

INVESTMENT OBJECTIVE

The Aurora Fortitude Absolute Return Fund (AFARF), aims to produce positive returns irrespective of the direction of the share market by investing in predominantly Australian listed securities and derivatives.

FUND PERFORMANCE TO 31 JANUARY 2014

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	0.32%	0.21%	-3.03%
3 months	1.59%	0.63%	-3.54%
6 months	2.60%	1.26%	5.06%
12 months	8.12%	2.72%	11.06%
2 years (p.a)	5.87%	3.18%	15.47%
3 years (p.a)	5.20%	3.70%	7.76%
5 years (p.a)	5.20%	3.78%	12.90%
Annualised Return Since Inception (Mar 05) - p.a.	8.11%	4.85%	7.30%
Standard Deviation	2.75%	0.41%	14.28%

Volatility - You Ain't Seen Nothing Yet

The S&P/ASX 200 Accumulation Index concluded the first month of the New Year with a negative return of -3.03%. The Aurora Fortitude Absolute Return Fund (AFARF) finished +0.32% versus the cash benchmark of +0.21%. The ASX200 fell in line with other developed markets (S&P 500 -3.6%; UK FTSE -3.5%) whilst emerging markets saw some heavy falls. The majority of post event commentary for these falls centred on the Federal Reserve's decision to reduce asset purchases by a further \$10bn per month, thus withdrawing liquidity from emerging markets. This action was well telegraphed and the dramatic press commentary surrounding the falls and their reasons were overdramatic. The Aurora Fortitude Absolute Return Fund aims to generate positive returns in all market cycles and we continue to buy insurance for unforeseen events.

Yield (+0.14%) was the best performing strategy with the vast majority of instruments performing well. The Yancoal Contingent Value Rights (YALN.ASX) was one of the Fund's best performing positions in lead up to the redemption date. Yancoal (YAL.ASX) reiterated that these CVR shares will cease trading in late February to facilitate a timely redemption in early March. We continue to add to this position at a relatively high yield. The Antares Convertible Notes (AZZG.ASX), a much smaller position, also performed well over their ex-interest period.

Long/Short (+0.08%) performed well despite mostly comprising of long positions in the small to mid cap space. Stonewall Resources (SWJ.ASX) is continuing the process of selling the company's assets to Shandong Qixing via a share sale agreement. This has received shareholder approval but still requires offshore regulatory approvals. ERM Power (EPW.ASX) continued its recovery from a poor digestion period after their small capital raising in November 2013. We expect further catalysts to result from announcement of the

competitive bid for the state government's Macquarie Generation utility asset. There were no material detractors for the month.

Twenty-First Century FOX was (FOX.ASX) was the talk of the town in the dual listed space after they announced that the company will seek shareholders' approval to delist from the Australian Stock Exchange and solely trade in the USA. This provided both liquidity and volatility which resulted in a strong return for **Convergence** (+0.09%) for the month. Resmed (RMD.ASX) provided good opportunities between Australia and the USA. Paladin (PDN.ASX) was a small negative contributor as the stock unexpectedly sold off post a sale of a minority stake in its flagship mine.

January proved to be a very quiet time for **Mergers and Acquisitions** (+0.06%) except for Dexus Property (DXS.ASX) declaring its bid for Commonwealth Property Office Fund (CPA.ASX) unconditional. We expect this year will provide a raft of new deals across the market capitalisation spectrum as companies seek to create value, and extract synergies via mergers and takeovers. The discussions in the press, by the investment community and the limited statements by the companies themselves regarding a tie-up between David Jones (DJS.ASX) and Myers (MYR.ASX) are certainly interesting.

The protective **Options** strategy was a slight negative -0.05%. Contrary to public perception, the market was only slightly more volatile (1 point to be precise) than the implied market cost. The Fund currently owns longer dated puts having purchased these with a view that implied volatility is cheap at this end of the curve, particularly in Aussie banks. We expect these will do well over the course of the year whilst not providing an immediate volatility mark up in January. As is usually the case, the Fund currently owns both puts and calls over the S&P/ASX 200 index out to March expiry.

