

Aurora Fortitude Absolute Return Fund

ARSN 145 894 800

ANNUAL REPORT

For the year ended 30 June 2014

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Directors' report

The directors of Aurora Funds Management Limited (ABN 69 092 626 885), the Responsible Entity of Aurora Fortitude Absolute Return Fund ("the Fund"), present their report together with the financial statements of the Fund for the financial year ended 30 June 2014.

Principal activities

The Fund invests its funds in accordance with the provision of the Fund Constitution and the current Product Disclosure Statement. The Fund continued its investment objective to achieve a high rate of return, comprising both income and capital growth and to preserve the capital of the Fund. The Fund primarily invests in Australian listed equities and exchange traded derivatives.

The Fund did not have any employees during the year.

There were no significant changes in the nature of the Fund's activities during the year.

Directors

The following persons held office as directors of Aurora Funds Management Limited during the year or since the end of the year and up to the date of this report:

John Corr
Alastair Davidson (resigned 12 March 2014)
Simon Lindsay
Oliver Morgan (appointed 4 February 2014)
Steuart Roe

Review and results of operations

During the year, the Fund continued to invest in accordance with target asset allocations as set out in the governing documents of the Fund and in accordance with the provisions of the Fund Constitution.

The performance of the Fund, as represented by the results of its operations, was as follows:

	Year ended	
	30 June 2014	30 June 2013
	\$	\$
Operating profit/(loss) before finance costs attributable to unitholders	2,785,077	3,048,270
Distribution paid and payable	9,404,334	6,060,985
Distribution (cents per unit) 30 September	1.39	1.90
Distribution (cents per unit) 31 December	1.39	1.42
Distribution (cents per unit) 31 March	1.39	1.40
Distribution (cents per unit) 30 June	1.39	1.39
Reconciliation of Net assets for Unit pricing and financial reporting purposes		
	30 June 2014	30 June 2013
	\$	\$
Net assets for unit pricing purposes	196,800,753	102,044,594
Permanent differences		
Difference between net assets for unit pricing and fair value (financial statements, in accordance with AASB 13) of financial assets held at fair value through profit or loss	(231,672)	56,187
Franking credits included in unit pricing	(294,317)	(215,510)
Net assets under Australian Accounting Standards	196,274,764	101,885,271

Directors' report (continued)

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Fund in future financial years.

Strategy and Future Outlook

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund Constitution.

As markets are subject to fluctuations, it is imprudent to provide a detailed outlook statement or statement of expected results of operations.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund.

Indemnity and insurance of officers

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Aurora Funds Management Limited or the auditors of the Fund. So long as the officers of Aurora Funds Management Limited act in accordance with the Fund Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

Indemnity of auditors

The auditors of the Fund are in no way indemnified out of the assets of the Fund.

Fees paid and interests held in the Fund by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in Note 14 to the financial statements.

No fees were paid out of Fund property to the directors of the Responsible Entity during the year.

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 14 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 8 to the financial statements.

The values of the Fund's assets and liabilities are disclosed on the Statement of Financial Position and derived using the basis set out in Note 2 to the financial statements.

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Directors' report (continued)

Interests held by the Responsible Entity and directors


At the date of this report, the following units of the Fund were held by the Responsible Entity or its associates or by directors:

Director	Units	%
John Corr	268,463	0.123
Simon Lindsay	140,097	0.064

Auditor's independence declaration

A copy of the auditors' independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 5.

The report is made in accordance with a resolution of the directors.



Steuart Roe

Director

29 August 2014

The Directors
Aurora Funds Management Limited
Level 4, 1 Alfred Street
SYDNEY NSW 2000

29 August 2014

Dear Directors

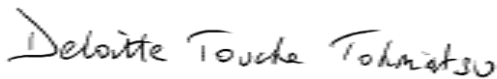
Independence Declaration – Aurora Fortitude Absolute Return Fund

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Aurora Funds Management Limited, the Responsible Entity of Aurora Fortitude Absolute Return Fund.

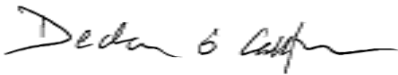
As lead audit partner for the audit of the financial statements of Aurora Fortitude Absolute Return Fund for the financial year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Declan O'Callaghan
Partner
Chartered Accountants

Statement of Comprehensive Income

		Year ended	
	Notes	30 June 2014	30 June 2013
		\$	\$
Income			
Interest income		1,050,719	550,788
Dividend and distribution income		10,203,866	9,510,333
Net gains on financial instruments held at fair value through profit or loss	7	(2,898,953)	8,225,323
Other operating income		71,006	12,940
		<hr/>	<hr/>
Total net investment income		8,426,638	18,299,384
Expenses			
Management fees	14	2,145,148	1,339,467
Performance fees	14	643,955	583,694
Administration costs		141,263	103,000
Other operating expenses	5	821,357	833,232
Dividend expenses		1,889,838	12,391,721
		<hr/>	<hr/>
Total operating expenses		5,641,561	15,251,114
		<hr/>	<hr/>
Operating profit for the year		2,785,077	3,048,270
Finance costs attributable to unitholders			
Distributions to unitholders	9	(9,404,334)	(6,060,985)
(Increase)/decrease in net assets attributable to unitholders	8	6,619,257	3,012,715
		<hr/>	<hr/>
Profit/(loss) for the year		-	-
Other comprehensive income for the year		-	-
		<hr/>	<hr/>
Total comprehensive income for the year		-	-
		<hr/>	<hr/>

