

Absolute Equity Performance Fund Limited Monthly NTA and Performance Update

As at 31 December 2017

Net Tangible Assets (NTA)

NTA before tax	\$1.108
NTA after tax	\$1.118

\$ currency notation refers to Australian Dollars.

Portfolio Performance

The strong performance for the month, +2.93%, was broad-based with a majority of pairs profitable and only two pairs of note that underperformed. Positive performance was evenly spread across the top eight pairs. Our top-performing pair was long ALS Limited (ASX:ALQ) / short Aurizon (ASX:AZJ) as Aurizon received an unfavourable draft decision relating to commercial terms for the regulation of its Queensland infrastructure assets.

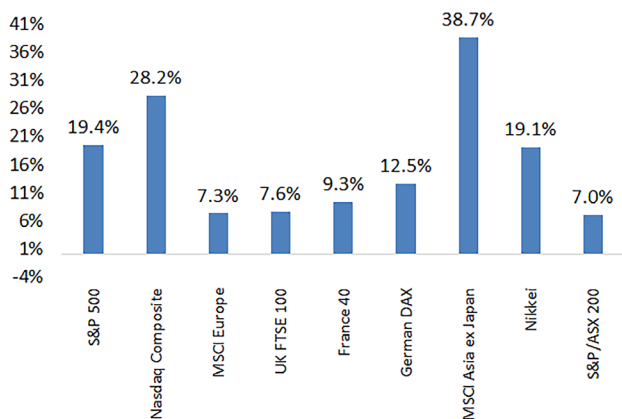
On the negative side, long Qantas (ASX:QAN) / short Flight Centre (ASX:FLT) was our weakest pair, due to Qantas slipping in response to the rising oil price. Long Harvey Norman (ASX:HVN) / short Myer (ASX:MYR) / short Metcash (ASX:MTS) benefitted from a downgrade to Myer on weak sales preceding Christmas, although it was overshadowed by an upgrade to Metcash following an improved interim result.

Market Observations

World share markets maintained their general upward trend over December, with the US up +1.0% (S&P 500 Index), Europe +0.7% (MSCI Europe Index), Japan +0.2% (Nikkei Index), and the rest of Asia +2.5% (MSCI Asia ex Japan). The Australian market gained +1.6% (S&P/ASX 200 Index) and has now rallied +6% in the last six months following a rise of only 1% in the first half of calendar 2017.

All the major share markets around the world gained during 2017 (measured in their local currency), with standout performances from the United States and Asia ex Japan (notably, Hong Kong, South Korea and Malaysia), as shown below.

Share Price Index Returns - 12 Months to 31 Dec 2017



Source: Bloomberg

NTA* Performance

1 month	2.93%
3 months	6.61%
12 months	20.19%
Since inception (annualised)	3.04%

*Before tax. These calculations are unaudited and intended to illustrate the performance of the investment portfolio minus corporate expenses. They are calculated on a pre-dividend NTA basis. 'Since inception (annualised)' is annualised NTA performance since listing at \$1.065 after listing related expenses

Company Details

ASX code	AEG
Listing date	16 December 2015
Share price	\$1.050
NTA* per share	\$1.108
Market capitalisation	\$106,327,448
Shares on Issue	101,264,236

*Before tax ex-dividend

Portfolio Snapshot

Long exposure	Month End	51.4%
Short exposure	Month End	-48.6%
Net market exposure	Month End	2.8%

Most Profitable Pairs for the Month

Long	ALS Ltd (ALQ)	Short	Aurizon (AZJ)
Long	Origin Energy (ORG)	Short	AGL Energy (AGL)

Least Profitable Pairs for the Month

Long	Qantas Airways (QAN)	Short	Flight Centre (FLT)
Long	Harvey Norman (HVN)	Short	Myer (MYR) / Metcash (MTS)

