

Aurora Absolute Return Fund Performance Report - 31 January 2016

ASX Code: ABW



Summary

- The Fund returned 0.37% for January whilst the RBA Cash Rate returned 0.17%.
- The Options strategy was the most significant contributor for the month.
- January was a horror month for share markets globally.

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	0.37%	0.43%	2.28%	5.11%	4.56%	3.64%
RBA Cash Rate	0.17%	0.50%	1.00%	2.08%	2.44%	4.21%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	-5.48%	-3.57%	-9.94%	-6.13%	5.45%	4.43%

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 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	\$0.9524
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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%
FY 11-12	\$0.0885	\$0.0000	\$0.0885	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%
30 Sep 15	\$0.0145	\$0.0000	\$0.0145	6.00%
31 Dec 15	\$0.0098	\$0.0169	\$0.0267	10.94%
Total	\$0.8949	\$0.2073	\$1.1022	

Performance Statistics - Master Fund

Performance Since Inception p.a. - March 05	7.09%
Volatility % p.a.	2.63%
Sharpe Ratio	1.03
% positive months	85%
Best Month	3.63%
Worst Month	-1.60%
Average positive monthly return	0.76%
Average negative monthly return	-0.45%

Performance Commentary - Master Fund

January was a horror month for share markets globally and sage reminder of the futility of trying to predict when market volatility will occur.

The fall in the S&P/ASX200 Accumulation Index of -5.48% looked relatively modest in the context of China's Shanghai Composite index falling -22.7%, the Hang Seng down -10.2%, Nikkei -8%, EuroStoxx50 -6.8% and the US S&P500 -5.1%. Markets generally suffered as a result of Chinese economic fears, oil price weakness from tensions between Saudi Arabia and Iran, and concerns over the US Fed's tightening cycle. Oil (WTI) fell -9.2% during the month. Gold was a safe haven during the market turmoil finishing +5.3%.

The Aurora Absolute Return Fund returned +0.37% for the month against a cash benchmark of +0.17%.

The best performing strategy for the month was the Master Fund's Protective Options overlay (+0.58%). The best positions were the ASX/S&P200 index (XJO) and the Commonwealth Bank (CBA.ASX). Nearly all positions benefitted from the increase in both realised and implied volatility. Macquarie (MQG.ASX) was a detractor as the net position had a long bias. The Master Fund had a seasonally small volatility book as a result of volatility remaining elevated in December and generally quiet markets following December 2015 expiry.

Long/Short (+0.02%) and Convergence (-0.06%) were relatively flat despite a mix of offsetting positions. A short position in Healthscope (HSO.ASX) worked particularly well and generally the larger capitalisation (cap) stocks outperformed small cap stocks. Some small cap stocks trading at a discount to cash offered wider discounts still during the wave of selling.

Mergers and Acquisitions (+0.19%) was also profitable during the month. The best performing deal was M2 Group (MTU.ASX) and Vocus Communications (VOC.ASX) as their merger received shareholder approval at the scheme meeting. Asciano (AIO.ASX) received a formal competing offer from Qube Holdings (QUB.ASX). This is one of the Master Fund's largest holdings as it continues to monitor the competitive situation with Brookfield Infrastructure Partners (BIP.US). The Master Fund also took the opportunity to add to positions in iProperty (IPP.ASX) and Veda (VED.ASX) as a result of the market volatility and liquidity requirements reflecting a 'risk-off' market leading to better risk-return metrics.

Yield was a small detractor (-0.16%) as credit spreads widened across most debt instruments. The Westpac Trust Step-Up Prefs (WCTPA.ASX) price fell and yield rose as liquidity and concerns over banking margins weighed on the instruments despite the impending mid-year step-up date. The Master Fund used the weakening oil price to build a small position in the Origin Subordinated Notes (ORGHA.ASX) also approaching a call date in December this year. The National Bank Income Securities (NABHA.ASX) sold off as investors sought higher returns due to the lower chance of these being bought-back early, as bank borrow costs generally increased.

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)

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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.

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 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.