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

		As at	
	Notes	30 June 2014	30 June 2013
		\$	\$
Assets			
Cash and cash equivalents	10	3,810,714	1,306,253
Receivables		1,445,624	2,427,567
Due from brokers - receipts for securities sold		65,286,833	71,488,417
Financial assets held at fair value through profit or loss	11	271,377,856	176,306,491
		<u>341,921,027</u>	<u>251,528,728</u>
Liabilities			
Futures margin account	10	59,847,765	35,278,597
Distributions payable	9	3,037,897	1,533,582
Due to brokers - payments for securities purchased		45,027,878	50,149,293
Financial liabilities held at fair value through profit or loss	12	36,667,435	61,446,625
Other liabilities		1,065,288	1,235,360
		<u>145,646,263</u>	<u>149,643,457</u>
Total liabilities (excluding net assets attributable to unitholders)			
Net assets attributable to unitholders	8	<u>196,274,764</u>	<u>101,885,271</u>
Liability attributable to unitholders		<u>(196,274,764)</u>	<u>(101,885,271)</u>
Net assets		<u>-</u>	<u>-</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

	Year ended	
	30 June 2014	30 June 2013
	\$	\$
Total equity at the beginning of the year	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
	<hr/>	<hr/>
Total comprehensive income	-	-
Transactions with owners in their capacity as equity holders	-	-
	<hr/>	<hr/>
Total equity at the end of the financial year	-	-
	<hr/>	<hr/>

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result there was no equity at the start or end of the year.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

	Notes	Year ended	
		30 June 2014 \$	30 June 2013 \$
Cash flows from operating activities			
Proceeds from sale of financial instruments held at fair value through profit or loss		2,330,093,067	2,460,225,739
Purchase of financial instruments held at fair value through profit or loss		(2,451,756,263)	(2,500,154,240)
Dividends and distributions received		11,180,720	7,410,827
Interest received		1,031,253	551,908
Other income		71,006	12,940
Interest paid		(257,032)	(171,040)
Investment management fee paid		(3,290,248)	(1,273,308)
Dividend expenses		(1,901,082)	(12,288,034)
Payment of other expenses		(649,835)	(686,358)
Net cash outflows from operating activities	15 (a)	(115,478,414)	(46,371,566)
Cash flows from financing activities			
Proceeds from applications by unitholders	8	108,608,103	29,762,121
Payments for redemptions by unit holders	8	(9,169,658)	(9,210,311)
Distributions paid		(6,024,738)	(4,858,617)
Net cash inflows from financing activities		93,413,707	15,693,193
Net decrease in cash and cash equivalents		(22,064,707)	(30,678,373)
Cash and cash equivalents at the beginning of the year		(33,972,344)	(3,293,971)
Cash and cash equivalents at the end of the year	10	(56,037,051)	(33,972,344)
Non-cash financing activities	15 (b)	1,874,138	1,287,210

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

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1 General information

These financial statements cover Aurora Fortitude Absolute Return Fund ("the Fund") as an individual entity. The Fund commenced operations on 30 April 2006 and is domiciled in Australia.

The Responsible Entity of the Fund is Aurora Funds Management Limited (the "Responsible Entity"). The Responsible Entity's registered office is Level 4, 1 Alfred Street, Level 2, Sydney, NSW 2000 (formerly Level 2, 350 George Street, Sydney, NSW 2000).

The financial statements are presented in Australian currency.

It is recommended that these financial statements are considered together with the current product disclosure document and in accordance with the provisions of the governing documents of the Fund, and any public announcements made by the Fund during the year ended 30 June 2014 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

The principal activities of the Fund during the financial year was managing its investment strategy in accordance with the provision of the Fund's Constitution and the Product Disclosure Statement.

The financial statements were authorised for issue by the directors of the Responsible Entity on 29 August 2014. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Accounting Standards Board and the *Corporations Act 2001* in Australia. Aurora Fortitude Absolute Return Fund is a for-profit unit fund for the purpose of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months after the end of each reporting period cannot be reliably determined.

Compliance with International Financial Reporting Standards

The financial statements of the Fund also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

New and amended standards adopted by the Fund

The Fund has adopted all the new and revised Standards and interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to the operations and effective for the financial year:

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

In accordance with AASB 13, the standard has been applied prospectively and the Fund has adopted a definition of fair value, as set out Note 4. The change had no material impact on the measurement of the Fund's assets and liabilities. However the Fund has included new disclosures in Note 4 of the financial statements which are required under AASB 13.

AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments have been applied retrospectively. As the Fund does not have any offsetting arrangements in place, the application of the amendments has had no material impact on disclosures or on the amounts recognised in the financial statements.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements

This standard removes the individual key management personnel disclosure requirements in AASB 124 'Related Party Disclosures'. The Fund has removed the individual key management personnel disclosure in Note 14. This is provided in the financial statements of Aurora Funds Limited.

