

Absolute Equity Performance Fund Limited Monthly NTA and Performance Update

As at 30 November 2018

Net Tangible Assets Per Share (NTA)

NTA before tax	\$1.067
NTA after tax	\$1.081

\$ currency notation refers to Australian Dollars.

Portfolio Performance

The Company's Portfolio had a weak month, losing 3.16% as increased market volatility and macro concerns again overshadowed fundamental company news. Fund volatility was also elevated although 44% of the pairs were profitable.

The earnings updates provided at AGMs and the financial results released during the month led to three profit downgrades in the short book. However, this was offset by two downgrades in the long book. Our top pair was long Orica/short Downer, with Orica reporting an improved result which demonstrated that its multi-year restructuring and investment initiatives are starting to pay off. Our worst pair was long BlueScope Steel/short Sims Metal with BlueScope falling due to the receding margins between the cost of raw materials and end products. The company confirmed profit guidance at its AGM.

Over the year, we have consistently reported on net positive financial results for companies in both the long and short portfolios. In the last three months, this has not reflected in fund performance, so where have the positive fundamentals gone?

In the table on the following page, we have included a snapshot of some weighted-average fundamentals of the long and short portfolios. At the beginning of 2018, the difference in earnings growth and return on equity between the long and short portfolios was 7.1% and 5.8%. Those differences have expanded to 9.9% and 6.6% currently. That expansion is largely a reflection of positive fundamental company performance, and partly due to changes in composition of the portfolio. At the average level, the fundamental relative appeal of the long portfolio versus the short portfolio has improved.

A year ago, the Price/Earnings (P/E) ratio of the long portfolio was 2 points higher than the short (19 versus 17). We tend to accept paying a slight premium for our long portfolio on near-term earnings, in exchange for companies with more attractive attributes. The P/E gap is now close to zero, and yet we consider the long portfolio is fundamentally more attractive than the short portfolio.

Portfolio performance for the year has been a combination of favourable net fundamental performance of the companies, offset by a relative de-rating of the long portfolio versus the short portfolio. De-rating to parity has happened in the past, but is unusual. Currently, it is partly a result of some of the companies in our short portfolio being perceived as defensive, attracting demand as an outcome of recent weak equity markets and concerns regarding economic growth.

NTA* Performance

1 month	-3.16%
3 months	-13.33%
12 months	3.17%
Since inception (annualised)	2.18%

*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	\$1.080
NTA* per share	\$1.067
Dividend yield [†] (fully franked)	4.17%
Shares on issue	101,508,804
NTA*	\$108,308,648

*Before tax.

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

Portfolio Snapshot

Long exposure	Month End	49.7%
Short exposure	Month End	-50.3%
Net market exposure	Month End	-0.6%
Gross market exposure*	Month End	\$492,173,447
Leverage factor (x NTA)	Month End	4.5
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	Orica (ORI)	Short	Downer EDI (DOW)
Long	Harvey Norman (HVN)	Short	Myer (MYR) / Coca-Cola Amatil (CCL)

Least Profitable Pairs for the Month

Long	BlueScope Steel (BSL)	Short	Sims Metal (SGM)
Long	Origin Energy (ORG)	Short	AGL Energy (AGL)
Long	ALS Limited (ALQ)	Short	Aurizon (AZJ)

Contact Details

Company	Absolute Equity Performance Fund Limited (ACN 608 552 496)
Address	Level 12, Grosvenor Place, 225 George St, Sydney, NSW 2000
Phone Number	02 8016 2819
Email	info@aepfund.com.au
Website	www.aepfund.com.au

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Aggregate Statistics

December 2017	Longs	Shorts	Net
Number Of Stocks	31	34	-3
Portfolio Weight	51.42	-48.57	2.9
Aggregate Statistics			
P/E	19.0	17.0	2.0
Yield	2.8	4.3	-1.5
Price / Book	3.2	1.8	1.4
Return On Equity	16.5	10.7	5.8
Forecast Earnings Growth	11.5	4.4	7.1
Forecast Dividend Growth	7.1	3.5	3.6

