

Absolute Equity Performance Fund Limited Monthly NTA and Performance Update

As at 31 July 2018

Net Tangible Assets Per Share (NTA)

NTA before tax	\$1.142
NTA after tax	\$1.142

\$ currency notation refers to Australian Dollars.

Portfolio Performance

The volatility of the Portfolio was elevated in July and the month ended with Net Tangible Assets at the low point to record a weak return of -3.67%. We attribute this volatility to global markets reacting to trade war rhetoric, and wobbles in the US tech sector. Whilst the Portfolio is not positioned to attempt to gain from either theme, market moves can still have a short term influence.

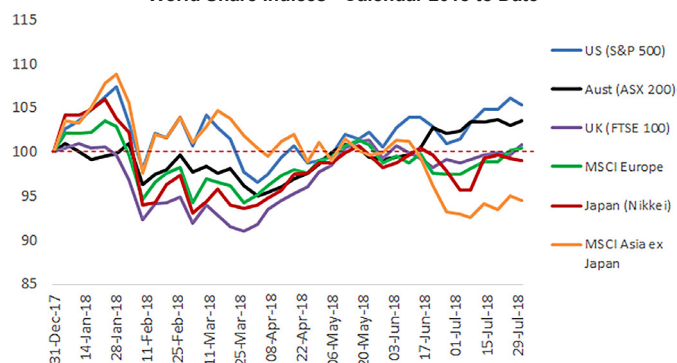
Fundamental company news was limited leading into reporting season. The pair of long Iluka / short Rio gained with Iluka reporting a solid quarterly performance which featured a positive outlook for product prices. The long Challenger / short AMP and ANZ position gained from AMP significantly downgrading its outlook due to poor life insurance experience, wealth remediation costs, reducing fees and raising costs associated with systems and controls.

Amongst our negative pairs, news was limited to Macquarie's AGM and quarterly update. Whilst guidance was unchanged, commentary indicated the first quarter has been strong. However, this was overshadowed by the announcement of Chief Executive Nicholas Moore's retirement.

Market Observations

July saw a welcomed recovery in world share markets given the subdued performances seen so far in calendar 2018. European markets stood out in their rebound (France CAC Index +3.5%, German Dax Index +4.1%) and US markets likewise rallied (S&P 500 Index +3.6%), as did Australia (S&P/ASX 200 Index +1.4%). Asian markets also managed to gain but the rise was less convincing (Nikkei Index +1.3%, MSCI Asia ex Japan +0.3%) and likely reflects the on-going issue of looming trade reforms between (mainly) the US and China. As shown in the below chart, the Asian region remains the laggard amongst the major share market regions over the calendar year to date.

World Share Indices - Calendar 2018 to Date



Source: Bloomberg

NTA* Performance

1 month	-3.67%
3 months	0.99%
12 months	8.24%
Since inception (annualised)	4.23%

*Before tax. These calculations are unaudited and intended to illustrate the performance of the investment portfolio minus corporate expenses. They are calculated including dividends. '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	\$1.180
NTA* per share	\$1.142
Dividend yield [†] (fully franked)	3.81%
Shares on issue	101,264,236
NTA*	\$115,664,028

*Before tax.

[†]Dividends paid over the past 12 months divided by share price stated above.

Portfolio Snapshot

Long exposure	Month End	50.1%
Short exposure	Month End	-49.9%
Net market exposure	Month End	0.2%
Gross market exposure*	Month End	\$557,442,154
Leverage factor (x NTA)	Month End	4.8
Average leverage factor (x NTA)	Since Inception	4.7

*Sum of long and short positions in the Portfolio.