2 Summary of significant accounting policies (continued)

New and amended standards adopted by the Fund (continued)

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle

The Annual Improvements to AASBs 2009 - 2011 have made a number of amendments to AASBs. The amendments that are relevant to the Fund are the amendments to AASB 101 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

AASB 2012-9 Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039

This standard makes amendment to AASB 1048 'Interpretation of Standards' following the withdrawal of Australian Interpretation 1039 'Substantive Enactment of Major Tax Bills in Australia'. The adoption of this amending standard does not have any material impact on the financial statements.

AASB CF 2013-1 Amendments to the Australian Conceptual Framework and AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part A Conceptual Framework)

This amendment has incorporated IASB's Chapters 1 and 3 Conceptual Framework for Financial Reporting as an Appendix to the Australian Framework for the Preparation and Presentation of Financial Statements. The amendment also included not-for profit specific paragraphs to help clarify the concepts from the perspective of not-for-profit entities in the private and public sectors. As a result the Australian Conceptual Framework now supersedes the objective and the qualitative characteristics of financial statements, as well as the guidance previously available in Statement of Accounting Concepts SAC 2 'Objective of General Purpose Financial Reporting'. The adoption of this amending standard does not have any material impact on the financial statements.

(b) New accounting standards and interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2014 reporting period and have not been early adopted by the Fund as disclosed in the table below.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 1031 'Materiality' (2013)	1 January 2014	30 June 2015
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (Amendments to AASB 132)'	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	1 January 2014	30 June 2015
AASB 2014-1 'Amendments to Australian Accounting Standards' – Part E: 'Financial Instruments'	1 January 2015	30 June 2016

2 Summary of significant accounting policies (continued)

(b) New accounting standards and interpretations (continued)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2013-3 'Amendments to AASB 136 – Recoverable amount Disclosures for Non-Financial Assets'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards'	1 January 2015	30 June 2016
- Part A 'Annual Improvements 2010-2012 and 2011-2013 Cycles'		
- Part C 'Materiality'		

As at the date of authorisation of the Financial Statements the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
IFRS 9 'Financial Instruments'	1 January 2018	30 June 2019
IFRS 15 'Revenue from Contracts with Customers'	1 January 2017	30 June 2018

The Fund has not yet assessed the potential impact of these standards.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions

(c) Financial instruments

(i) Classification

Fund investments are classified at fair value through profit or loss when the financial asset or liability is either held for trading or it is designated as at fair value through profit or loss.

A financial asset or liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset or liability other than a financial asset or liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset or liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Fund's documented investment strategy; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

The Fund may sell securities short in anticipation of a decline in fair value of that security. When the Fund sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale. At the reporting date, the liability for the obligation to replace the borrowed security is valued at the net fair value, The Fund pays a security borrowing fee for short sales which are recognised in the Statement of Profit or Loss and Other Comprehensive Income on an accruals basis.

The Fund's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date that it becomes party to the contractual agreement (trade date) and recognise changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership

(iii) Measurement

Financial assets and liabilities held at fair value through profit or loss

At initial recognition, the Fund measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of Comprehensive Income within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise. This also includes dividend expense on short sales of securities, which have been classified at fair value through profit or loss.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Fund is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making.

Further details on how the fair values of financial instruments are determined are disclosed in Note 4.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(d) Net assets attributable to unitholders

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders. The units are classified as financial liabilities as the Fund is required to distribute its distributable income. The units can be put back to the Fund at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to redeem units in the Fund.

(e) Cash and cash equivalents

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within futures margin account in the Statement of Financial Position.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

2 Summary of significant accounting policies (continued)

(f) Margin accounts

Margin accounts comprise cash held as collateral for derivative transactions and short sales. The cash is held by the broker and is only available to meet margin calls.

(g) Investment income

Interest income is recognised in profit or loss for all financial instruments that are not held at fair value through profit or loss using the effective interest method. Interest income on assets held at fair value through profit or loss is included in the net gains/(losses) on financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2(c).

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Dividend income is recognised on the ex-dividend date, inclusive of any related foreign withholding tax. The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the Statement of Comprehensive Income.

Dividends declared on securities sold short are recorded as a dividend expense on the ex-dividend date.

Fund distributions are recognised on an entitlements basis.

(h) Expenses

All expenses, including Responsible Entity's fees and custodian fees, are recognised in the Statement of Comprehensive Income on an accruals basis.

(i) Income tax

Under current legislation, the Fund is not subject to income tax as unitholders are presently entitled to the income of the Fund.

The benefit of imputation credits and foreign tax paid is passed on to unitholders.

(j) Distributions

The Fund distributes its distributable income in accordance with the Fund's constitution, to unitholders by cash or reinvestment. The distributions are recognised in profit or loss as finance costs attributable to unitholders.

(k) Increase/(decrease) in net asset attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the Statement of Comprehensive Income as finance costs.

