

Aurora Absolute Return Fund Performance Report - 31 May 2013

ASX Code: ABW



Summary

- The Fund returned 0.79% for May whilst the the RBA Cash Rate returned 0.23%.
- The Master Fund has produced positive returns every financial and calendar year since inception.

Performance¹

	1 month	3 months	6 months	12 months	5 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	0.79%	2.91%	3.50%	5.70%	3.20%	3.62%
RBA Cash Rate	0.23%	0.73%	1.49%	3.23%	4.26%	4.93%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	-4.50%	-2.37%	11.59%	26.50%	1.84%	4.18%

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	ASX 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	\$10.4 million
Strategy Size ³	\$104.4 million
Net Assets Value per Unit	\$1.0833

Fund Distributions (Per Unit)⁴

Period (per Unit)	Cash	Franking	Total	Yield at NAV (p.a.)
FY 06-07	\$0.2448	\$0.0579	\$0.3027	19.26%
FY 07-08	\$0.0919	\$0.0732	\$0.1651	9.46%
FY 08-09	\$0.0717	\$0.0000	\$0.0717	6.08%
FY 09-10	\$0.0950	\$0.0000	\$0.0950	9.33%
30 Sep 10	\$0.0250	\$0.0000	\$0.0250	9.50%
31 Dec 10	\$0.0230	\$0.0000	\$0.0230	8.32%
31 Mar 11	\$0.0230	\$0.0000	\$0.0230	8.19%
30 Jun 11	\$0.0227	\$0.0000	\$0.0227	7.98%
30 Sep 11	\$0.0222	\$0.0000	\$0.0222	8.01%
31 Dec 11	\$0.0222	\$0.0000	\$0.0222	8.02%
31 Mar 12	\$0.0221	\$0.0000	\$0.0221	8.03%
30 June 12	\$0.0220	\$0.0000	\$0.0220	8.06%
30 Sept 12	\$0.0220	\$0.0000	\$0.0220	8.12%
31 Dec 12	\$0.0170	\$0.0000	\$0.0170	6.25%
31 Mar 13	\$0.0160	\$0.0000	\$0.0160	6.02%
Total	\$0.7406	\$0.1311	\$0.8717	

Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	8.25%
Volatility % p.a.	2.84%
Sharpe Ratio	1.13
% positive months	87%
Best Month	3.63
Worst Month	-1.60%
Average positive monthly return	0.85%
Average negative monthly return	-0.54%

Performance Commentary - Master Fund

Despite an official interest rate cut to levels not seen since the 1960's the ASX200 Accumulation Index fell 4.5% during May and the Australian dollar dropped 7.7% against the US dollar. The major concern appeared to be a slowing Chinese economy and the follow on effect to Australian economy. Asian markets were generally weaker (Nikkei -0.6%, Singapore -1.7%, Hong Kong -1.5%) whilst Europe and the US were stronger (Germany +5.5%, FTSE 2.4%, S&P 500 +2.1%). The Aurora Absolute Return Fund generated a return of +0.78%, versus the cash benchmark of 0.23%.

Mergers and Acquisitions was the best performing strategy for the month (+0.32%). Australian Infrastructure Fund (AIX.ASX) was the only material contributor. AIX declared and paid the main capital return resulting from the asset sales to the Future Fund. This was the largest position held by the Master Fund during May due to the risk return scenario on offer.

The Yield book provided a positive return (+0.28%). The Suncorp Convertible Preference Shares (SBKPB.ASX) ceased trading in line with their redemption scheduled for the middle of June. Macquarie Group announced a new hybrid issue as a means of refinancing the existing Convertible Preference Security that the Master Fund holds for redemption in July (MQCPA.ASX). The Master Fund is seeing excellent opportunities in the pricing of these types of short dated instruments and hence will have concentrated positions close to final maturity.

The Protective Options strategy was a positive contributor (0.18%), particularly in the latter half of the month when the market experienced significant volatility. Downside protection on National Australia Bank (NAB.ASX) and Commonwealth Bank (CBA.ASX) produced positive returns whilst the Master Fund also benefited from exposure to ANZ Group (ANZ.ASX) and Westpac (WBC.ASX) dividend payments. BHP Billiton (BHP.ASX) benefited from the weaker Australian dollar which actually resulted in relatively low realisable volatility and hence was one of the drawdowns in the option strategy.

Convergence (+0.17%) was bolstered by the improved share price performance of the Yancoal Contingent Value Rights (YALN.ASX). The market continued to recognise the potential value embedded in these instruments with about 6 months to maturity. Offsetting this, the Master Fund's largest position in Wesfarmers was a detractor for the month as the share price fell dramatically. The Master Fund expects to see longer term benefits from the short term share price fall in Wesfarmers (both WES.ASX and WESN.ASX) as this prolongs the life and the value of the Partially Protected Securities (WESN.ASX). The weaker currency contributed towards positive returns from cross boarder trades in News Corp (NWS.ASX), Aurora Oil and Gas (AUT.ASX) and Henderson Group (HGG.ASX).

Long/Short was the only negative performer for the month (-0.16%). The strategy consisted of 10-20 small positions that were predominantly long and hence performed poorly, in line with market conditions. As expected, small market capitalisation stocks general underperformed due to their illiquid nature.

About Aurora

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

The combined group has in excess of \$480 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 (Managed Fund)
(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.

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.