

Absolute Equity Performance Fund Limited Monthly NTA and Performance Update

As at 31 December 2015

Net Tangible Assets (NTA)

NTA before unrealised tax	1.089
NTA after tax	1.092

Not adjusted for the Loyalty Options outstanding

NTA Performance*

1 month	N/A
Since inception	2.25%

*Before unrealised tax. Please see footnote for further details on the above NTA Performance calculation

Note: Following receipt of application monies from investors into AEG in mid December, the Investment Manager commenced building a portfolio of positions in-line with that of the Bennelong Long Short Equity Fund. This process was prudently managed and took approximately one week to reach the desired position.

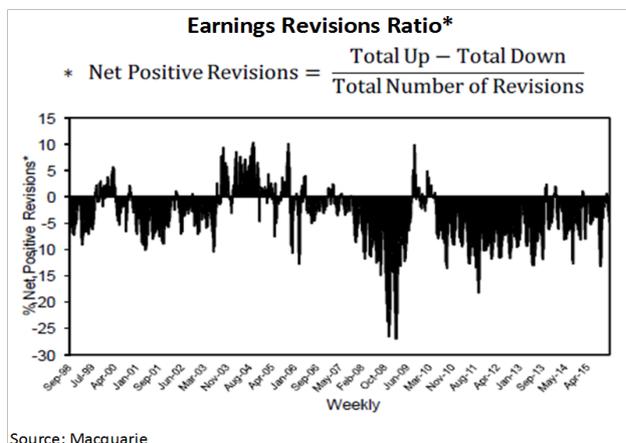
Performance

During its first two weeks, the Company achieved a net return of +2.25%*. As shown among the tables on the right, the most notable contributors to performance came from two of the pairs in the Healthcare sector. This outcome was driven by short positions in Primary Healthcare and Sonic Healthcare, which were sold-off following a proposal from the Federal Government's Mid-Year Fiscal and Economic Outlook to reduce the Medicare funding of various pathology and diagnostic services. Whilst unexpected, this result was consistent with the Investment Manager's thesis of funding pressure impacting domestic healthcare stocks. On the negative side, the largest setback came from an energy-related pair which was impacted by continued volatility in the oil price and associated share prices.

Market Commentary

Share markets around the world finished 2015 on a subdued note. Across the major markets for the month, the US was down -1.8% (S&P 500), Europe declined -5.3% (MSCI Europe), Japan fell -3.6% (Nikkei Index) and the rest of Asia also declined -0.7% (MSCI ex Japan). Australia was somewhat of an exception with a rise in the ASX 200 Index of +2.5% including a solid recovery of +8.1% from mid-month lows. Despite further falls in the commodities space weighing on the Energy and Materials sectors, the market's overall rise was fuelled by solid gains across Banks (+4.9%), Consumer (staples +7.1%, discretionary +6.2%), Industrials (+3.2%) and Telcos (+4.2%).

For the Australian market, the recovery in December wasn't enough to see the ASX 200 finish the calendar year in positive territory, posting a fall of -2.1% (or a total return of 2.6% including dividend income). In addition to the influence of offshore share markets, a key issue holding back our market here was the continued tendency for reduced earnings estimates to outnumber increased earnings estimates – see below chart.



Company Details

ASX code	AEG
Listing date	16 December 2015
Share price	1.23
Net assets per share (Before Tax)	1.09
Market capitalisation (A\$)	111,818,182
Shares on issue	90,909,091

Portfolio Snapshot

Long exposure	Month End	51.7%
Short exposure	Month End	-48.3%
Net Market Exposure	Month End	3.3%

Most Profitable Pairs for the Month

Long	James Hardie (JHX)	Short	CSR Limited (CSR)
Long	Ramsay Health (RHC)	Short	Primary Healthcare (PRY)
Long	CSL Limited (CSL)	Short	Sonic Healthcare (SHL)

Least Profitable Pairs for the Month

Long	Beach Energy (BPT)	Short	AGL Energy (AGL)
Long	Resmed (RMD)	Short	Ansell Limited (ANN)
Long	Computershare (CPU)	Short	ASX Limited (ASX)

Contact Details

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The Pro-Forma Balance Sheet as published on 15 December 2015 shows an after tax pro-forma NTA of 1.075 at Inception Date. The before unrealised tax equivalent pro-forma NTA at Inception Date was 1.065. The difference is due to the resulting deferred tax asset arising on the capitalised costs associated with the initial public offering. The NTA performance calculation in the Newsletter uses the before unrealised tax basis of 1.065.

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Outlook

Revisiting the Investment Manager's comments 12 months ago, their outlook for 2015 was one of seeing the Australian equity market as remaining well bid given the current environment of supportive monetary settings, but cautioned that risks have risen given: 1) the status of the equity bull market (US was entering its 7th year); 2) elevated earnings multiples (16x one-year forward earnings vs 11x in 2011); and 3) corporate profits were struggling to better expectations.

When the Investment Manager looks towards this year they see reason to remain cautious. While loose monetary settings can be expected to continue for the foreseeable future (even allowing for some amount of US Federal Reserve rate hiking), one cannot overlook the growing risk that the longer loose policy lingers, the more probable it becomes we experience a credit cycle. If and when this happens is hard to predict, but current valuation levels would suggest equity markets are dismissive of this issue.

Another risk facing markets this year is China. In particular, recent trends (e.g. manufacturing has weakened for five straight months, bad debts among banks are now at a seven year high) are adding to uncertainty as to whether policy makers can avoid a hard landing as the economy transitions from being led by construction and manufacturing toward consumption and services.

Finally, profits among Australian corporates generally have disappointed investors (even excluding the commodity sectors of mining and energy), and this has been despite a weaker exchange rate (helping offshore earners) and respectable economic backdrop. To some extent, this disappointment is coming from the growing issue of 'disruption' (i.e. game-changing competition) which has already impacted a number of industries (retail, media, travel) and has the potential to affect many more in the years ahead (e.g. financial services, healthcare, utilities).

From the teams at Absolute Equity Performance Fund and Bennelong, here's to a safe and prosperous 2016.

Investment Objective

The Absolute Equity Performance Fund Limited aims to generate positive returns regardless of the overall equity market performance, through an 'equity market neutral' style of investing.

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



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.