(l) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Fund competes for funds and is regulated. The Australian dollar is also the Fund's presentation currency.

2 Summary of significant accounting policies (continued)

(l) Foreign currency translation (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported in the Statement of Comprehensive Income on a net basis within net gains/(losses) on financial instruments held at fair value through profit or loss

(m) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and for equities normally settled within three business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

(n) Receivables

Receivables may include amounts for dividends, interest, Fund distributions and securities sold where settlement has not yet occurred. Dividends and Fund distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in Note 2(f) above. Amounts are generally received within 30 days of being recorded as receivables.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the Statement of Comprehensive Income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Comprehensive Income.

(o) Payables

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period.

As the Fund has a contractual obligation to distribute its distributable income, a separate distribution payable is recognised in the Statement of Financial Position as at the end of each reporting period where this amount remains unpaid as at the end of the reporting period.

(p) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

Unit redemption prices are determined by reference to the net assets for of the Fund, divided by the number of units on issue.

2 Summary of significant accounting policies (continued)

(q) Goods and Services Tax ("GST")

The GST incurred on the costs of various services provided to the Fund by third parties, has been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits ("RITCs") at a rate of 55% or 75%; hence management fees, custodial fees and other expenses have been recognised in the Statement of Comprehensive Income net of the amount of GST recoverable from the Australian Taxation Office ("ATO"). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

(r) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Fund's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example, over-the-counter derivatives or unquoted securities are fair valued using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them.

For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to the immediate or short term nature of these financial instruments.

3 Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management program focuses on ensuring compliance with the Fund's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. Financial risk management is carried out by the investment management department of the responsible entity under policies approved by the Board of Directors of the Responsible Entity (the "Board").

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of price risks and ratings analysis for credit risk.

(a) Market risk

(i) Price risk

Price risk is the risk that the value of the Fund's investment portfolio will fluctuate as a result of changes in market prices. This risk is managed by the Responsible Entity through ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits. Market price risk analysis is conducted regularly by the Responsible Entity on a total portfolio basis, which includes the effect of derivatives.

The Fund is exposed to equity securities and derivative securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Investments are classified in the Statement of Financial Position as at fair value through profit or loss. All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

The Investment Strategy is predominantly to invest in a portfolio of fully franked dividend paying companies listed on the Australian Securities Exchange (ASX) while employing a risk management overlay to limit the exposure to Australian equities to around 50% of the net assets of the Fund.

A sensitivity analysis was performed showing how the effect of a 10 % increase (2013: 10 %) and a 10 % decrease (2013: 10 %) in market prices would have increased/decreased the impact on operation profit/net assets attributable to unitholders as at 30 June 2014. The results of this analysis are disclosed in 'Note 3(b) - sensitivity analysis' on page 19.

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk

Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates.

The Fund has minimal financial assets and liabilities denominated in other currencies and held nearly all its financial instruments in Australian dollars. Exposure to foreign exchange risk is considered to be immaterial and no sensitivity analysis was performed.

(iii) Cash flow and fair value interest risk

The Fund is exposed to cash flow interest risk on financial instruments with variable interest rates.

The Fund's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its Statement of Financial Position and cash flows. The risk is measured using sensitivity analysis. The only financial asset held by the Fund subject to interest rate risk is cash and cash equivalents.

The Fund has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Fund invests and impact on the valuation of certain assets that use interest rates as input in their valuation model. Therefore, the sensitivity analysis may not fully indicate the total effect on the Fund's net assets attributable to unitholders of future movements in interest rates.

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. There is no significant direct interest rate risk in the Fund as the Fund does not hold interest rate sensitive financial instruments. The interest rates on deposits at bank and on bank overdrafts are both rates referenced to RBA cash rate.

A sensitivity analysis was performed showing how the effect of a 100 basis point increase (2013: 100 basis point) and a 100 basis point decrease (2013: 100 basis point) in interest rates on cash and cash equivalents would have increased/decreased the impact on operating profit/net assets attributable to unitholders as at 30 June 2014. The results of this analysis are disclosed in Note 3(b) – sensitivity analysis' on page 19.

The table below summarises the Fund's exposure to interest rate risk. It includes the Fund's assets and liabilities at fair value, categorised by the earlier of contractual repricing or maturity dates.

	Floating interest rate	Fixed interest rate	Non interest bearing	Total
30 June 2014				
Financial Assets				
Cash and cash equivalents	3,810,714	-	-	3,810,714
Receivables	-	-	1,445,624	1,445,624
Due from brokers - receipts for securities sold	-	-	65,286,833	65,286,833
Financial assets held at fair value through profit or loss	-	-	271,377,856	271,377,856
Financial Liabilities				
Futures margin account	(59,847,765)	-	-	(59,847,765)
Distributions payable	-	-	(3,037,897)	(3,037,897)
Due to brokers - payments for securities purchased	-	-	(45,027,878)	(45,027,878)
Financial liabilities held at fair value through profit or loss	-	-	(36,667,435)	(36,667,435)
Other liabilities	-	-	(1,065,288)	(1,065,288)
Net exposure	(56,037,051)	-	252,311,815	196,274,764

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest risk (continued)

