

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.

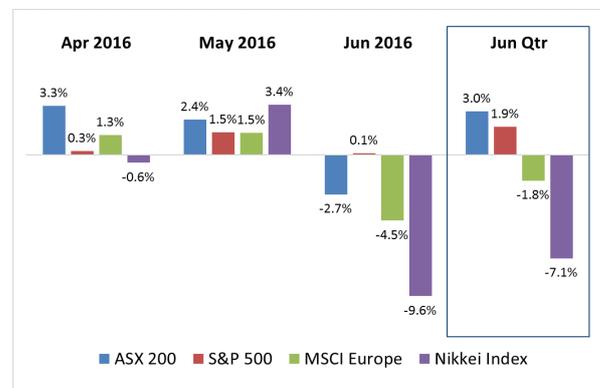
If you would like to receive these communications by email, please click on this [link](#) and simply provide your name and email address. Should you no longer wish to receive these updates at any point, there will be an easy unsubscribe option in each email.

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.