

Aurora Absolute Return Fund Performance Report - 31 January 2013

ASX Code: ABW



Summary

- The Fund returned -0.27% for January whilst the the RBA Cash Rate returned 0.25%.
- The Master Fund has produced positive returns every financial and calendar year since inception.

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	-0.27%	0.37%	0.94%	3.68%	6.05%	3.22%
RBA Cash Rate	0.25%	0.77%	1.64%	3.64%	4.30%	5.03%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	4.95%	8.99%	17.14%	20.11%	6.91%	3.93%

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 1.5% 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	\$90.9 million
Net Assets Value per Unit	\$1.0600

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%
30 Sept 12	\$0.0220	\$0.0000	\$0.0220	8.00%
31 Dec 12	\$0.0170	\$0.0000	\$0.0170	6.40%
Total	\$0.7246	\$0.1311	\$0.8557	

Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	8.11%
Volatility % p.a.	2.88%
Sharpe Ratio	1.07
% positive months	87%
Best Month	3.63
Worst Month	-1.60%
Average positive monthly return	0.86%
Average negative monthly return	-0.57%

Performance Commentary - Master Fund

The S&P/ASX200 Accumulation Index finished January up 4.95%. This was buoyed by the Aussie banks contributing the most by index points (WBC.ASX, NAB.ASX and ANZ.ASX), and the IT and Consumer Discretionary sectors putting in stellar returns, +15.2% and 8.6% respectively. The main arguments for the rally were: the rotation from bonds to equities as investors seek higher returns than interest-bearing assets offer; positioning for a good reporting season; less market risk post the fiscal cliff being averted, and encouraging Chinese and global economic data. The Fund finished the month with a negative return of -0.27% with the key principles of the Master Fund; market neutrality and option protection, being maintained.

The **Options** portfolio (-0.71%) continued its recent struggle despite Sydney Airport (SYD.ASX), Commonwealth Bank (CBA.ASX) and Incitec Pivot (IPL.ASX) generating strong returns. Marked downs in volatility and some directional positioning resulted in losses in Woodside (WPL.ASX), Woolworths (WOW.ASX), BHP Billiton (BHP.ASX) and Westpac (WBC.ASX). The options overlay continues to be a drawdown as actual volatility is at all time lows. But we expect volatility will return to long term averages at some point in the future.

The **Long/Short** strategy (-0.22%) underperformed for the month. Shorts in Metcash MTS.ASX and Myer (MYR.ASX) were drawdowns, whilst Primeag (PAG.ASX) rallied due to a potential takeover of the company. Also adding to performance was a long position in Sundance Energy (SEA.ASX). This is an unusual position, in that, this company is actually the bidder for Texon (TXN.ASX), however, instead of hedging the scrip offer, the Master Fund held a long position to take advantage of anticipated synergies the merger will create. We will look to exit the position at an appropriate price and trade the pair as a traditional M&A trade thereafter.

The **Yield** book continues to generate positive returns (+0.23%) across a spread of short dated instruments in the financial sector. Because of the sector exposure, the Master Fund currently targets options protection in relevant names to provide some fat-tail risk protection.

The **Convergence** strategy was a positive contributor to performance (+0.25%). The Wesfarmers position (long WESN.ASX, short WES.ASX and options) has been volatile of late. The Master Fund is very active in managing this position because of the large gross exposure. We are confident we understand the potential downside of the investment and are being adequately rewarded for the risk involved. The closing prices on a daily and monthly basis can have a noticeable impact on the overall performance. The Yancoal Contingent Value Rights (CVRs) detracted from performance as both the stock and the CVR's suffered share price declines. The company has announced 'force majeure' due to ex-tropical cyclone Oswald.

Mergers and Acquisitions added (+0.25%) to performance. The best performer for the month was Skywest Airlines (SXR.ASX) after the ACCC announced that they would not oppose the acquisition by Virgin Australia (VAH.ASX). The Texon Petroleum (TXN.ASX) and SEA.ASX scheme of arrangement documentation was released in January with the deal on track to complete in March and both share prices tracking higher. Strong positive performance also came from LinQ Resources Fund (LRF.ASX) in response to IMC opening an Institutional Acceptance Facility in order to increase their chance of getting to 90% acceptances and declaring the bid unconditional. Australian Infrastructure Fund (AIX.ASX) and Real Estate Capital Partners (RCU.ASX) were the largest draw downs. AIX traded down in light of negative press about the fairness of the values ascribed to assets for the purpose of pre-emptive rights in the asset sale process, which could cause a delay if lengthy legal disputes were to result. The Master Fund used the weakness to add to the investment. RCU had their asset sale resolution approved at the EGM however, the resolutions to return the capital and wind up the trust were voted down by the major shareholder.

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 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)

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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.

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