	Floating interest rate	Fixed interest rate	Non interest bearing	Total
30 June 2013				
Financial Assets				
Cash and cash equivalents	1,306,253	-	-	1,306,253
Receivables	-	-	2,427,567	2,427,567
Due from brokers - receipts for securities sold	-	-	71,488,417	71,488,417
Financial assets held at fair value through profit or loss	-	-	176,306,491	176,306,491
Financial Liabilities				
Futures margin account	(35,278,597)	-	-	(35,278,597)
Distributions payable	-	-	(1,533,582)	(1,533,582)
Due to brokers - payments for securities purchased	-	-	(50,149,293)	(50,149,293)
Financial liabilities held at fair value through profit or loss	-	-	(61,446,625)	(61,446,625)
Other liabilities	-	-	(1,235,360)	(1,235,360)
Net exposure	(33,972,344)	-	135,857,615	101,885,271

(b) Summarised sensitivity analysis

The following tables summarise the sensitivity of the Fund's operating profit and net assets attributable to unitholders to price risk and interest rate risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates, historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of and/or correlation between the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.

	Price risk		Interest rate risk	
	Impact on operating profit/Net assets attributable to unitholders			
	-10%	10%	100 bps	100 bps
30 June 2014	(23,471,042)	23,471,042	(560,371)	560,371
30 June 2013	(11,485,987)	11,485,987	(339,723)	339,723

In determining the impact of an increase/decrease in net assets attributable to unitholders arising from market risk, the Responsible Entity has considered prior period and expected future movements of the portfolio information in order to determine a reasonably possible shift in assumptions.

3 Financial risk management (continued)

(c) Credit risk

The Fund is exposed to credit risk which is the risk that the counterparty will be unable to pay amounts in full when they fall due. The main concentration of credit risk to which the Fund is exposed arises from cash and cash equivalents and amounts due from other receivables.

Concentrations of credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limits, are approved; and
- ensuring that transactions are undertaken with a large number of counterparties.

The Fund has a prime brokerage agreement with UBS, the Fund's prime broker, and some of the Fund's assets will be pledged as collateral for amounts drawn under the overdraft facility. At balance sheet date \$223,384,031 (2013; \$99,667,161) of assets is pledged as collateral.

Certain assets of the Fund will be held by the Custodian in segregated accounts together with assets deposited by it on behalf of other customers of the Custodian or Prime Broker. Such assets will not be mixed with the property of the Custodian or the Prime Broker and should not be available to third party creditors of the Custodian or Prime Broker in the event of insolvency of the Custodian or Prime Broker (as the case may be). However, the assets of the Fund held by a Custodian will be subject to a charge to secure the Fund's obligations to the Prime Broker.

There were no other significant concentrations of credit risk to counterparties at 30 June 2014. No individual investment, other than cash, exceeded 10 % of the net assets attributable to unit holders at 30 June 2014. The Fund only has a material credit risk exposure to UBS that holds most of the Fund's cash assets at 30 June 2014.

An analysis of exposures by rating is set out in the table below:

	Year ended	
	30 June 2014	30 June 2013
	\$	\$
Cash at bank, margin accounts with broker and short term bank deposits		
Rating		
AA-	3,810,714	1,306,253
A	(59,847,765)	(35,278,597)
Total	<u>(56,037,051)</u>	<u>(33,972,344)</u>

(i) Settlement of securities transactions

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment. Payment is made once purchase orders on the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

(ii) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of A or higher.

In accordance with the Fund's policy, the Responsible Entity monitors the Fund's credit position on a daily basis, and the Board of Directors reviews it on a quarterly basis.

(iii) Other

The Fund is not materially exposed to credit risk on other financial assets.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

3 Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily cash redemptions of redeemable units and daily margin calls on derivatives. It therefore primarily holds investments that are traded in an active market and can be readily disposed.

The majority of the Fund's listed securities are considered readily realisable, as they are listed on the Australian Securities Exchange.

The Fund may, from time to time, invest in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer or counterparty.

In order to manage the Fund's overall liquidity, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

Units are redeemed on demand at the unitholder's option. However, the Board of Directors of the Responsible Entity does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period. The amounts in the table are the contractual undiscounted cash flows.

	Less than 1 month \$	1-6 months \$	6-12 months \$	1-2 years \$	Total \$
As at 30 June 2014					
Futures margin account	59,847,765	-	-	-	59,847,765
Distributions payable	3,037,897	-	-	-	3,037,897
Due to brokers - payments for securities purchased	45,027,878	-	-	-	45,027,878
Financial liabilities held at fair value through profit or loss	36,667,435	-	-	-	36,667,435
Other liabilities	1,065,288	-	-	-	1,065,288
Net assets attributable to unitholders	196,274,764	-	-	-	196,274,764
Contractual cash flows (excluding gross settled derivatives)	341,921,027	-	-	-	341,921,027
As at 30 June 2013					
Futures margin account	35,278,597	-	-	-	35,278,597
Distributions payable	1,533,582	-	-	-	1,533,582
Due to brokers - payments for securities purchased	50,149,293	-	-	-	50,149,293
Financial liabilities held at fair value through profit or loss	61,446,625	-	-	-	61,446,625
Other liabilities	1,235,360	-	-	-	1,235,360
Net assets attributable to unitholders	101,885,271	-	-	-	101,885,271
Contractual cash flows (excluding gross settled derivatives)	251,528,728	-	-	-	251,528,728

3 Financial risk management (continued)

(c) Liquidity risk (continued)

The following table analyses the Fund's net settled derivative financial instruments for which the contractual maturities are considered important to understanding of the timing of cash flows based on the Fund's investment strategy.

