

## INVESTMENT OBJECTIVE

The Aurora Fortitude Absolute Return Fund (AFARF), aims to produce positive returns irrespective of the direction of the share market by investing in predominantly Australian listed securities and derivatives.

## FUND PERFORMANCE TO 31 MAY 2013

|  | AFARF RETURNS% | RBA CASH RATE | S&P/ASX200AI |
|--|----------------|---------------|--------------|
| <b>1 month</b>   | 0.78%          | 0.23%         | -4.50%       |
| <b>3 months</b>  | 2.90%          | 0.73%         | -2.37%       |
| <b>6 months</b>  | 3.54%          | 1.49%         | 11.59%       |
| <b>12 months</b>   | 5.79%          | 3.23%         | 26.50%       |
| <b>2 years (p.a)</b>                                     | 5.24%          | 3.87%         | 7.28%        |
| <b>3 years (p.a)</b>                                     | 5.01%          | 4.17%         | 8.45%        |
| <b>5 years (p.a)</b>                                     | 6.04%          | 4.26%         | 1.84%        |
| <b>Annualised Return Since Inception (Mar 05) - p.a.</b> | 8.25%          | 5.04%         | 6.92%        |
| <b>Standard Deviation</b>                                | 2.84%          | 0.38%         | 14.58%       |

### Asian Influenza Infects Aussie Market

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 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 Fund holds for redemption in July (MQCPA.ASX ). The 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 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 Fund's largest position in Wesfarmers was a detractor for the month as the share price fell dramatically. The 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.

### FINANCIAL YEAR PERFORMANCE after fees (%)

| Year  | Jul   | Aug  | Sep   | Oct   | Nov   | Dec   | Jan   | Feb   | Mar   | Apr  | May   | Jun   | Fin/Year |
|-------|-------|------|-------|-------|-------|-------|-------|-------|-------|------|-------|-------|----------|
| 12-13 | 0.61  | 0.36 | 0.33  | -0.23 | 0.54  | 0.02  | -0.19 | 0.80  | 0.42  | 1.68 | 0.78  |       | 5.21%    |
| 11-12 | 0.51  | 1.19 | 0.11  | 0.43  | 0.67  | 0.34  | 0.34  | 0.49  | 0.45  | 0.44 | 0.26  | 0.57  | 5.93%    |
| 10-11 | -1.60 | 0.86 | 0.58  | 1.61  | 1.37  | 1.05  | 0.31  | 0.90  | 0.16  | 1.25 | -1.46 | -0.60 | 4.44%    |
| 09-10 | 0.55  | 0.67 | -0.58 | 0.82  | -0.02 | 0.82  | 0.44  | -0.13 | -0.73 | 0.43 | 0.91  | -0.49 | 2.79%    |
| 08-09 | 0.45  | 1.14 | 2.61  | 3.12  | 0.21  | 0.37  | 0.21  | 0.01  | 0.28  | 0.26 | 1.20  | 1.55  | 12.05%   |
| 07-08 | 0.63  | 3.06 | -0.30 | 0.71  | 1.32  | -0.23 | 1.34  | 0.17  | 0.27  | 1.21 | 0.63  | 0.18  | 9.40%    |
| 06-07 | 1.55  | 0.27 | 1.30  | 0.61  | 0.14  | 0.80  | 1.14  | 0.52  | 0.32  | 1.40 | 0.21  | 0.36  | 9.00%    |
| 05-06 | 0.92  | 0.18 | 0.52  | 1.34  | 0.28  | -0.50 | 1.71  | 1.82  | 1.38  | 1.82 | 3.63  | 0.57  | 14.50%   |
| 04-05 | -     | -    | -     | -     | -     | -     | -     | -     | 1.02  | 0.96 | 1.50  | 1.58  | 5.16%    |

## FUND OVERVIEW

The Fund aims to produce positive returns irrespective of the direction of the share market, by investing in predominantly Australian listed securities and derivatives.