Most Profitable Pairs for the Month

Long	Qantas Airways (QAN)	Short	Flight Centre (FLT)
Long	Iluka Resources (ILU)	Short	Rio Tinto (RIO)
Long	Challenger (CGF)	Short	AMP (AMP) / ANZ Bank (ANZ)

Least Profitable Pairs for the Month

Long	Xero (XRO)	Short	MYOB (MYO)
Long	Macquarie (MQG)	Short	Bendigo Bank (BEN)
Long	Orica (ORI)	Short	Downer (DOW)

Contact Details

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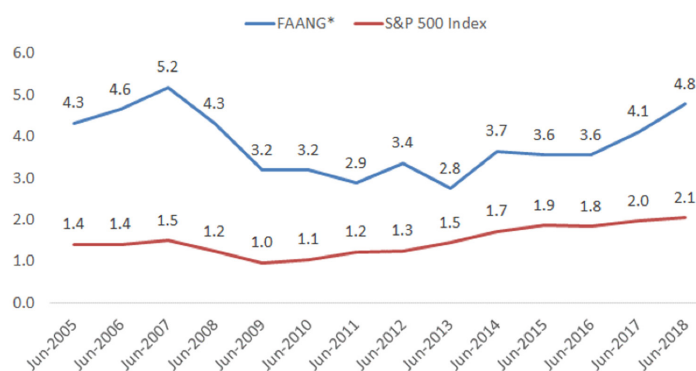
As at 31 July 2018

Market Observations *continued*

The infamous US FAANG stocks (Facebook, Amazon, Apple, Netflix, Google) remain a topical issue with recent developments such as Apple reaching a market capitalisation of \$US1 trillion (the first company in history to do so) and Facebook falling 20% after their second quarter result. Perhaps the latter is some evidence that the FAANG is a bubble waiting to pop. A challenge in any view of their expensiveness or otherwise is whether to judge value with reference to current profitability trends (for example, Amazon trades on a 12-month forward Price/Earnings ratio of 60x) given some of the FAANG names have explicitly stated they see better long-term wealth creation potential via reinvestment of revenue rather than harvesting revenue to drive current shareholder profit.

To this end, there is reason to consider trends in the market valuation of these names alongside their trends in sales rather than profits. The below chart is our attempt at this, which shows the market capitalisation of the FAANG group at 30 June each year and then divides this number by their combined sales revenue over the prior 12 month period. We also did the same calculation for the broader S&P 500 Index. The chart shows that while the FAANG names are trading on higher sales multiples than in recent years, they are not at levels inconsistent with their long-dated history, especially 2005 to 2007. Meanwhile, the S&P 500 Index overall is trading on a high multiple to sales versus history, suggestive that today's heightened valuation of the US market is not quarantined just to the FAANG names.

Market Cap / Annual Sales (Year ending 30 June)

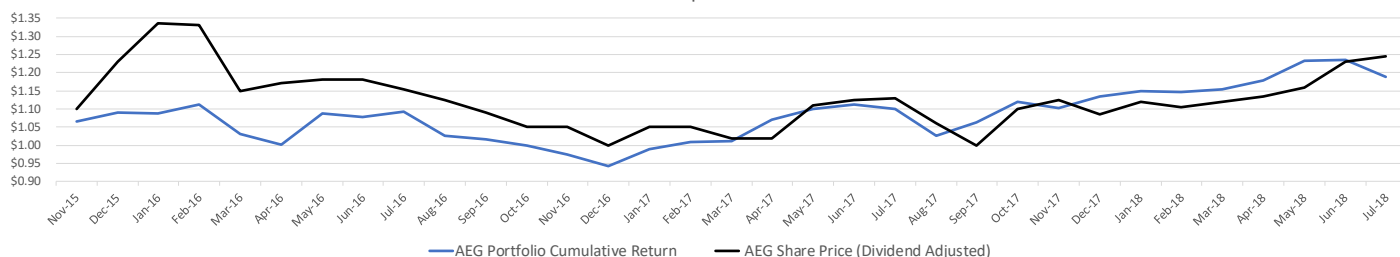


Source: Bloomberg. *NB: FAANG names excludes Facebook prior to its listing in 2012

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	1.27%	-0.15%	0.76%	1.98%	4.75%	0.08%	-3.67						4.93%
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.

AEG Performance
Since Inception - Dec 2015



*These calculations are unaudited. 'AEG Portfolio Cumulative Return' is intended to illustrate the performance of the investment portfolio net of corporate expenses and manager fees, and including the hypothetical reinvestment of dividends.

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



Important Disclaimer

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