

# Aurora Absolute Return Fund Performance Report - 30 September 2012

ASX Code: ABW



## Summary

- The Fund returned 0.33% for September whilst the the RBA Cash Rate returned 0.29%.
- The Fund announced a cash distribution of \$0.022 per Unit for the three months ending 30 September 2012, which represents an annualised yeild of 8.00%.

## 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)	0.33%	1.24%	2.54%	5.40%	4.17%	3.37%
RBA Cash Rate	0.29%	0.88%	1.85%	4.10%	4.35%	5.13%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	2.18%	8.84%	3.74%	14.83%	1.84%	2.10%

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 acheive 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 1.5% of Net Asset Value <sup>2</sup> 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 <sup>3</sup>	\$86.8 million
Net Assets Value per Unit	\$1.0752

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

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%
30 Sept 12	\$0.0220	\$0.0000	\$0.0220	8.00%
<b>Total</b>	<b>\$0.7076</b>	<b>\$0.1311</b>	<b>\$0.7076</b>	

## Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	8.46%
Volatility % p.a.	2.90%
Sharpe Ratio	1.12
% positive months	88%
Best Month	3.63
Worst Month	-1.60%
Average positive monthly return	0.86%
Average negative monthly return	-0.61%

## Performance Commentary - Master Fund

September was characterised by another round of central bank intervention in the form of quantitative easing. Ben Bernanke put the printing press on full throttle announcing an open ended \$40bn per month round of asset purchasing with the ability to add to purchases if the U.S. labour market does not improve. Whilst it is difficult to predict the long term effects on the real economy under this policy, the benefits to short term asset prices are clear. The Dow Jones rallied in kind, up 2.6% for the month outperforming the S&P/ASX200 Accumulation Index (+2.2%).

The Fund gained 0.33% for the month, a disappointing result as the Master Fund was well positioned for a good performance. Unfortunately the event-driven space proved to be a major drawdown. The Master Fund has managed to side-step many of these situations over the last 18 months and continues to do so. It is easy to abandon part of your strategy when results are not going well, but we do believe that we are seeing a large increase in margins for such deals and continue to enter/add to positions where deals show appropriate risk/return characteristics.

The **Long/Short** portfolio bore the brunt of event-driven issues described above. Echo Entertainment (EGP.ASX) fell 6% during the month after Genting Singapore sold down its 5% stake. Genting Singapore's sister company Genting HK, maintains that it is seeking probity to increase its stake above 10% of the register. Moreover, we expect Crown (CWN.ASX) to receive probity approval mid to late October. Billabong (BBG.ASX) also suffered as Bain Capital withdrew from the formal bidding process. Offsetting these disappointments was a profitable placement in Marmota Energy (MEU.ASX). The Master Fund has purposefully avoided and scaled down its participation in such corporate activity in the last 18 months, however the strength of this issue combined with other indicators suggests that this will be a profitable strategy in future.

The **Mergers and Acquisitions** portfolio remained small; Little World Beverages (LWB.ASX) completed its scheme of arrangement with Lion Group and IOOF Holdings declared its bid for Plan B Group (PLB.ASX) unconditional. We maintain positions Gerard Lighting (GLG.ASX), Hastings Diversified (HDF.ASX) and Industea Limited (IDL.ASX) which are all expected to complete within the next few months.

The **Options** portfolio struggled with volatility continuing to fall at the behest of international central banks (Australian Index realised volatility has been below 10% for the last two months). Longer dated volatility (4-12 months) has also fallen and the Master Fund will begin to target protection in this range. The Master Fund did benefit from extreme movements in Fortescue Metals (FMG.ASX) whilst BHP Billiton (BHP.ASX) and IAG Insurance (IAG.ASX) detracted significantly from performance.

The **Convergence** portfolio posted a modest gain with the Wesfarmers partially protected share structure (WES.ASX/WESN.ASX) profitable once more.

The **Yield** portfolio posted a small gain. The CBA Perls IV issue (CBAPB.ASX) was the most profitable and will be repurchased at par at the end of October. The Master Fund will add to the position where appropriate.

## About Aurora

Aurora Funds Limited ('Aurora', ASX Code: AFV) was listed on the ASX in July 2010.

The combined group has in excess of \$540 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](http://www.aurorafunds.com.au), or Email: [enquiries@aurorafunds.com.au](mailto:enquiries@aurorafunds.com.au)

1. This number represents a cumulative return and assumes reinvestment of distributions. 2. From 1 October 2012 the Fund intends to always distribute at least 1.5% 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](http://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.