

# Aurora Absolute Return Fund Performance Report - 30 June 2015

ASX Code: ABW



## Summary

- The Fund returned 0.11% for June whilst the RBA Cash Rate returned 0.17%.
- Options was the best performing strategy in a month where market volatility had increased.
- The Fund has paid a distribution of 7.82% over the 2015 financial year.

## 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)	0.11%	0.95%	2.24%	1.97%	4.10%	3.57%
RBA Cash Rate	0.17%	0.52%	1.11%	2.38%	2.70%	4.36%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	-5.30%	-6.55%	3.10%	5.68%	15.06%	5.50%

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 <sup>2</sup> 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 off-market at the end of each month

## Fund Valuations

Fund Size	\$21 million
Strategy Size <sup>3</sup>	\$88 million
Net Asset Value per Unit	\$0.9669

## 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	
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%
<b>Total</b>	<b>\$0.8706</b>	<b>\$0.1904</b>	<b>\$1.0610</b>	

## Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	7.22%
Volatility % p.a.	2.66%
Sharpe Ratio	1.02
% positive months	85%
Best Month	3.63%
Worst Month	-1.60%
Average positive monthly return	0.77%
Average negative monthly return	-0.47%

## Performance Commentary - Master Fund

The S&P/ASX 200 travelled an interesting path through the last month of the Financial Year. Trading was down early in the month on concerns around the domestic banking sector and the declining profitability of consumer discretionary equities. Concerns eased and the market rallied to be flat by mid-month but then sold off on international concerns linked to the Greek Financial Crisis and a slowing Chinese Economy. The end result was -5.3% from the accumulation index. Global markets were broadly lower (S&P 500 -2.2%, FTSE -6.6%, Hang Seng -4.3% Nikkei -1.6%).

Whilst we saw a benefit from some increase in volatility in June, Australian equity market volatility closed at a level only marginally higher than the end of 2014, and over the last ten years the Australian equity market has been more volatile than current levels approximately 40% of the time. As a result, it is too premature to suggest current volatility has run its course and hence we maintain our long volatility exposure given the macro environment. Our team has recently investigated this theme in the latest Aurora research paper entitled 'Volatility: Where are we now?'

The Aurora Absolute Return Fund returned +0.11% for the month. Investor uncertainty saw an increase in implied volatilities and this combined with significant price movements in some sectors resulted in our protective Option strategy making the largest contribution (+0.68%) for the month. Positions in the banking sector were the dominant contributors. National Australia Bank (NAB.ASX) completed their rights issue as well as the pricing periods for dividend reinvestment plans for both ANZ Banking Group (ANZ.ASX) and Westpac Banking Corporation (WBC.ASX) all provided good trading opportunities.

The reverse of this banking price activity impacted our Yield Strategy (-0.53%) as listed bank debt instruments were generally sold off and risk margins were marked wider. The most significant impact was from National Australia Bank Perpetual Securities (NABHA.ASX) which appears to have been affected by seasonality as it has sold off in June for the last five years only to rally back in July.

The Mergers and Acquisitions Strategy (-0.03%) was flat. The iiNet (IIN.ASX) price fell on both ACCC concerns resulting in a slight delay and the general market sentiment towards deal risks. The Master Fund took the opportunity to increase the position size. The agreed transaction between Recall Holdings (REC.ASX) and US listed Iron Mountain (IRM.US) remained steady during the month as the companies entered into a scheme implementation deed. We maintain a position and await US Federal Trade Commission rulings.

Wider margins aided opportunities within our Convergence Trading Strategy (+0.14%). This was particularly relevant in dual listed fund manager Henderson Group (HGG.ASX/HGG.LN) where volumes were elevated in Australia as institutional investors exited to free up cash to allocate to the Westpac sell down of BT Investment Management (BTT.ASX).

Long/Short Trading (-0.09%) positions were significantly reduced during the month as we assess the consequences of developing events.

## 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. The investment strategies are offered through both ASX listed investment vehicles and managed funds. They aim to deliver income whilst also managing the risks associated in investing in Australian and global equities.

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)

## 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](http://www.aurorafunds.com.au), or Email: [enquiries@aurorafunds.com.au](mailto: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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