

## 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.

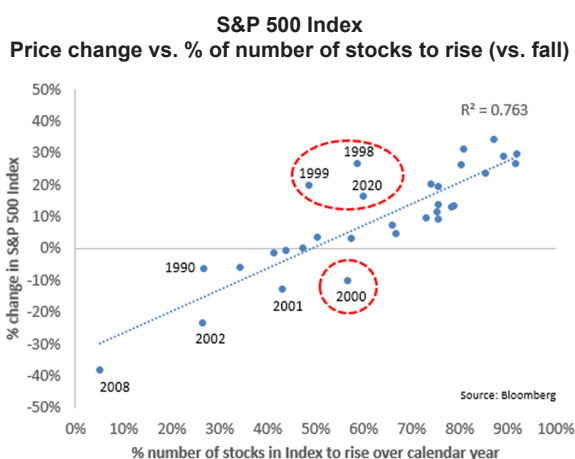
The Australian market has a lot less "crowded" shorts (short interest as a proportion of market cap) than the US market. In addition, we tend to avoid more heavily shorted stocks. Whilst our short portfolio did not hurt us in January it has been a drag over the prior five months.

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 <sup>†</sup>            | 4.11%            |
| Grossed up dividend yield <sup>†</sup> | 5.88%            |
| Shares on issue                        | 92,095,812       |
| NTA*                                   | \$117,574,197    |

\* Before tax. <sup>†</sup>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)   |
| Address      | Level 12, Grosvenor Place, 225 George St, Sydney, NSW 2000   |
| Phone Number | 02 8016 2819   |
| Email        | <a href="mailto:info@aepfund.com.au">info@aepfund.com.au</a> |
| Website      | <a href="http://www.aepfund.com.au">www.aepfund.com.au</a>   |

# Absolute Equity Performance Fund Limited

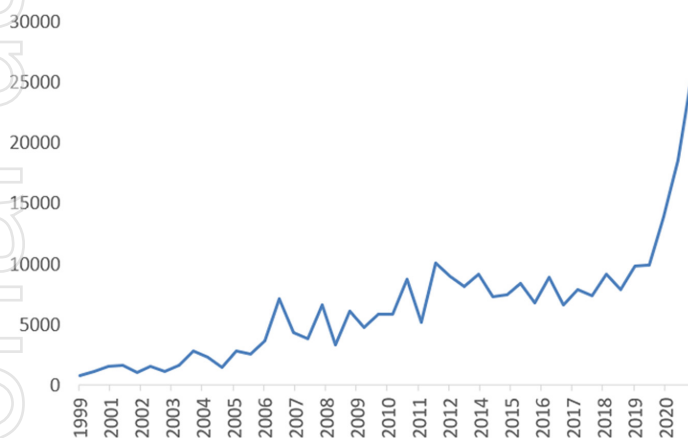
## Monthly NTA and Performance Update

As at 31 January 2021

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.

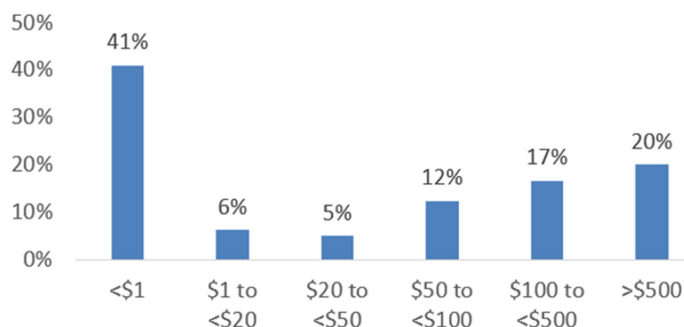
**US Equities**  
Daily Call Option Trading Volume ('000s)



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

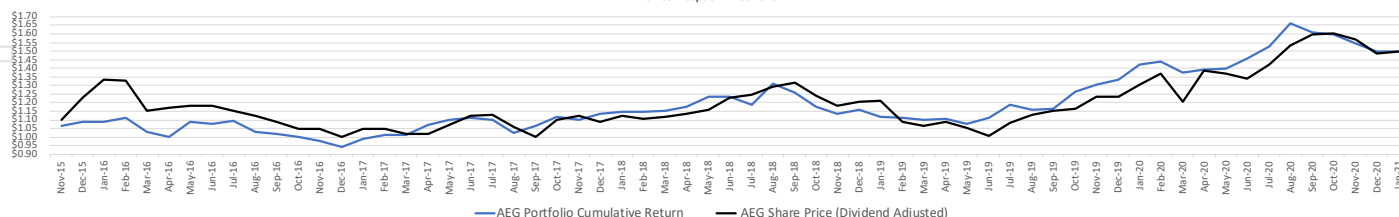
Raymond Da Silva Rosa

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

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.

