



## Absolute Equity Performance Fund Limited Monthly NTA and Performance Update

As at 30 September 2021

### NTA Per Share and Share Price

NTA before tax ( <i>ex-dividend</i> )	\$1.127
NTA after tax ( <i>ex-dividend</i> )	\$1.122
Share price	\$1.050

\$ currency notation refers to Australian Dollars.

### Performance Commentary

The Portfolio returned negative -7.70% for September. In a weak equity market, our long portfolio underperformed the market. In addition, our short portfolio made an absolute negative return and therefore provided no hedge - which, in a weak market, is unusual for the Fund.

Commentary from the Fed regarding the prospect of reduced purchases of bonds was a factor in our performance with yields rising sharply and market sentiment swinging against companies with more dependable earnings, a key feature of our long portfolio. This led to a broad impact on our portfolio with three quarters of pairs negative.

At the pair level TPG, TUA / TLS was our top pair. TPG bounced as the market focusses on the prospect of Australia opening the border. TPG's mobile brand, Vodafone, is more familiar with inbound travellers and so was hurt by movement restrictions through the pandemic. TUA was very strong. TUA is the Singapore mobile start up spun off by TPG when it merged with Vodafone. TUA reported their full year result which showed they are well on track to reaching break even and generating strong subscriber performance. MQG/BEN was our second-best pair; MQG upgraded earnings guidance with their first half update.

QAN/FLT was our worst pair. Both stocks were strong in anticipation of resumption of international travel, however FLT was significantly stronger than QAN. Our logic for retaining the pair as Australia reopens is that QAN will emerge from COVID stronger than prior. With the restructure and ownership change at Virgin we anticipate an even more rational domestic industry. We also anticipate a strengthening of Qantas's competitive position in international. The long-term impact of COVID on FLT is less clear. FLT suffered significant dilution from its capital raise, has been forced to close a significant amount of its network and COVID has prompted acceleration of online penetration throughout the economy, which is a headwind for FLT margins. XRO/TNE was our second worst pair with neither making any material announcements to the ASX. BSL/SGM were both down, the main influence on the pair's return was that BSL is a larger position than SGM - a result of past performance. During the month BSL held an extensive investor day, at which no guidance was expected or given. Steel prices and spreads have never been better for BSL and they will enjoy an exceptional year of profit and cash generation.

### NTA\* Performance

1 month	-7.70%
3 months	-5.47%
12 months	-13.71%
Since inception ( <i>annualised</i> )	4.62%

\*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>	4.95%
Grossed up dividend yield <sup>†</sup>	7.07%
Shares on issue	92,095,812
NTA*	\$103,808,571

\* 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%.

### Most Profitable Pairs for the Month

Long	TPG Telecom (TPG) / Tuas (TUA)	Short	Telstra (TLS)
Long	Macquarie (MQG)	Short	Bendigo Bank (BEN)

### Least Profitable Pair for the Month

Long	Qantas (QAN)	Short	Flight Centre (FLT)
Long	Xero (XRO)	Short	Technology One (TNE)
Long	BlueScope Steel (BSL)	Short	Sims (SGM)

### 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	\$461,410,206
Leverage factor ( <i>x NTA</i> )	Month End	4.4
Average leverage factor ( <i>x NTA</i> )	Since Inception	4.6

\* Sum of long and short positions in the Portfolio

### Contact Details

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# Absolute Equity Performance Fund Limited

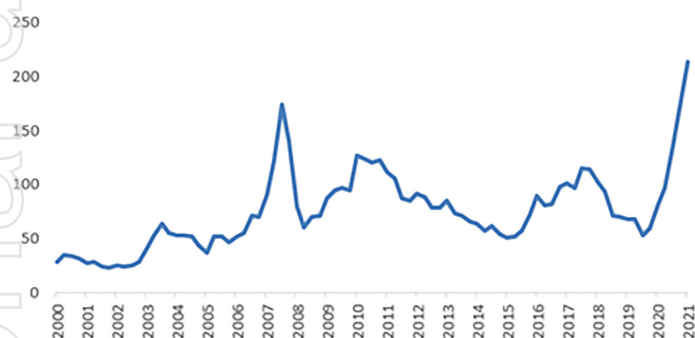
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### Market Observations

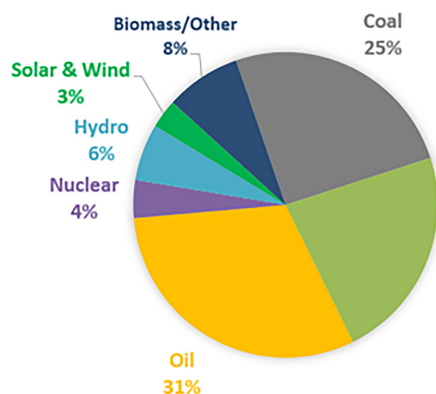
Volatility returned to share markets in September with the combination of growth concerns, tapering concerns and renewed inflationary concerns sending markets lower. Falls were observed across all the major regions (US -5%, Europe -3%, UK -0.5%, Asia ex Japan -4%). Japan was an exception with the Nikkei Index up +5%. Worries about inflation hit bond markets too with government bond yields rallying and in the case of the UK to levels not seen since pre COVID. In Australia, the ASX 200 Index fell -2.7% and reflected widespread selling across all sectors with the resources sector weakest due to weaker metal prices, notably iron ore (down 25% over the month and now down 50% from its May peak of US\$220/t). The exception to falls was energy (+16%) which was driven by a bounce in oil (+10%) and continued surging thermal coal prices to record highs (see chart on next page). The rally in Australian export coal prices is not an isolated event – other energy prices are also rallying (gas, battery metals, uranium) and is happening all around the world.

