

Aurora Absolute Return Fund Performance Report - 31 August 2015

ASX Code: ABW



Summary

- The Fund returned 1.42% for August whilst the RBA Cash Rate returned 0.17%.
- The Options strategy was the most significant contributor for the month.
- The slowing of the Chinese economy was a major concern for global equity markets.

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	1.42%	2.02%	3.43%	3.47%	4.44%	3.72%
RBA Cash Rate	0.17%	0.50%	1.05%	2.29%	2.61%	4.31%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	-7.79%	-8.84%	-10.09%	-3.16%	11.25%	4.93%

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 achieve absolute returns (i.e. positive returns in both rising and falling equity markets) by using a number of different investments that allow the Fund to have very little correlation to the performance of the stock market index. The focus on 'absolute returns' differs from traditional funds in that the Master Fund aims to produce positive returns regardless of equity market conditions.

We research various criteria and reasons to invest in particular situations. These criteria may pertain to fundamental and quantitative analysis, company event situations; takeovers and mergers, demergers and restructuring, liquidity events, recapitalisations, multiple share classes, option availability and pricing. Once an investment decision is made, the implementation of the trade is conducted in parallel with an active focus on risk management. The Master Fund uses derivatives for risk management as well as to create new positions.

Fund Features

ASX Listed	ASX Code: ABW
Distribution Policy	At least 1.0% of Net Asset Value ² per Unit per quarter plus franking credits
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 daily off-market redemptions

Fund Valuations

Net Asset Value per Unit	\$0.9854
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Fund Distributions (Per Unit)⁴

Period (per Unit)	Cash	Franking	Total	Yield at NAV (p.a.)
FY 06-10	\$0.5034	\$0.1311	\$0.6345	
FY 10-11	\$0.0937	\$0.0000	\$0.0937	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 Jun 12	\$0.0220	\$0.0000	\$0.0220	8.06%
30 Sep 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%
30 Jun 13	\$0.0159	\$0.0173	\$0.0332	12.56%
30 Sep 13	\$0.0159	\$0.0000	\$0.0159	6.22%
31 Dec 13	\$0.0159	\$0.0000	\$0.0159	6.10%
31 Mar 14	\$0.0159	\$0.0000	\$0.0159	6.09%
30 Jun 14	\$0.0160	\$0.0120	\$0.0280	10.60%
30 Sep 14	\$0.0154	\$0.0000	\$0.0154	5.99%
31 Dec 14	\$0.0153	\$0.0170	\$0.0323	12.71%
31 Mar 15	\$0.0099	\$0.0000	\$0.0099	4.05%
30 Jun 15	\$0.0098	\$0.0130	\$0.0228	9.29%
Total	\$0.8706	\$0.1904	\$1.0610	

Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	7.30%
Volatility % p.a.	2.66%
Sharpe Ratio	1.06
% positive months	86%
Best Month	3.63%
Worst Month	-1.60%
Average positive monthly return	0.77%
Average negative monthly return	-0.47%

Performance Commentary - Master Fund

Apologies for paraphrasing Crocodile Dundee's famous line, but investors and long term readers will be well aware of our forecasts that equity markets can be dramatically more volatile than we had seen over recent years, and this has proven to be the case over the last few weeks.

During August the S&P/ASX 200 Accumulation Index fell 7.8% impacted by a number of global and domestic factors.

Significant capital raisings by leading commercial banks was chief amongst market concerns. ANZ Bank (ANZ.ASX) raised \$2.5billion and fell 14.5% and Commonwealth Bank (CBA.ASX) announced a \$5.1bn Renounceable Rights issue and also fell 14.5%. Investment banks and fund managers need to take major risk management adjustments to hedge their underwriting commitments as markets sold off during the month.

The slowing of the Chinese economy was a major concern for global equity markets (Dow -6.6%, FTSE -6.7%, DAX-9.3%) and naturally Asian markets were hard hit (Hang Seng -12.0% Nikkei -8.2%, Shanghai Composite -12.5%). Australia, long seen as a proxy for Chinese exposure, was impacted by this as well as the associated fall in commodity prices. The heavyweight miners held up relatively well (BHP.ASX -4.8%, RIO.ASX -4.8%) following significant falls during June and July.

The Aurora Absolute Return Fund returned +1.42% for the month. As expected in this environment the Options Strategy (+1.9%) was the most significant contributor. The Master Funds bought put options over the Share Price Index was the most profitable position. Positions in all the major banks were profitable reflecting strong demand for downside protection following capital raisings (see above).

Along with banks, high yielding industrials were sold in sympathy which saw profitable opportunities in Telstra (TLS.ASX), Woolworths (WOW.ASX), Wesfarmers (WES.ASX) and Suncorp (SUN.ASX). Most mining names already had elevated implied volatilities and were difficult for the Master Fund to generate positive returns.

The Mergers and Acquisitions Strategy (+0.2%) largely benefited from the regulatory approval and completion of the acquisition of internet provider iiNet Limited (IIN.ASX) by TPG Telecom (TPM.ASX). The Master Fund built a position in Asciano (AIO.ASX) which agreed to a Scheme of Arrangement with the Brookfield Consortium (BIP.US), and added to the position in Sirius Resources (SIR.ASX) where shareholders are about to vote on a scheme with Independence resources (IGO.ASX).

The CBA Renounceable Rights Issue provided trading opportunities in the Convergence Strategy (+0.03%). The Master Fund took small but profitable positions in cross-border trades in Henderson Group (HGG.ASX/LN), South32 Limited (S32.ASX/LN) and Resmed Inc. (RMD.ASX/NY).

The Yield Strategy (-0.5%) was again a drawdown. This is not surprising given market conditions as prices fall and funds search for liquidity. We remain confident in a quick turnaround in pricing given the high quality of the portfolio and the concentration in short dated instruments.

Long/Short Trading (-0.1%) was also a small drawdown. The Master Fund benefited from a potential bidding war developing in Affinity Education Group (AFJ.ASX). Sonic Healthcare (SHL.ASX) was a profitable short position as the company downgraded guidance and reported contract losses. Genworth Mortgage Insurance Australia (GMA.ASX) was affected by market volatility despite announcing capital initiatives at its result. Origin Energy (ORG.ASX) was also a drawdown as the market punished companies with oil exposure and high debt. The Master Fund exited this position on a stop loss before month end.

About Aurora

Aurora Funds Management Limited is a fully owned subsidiary of ASX listed, Keybridge Capital (ASX Code: KBC). Aurora is a boutique investment manager that was established in 2003, and has a long track record of producing risk adjusted returns for retail, institutional and high net worth investors. They aim to deliver income whilst also managing the risks associated in investing in Australian and global equities. The investment strategies are offered through both ASX listed investment vehicles and managed funds.

Aurora is also the issuer of the:

- Aurora Fortitude Absolute Return Fund
(APIR Code: AFM0005AU)
- Aurora Dividend Income Trust (Managed Fund)
(ASX Code: AOD and APIR Code: AFM0010AU)
- Aurora Global Income Trust
(ASX Code: AIB)
- Aurora Property Buy-Write Income Trust
(ASX code:AUP)
- HHY Fund
(ASX code:HHY)

Aurora Funds Management Limited

Level 4, 1 Alfred 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. From 24 March 2015 the Fund intends to always distribute at least 1.0% 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.

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