

# Aurora Absolute Return Fund Performance Report - 31 December 2013

ASX Code: ABW



## Summary

- The Fund returned 0.73% for December whilst the the RBA Cash Rate returned 0.21%.
- The Fund has returned 7.55% over the last twelve months.

## 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)	0.73%	1.59%	3.41%	7.55%	6.01%	3.87%
RBA Cash Rate	0.21%	0.63%	1.28%	2.76%	3.76%	4.75%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	0.79%	3.42%	13.97%	20.20%	8.94%	5.43%

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 <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	\$16.2 million
Strategy Size <sup>3</sup>	\$137.6 million
Net Asset Value per Unit	\$1.0597

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

Period (per Unit)	Cash	Franking	Total	Yield at NAV (p.a.)
FY 06-10	\$0.5034	\$0.1311	\$0.6345	
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 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%
<b>Total</b>	<b>\$0.7883</b>	<b>\$0.1484</b>	<b>\$0.9367</b>	

## Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	8.15%
Volatility % p.a.	2.80%
Sharpe Ratio	1.19
% positive months	88%
Best Month	3.63
Worst Month	-1.60%
Average positive monthly return	0.83%
Average negative monthly return	-0.54%

## Performance Commentary - Master Fund

The S&P ASX 200 Accumulation Index concluded the year with a strong final two weeks recovering the losses of the early part of the month to finish December up 0.79%. This capped off another huge year for the market up 20.2%. The low interest rate environment, the change in government, somewhat improved global economic conditions and supportive monetary policy globally all help to buoy our market, particularly industrial stocks, including financials and consumer discretionary sectors, whilst materials and energy were notable laggards. Global indices outperformed with the S&P500 up 29.6% and the Japanese Nikkei +56.7%.

The Aurora Absolute Return Fund produced a return of 0.73% for the month against the cash benchmark of 0.21% and concluded another low-volatility year.

Mergers and Acquisitions was the best performing strategy. The largest contributor was The Trust Company Limited (TRU.ASX) and Perpetual Limited (PPT.ASX) merger after the deal concluded. This situation provided free optionality by offering Trust shareholders the ability to elect their preferred mix of cash and scrip consideration. This proved valuable with increased market volatility. Also providing good returns for the month were Commonwealth Property Office Fund (CPA.ASX) which received an increased competitive bid from Dexus Property Group (DXS.ASX) and RHG Limited (RHG.ASX) which implemented the scheme of arrangement with Resimac Limited.

The protective Options strategy performed well as a result of market volatility increasing. Within December, the market fell almost 5% in the first two weeks but recovered to finish in positive territory. Some of the Master Fund's best performing option positions were in names where there were specific events that caused accentuated moves in prices such as QBE Insurance Group Limited (QBE.ASX) downgrading their earnings forecast, Amcor Limited (AMC.ASX) demerging Orora Limited (ORA.ASX) and Brambles Limited (BXB.ASX) also demerging Recall Holdings Limited (REC.ASX). Offsetting gains were mark downs in the Aussie bank positions.

Yield benefitted from the Master Fund's largest holdings in the Yancoal Contingent Value Rights (YALN.ASX) coming up for redemption in March 2014 and ANZ Convertible Preference Shares (ANZPB.ASX). Bendigo and Adelaide Bank Limited floating rate notes (BENPC.ASX) and the Transpacific Step-Up Prefs (TPAPA.ASX) also performed well whilst representing smaller investments for the Master Fund.

Long/Short proved costly for the month after a raft of new issuance and volatile market conditions triggered stops in some positions, most notably Transfield Services Limited (TSE.ASX) despite the company maintaining earnings guidance at their investor day and also Aristocrat Leisure Limited (ALL.ASX). Pact Group Holdings Ltd (PGH.ASX) also disappointed the market upon listing and the Master Fund quickly exited the small allocation that was taken in the IPO.

Convergence was a solid contributor. More than half the return was generated in Linc Energy Ltd (LNC.ASX). The company delisted in Australia, and many local holders were sellers before relying on the Singapore exchange at a significant premium to the Australian closing price. Also performing well was the close out of the IMF convertible notes positions (IMFG.ASX) after the Master Fund elected to convert into stock instead of receiving the cash redemption.

## About Aurora

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

The combined group has in excess of \$620 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 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)
- 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](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.