Absolute Equity Performance

Absolute Equity Performance Fund Limited

Quarterly Letter & Performance Update

January - March 2016

A promising start to 2016 ended in disappointment as Absolute Equity Performance Fund Limited's (**AEG** or **Company**) positive returns early in the quarter were eradicated during March. The poor performance in March was a reminder that even market neutral strategies have their vulnerabilities over the short term as the Company's long positions can fall relative to its short positions.

AEG's Investment Portfolio is managed by Bennelong Long Short Equity Management's experienced team and they have successfully navigated many challenging months such as March in the past thirteen years. The attached commentary will provide their perspective on March and detail the reasons behind the performance and why this does not alter their fundamental outlook.

Performance is of course just one metric by which investments are measured. Another very important consideration is the diversification benefit of holding a particular asset, and AEG's investment strategy has historically offered investors uncorrelated returns to the S&P/ASX 200 index*

Format of Weekly Estimates

AEG provides weekly estimates to keep Shareholders informed of the performance of the Company's investment portfolio. Although a weekly update, Shareholders are reminded that AEG's investment strategy and investments in the Company should be considered as a long-term proposition.

The AEG Board welcomes suggestions from Shareholders on how we can improve the way your Company communicates with you. By way of example, we received feedback that the weekly estimates could benefit from the inclusion of the Net Tangible Asset (NTA) figure, rather than just a month-to-date percentage return. In response to this feedback, the Board has resolved to publish a weekly estimated NTA to assist Shareholders in their understanding of the performance of the Company's investment strategy. We trust that you find the new format useful and that it will assist you in your investment decisions.

Vesting of Loyalty Options

The share price of AEG continues to enjoy a significant premium to NTA (11.5% as at close of business 7 April 2016) and a premium to the issue price of $1.10. We would therefore like to draw your attention to the Loyalty Options issued to our Initial Public Offer (IPO) Investors, that will vest or lapse on the 16 June 2016 (Vesting Date). The number of Loyalty Options held by an IPO Investor that will vest on the Vesting Date will be equal to the number of shares issued to that IPO Investor that are still held on the Vesting Date. Therefore, a consideration for IPO Investors that have sold shares in the meantime will be whether to buy back those shares prior to the Vesting Date in order to receive their full quota of Loyalty Options. For further information, please see page 17 of the Replacement Prospectus available on our website. For your convenience, we have also included a previous communication on this topic at the back of this Newsletter. This provides some worked examples to help clarify the vesting of the Loyalty Options.

*Past performance is not indicative of future performance and AEG's performance could be significantly different to the historical performance of the investment strategy.

Absolute Equity Performance Fund Limited (ACN 608 552 496)

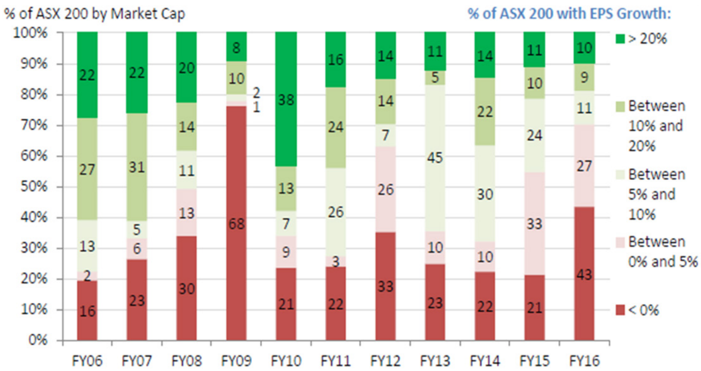
March Quarter 2016 – Investment Manager Commentary

The first quarter of 2016 was difficult for most investors. The S&P500 rose 12% from mid-quarter lows to end flat, Europe's STOXX600 ended down 7.7%, gold was up 17%, iron ore rose 24% and the S&P/ASX Resources outperformed the S&P/ASX Banks by 16% in the first quarter for the first time in five years. Upto mid-February could be characterised as weak with growth concerns and the second half as strong with growth optimism.

We believe the change in attitude was directly attributable to intervention and jaw-boning by officials from major economies in response to deteriorating confidence amongst investors (weak share markets, credit spreads blowing out, commodities tanking, etc.). Post the release of stimulus measures and concerted intervention, markets rallied and adopted a "risk on" disposition. As we have seen in previous similar episodes, value type/ low returning stocks outperform and high return/quality stocks tend to underperform and sometimes are used as funding for rotation. This activity was apparent in our portfolio and was a major contributor to our poor result in March.

The chart below shows the dilemma for equity investors. We are globally in a low growth environment and stocks with growth are not cheap. Our view is that whilst stocks with growth are pricey relative to historical levels, stocks without growth are outright unattractive (according to Bloomberg/ Morgan Stanley forecasts for financial year 2016, 70% of S&P/ASX200 will have 5% or less earnings per share growth). If stock prices are determined by earnings then stock markets are too complacent unless earnings improve dramatically in our view.

Earnings growth is harder to find: only 10% of the index weight has growth >20%



Source: Bloomberg, Morgan Stanley Research

During February the Fund opened a new telecommunications pair: long TPG Telecom Ltd (TPM) and short Telstra Ltd (TLS). TPG is a well-managed, highly efficient, low cost operator with a substantial national network infrastructure. It has increased its share of the broadband market by having competitively priced products and also through strategic acquisitions. Growth opportunities remain with several key project opportunities ahead. Telstra, as the incumbent provider, is a mature, high margin business with limited growth opportunities. As the National Broadband Network (NBN) roll out accelerates we think it will expose Telstra's premium product pricing and result in market share losses. In the mobile market Telstra has enjoyed a dominant growth period over the last five years, however Vodafone is now resurging thanks to a materially improved network quality and Telstra is now losing share. Telstra's move to look increasingly offshore is higher risk and highlights its growth challenges in the domestic market.