market Commentary *continued*

Returning to December 2016, the gain for the S&P 500 of +1.8% was more modest than European markets (MSCI Europe Index +5.8%) reflecting the already solid gains seen in November post the US election and a rate hike from the US Federal Reserve. We also saw guidance for a further three hikes in calendar 2017 and further US\$ strength, now up 6.4% vs the Euro and 5.0% vs the Pound since October.

The Australian share market was also strong with a return of +4.1% (ASX/ S&P 200 Index), bringing the full year calendar price gain to +7.0%. The local market's rally for December was broad-based with all major sectors gaining between 4% and 6%, except for the defensive areas of health, staples and telco which gained less than 2%.

Outlook

One scenario for equity markets in 2017 is where growth does accelerate and drives an earnings recovery but index and stock returns are limited as price to earnings ratios normalise. Such growth is premised on fiscal measures being significant enough to stimulate global economic growth and not be offset by the impacts of a rising US\$, capital flight from emerging markets and protectionist economic policies.

As ever, there is much to worry about but it seems to us that currently the list is a bit longer and a bit scarier than usual.

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

Richard Fish	Senior Portfolio Manager
Sam Shepherd	Senior Portfolio Manager
Sam Taylor	Senior Analyst
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.

Directors

Marc Fisher (Chairman)
Graham Hand
Andrew Reeve-Parker

Company Secretaries

Jeff Phillips
Tai Phan

Monthly Table of NTA* Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
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. Past performance is not a reliable indicator of future performance.



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.