



Absolute Equity Performance Fund Limited Quarterly Letter & Performance Update

April - June 2016

Despite schizophrenic markets reacting to global events, the Absolute Equity Performance Fund (**AEG** or the **Company**) returned +4.4% in the second quarter of 2016. Hopes were running high in June for the Company to achieve a new high in terms of the formal pre-tax Net Tangible Assets (**NTA**), only for the risk-off fallout from the unexpected Brexit result to spoil the party. We remain optimistic that despite these macro-economic headwinds, the fundamental stock-picking approach of the Investment Manager will yield favourable returns over the medium term. Neither Brexit nor the domestic election have altered Bennelong's strategy nor the composition of the Portfolio.

June proved to be a busy month for the Company's management. The Loyalty Options (**options**) vested on 16 June. An impressive 80% of options were issued and are now tradeable under the ASX code AEGO. As these options convert to shares, your Company's assets will grow, further improving liquidity. We have seen a material number of option holders already exercise their options and convert into shares of AEG. If all options were to convert today, the Company's valuation would be approximately \$180 million.

Since the exercise price of the options is \$1.10, we will ensure that the Company states the fully-diluted NTA as well as the prevailing NTA in future Monthly Newsletters, observing what we consider the best practice in reporting transparency.

Currently, the Newsletter and other announcements are published on both the ASX and AEG websites (www.aepfund.com.au). Since you are reading this, you have likely downloaded it from one of these sources. To make communication simpler in future, the Company is establishing a list of email addresses to send these updates directly to interested parties when updates are published.

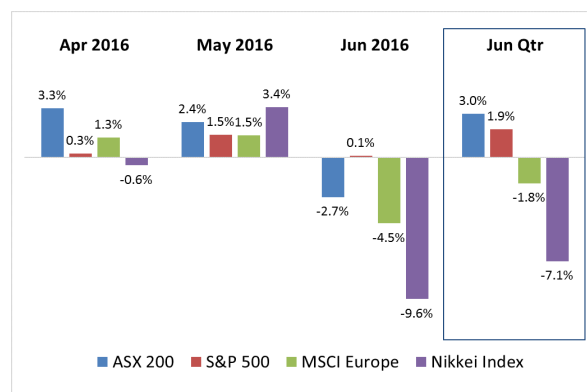
If you would like to receive these communications by email, please click on this [link](#) and simply provide your name and email address. Should you no longer wish to receive these updates at any point, there will be an easy unsubscribe option in each email.

AEG continues to enjoy a significant premium to NTA. According to Morningstar, AEG is in the top 12% of Listed Investment Companies as of 31 May 2016 ranked by pre-tax NTA premium. We believe this reflects the confidence our Shareholders have in Richard Fish's investment team, and the scarcity of capacity available in one of Australia's top investment managers.

Thank you for your continued trust and support.

June Quarter 2016 – Investment Manager Commentary

The June 2016 quarter was relatively calmer than the preceding quarter for markets and the Portfolio. Fundamentals reasserted themselves after the liquidity-induced macro disruption that affected stocks in February and March but the June quarter nonetheless presented some challenges. The S&P/ASX-200 Index posted a respectable positive return of 3% over the quarter led by Materials, Energy and Healthcare. As shown in the table below, the Australian share index outperformed major offshore markets. The rally in the Resources sector was partially a continuation of a recovery from oversold levels and also a stabilisation in Chinese demand (especially for steel) and the likelihood of further central bank stimulus. Interest rate sensitive Utilities also performed strongly as global rates plumed to new lows.



The Brexit vote caused havoc late in June. The unexpected result caused an elevated degree of uncertainty regarding the actual impact of the referendum. The Portfolio had several positions, both long and short, affected by the market reaction, but on balance the long book was more exposed and returns were adversely impacted. This was a timely reminder of the globalisation of markets. We refrained from making any meaningful changes to the Portfolio post Brexit but remain alert to developments.

Despite Brexit, broad measures of stress, such as credit spreads, remain relatively contained and recent data points from the US, EU and even UK show economic fundamentals are pointing to moderate growth. How much Brexit derails that remains to be seen. The other concern for investors is in emerging markets where the fundamentals need close monitoring for signs of deteriorating conditions.

After several years of low volatility and strong global equity markets, the 2015/2016 year marked a point of change. There was a noticeable pick-up in volatility and global equity markets struggled to hold or make new highs. With increased political uncertainty and high stock valuations, we would not be surprised to see higher volatility in the year ahead.

The Portfolio constructed a new pair during the quarter: long Bluescope (BSL) and short Sims Group (SGM). Our thesis is that whilst both stocks are exposed to the global steel cycle, Bluescope's assets in Australian coated steel and US steel are superior and it is benefitting from favourable cyclical and structural factors. The Australian business has a major cost reduction initiative underway and end market demand has also improved. Bluescope recently acquired the remaining 50% of its US steel business, North Star, which we consider a high quality asset. The US steel market fundamentals have improved recently and Bluescope is well-placed with its increased exposure. On the other hand, Sims operates in a highly-competitive global scrap market where it has less control over pricing and hence earnings are likely to be volatile and we think will remain under pressure.





Absolute Equity Performance Fund Limited Monthly NTA and Performance Update

As at 30 June 2016

Net Tangible Assets (NTA)

NTA before unrealised tax	\$1.077
NTA after tax	\$1.084

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.

Performance

The Portfolio returned -0.92% in June after being on track for a positive month, but the macro shock of Brexit resulted in modest losses in the last handful of days. The Portfolio holds a number of positions in companies with exposure to Britain and Europe, both long and short. While some positions benefited from the change in events, overall performance was adversely impacted mainly by our long holding in Henderson Group (paired to AMP). On the positive side, the Portfolio performance benefited from two pair positions in the Mining Services and Materials sectors (see table right).

