

Absolute Equity Performance Fund Limited Monthly NTA and Performance Update

As at 31 January 2021

NTA Per Share and Share Price

NTA before tax	\$1.277
NTA after tax	\$1.231
Share price	\$1.240

\$ currency notation refers to Australian Dollars.

Performance Commentary

Portfolio performance was close to zero for January. Retail participants in the US market sparked several dramatic rallies in heavily shorted stocks. Our short portfolio delivered a zero contribution for the month. Seven of our top ten positive contributors were shorts, and four of our ten largest negative contributors were shorts.

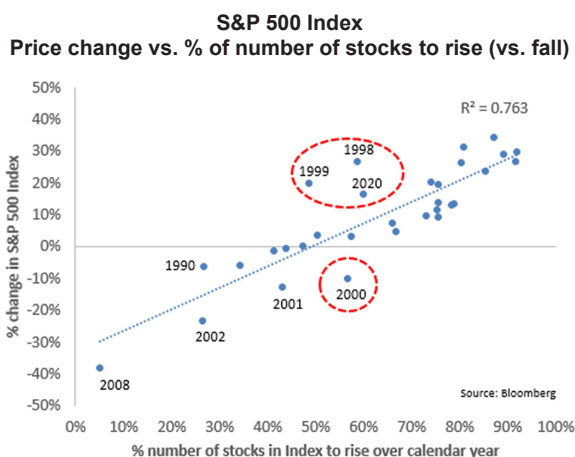
The Australian market has a lot less "crowded" shorts (short interest as a proportion of market cap) than the US market. In addition, we tend to avoid more heavily shorted stocks. Whilst our short portfolio did not hurt us in January it has been a drag over the prior five months.

There were a number of updates ahead of reporting season. Some notable ones in our long portfolio included another large upgrade from BlueScope, a large upgrade for JB Hi-Fi and strong FUM flow data for Netwealth.

Market Observations

Share markets around the world were mixed in January. Asian markets did best with Hong Kong and South Korea both +4% and Japan +1%. European markets were the opposite with declines ranging from -1% (UK) to -4% (Spain). US markets looked to be on track for yet another solid month but sold off in the last few days to finish mixed (S&P 500 Index -1.1%, Nasdaq +1.4%). Australia also ran into profit taking late in the month to finish flat. Outside equities, government bond yields continued to grind higher but still remain well below their levels pre-COVID. Currency markets were quiet with the US dollar finally steadying after losing 10% of its value against the world's major currencies in calendar 2020.

The recent strength of equity markets reconciles with highly supportive liquidity conditions but contrasts with a weak and uncertain economic and corporate earnings backdrop. US share markets have gained the most, in large driven by technology stocks. Whether the extent of gains in tech stocks is justified is unclear. What is clear is that it has resulted in an overall US market rally that has been narrow. To illustrate, the below chart plots the calendar year percentage change for the S&P 500 Index (vertical axis) against the percentage number of stocks in the index that advanced (vs fell) in that year. The data is from 1990 to 2020.



Source: Bloomberg

NTA* Performance

1 month	-0.22%
3 months	-6.17%
12 months	5.31%
Since inception (annualised)	6.82%

*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
Dividend yield [†]	4.11%
Grossed up dividend yield [†]	5.88%
Shares on issue	92,095,812
NTA*	\$117,574,197

* Before tax. [†]Last two semi-annual dividends paid, divided by the share price stated above. This yield was fully franked at a rate of 30%.

Portfolio Snapshot

Long exposure	Month End	51.0%
Short exposure	Month End	-49.0%
Net market exposure	Month End	+2.0%
Gross market exposure*	Month End	\$514,539,632
Leverage factor (x NTA)	Month End	4.4
Average leverage factor (x NTA)	Since Inception	4.6

* Sum of long and short positions in the Portfolio

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

Contact Details

Company	Absolute Equity Performance Fund Limited (ACN 608 552 496)
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Absolute Equity Performance Fund Limited