Newcastle Coal Terminal  
Spot Thermal Coal Index (US\$ / t)



The sudden surge in energy prices is due to brewing supply shortages and in no small part is this due to decarbonisation agendas that are discouraging investment in thermal energy despite being the world's most dependent source (see pie chart below). As the CEO of Chevron, Mike Wirth, said: "Looking out for a few years, if the global economy continues to grow and recover post COVID, is there sufficient reinvestment in the energy that runs the world today? Or are we turning so quickly to the energy that runs tomorrow that we created an issue in the short term?" Evidence of underinvestment in thermal energy can be seen in the data – examples include US oil drill well numbers and aggregate capital spend from large listed exploration and production companies.

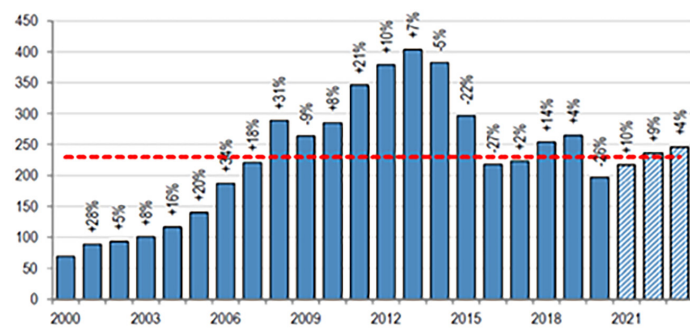
World Energy Use By Source



US Oil - Number of Wells Drilled



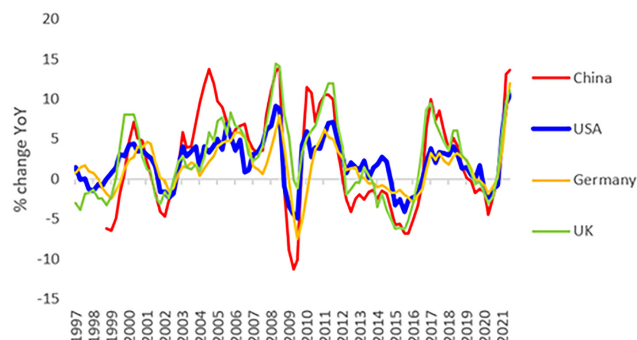
Energy Capex Spending in US\$bn  
(20 E&P Companies)



China's energy situation is also noteworthy. China's electricity grid is currently ~55% coal powered. Unlike the USA with an estimated >300 years of coal supply, China is estimated to have only ~40 years of remaining reserves. China also recognises, as the world's largest emitter of greenhouse gases, that climate change is as threatening to their country as it is any other, with the low-lying southern cities of Guangzhou and Shenzhen rated as amongst the most vulnerable on the planet from rising sea levels. These pressures are seeing China constrain energy use with many industries being forced to idle production under government directives.

The backdrop of rising energy costs alongside other production-related challenges and cost pressures is driving up manufacturing costs across all major regions. Such pressures will need to be recovered via price increases to downstream buyers (including end consumers), which will likely challenge profit margins and end consumer demand in coming periods.

Producer Price Index (YoY Change)



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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.

### Company Secretary

Lisa Dadswell

### Directors

Marc Fisher (Chair)

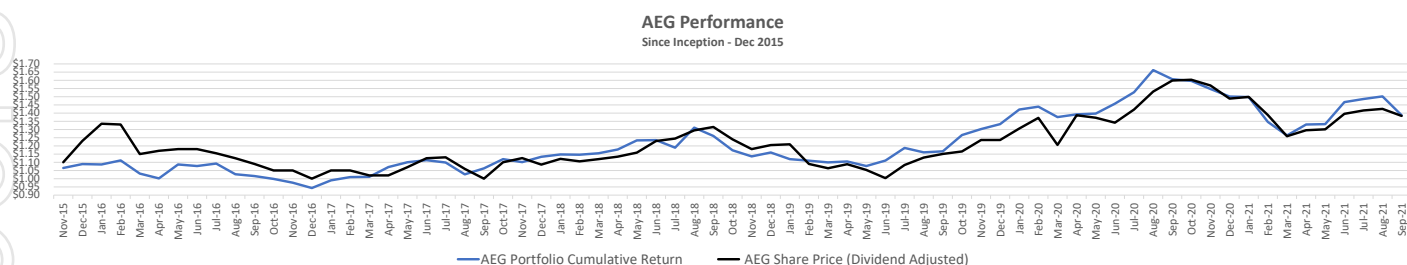
Andrew Reeve-Parker

Raymond Da Silva Rosa

Peter Lanham

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	-0.22%	-10.12%	-6.13%	5.33%	0.13%	10.08%	1.30%	1.09%	-7.70%				-7.61%
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.



\*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.