The 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;

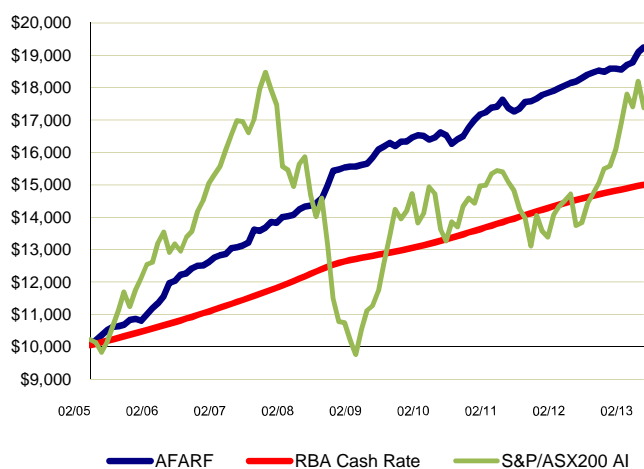
- Mergers and Acquisitions
- Long/Short
- Share Class Arbitrage, and
- Yield securities.

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.

Within the implementation of this strategy, the Investment Manager believes that the Australian equity market presents 'franking credit opportunities that are being ignored and/or mispriced by the market. As such, the Fund seeks to take advantage of these opportunities as they arise.

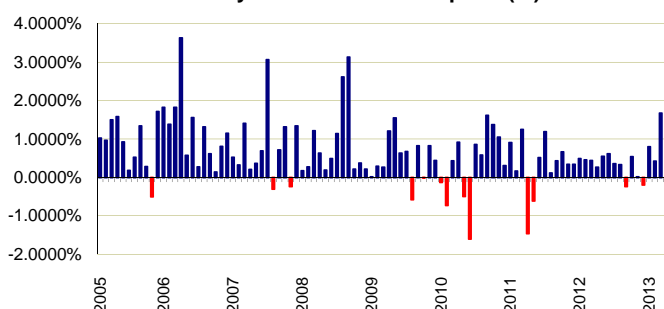
AFARF vs RBA Cash vs S&P/ASX200AI (\$)



## FUND DISTRIBUTIONS (per Unit)

| Period (per Unit)            | Amount (\$)     | Yield at NAV (p.a) |
|------------------------------|-----------------|--------------------|
| 30/06/2005                   | \$0.0516        | 15.48%             |
| 30/06/2006                   | \$0.1449        | 14.49%             |
| 30/06/2007                   | \$0.1040        | 10.40%             |
| 30/06/2008                   | \$0.0961        | 9.75%              |
| 30/06/2009                   | \$0.1384        | 14.09%             |
| 30/06/2010                   | \$0.0256        | 2.66%              |
| 30/06/2011                   | \$0.0338        | 3.47%              |
| 30/09/2011                   | \$0.0193        | 7.93%              |
| 31/12/2011                   | \$0.0194        | 8.00%              |
| 31/03/2012                   | \$0.0193        | 8.00%              |
| 30/06/2012                   | \$0.0205        | 8.55%              |
| 30/09/2012                   | \$0.0190        | 8.00%              |
| 31/12/2012                   | \$0.0142        | 6.00%              |
| 31/03/2013                   | \$0.0140        | 6.00%              |
| <b>Total since inception</b> | <b>\$0.7201</b> |                    |

Monthly Returns Since Inception (%)



## INVESTMENT MANAGER

Fortitude Capital Pty Ltd (AFSL 221131) is a wholly-owned subsidiary of Aurora Funds Limited (Aurora). With over \$490 million in funds under management/administration, Aurora was listed on the ASX in July 2010 under the ASX Code: AFV.

The Aurora Group provides asset management and responsible entity/trustee services for Australian and New Zealand investors.

### Aurora is also the issuer of the:

- Aurora Sandringham Dividend Income Trust (ASX code: AOD)
- Aurora Dividend Income Trust (APIR code: AFM0010AU)
- Aurora Absolute Return Fund (ASX code: ABW)
- Aurora Global Income Trust (ASX code: AIB)
- Aurora Property Buy-Write Income Trust (ASX code: AUP)

| KEY FACTS            |                              | AFARF                         | RBA Cash |
|----------------------|------------------------------|-------------------------------|----------|
| <b>Strategy</b>      | Market Neutral               | <b>Sharpe Ratio</b>           | 1.13     |
| <b>Feeder Fund</b>   | Aurora Absolute Return (ABW) | <b>Best month</b>             | 3.63%    |
| <b>APIR Code</b>     | AFM0005AU                    | <b>Worst month</b>            | -1.60%   |
| <b>Benchmark</b>     | RBA Cash Rate                | <b>Positive months</b>        | 86.87%   |
| <b>Administrator</b> | Unity Administration         | <b>Prime Broker/Custodian</b> | UBS      |

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