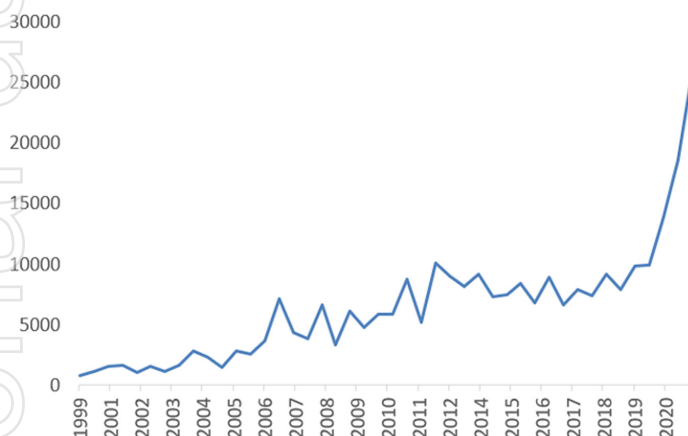
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We make three observations from the chart. First, the relation between return and breadth is strong (R-squared of 76%) and intuitive (i.e. more stocks gaining makes for a greater overall rise and vice versa). Second, that the year 2020 with a rise of 16% coming from 61% of stocks is narrow by historical standards and is in the company of the years 1998 and 1999 when technology, media and telco stocks (TMT) also dominated. Third, the year following 1998 and 1999 when the TMT bubble burst saw a negative return despite a majority of stocks rising.

If the chart above was to warrant caution regarding the outlook, some aspects of current investing behaviour reinforce it. Below we show call option activity. Some retail brokerages are reporting elevated call option activity with some people seemingly lured by the combination of restricted mobility, "stimmy" cheques and "free" trading platforms.

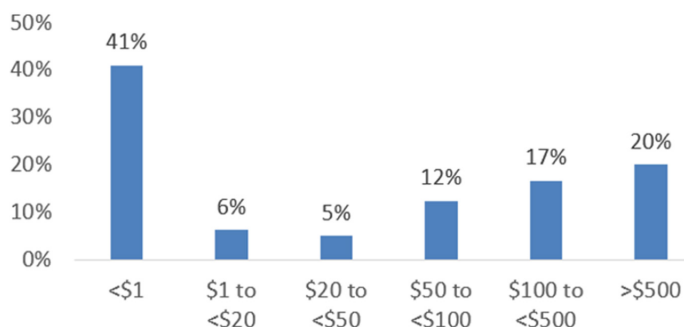
US Equities
Daily Call Option Trading Volume ('000s)



Source: Bloomberg

There is also a disturbing attraction to stocks simply related to their share price, which is completely out of step with history.

Russell 3000 Index
Median share price change by price tier
Jan 2020 to Jan 2021



Source: Bloomberg

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.

Company Secretary

Lisa Dadswell

Directors

Marc Fisher (Chair)

Andrew Reeve-Parker

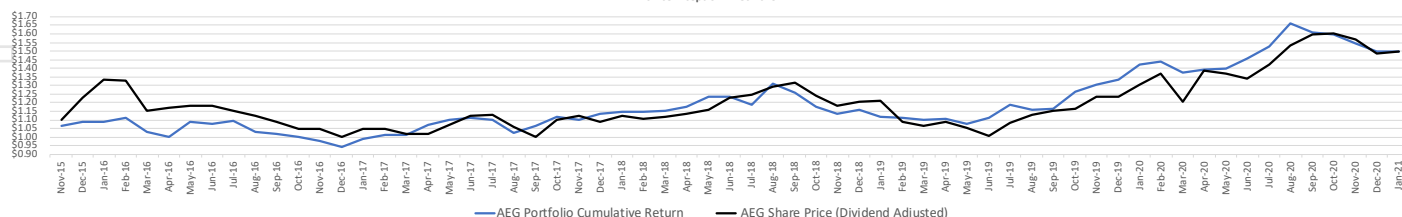
Raymond Da Silva Rosa

Peter Lanham

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	-0.22%												-0.22%
2020	6.68%	1.23%	-4.44%	1.21%	0.34%	4.31%	4.80%	8.83%	-3.32%	-0.67%	-3.05%	-3.01%	12.60%
2019	-3.51%	-0.84%	-0.90%	0.52%	-2.53%	3.04%	6.99%	-2.29%	0.56%	8.50%	2.88%	2.31%	14.94%
2018	1.27%	-0.15%	0.76%	1.98%	4.75%	0.08%	-3.67	10.22%	-3.87%	-6.90%	-3.16%	2.05%	2.29%
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.



Important Disclaimer

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