	Less than 1 month \$	1-6 months \$	6-12 months \$	1-2 years \$	Total \$
As at 30 June 2014					
Net settled derivatives					
Australian traded options	-	12,079,649	-	-	12,079,649
Australian share price index futures	-	(17,500)	-	-	(17,500)
Australian warrants	-	169,399	-	-	169,399
Total net settled derivatives	-	12,231,548	-	-	12,231,548
As at 30 June 2013					
Net settled derivatives					
Australian traded options	-	2,570,353	-	-	2,570,353
Total net settled derivatives	-	2,570,353	-	-	2,570,353

4 Fair value measurement

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets / liabilities at fair value through profit or loss (FVTPL)
- Financial assets / liabilities held for trading
- Derivative financial instruments

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period. AASB 13 requires disclosure of fair value measurements by level of the following fair value hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

(i) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in Note 2. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Fund holds derivatives with offsetting market risks, it uses midmarket prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

4 Fair value measurement (continued)

(ii) Fair value in an inactive or unquoted market (level 2 and level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date.

Investments in other unlisted unit Funds are recorded at the redemption value per unit as reported by the investment managers of such funds.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

Recognised fair value measurements

The following table presents the Fund's assets and liabilities measured and recognised at fair value for the year ended 30 June 2014 and 30 June 2013.

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
As at 30 June 2014				
Financial assets				
Financial assets held for trading:				
Derivatives (Note 13)	14,281,753	-	-	14,281,753
Spot foreign exchange receivable	124,263	-	-	124,263
Financial assets designated at fair value through profit or loss:				
Equity securities	254,510,067	-	-	254,510,067
Asset backed securities	1,815,305	-	-	1,815,305
Corporate bonds	646,468	-	-	646,468
Total	271,377,856	-	-	271,377,856
Financial liabilities				
Financial liabilities held for trading:				
Equity securities sold short	34,493,031	-	-	34,493,031
Derivatives (Note 13)	2,050,205	-	-	2,050,205
Spot foreign exchange payable	124,199	-	-	124,199
Total	36,667,435	-	-	36,667,435

4 Fair value measurement (continued)

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
As at 30 June 2013				
Financial assets				
Financial assets held for trading:				
Derivatives (Note 13)	3,373,852	-	-	3,373,852
Financial assets designated at fair value through profit or loss:				
Equity securities	172,932,639	-	-	172,932,639
Total	176,306,491	-	-	176,306,491
Financial liabilities				
Financial liabilities held for trading:				
Equity securities sold short	60,643,126	-	-	60,643,126
Derivatives (Note 13)	803,499	-	-	803,499
Total	61,446,625	-	-	61,446,625

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities and certain listed unit Funds.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include certain listed equities, certain listed unit Funds, and over-the-counter derivatives. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. As at 30 June 2014 no (2013: \$ nil) financial instruments were classified as Level 3.

Transfers between levels

There have been no transfers between levels for the year ended 30 June 2014 and 30 June 2013.

5 Other operating expenses

	Year ended	
	30 June 2014 \$	30 June 2013 \$
Bank, prime broker and brokerage fees	304,980	361,866
Interest expense	265,645	280,991
Trade commissions	231,241	171,402
Audit fee expense	18,312	17,988
General fund expenses	1,179	985
Total other operating expenses	821,357	833,232

6 Auditors Remuneration

During the year the following fees were paid or payable by the Responsible Entity on behalf of the Fund for services provided by the auditor for the Fund. The auditor of the Fund is Deloitte Touche Tohmatsu (2013: PricewaterhouseCoopers).

	Year ended	
	30 June 2014	30 June 2013
	\$	\$
Audit and other assurance services		
Audit and review of financial statements	7,720	8,278
Audit of the compliance plan	3,000	1,429
	10,720	9,707
Taxation services		
Tax compliance services	4,000	7,000
	4,000	7,000
Total remuneration for tax services	4,000	7,000
Total remuneration paid to auditors	15,500	16,707

7 Net gains on financial instruments held at fair value through profit or loss

	Year ended	
	30 June 2014	30 June 2013
	\$	\$
Financial assets		
Net realised gains on financial assets held at fair value through profit or loss	314,175	10,128,247
Net unrealised losses on financial assets held at fair value through profit or loss	(3,213,128)	(1,902,924)
	(2,898,953)	8,225,323
Total net (losses)/gains on financial instruments held at fair value through profit or loss	(2,898,953)	8,225,323

8 Net assets attributable to unitholders

Movements in number of units and net assets attributable to unitholders during the year were as follows:

