

Aurora Absolute Return Fund Performance Report - 31 August 2012

ASX Code: ABW



Summary

- The Fund returned 0.44% for August whilst the the RBA Cash Rate returned 0.29%.
- Since inception, the Fund has outperformed the S&P/ASX200 Accumulation Index by 1.62%.

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	0.44%	1.38%	2.67%	5.18%	5.88%	3.36%
RBA Cash Rate	0.29%	0.88%	1.91%	4.20%	4.33%	5.15%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	2.14%	7.21%	2.76%	5.48%	3.17%	1.74%

On 1 March 2011, the Fund 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 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 2.0% 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	\$87.3 million
Net Assets Value per Unit	\$1.0936

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	8.07%
31 Mar 12	\$0.0221	\$0.0000	\$0.0221	8.10%
30 June 12	\$0.0220	\$0.0000	\$0.0220	8.02%
Total	\$0.6856	\$0.1311	\$0.8163	

Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	8.51%
Volatility % p.a.	2.91%
Sharpe Ratio	1.15
% positive months	88%
Best Month	3.63
Worst Month	-1.60%
Average positive monthly return	0.87%
Average negative monthly return	-0.43%

Performance Commentary - Master Fund

The S&P/ASX200AI recorded a gain of 2.14% during a busy month of results and a heavy fall in the prices of bulk materials, iron ore & coal. The extent and duration of the fall in iron ore has significant implications for the Australian market which the Master Fund is closely monitoring. The Australian Dollar continues to hold ground against major currencies. Whilst this scenario persists, it is difficult for many Australian companies to improve profitability. Many market commentators continue to advocate the attractiveness of yield equities in light of this scenario. Interestingly the Master Fund has significantly outperformed traditional "yield" equities since inception. In light of this backdrop the Materials (-1.4%) and Telecommunications (-3.6%) sectors underperformed Health Care (+6.1%) and Consumer Staples (+4.4%). The Fund finished the month up +0.44%.

The **Convergence** portfolio benefitted from a new position in Yancoal (YAL.ASX) and its partially protected shares (YALN.ASX). The situation is similar to the Wesfarmers structure and we look forward to further trading opportunities in this name. The Wesfarmers (WES.ASX) position was the strongest performer in the portfolio for the month.

Mergers and Acquisitions benefitted from an increase in the offer price for Thakral Holdings (THG.ASX) from Brookfield Asset Management Inc. This was widely largely anticipated and the Board has recommended the higher offer.

The **Options** portfolio struggled as volatility continues to decline. The options position over the ASX200 index was a large detractor in light of this. The portfolio started the month well with significant moves as companies reported results. QBE Insurance Group (QBE.ASX) was particularly profitable during this period. As result season continued, moves became more benign resulting in small losses for several positions. A strong move in Insurance Australia Group (IAG.ASX) towards the end of the month was profitable.

The **Yield** book continues to benefit from the Master Fund's strategy of concentrating on short-term, high quality structures. The CBA (CBAPB.ASX) and ANZ (ANZPB.ASX) mandatory convertible preference share structures were the most profitable holdings for the month.

The **Long/Short** portfolio included small positions in proposed deals exposed to iron ore and coal prices. The widely covered potential Nathan Tinker bid for Whitehaven Coal (WHC.ASX) and a position in Northern Iron (NFE.ASX) were the largest detractors. The Master Fund's insistence on position limits based on size and liquidity certainly prevented significant losses in this space. Conversely the Master Fund profited from a short position in mining services company Campbell Brothers (ALQ.ASX).

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 \$530 million in funds under management and administration, and provides asset management and responsible entity/trustee services for over 2,500 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 Dividend Income Trust
(APIR Code: AFM0010AU)
- Aurora Global Income Trust
(ASX Code: AIB)
- Aurora Property Buy-Write Income Trust
(ASX code:AUP)
- van Eyk Blueprint Alternatives Plus
(ASX code: VBP)

Aurora Funds Limited

Level 2, 350 George Street, Sydney NSW 2000 PO Box R1695, Royal Exchange NSW 1225
Telephone: 1300 553 431, Visit: www.aurorafunds.com.au, or Email: enquiries@aurorafunds.com.au

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.

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 (ARSN 110 303 430). 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 Fund. 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 and 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 Fund achieving a taxable profit in that year. Please see asx.com.au for more information on the S&P/ASX200 Accumulation Index. *The investment objective is expressed after the deduction of fees and before taxation. The objective is not intended to be a forecast and is only an indication of what the investment strategy aims to achieve over the medium to long term.