

# Aurora Absolute Return Fund Performance Report - May 2011

ASX Code: ABW

## Summary

- The Trust returned -1.38% for May compared to the S&P/ASX200 Accumulation Index which returned -1.97% and the RBA Cash rate which returned 0.40%
- The Master Fund has returned 9.48% p.a since inception versus the RBA Cash rate which has returned 5.41% p.a over the same period

## Performance<sup>1</sup>

	1 month	3 months	6 months	12 months	3 Years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	-1.38%	-0.03%	6.26%	11.10%	1.70%	2.86%
RBA Cash Rate	0.40%	1.19%	2.41%	4.76%	4.52%	5.37%
S&P/ASX200 Accumulation Index	-1.97%	-1.60%	4.60%	10.84%	-1.64%	2.53%

On 1 March 2011, the Trust changed its investment strategy and commenced investing via the unlisted Aurora Fortitude Absolute Return Fund (ARSN 145 894 800, the 'Master Fund'). The Master Fund has been in existence since March 2005, and its historical performance is referred to in the charts and tables below.

## Investment Objective

The Trust aims to achieve a high rate of return, comprising both income and capital growth (and preservation of the capital of the Fund) over both rising and falling equity markets. Please note that while we aim to achieve this objective, the returns are not guaranteed.

## Investment Strategy - Master Fund

The Master Fund aims to produce positive returns irrespective of the direction of the share market, by investing in predominantly Australian listed securities and derivatives.

The Master Fund purchases both put and call options which allows it to profit from movements in the market both up and down. It then looks for short term trading opportunities to generate low risk returns from other strategies including;

- Mergers and Acquisitions
- Long/Short
- Share Class Arbitrage
- Yield securities

Each investment considers the risk, the timeline of that risk occurring and then the potential return. Low transaction costs and liquidity are other important factors in the success and implementation of the strategies.

## Fund Features

ASX Listed	Code: ABW
Distribution Policy	At least 2% of Net Asset Value per Unit per quarter. <sup>2</sup>
Distribution Reinvestment Plan	Available
Applications	Investors may acquire Units on the ASX or via the current Product Disclosure Statement
Redemptions	On market by selling on the ASX or off-market at the end of each month.

## Fund Valuation

Fund Size <sup>3</sup>	\$63.9 Million
Net Asset Value per Unit	\$1.1337

## Fund Distributions (Per Unit)<sup>4</sup>

Period (per Unit)	Cash	Franking	Total	Yield at NAV (p.a)
31/12/2006	\$0.0486	\$0.0208	\$0.0694	9.00%
30/06/2007	\$0.1962	\$0.0371	\$0.2333	25.30%
31/12/2007	\$0.0333	\$0.0332	\$0.0665	7.60%
30/06/2008	\$0.0586	\$0.0400	\$0.0986	11.90%
31/12/2008	\$0.0450	\$0.0000	\$0.0450	7.60%
30/06/2009	\$0.0267	\$0.0000	\$0.0267	5.10%
31/12/2009	\$0.0450	\$0.0000	\$0.0450	8.80%
31/03/2010	\$0.0250	\$0.0000	\$0.0250	8.10%
31/06/2010	\$0.0250	\$0.0000	\$0.0250	8.20%
30/09/2010	\$0.0250	\$0.0000	\$0.0250	9.50%
31/12/2010	\$0.0230	\$0.0000	\$0.0230	8.30%
31/03/2011	\$0.0230	\$0.0000	\$0.0230	7.95%
Total	\$0.5744	\$0.1311	\$0.7055	

## Performance Statistics - Master Fund

Performance since Inception - March 2005 (p.a)	9.48%
Volatility % p.a.	3.10%
Sharpe Ratio	1.37
% positive months	87%
Best month	3.63%
Worst month	-1.60%
Average positive monthly return	0.95%
Average negative monthly return	-0.60%

## Performance Commentary - Master Fund

Fears regarding European debt and softer Chinese economic data saw global markets generally weaker during May. The fall in Australia was broadly in line; the S&P/ASX200 Index falling 2.4% with the 5.2% fall by Financials sub-index being the major contributor. Investors seemed particularly concerned about the Australian banking sector's exposure to a weakening domestic housing market.

The late failure of a takeover deal rather than general market weakness was the major contributor to the negative return for the Master Fund in May. The US private equity firm Carlyle Group and Macquarie Bank had proposed to buy Reflex Holdings (RDF), an operator of red-light and speed camera systems via a scheme of arrangement. RDF's Directors had unanimously recommended the scheme after negotiations with a number of different parties and terms were finally agreed on in March 2011. The terms were actually increased in the week before the vote was held (to a minimum of \$2.75), but a small shareholder group led by a former director voted against the scheme.

