

Aurora Absolute Return Fund Performance Report - 31 January 2012

ASX Code: ABW



Summary

- The Fund returned 0.35% for January identical to the RBA Cash Rate.
- The Master Fund has returned 8.77% p.a since inception versus the S&P/ASX200 Accumulation Index which has returned 5.05% p.a over the same period.

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	0.35%	1.38%	3.14%	6.43%	10.59%	3.14%
RBA Cash Rate	0.35%	1.09%	2.29%	4.75%	4.18%	5.28%
S&P/ASX200 Accumulation Index (ASX200AI)	5.08%	0.06%	-1.20%	-6.17%	11.21%	1.02%

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 performance prior to this date is of different investment strategies than those currently implemented. The Master Fund which is the current investment strategy, has been in existence since March 2005, and its historical performance is referred to in the charts and tables [below](#).

Investment Objective*

The Fund 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 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 2.0% of Net Asset Value ² per Unit per quarter
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 Valuations

Fund Size ³	\$111.5 million
Net Assets Value per Unit	\$1.1046

Fund Distributions (Per Unit)⁴

Period (per Unit)	Cash	Franking	Total	Yield at NAV (p.a.)
31 Dec 06	\$0.0486	\$0.0208	\$0.0694	9.00%
30 Jun 07	\$0.1962	\$0.0371	\$0.2333	25.30%
31 Dec 07	\$0.0333	\$0.0332	\$0.0665	7.60%
30 Jun 08	\$0.0586	\$0.0400	\$0.0986	11.90%
31 Dec 08	\$0.0450	\$0.0000	\$0.0450	7.60%
30 Jun 09	\$0.0267	\$0.0000	\$0.0267	5.10%
31 Dec 09	\$0.0450	\$0.0000	\$0.0450	8.80%
31 Mar 10	\$0.0250	\$0.0000	\$0.0250	8.10%
30 Jun 10	\$0.0250	\$0.0000	\$0.0250	8.20%
30 Sep 10	\$0.0250	\$0.0000	\$0.0250	9.50%
31 Dec 10	\$0.0230	\$0.0000	\$0.0230	8.30%
31 Mar 11	\$0.0230	\$0.0000	\$0.0230	7.95%
30 Jun 11	\$0.0227	\$0.0000	\$0.0227	8.00%
30 Sep 11	\$0.0222	\$0.0000	\$0.0222	8.01%
31 Dec 11	\$0.0222	\$0.0000	\$0.0222	8.02%
Total	\$0.6415	\$0.1311	\$0.7726	

Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	8.77%
Volatility % p.a.	3.02%
Sharpe Ratio	1.14
% positive months	87%
Best Month	3.63
Worst Month	-1.60%
Average positive monthly return	0.91%
Average negative monthly return	-0.61%

Performance Commentary - Master Fund

Equity markets made a strong start to 2012 (ASX200AI: +5.08%) boosted by easing bond yields in peripheral Europe and expectations of supportive central bank policy. Stronger risk appetite resulted in a large outperformance of the Resources index (+10.7%) over traditional defensive laggards (Utilities +2.5%; Healthcare -1.2%). Banks also lagged the rally (+3.7%) as funding costs steepened with covered bonds issued by majors carrying higher spreads than usual. Strong, stable markets and subdued news flow triggered a 4 point fall in the volatility index (VIX: -17%). The Master Fund carried a small book into the New Year and positions are being built as the market presents opportunities. Earnings season begins in February which should see several opportunities present as stock specific factors override the macro environment.

The Mergers and Acquisitions strategy posted a small gain for the month (+0.09%) with broad increases across all positions, the most notable were: Charter Hall Office (CQO.ASX), Flinders Mine (FMS.ASX), Brockman Resources (BRM.ASX) and Signature Metals (SBL.ASX).

The Long/Short strategy was a small positive contributor (+0.06%) largely as a result of a long position in Thackral Holdings (THG.ASX). The smaller capitalised positions generally outperformed the larger caps as the market gained confidence and bought risk.

The Convergence strategy also performed well (0.14%). The major contributor was the Wesfarmers Partially Protected Shares (WESN.ASX) against the ordinary stock (WES.ASX). The protection and optionality offered by the Partially Protected Shares allowed the Master Fund to overlay some options, which helped earn income at the same time as the spread widening from a relatively tight level last month. Strong moves in Paladin (PDN) also presented good cross-border trading opportunities but offsetting this News Corporation and Resmed were small detractors.

The Yield strategy (0.16%) generated steady gains as the Master Fund held relatively high levels of cash and listed hybrids relative to the exposures across the other strategies. A major talking point during the month was the covered bond issue completed by Commonwealth Bank (CBA.ASX). This resulted in a widening of margins for most of the listed bank hybrids because a new benchmark for risk and margin/return was set. A small position in the Goodman Preferred Step-Up Units was the best performer as the market repriced the chance that the securities will be called in 2013 instead of being stepped-up.

The Options strategy (-0.12%) struggled in light of the fall in volatility. The Master Fund strictly maintains a position on the ASX200 Index which was hardest hit during the month. QBE posted a strong profit after the stock fell post a downgrade due to record claims from natural disasters and weaker investment markets.

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 \$460 million in funds under management and administration, and provides asset management and responsible entity/trustee services for over 3,000 Australian and New Zealand investors.

Aurora is also the issuer of the:

- Aurora Fortitude Absolute Return Fund
(APIR Code: AFM0005AU)
- Aurora Sandringham Dividend Income Trust
(ASX Code: AOD)
- Aurora Global Income Trust
(ASX Code: AIB)
- Aurora Property Buy-Write Income Trust
(ASX code:AUP)
- van Eyk Blueprint Alternatives Plus
(ASX code: VBP)

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1. This number represents a 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.

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