Contact Details

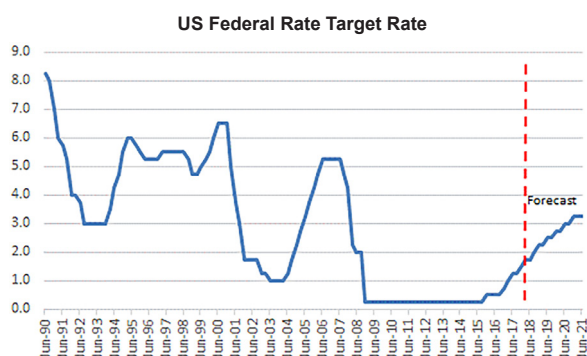
Company	Absolute Equity Performance Fund Limited (ACN 608 552 496)
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Website	www.aepfund.com.au

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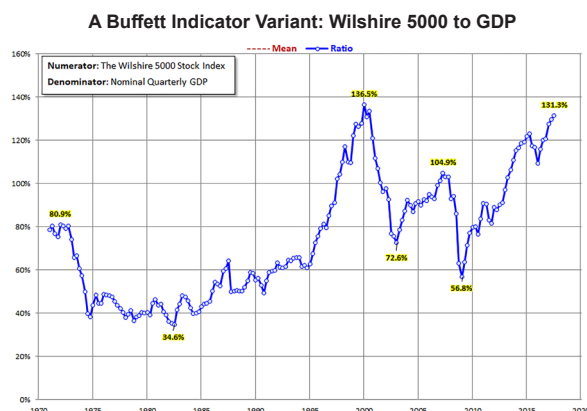
Market Observations *continued*

In December, markets were unperurbed by the US Federal Reserve flagging another three rate hikes in calendar 2018 (after three increases in 2017). In recent years, markets have reacted negatively to the prospect of rate normalisation. It now seems markets are welcoming rate hikes, perhaps as an indication of the momentum of the US and global economies. Currently the consensus among the committee members of the Federal Reserve is for the target Federal Funds rate to reach a range of 2.0% to 2.25% in 2018. Further increases over 2019 and 2020 are also forecast, resulting in a target Federal Funds rate of between 3.0% and 3.25%. As shown in the chart below, a move to this level would see cash rates at a level below the average of the last 25 years.



Source: Bloomberg

At this time of year there is much commentary on the outlook for equity markets, and no commentary is complete without a review of valuation. Whereas most references to valuation cite conventional measures (e.g. P/E ratio), an alternative is to look at the size of the stock market relative to the size of the economy. The chart below for the US shows the Wilshire 5000 Index (which currently has a market cap of US\$24 trillion) and US nominal GDP (currently about US\$19 trillion). The current ratio of 130% (i.e. \$24 trillion / \$19 trillion) compares to a history of significant variation ranging from as low as 40% during the stagflationary period of the late 1970s to as high as 140% in the lead up to the late 1990's dot.com bubble.



Source: advisorperspectives.com

Monthly Table of NTA* Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	4.91%	2.06%	0.17%	5.83%	2.80%	1.15%	-1.28%	-6.62%	3.61%	5.26%	-1.58%	2.93%	20.19%
2016	-0.23%	2.28%	-7.20%	-2.89%	8.53%	-0.92%	1.38%	-5.90%	-1.06%	-1.73%	-2.32%	-3.31%	-13.39%
2015	-	-	-	-	-	-	-	-	-	-	-	2.25%	2.25%

*Before tax. These calculations are unaudited and intended to illustrate the performance of the investment portfolio minus corporate expenses. They are calculated on a pre-dividend NTA basis. *Since inception (annualised) is annualised NTA performance since listing at \$1.065 after listing related expenses



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. 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.

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

Sam Shepherd	Portfolio Manager
Sam Taylor	Head of Research
Steven Lambeth	Senior Analyst
Justin Hay	Senior Analyst
Daniel Sanelli	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 (Chair)
Graham Hand
Andrew Reeve-Parker

Company Secretaries

Jeff Phillips
Tharun Kuppanda