	Year ended			
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	Number of units	Number of units	\$	\$
Opening balance	110,236,871	84,398,440	101,885,271	80,357,130
Applications	116,505,131	31,417,296	108,598,663	29,762,121
Redemptions	(10,169,001)	(6,950,191)	(9,464,051)	(6,508,475)
Units issued upon reinvestment of distributions	2,020,056	1,371,326	1,874,138	1,287,210
Decrease in net assets attributable to unitholders	-	-	(6,619,257)	(3,012,715)
Closing balance	218,593,057	110,236,871	196,274,764	101,885,271

As stipulated within the Fund Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

8 Net assets attributable to unitholders (continued)

Capital risk management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Fund constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

9 Distribution to unitholders

The distributions for the year were as follows:

	Year ended			
	30 June 2014		30 June 2013	
	\$	CPU	\$	CPU
Distributions paid	6,366,437	4.18	4,527,403	4.72
Distributions payable	3,037,897	1.39	1,533,582	1.39
Total distributions	9,404,334	5.57	6,060,985	6.11

10 Cash and cash equivalents

	As at	
	30 June 2014	30 June 2013
	\$	\$
Cash at bank	3,810,714	1,306,253
Futures margin account	(59,847,765)	(35,278,597)
Total	(56,037,051)	(33,972,344)

11 Financial assets held at fair value through profit or loss

	As at	
	30 June 2014	30 June 2013
	\$	\$
Held for trading		
Derivatives (Note 13)	14,281,753	3,373,852
Spot foreign exchange receivable	124,263	-
Total held for trading	14,406,016	3,373,852
Designated at fair value through profit or loss		
Equity securities	254,510,067	172,932,639
Asset backed securities	1,815,305	-
Corporate bonds	646,468	-
Total designated at fair value through profit or loss	256,971,840	172,932,639
Total financial assets held at fair value through profit or loss	271,377,856	176,306,491
Comprising:		
Derivatives		
Exchange traded options	14,112,354	3,373,852
Exchange traded warrants	169,399	-
Total derivatives	14,281,753	3,373,852

12 Financial liabilities held at fair value through profit or loss

	As at	
	30 June 2014	30 June 2013
	\$	\$
Held for trading		
Derivatives (Note 13)	2,050,205	803,499
Spot foreign exchange payable	124,199	-
Total held for trading	2,174,199	803,499
Designated at fair value through profit or loss		
Australian equity securities	34,493,031	60,643,126
Total designated at fair value through profit or loss	34,493,031	60,643,126
Total financial liabilities held at fair value through profit or loss	36,667,435	61,446,625
Comprising:		
Derivatives		
Australian exchange traded options	2,032,705	803,499
Australian share price index futures	17,500	-
Total derivatives	2,050,205	803,499

13 Derivative financial instruments

In the normal course of business the Fund enters into transactions in various derivative financial instruments with certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include many different instruments such as forwards, futures and options. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Fund's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Fund against a fluctuation in market values or to reduce volatility;
- a substitution for trading of physical securities; and
- adjusting asset exposures within the parameters set in the investment strategy.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Fund.

The Fund holds the following derivative instruments.

(a) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are organised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

(b) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price risk. Options held by the Fund are exchange-traded. The Fund may be exposed to credit risk on purchased options to the extent of their carrying amount, which is their fair value. Options are settled on a gross basis.

(c) Warrants

A warrant is a contractual arrangement under which the issuer grants the holder the right to purchase securities (usually equity) from the issuer at a specific price within a certain time frame. Warrants held by the Fund are exchange traded.

The Fund's derivative financial instruments at year-end are detailed below:

	Fair values contract/notional \$	Assets \$	Liabilities \$
30 June 2014			
<i>Australian exchange traded derivatives</i>			
Australian share price index futures	2,694,000	-	17,500
Exchange traded options	389,929,876	14,112,354	2,032,705
Exchange traded warrants	84,699	169,399	-
Total Australian exchange traded derivatives	392,708,575	14,281,753	2,050,205
	Fair values contract/notional \$	Assets \$	Liabilities \$
30 June 2013			
<i>Australian exchange traded derivatives</i>			
Exchange traded options	81,709,856	3,373,852	803,499
Total Australian exchange traded derivatives	81,709,856	3,373,852	803,499

13 Derivative financial instruments (continued)

Risk exposures and fair value measurements

Information about the Fund's exposure to credit risk, foreign exchange risk, interest rate risk and about the methods and assumptions used in determining fair values is provided in Note 3 and 4 to the financial statements. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial instruments disclosed above.

14 Related party transactions

Responsible Entity

The Responsible Entity of Aurora Fortitude Absolute Return Fund is Aurora Funds Management Limited.