November 2018	Longs	Shorts	Net
Number Of Stocks	31	35	-4
Portfolio Weight	49.67	-50.33	-0.7
Aggregate Statistics			
P/E	16.0	15.8	0.2
Yield	3.4	5.0	-1.6
Price / Book	2.6	1.6	1.0
Return On Equity	17.5	10.9	6.6
Forecast Earnings Growth	10.9	1.0	9.9
Forecast Dividend Growth	14.2	1.9	12.3

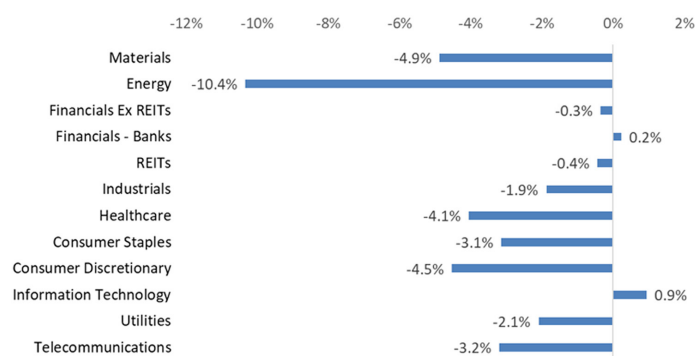
Source: UBS, Bloomberg, BLSEM

Market Observations

The S&P/ASX200 finished down 2.8% for November which was a stark contrast to other Asian markets (MSCI Asia ex Japan +5.2%, Nikkei +2%, Hang Seng +6.1%) and the US where the S&P 500 was up 1.8%. European markets were down with UK FTSE (-2.1%), France CAC (-1.8%) and German DAX (-1.7%).

Given the weakness in oil and iron ore over the month, it was no surprise that the Energy and Materials sectors were the worst-performing Australian sectors for the month. Banks and Information Technology were the only sectors to eke out positive returns for the month, at 0.2% and 0.9% respectively, as shown below.

S&P/ASX 200 Sector Returns - November 2018



Source: Bloomberg

The issues that have been driving market volatility since October, namely global quantitative liquidity reversal, US/China trade war concerns, Brexit and US rate tightening, are in a state of flux. There are daily headlines but limited resolution. Late in the month, however, the US Federal Reserve 'blinked' on its hawkish stance of planned US interest rate increases. New commentary suggested US rates are now closer to a neutral level. Whilst initially taken positively, investors are left grappling with whether this was the typical reaction to a market sell off. Was it the so-called 'Fed put' to ease the market's concerns or a realisation that we are closer to the next downturn?

In Australia, house prices have fallen at an accelerating pace. The domestic economy has not had a recession since the early 1990s and a more dramatic housing correction would add risk to the domestic outlook.

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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

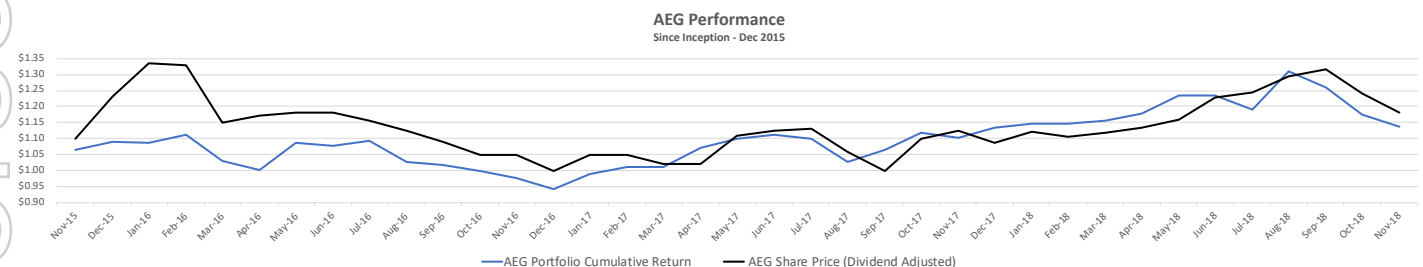
Company Secretaries

Jeff Phillips

Lisa Dadswell

	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	10.22%	-3.87%	-6.90%	-3.16%		0.24%
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.



*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.



Important Disclaimer

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