

Aurora Absolute Return Fund Performance Report - 31 January 2014

ASX Code: ABW



Summary

- The Fund returned 0.34% for January whilst the the RBA Cash Rate returned 0.21%.
- The Fund has returned 8.21% outperforming the RBA Cash Rate by 5.49% over the last twelve months.

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	0.34%	1.62%	2.61%	8.21%	6.08%	3.87%
RBA Cash Rate	0.21%	0.63%	1.26%	2.72%	3.70%	4.72%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	-3.03%	-3.54%	5.06%	11.06%	7.76%	4.91%

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 1.5% 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	\$18.1 million
Strategy Size ³	\$162 million
Net Asset Value per Unit	\$1.0633

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	
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%
Total	\$0.7883	\$0.1484	\$0.9367	

Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	8.11%
Volatility % p.a.	2.70%
Sharpe Ratio	1.19
% positive months	88%
Best Month	3.63
Worst Month	-1.60%
Average positive monthly return	0.82%
Average negative monthly return	-0.54%

Performance Commentary - Master Fund

The S&P/ASX 200 Accumulation Index concluded the first month of the New Year with a negative return of -3.03%. The Aurora Absolute Return Fund finished +0.34% versus the cash benchmark of +0.21%. The ASX200 fell in line with other developed markets (S&P 500 -3.6%; UK FTSE -3.5%) whilst emerging markets saw some heavy falls. The majority of post event commentary for these falls centred on the Federal Reserve's decision to reduce asset purchases by a further \$10bn per month, thus withdrawing liquidity from emerging markets. This action was well telegraphed and the dramatic press commentary surrounding the falls and their reasons were overdramatic. The Aurora Absolute Return Fund aims to generate positive returns in all market cycles and we continue to buy insurance for unforeseen events.

Yield was the best performing strategy with the vast majority of instruments performing well. The Yancoal Contingent Value Rights (YALN.ASX) was one of the Master Fund's best performing positions in lead up to the redemption date. Yancoal (YAL.ASX) reiterated that these CVR shares will cease trading in late February to facilitate a timely redemption in early March. The Master Fund continues to add to this position at a relatively high yield. The Antares Convertible Notes (AZZG.ASX), a much smaller position, also performed well over their ex-interest period.

Long/Short performed well despite mostly comprising of long positions in the small to mid-cap space. Stonewall Resources (SWJ.ASX) is continuing the process of selling the company's assets to Shandong Qixing via a share sale agreement. This has received shareholder approval but still requires offshore regulatory approvals. ERM Power (EPW.ASX) continued its recovery from a poor digestion period after their small capital raising in November 2013. We expect further catalysts to result from announcement of the outcome of the competitive bid for the state government's Macquarie Generation utility asset. There were no material detractors for the month.

Twenty-First Century FOX was (FOX.ASX) was the talk of the town in the dual listed space after they announced that the company will seek shareholders' approval to delist from the Australian Stock Exchange and solely trade in the USA. This provided both liquidity and volatility which resulted in a strong return for Convergence for the month. Resmed (RMD.ASX) provided good opportunities between Australia and the USA. Paladin (PDN.ASX) was a small negative contributor as the stock unexpectedly sold off post a sale of a minority stake in its flagship mine.

January proved to be a very quiet time for Mergers and Acquisitions except for Dexus Property (DXS.ASX) declaring its bid for Commonwealth Property Office Fund (CPA.ASX) unconditional. We expect this year will provide a raft of new deals across the market capitalisation spectrum as companies seek to create value, and extract synergies via mergers and takeovers. The discussions in the press, by the investment community and the limited statements by the companies themselves regarding a tie-up between David Jones (DJS.ASX) and Myers (MYR.ASX) are certainly interesting.

The protective Options strategy was a slight negative. Contrary to public perception, the market was only slightly more volatile (1 point to be precise) than the implied market cost. The Master Fund currently owns longer dated puts having purchased these with a view that implied volatility is cheap at this end of the curve, particularly in Aussie banks. We expect these will do well over the course of the year whilst not providing an immediate volatility mark up in January. As is usually the case, the Master Fund currently owns both puts and calls over the S&P/ASX 200 index out to March expiry.

About Aurora

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

The combined group has in excess of \$613 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 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.