Key management personnel unitholdings

The key management personnel of Aurora Fortitude Absolute Return Fund held units in the Fund as follows:

Unitholder	Number of Units held opening	Number of Units held closing	Fair value of investment	% Interest held	Number of units acquired	Number of units disposed	Distributions paid/payable by the Fund
John Corr	252,938	268,463	241,697	0.123	15,525	-	14,614
Simon Lindsay	116,661	140,097	126,129	0.064	23,436	-	7,190
Total	369,599	408,560	367,826	0.187	38,961	-	21,804

30 June 2013

Unitholder	Number of Units held opening	Number of Units held closing	Fair value of investment	% Interest held	Number of units acquired	Number of units disposed	Distributions paid/payable by the Fund
John Corr	235,853	252,938	234,144	0.229	17,085	-	11,533
Simon Lindsay	7,865	116,661	107,996	0.106	108,796	-	3,555
Total	243,718	369,599	342,140	0.335	125,881	-	15,088

Key management personnel compensation

Key management personnel are paid by the Aurora Funds Management Limited. Payments made from the Fund to the Aurora Funds Management Limited do not include any amounts directly attributable to the compensation of key management personnel.

Related party unitholdings

There was no interest in the Fund held by other management investment schemes also managed by the Responsible Entity.

Other transactions within the Fund

Apart from those details disclosed in this note, no other key management personnel have entered into a material contract with the Fund during the financial year and there were no material contracts involving key management personnel's interests existing at year end.

Responsible Entity's/Manager's fees and other transactions

Under the terms of the Fund Constitution, the Responsible Entity is entitled to receive fees, calculated by reference to the average daily net assets (excluding net assets attributable to unitholders) of the Fund as follows:

- (i) management fee payable to the Responsible Entity is 1.4865% (GST inclusive, net of RITC) per annum.
- (ii) performance fee of 20.5% (GST inclusive, net of RITC) per annum is applied to the total excess between the Total Unit Holder Return (TUR) and the S&P ASX 200 Accumulation Index.

All expenses in connection with the preparation of accounting records and the maintenance of the unit register are reimbursed in accordance with the Fund's Constitution.

14 Related party transactions (continued)

Responsible Entity's/Manager's fees and other transactions (continued)

The transactions during the year between the Fund and the Responsible Entity were as follows:

	30 June 2014	30 June 2013
	\$	\$
Management fees for the year paid by the Fund to the Responsible Entity	2,145,148	1,339,467
Performance fees for the year paid by the Fund to the Responsible Entity	643,955	583,694
	2,789,103	1,923,161

* Performance fees are calculated on the net asset value for unit pricing purposes which includes franking credits.

Related party unitholdings

Aurora Absolute Return Fund an investment scheme managed by the Responsible Entity held 25,721,191 units in the Fund (2013: 10,207,082 units), which is equivalent to 11.767 % (2013: 9.259 %) of Fund.

There was no interest in the Fund held by other managed investment schemes also managed by the Responsible Entity.

15 Reconciliation of profit/(loss) to net cash outflow from operating activities

	Year ended	
	30 June 2014	30 June 2013
	\$	\$
(a) Reconciliation of profit to net cash outflows from operating activities		
Profit/(loss) for the year	-	-
Decrease in net assets attributable to unitholders	(6,619,258)	(3,012,715)
Distributions to unitholders	9,404,334	6,060,985
Proceeds from sale of financial instruments held at fair value through profit or loss	2,330,093,067	2,460,225,739
Purchase of financial instruments held at fair value through profit or loss	(2,451,756,263)	(2,500,154,240)
Net gains on financial instruments held at fair value through profit or loss	2,898,953	(8,225,323)
Net change in receivables	972,577	(2,151,422)
Net change in payables	(471,825)	885,410
Net cash outflows from operating activities	(115,478,415)	(46,371,566)
(b) Non-cash financing activities		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	1,874,138	1,287,210

As described in Note 2(j), income not distributed is included in net assets attributable to unitholders. The change in this amount each year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

16 Events occurring after reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the Statement of Financial Position as at 30 June 2014 or on the results and cash flows of the Fund for the year ended on that date.

17 Commitments

There were no commitments for expenditure at 30 June 2014 (2013: nil).

18 Contingent assets and liabilities

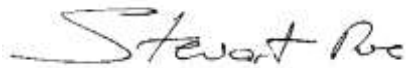
There were no contingent assets and liabilities at 30 June 2014 (2013: nil).

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 10 to 30 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2014 and of its performance for the financial year ended on that date,
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.



Steuart Roe

Director

Sydney, NSW
29 August 2014

Independent Auditor's Report to the Unitholders of Aurora Fortitude Absolute Return Fund

We have audited the accompanying financial report of Aurora Fortitude Absolute Return Fund ("the Fund"), which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Fund as set out on pages 6 to 32.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity, Aurora Funds Management Limited, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors of the Responsible Entity also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

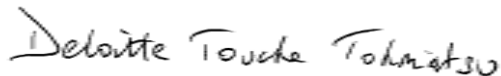
Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Responsible Entity, would be in the same terms if given to the directors as at the time of this auditor's report.

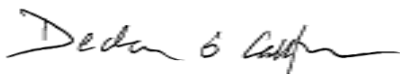
Opinion

In our opinion:

- (a) the financial report of Aurora Fortified Absolute Return Fund is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Fund's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.



DELOITTE TOUCHE TOHMATSU



Declan O'Callaghan
Partner
Chartered Accountants
Sydney, 29 August 2014