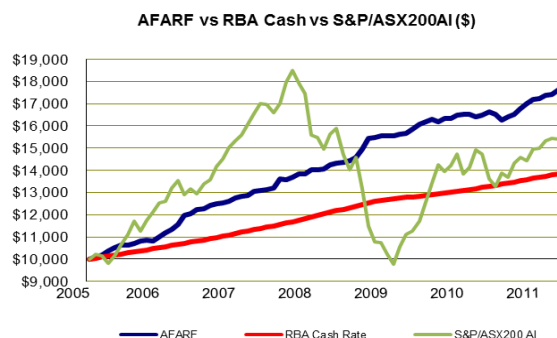
Of the votes lodged 63.44% of shares voted in favour of the scheme and 82.95% of shareholders voted for the scheme, but this was not sufficient under a scheme of arrangement structure for the takeover to go ahead (requires 75% of shares to be voted in favour). The shares initially traded down 36.3% post the vote and finished the month down 25%.

The Master Fund exited the bulk of its position over the balance of the month. The Master Fund is conscious of the dangers of the scheme of arrangement structure in a takeover but it is highly unusual for a deal to fail with such strong board support and particularly unusual for dissenting shareholders not to lobby for better terms or conditions in a significantly more vocal and public way.

Interestingly two other transactions (which the Master Fund did not have positions in) were terminated in May, and the Master Fund would expect extra caution and subsequently improved margins for taking risk in these transactions. In line with this, the Master Fund saw significant profits from the closing of its Manta Resources (MRU) position through a scheme of arrangement at month end.

During the month the Master Fund added to its position in Equinox Mining (EQN) which is under takeover by Canadian miner Barrack Resources which is expected to be concluded in June. The yield portfolio performed in line with expectations and although the Master Fund remains cautious about general market and economic conditions, positions in Woolworths Limited (WOWHB) and Orica Limited (ORIPB) were added to.

Whilst the fall in the market was significant, realisable volatility remained relatively low (i.e. the fall was fairly gradual over the month) which made it difficult for the Master Fund to profit from most of its option positions. The Master Fund believes that this is the most appropriate way to hedge the portfolio and we specifically added to option positions in the larger miners (BHP and RIO) as well as holding just out of the money index put options for the June expiry.



## About Aurora

Aurora Funds Limited ('Aurora', ASX Code: AFV) was listed on the ASX in July 2010. Aurora comprises the merged businesses of Aurora Funds Management Limited, Fortitude Capital Pty Ltd and Sandringham Capital Pty Ltd.

The combined group has in excess of \$500 million in funds under management and administration, and provides asset management and responsible entity/trustee services for over 3,500 Australian and New Zealand investors.

Aurora is also the Issuer and/or distributor of the:

- Aurora Fortitude Absolute Return Fund (ARSN 145 894 800)
- Aurora Sandringham Dividend Income Trust (ASX code: AOD)
- Aurora Sandringham Global Income Trust (ARSN 131 291 499)
- Aurora Global Income Trust (ASX Code: AIB)
- Aurora Property Buy-Write Income Trust (ASX Code: AUP)
- CORALS Commodities Fund (ARSN 131 196 882)
- van Eyk Blueprint Alternatives Plus (ASX Code: VBP)

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1. This number represents an estimated cumulative return and assumes reinvestment of distributions. 2. The Fund intends to always distribute at least 2.0% of NAV per Unit, excluding any franking credits, per quarter regardless of Fund performance. This means that if the Fund has insufficient net income in a given quarter, investors may receive a partial (or full) return of capital. 3. Incorporates all unit classes within the Fund, and also individual mandates that are external to the Fund but utilise the investment strategy or direct variants thereof. 4. Each historical distribution has been divided by six to reflect the Unit split carried out in November 2009.

Disclaimer: This information has been prepared by Aurora Funds Management Ltd (ABN 69 092 626 885, AFSL 222110) in its capacity as Responsible Entity for the Aurora Absolute Return Fund. It has been prepared without taking into account the objectives, financial situation or needs of any investor, which should be considered before investing. Investors should consider a copy of the Product Disclosure Statement and seek their own financial advice prior to investing in the Trust. The information in this Performance Report is of a summary nature only and does not constitute advice of any kind, nor is it an offer of any financial product. Past performance is not a reliable indication of future performance. In particular as the Investment strategy of the Fund was materially altered in July 2009 and March 2011, performance prior to these dates (being from three years to 'since inception') has little bearing on future performance. The payment of franking credits to Unit holders is subject to the Trust achieving a taxable profit in that year. Please see [asx.com.au](http://asx.com.au) for more information on the S&P/ASX200 Accumulation Index.