

Aurora Absolute Return Fund Performance Report - 30 September 2014

ASX Code: ABW



Summary

- The Fund returned -0.09% for September whilst the RBA Cash Rate returned 0.21%.
- The main contributor to performance was the Options strategy due to some share price volatility
- The “pre-event” positions within the Long/Short portfolio were the major detractor from performance

Performance¹

| | 1 month | 3 months | 6 months | 12 months | 3 years (p.a) | Since Inception (p.a) |
|--|---------|----------|----------|-----------|---------------|-----------------------|
| Aurora Absolute Return Fund (ABW) | -0.09% | 0.35% | 0.29% | 3.12% | 4.94% | 3.70% |
| RBA Cash Rate | 0.21% | 0.63% | 1.26% | 2.53% | 3.18% | 4.55% |
| S&P/ASX200 Accumulation Index (S&P/ASX200AI) | -5.38% | -0.60% | 0.33% | 5.93% | 14.76% | 5.22% |

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 | \$29 million |
| Strategy Size ³ | \$140 million |
| Net Asset Value per Unit | \$1.0163 |

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% |
| 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 | 6.07% |
| Total | \$0.8356 | \$0.1604 | \$0.9960 | |

Performance Statistics - Master Fund

| | |
|--|--------|
| Performance Since Inception - March 05 (p.a) | 7.65% |
| Volatility % p.a. | 2.70% |
| Sharpe Ratio | 1.10 |
| % positive months | 87% |
| Best Month | 3.63% |
| Worst Month | -1.60% |
| Average positive monthly return | 0.79% |
| Average negative monthly return | -0.50% |

Performance Commentary - Master Fund

The Not So Lucky Country?

Former Federal Treasurer, Peter Costello, has warned that Australia “could be running out of luck” and that the economy faces significant challenges, particularly if property prices were to fall. His speech coincided with a significant selloff in both the Australian equity market and currency during the month.

The S&P/ASX 200 Accumulation Index finished down 5.38% for the month largely as a result of a decline in the price of leading bank shares (ANZ.ASX -7.51%, CBA.ASX -7.42%, NAB -7.56% and WBC.ASX -8.28%) and weak commodity prices weighing on heavy weight miners (BHP.ASX -7.64% and RIO.ASX -4.87%). This was a significant under performance of most leading global indices (Dow -0.3%, FTSE -2.9% and Nikkei +4.9%). The Australian Dollar also had a significant fall, losing 6.30% against the US dollar and 2.57% against the Euro.

The Fund produced a small drawdown (-0.09%). Increased uncertainty and the increase in option prices benefited our Option Strategy (+0.25%). The most significant contributions came from downside exposure to high yielding names such as the major banks and Telstra (TLS.ASX). Our analysis shows that it is extremely rare for the market to have a fall of this extent without significantly higher realisable volatility (please contact us for a copy of this study) and as a result the steady nature of the selloff made it difficult to realise any significant gains on the broader market.

“Pre-event” trading was again a problem within the Long/Short portfolio (-0.54%). Treasury Wine Estate (TWE.ASX) fell 17% after the company withdrew from negotiations with private equity groups; similarly SAI Global (SAI.ASX) fell 13.7% after a private equity consortium withdrew its non-binding proposal, but the company continued negotiations with “a number of parties” regarding the proposed sale of separate divisions of the company. On a positive note Crowe Horwath (CRH.ASX) moved closer to a potential transaction by settling an outstanding legal claim.

Completion of two takeovers saw a positive return from Mergers and Acquisitions (+0.05%). Papillion Resources (PIR.ASX) and B2Gold (BTO.CN) shareholders voted in favour of the Scheme of Arrangement that will see PIR shareholders receive BTO shares; Australand Assets (AAZPB.ASX) were redeemed as part of the takeover by Frasers Centrepoint (FCL.SP).

As is expected in a market sell down, there were other takeover positions that were a drawdown. The Fund was happy to maintain exposures to a number of these deals with relatively short term completion dates, including Wotif.com (WTF.ASX) and ROC Oil (ROC.ASX). We also maintained a position in Goodman Fielder (GFF.ASX) although the company announced an extension of the expected completion date to March 31st 2015 as a result of delays in gaining Chinese regulatory approvals.

Convergence Trading was also a positive contributor for the month (+0.05%). This was largely through completion of the AGL Energy Renounceable Rights Issue (AGK/AGKRA.ASX). Small gains were also made in Alacer Gold (AQQ.ASX/ASR.CN) which announced it had rebuffed a merger proposal from Oceana Gold (OGC.ASX).

The redemption of Transpacific Preference Shares (TPAPA.ASX) was the standout in our Yield Portfolio which was also a positive contributor (+0.11%) for the month.

About Aurora

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

The combined group has in excess of \$218 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)

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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.