

Absolute Equity Performance Fund Limited Monthly NTA and Performance Update

As at 31 August 2016

Net Tangible Assets (NTA)

NTA before tax	\$1.027
NTA after tax	\$1.057

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 produced a disappointing return of -5.90% for the month. While the long book performed slightly better than the market, the short book rose by more, delivering losses. At the pair level the three best pairs generated their returns from the short book following poor financial results. These profits, however, were overwhelmed by our three worst pairs where performance was dominated on the short side by better results than forecast. It should be noted that across the largest losses from short positions over the month, the majority experienced a P/E rerating beyond any earnings revisions. As a result, following the events of August, the Portfolio now features a number of pairs where the earnings multiple of the long is trading at parity (even a discount for some) to the short position. This is despite the long position offering superior near-and-longer term prospects. We consider this an unusual situation and hence gives us confidence for the future.

Market Commentary

Share markets paused in August 2016 following July's post-Brexit relief rally. Not only did markets move in a narrow range (for example, the S&P500 Index traded within +/-1%), but volumes were also unusually light. Across markets, the US was flat (S&P500 Index -0.1%), Europe rose slightly (MSCI Europe +0.4%), while Japan managed a +1.9% gain (Nikkei Index) and the rest of Asia was up +3.1% (MSCI Asia ex Japan). Bond yields and foreign currencies were also little changed over the month, while commodities markets varied with crude oil up but gold and base metals down.

The local share market was a bit weaker than offshore with the S&P/ASX 200 Index down -2.3% for the month. Apart from the influence of global markets, the local August profit reporting season dominated news flow. While the results didn't bring large divergences in sector performances, it was evident that the best profits came from those companies with exposure to east coast housing (e.g. residential developers such as Stockland and Mirvac, as well as household goods retailers such as JB Hi-Fi and Harvey Norman). Tourism also remains a bright spot with a number of companies reporting continued strong growth from Asian visitors (e.g. Sydney Airport, Star Entertainment, Sealink Travel).

NTA* Performance

1 month	-5.90%
Since inception	-3.55%

*Before tax

Company Details

ASX codes	Shares: AEG , Options: AEGO
Listing date	16 December 2015
Share price	\$1.130
NTA* per share	\$1.027
Market capitalisation	\$104,254,486
Shares on issue	92,260,607
Options on issue	71,055,972
Option expiry date	17 November 2017

*Before tax

Portfolio Snapshot

Long exposure	Month End	49.7%
Short exposure	Month End	-50.3%
Net market exposure	Month End	-0.7%

Most Profitable Pairs for the Month

Long	Macquarie Group (MQG)	Short	IOOF (IFL)
Long	Beach Energy (BPT)	Short	AGL Energy (AGL)
Long	Henderson Group (HGG)	Short	AMP (AMP)

Least Profitable Pairs for the Month

Long	Resmed (RMD)	Short	Ansell (ANN)
Long	Iluka Resources (ILU)	Short	Downer EDI (DOW)
Long	Aristocrat (ALL)	Short	Tabcorp (TAH)

Contact Details

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Outlook

To some extent, the recent pausing in markets represents a coming-to-grips with the prospect that US Fed interest rate normalisation has taken another step forward. Not only has recent economic data on employment and consumer spending bolstered the case for a resumption of higher interest rates, but recent comments from Fed Chair Janet Yellen appear upbeat about the economy. Regardless of whether rates go up next month or later, there seems to be good reason for rates to be above today's levels that were originally set to cope with the GFC. Consider that since 2008: US GDP is 30% higher; the unemployment rate has halved (from 10% to 5%); house prices and new car sales are back to their pre-GFC highs; household debt / GDP has fallen from 100% to 80%; and the S&P 500 Index is 50% above its pre-GFC high.

Obviously the missing ingredient to higher rates has been a lack of inflationary pressures, but this might be changing. For example, stabilisation in energy prices from prior large falls are no longer a drag on inflation. The tighter labour market has seen wages growth break above 2.5% for the first time since the GFC. And finally, the significant expansion of the US monetary base (~\$4 trillion today vs \$1 trillion prior to the GFC) carries risk of an acceleration in money supply growth now that US households have de-leveraged somewhat.

Given the levels that equity prices and bond yields currently trade, financial markets in our view appear to be highly complacent as to the risks of both higher US interest rates and upward revisions to inflation in future.

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%	1.38%	-5.90%					-5.66%
2015	-	-	-	-	-	-	-	-	-	-	-	2.25%	2.25%

*Before tax. Past performance is not a reliable indicator of future performance.



Important Disclaimer

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