While not dismissing the potential for Brexit to bring consequence to companies' earnings prospects, we have not made any Portfolio changes post the Brexit vote. To remind investors, the Portfolio's strategy in generating performance is not via taking specific views on macro factors, rather it is via identifying differences in the intrinsic prospects of two individual companies that operate in broadly the same industry and/or operating environment. Given not always do two like-businesses operate in an identical market or external backdrop (e.g. overseas vs domestic presence of Henderson versus AMP), it is inevitable that macro developments can temporarily impact performance. Similar to our experience with periodic takeover activity, our observation is the Portfolio achieves a broadly even mix of wins and losses across long and short positions from episodic shocks such as Brexit.

Market Commentary

When share markets took a hit in June, major indices in Europe sold off between -6.0% and -9.5% across France, Italy, Germany, and Spain. Ironically the UK market was up (FTSE 100 Index +4.4%) after initially falling in the immediate aftermath of Brexit but subsequently rallied with help from the significant fall in the British Pound (down 8.1% vs the US Dollar and 7.9% vs the Euro). The US market managed to close flat (S&P 500 Index +0.1%) from being down as much as -4.6%, while Japan fell -9.6% (Nikkei 225 Index) from already being down -6.0% prior to the UK referendum. On the other side of the sell-off in equities was a flight to the usual safe haven alternatives of gold (up 8.8% in US\$ over the month), bonds (yields falling to new lows including German 10-year bunds now trading on a negative yield, as seen in Japan) and cash.

Britain's exit decision prompted immediate downgrades to growth forecasts for both the UK and the broader Eurozone. Policy settings are expected to be loosened with rate cuts forecast for the UK (where the cash rate is currently +0.50%) as well further Quantitative Easing measures by the European Central Bank. Markets also pulled backed forecasts for future rate rises by the US Federal Reserve.

The Australian share market fell in lock-step with offshore markets, down -2.7% for the month (S&P/ASX 200 Index). All sectors posted declines in the range of -1% (Materials) to -7% (Banks and Diversified Financials) while REITs (+2%) and Utilities (+5%) benefited from further falls in long-term bond yields.

NTA* Performance

1 month	-0.92%
Since inception	+1.11%

*Before unrealised tax

Company Details

ASX codes	Shares: AEG , Options: AEGO
Listing date	16 December 2015
Share price	\$1.180
NTA* per share	\$1.077
Market capitalisation	\$107,374,708
Shares on issue	90,995,515
Options on issue	72,326,561
Option expiry date	17 November 2017

*Before unrealised tax

Portfolio Snapshot

Long exposure	Month End	49.6%
Short exposure	Month End	-50.3%
Net market exposure	Month End	-0.7%

Most Profitable Pairs for the Month

Long	ALS (ALQ)	Short	Orica (ORI)
Long	Bluescope Steel (BSL)	Short	Sims Metal (SGM), Amcor (AMC)
Long	Crown Resorts (CWN)	Short	Skycity Entertainment (SKC)

Least Profitable Pairs for the Month

Long	Computershare (CPU)	Short	ASX (ASX)
Long	Henderson Group (HGG)	Short	AMP (AMP)
Long	Qantas Airways (QAN)	Short	Flight Centre (FLT)

Contact Details

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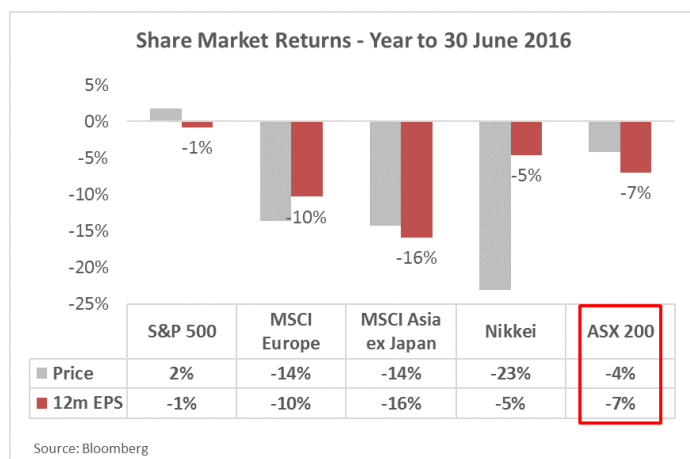
Absolute Equity Performance Fund Limited

Monthly NTA and Performance Update

As at 30 June 2016

Outlook

The events of Brexit somewhat reveal the fragile nature of equity markets at present. Despite loose policy settings being here to stay with the prospect of even more stimulus via rate cuts and Quantitative Easing, the re-rating of share markets in recent years to now elevated valuation multiples (versus history) means it is increasingly up to earnings to drive markets higher. Perhaps earnings will turn upwards, but currently this isn't happening. In fact, earnings have declined across many markets over the last 12 months. To evidence this, we update the same analysis we presented this time last year to reflect on the fiscal year past and how Australia's earnings progress compared with other markets. This is shown in the table below. To recap, for each market we show two columns: first the price change (light grey), second the earnings change (red). The earnings performances were down across the board (US -1%, Europe -10%, Japan -5%, Australia -7%). It is of no coincidence that lower earnings have dragged share prices with them.



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

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%							-1.21%
2015	-	-	-	-	-	-	-	-	-	-	-	2.25%	2.25%

*Before unrealised 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, without taking account of any particular investor's objectives, financial situation or needs. 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.