

# Aurora Absolute Return Fund Performance Report - 31 March 2014

ASX Code: ABW

## Summary

- The Fund returned 0.25% for March whilst the the RBA Cash Rate returned 0.21%.
- The Fund announced a cash distribution of \$0.0159 per Unit for the three months ending 31 March 2014, which represents an annualised yield of 6.09%



## 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)	0.25%	1.22%	2.82%	7.82%	5.34%	3.90%
RBA Cash Rate	0.21%	0.63%	1.26%	2.64%	3.57%	4.68%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	0.29%	2.09%	5.58%	13.46%	8.54%	5.54%

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 <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	\$19.9 million
Strategy Size <sup>3</sup>	\$174.5 million
Net Asset Value per Unit	\$1.0567

## 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%
31 Mar 14	\$0.0159	\$0.0000	\$0.0159	6.09%
<b>Total</b>	<b>\$0.8042</b>	<b>\$0.1484</b>	<b>\$0.9526</b>	

## Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	8.06%
Volatility % p.a.	2.70%
Sharpe Ratio	1.19
% positive months	88%
Best Month	3.63
Worst Month	-1.60%
Average positive monthly return	0.81%
Average negative monthly return	-0.54%

## Performance Commentary - Master Fund

The "Ukraine Crisis" and Chinese growth concerns dominated the news in the first half of the month which resulted in broad market weakness, but the impact of successive interest rate reductions appears to have spurred increased domestic retail sales and a buoyant housing market. By month end the ASX200 Accumulation Index recorded a moderate gain of 0.29%. The Materials Index declined 4.2% whilst the Financials index remained the star performer with a 2.3% gain. International Indices were mixed with the Dow continuing its run +0.8%, whilst Hong Kong's HSI -3.0% reflected ongoing Chinese concerns, and the UK FTSE declined 3.1%. The Aurora Absolute Return Fund returned 0.25% for the month against the cash benchmark of 0.21%.

The Yield Strategy provided the majority of the returns. The Transpacific Step-Up Preference Securities (TPAPA.ASX) was the best performing hybrid over the semi-annual interest period. This was a result of issuer Transpacific Industries Group Ltd (TPI.ASX) announcing that they have entered into an agreement to sell their New Zealand waste business, with the proceeds to be used to redeem the expensive debt securities. Another catalyst yield position emerged when CapitalLand sold down their 39% interest in Australand Property Group (ALZ.ASX) at a small discount, a portion of which went to Stockland (SGP.ASX). Stockland have moved to 19.9% of the company. The Master Fund holds a profitable position in Australand's listed debt (AAZPB.ASX) as an early redemption of expensive debt becomes increasingly likely. The proceeds from the redemption of Yancoal Contingent Value Rights (YALN.ASX) were received in line with the stated maturity having delisted in February.

The Mergers & Acquisitions strategy was flat for the month as the Dexus Property Group (DXS.ASX) bid for Commonwealth Property Office Fund (CPA.ASX) moved towards compulsory acquisition. A proportionate bid was launched by Leighton Holdings (LEI.ASX) parent Hochtief AG for every 3 out of 8 shares owned. Short Interest in Leighton is unusually high and the Master Fund expects further price spikes on short covering as stock is tendered into the offer.

The Options Strategy was a small negative as volatility continues to trade at record lows. A short fallout over Chinese corporate default concerns caused volatility to spike in iron-ore names mid-month. By the end of the month volatility had subsided and no material gains were recorded in these names. The Master Fund does see risks to the downside in companies tied to future growth in China and continues to hold downside exposure to these names. Profitable positions for the month included Echo Entertainment Group Limited (EGP.ASX) and AMP Limited (AMP.ASX). Commonwealth Bank of Australia (CBA.ASX) was the largest detractor as volatility in domestic banks headed towards single figures.

Trading in Twenty-First Century FOX Inc (FOX.ASX) dominated the Convergence strategy as shareholders approved delisting the company from the Australian Securities Exchange effective 8 May 2014. The Master Fund expects trading opportunities in the name to continue into this event.

The Long/Short strategy was also flat for the month. The market was slow to react to a negative drilling report from Beach Energy Limited (BPT.ASX) which resulted in a profitable shorting opportunity which was quickly covered. Initial Public Offer activity continued in March with two floats trading below the issue price, whilst another was abandoned. Many offers continue to involve Private Equity taking advantage of market re-rating. The Master Fund continues to view each offering on a stand-alone basis. Envestra Limited (ENV.ASX) finally released their scheme implementation agreement with APA Group (APA.ASX) however the split recommendations of board members has left questions about the likelihood of gaining a 75% majority approval at a scheme meeting. The Master Fund held less than 1% of NAV in this position due to lack of legal documentation and the high level of risk, and has subsequently exited the position awaiting further developments.

## About Aurora

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

The combined group has in excess of \$220 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)

## Aurora Funds Limited

Level 1, 4 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 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.

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