FINANCIAL YEAR PERFORMANCE after fees (%)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin/Year
13-14	1.13	0.18	0.53	0.28	0.52	0.74	0.32						3.76%
12-13	0.61	0.36	0.33	-0.23	0.54	0.02	-0.19	0.80	0.42	1.68	0.78	0.46	5.70%
11-12	0.51	1.19	0.11	0.43	0.67	0.34	0.34	0.49	0.45	0.44	0.26	0.57	5.93%
10-11	-1.60	0.86	0.58	1.61	1.37	1.05	0.31	0.90	0.16	1.25	-1.46	-0.60	4.44%
09-10	0.55	0.67	-0.58	0.82	-0.02	0.82	0.44	-0.13	-0.73	0.43	0.91	-0.49	2.79%
08-09	0.45	1.14	2.61	3.12	0.21	0.37	0.21	0.01	0.28	0.26	1.20	1.55	12.05%
07-08	0.63	3.06	-0.30	0.71	1.32	-0.23	1.34	0.17	0.27	1.21	0.63	0.18	9.40%
06-07	1.55	0.27	1.30	0.61	0.14	0.80	1.14	0.52	0.32	1.40	0.21	0.36	9.00%
05-06	0.92	0.18	0.52	1.34	0.28	-0.50	1.71	1.82	1.38	1.82	3.63	0.57	14.50%
04-05	-	-	-	-	-	-	-	-	1.02	0.96	1.50	1.58	5.16%

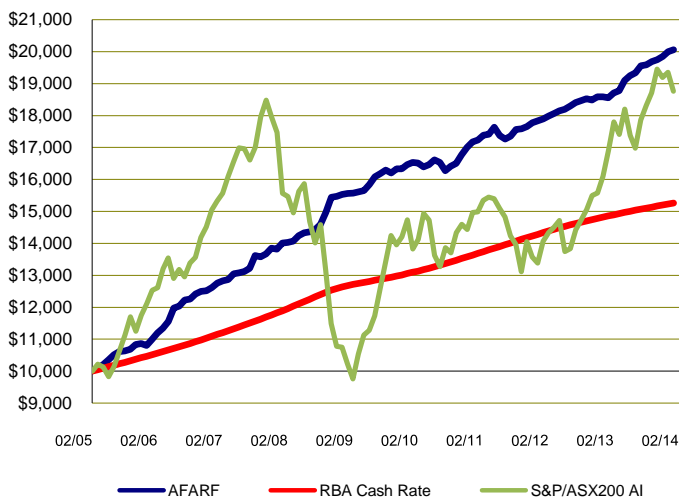
FUND OVERVIEW

The 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 Fund aims to produce positive returns regardless of equity market conditions.

We have a wide discretion over the investments that may be held by the Fund. The pursuit of a diverse range of investments means that the Fund's returns are not necessarily dependent on the stock market's direction. In selecting investments for the Fund we follow a rigorous investment selection process which includes detailed qualitative and fundamental research.

We research various criteria and reasons to invest in particular situations. These criteria may pertain to fundamental and quantitative analysis, company event situations such as 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 Fund uses derivatives for risk management as well as to create new positions.

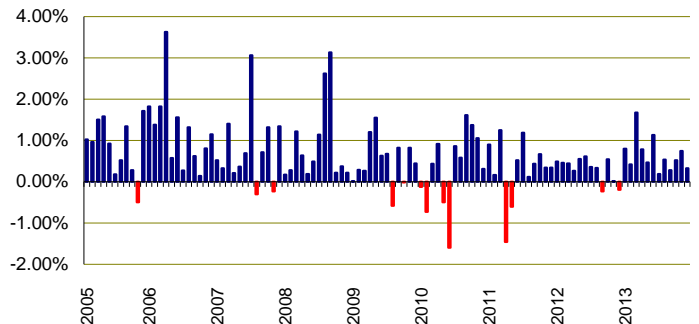
AFARF vs RBA Cash vs S&P/ASX200AI (\$)*



FUND DISTRIBUTIONS (per Unit)

Period (per Unit)	Amount (\$)	Yield at NAV (p.a)
June 2005 to June 2011	\$0.5944	
30/09/2011	\$0.0193	7.93%
31/12/2011	\$0.0194	8.00%
31/03/2012	\$0.0193	8.00%
30/06/2012	\$0.0205	8.55%
30/09/2012	\$0.0190	8.00%
31/12/2012	\$0.0142	6.00%
31/03/2013	\$0.0140	6.00%
30/06/2013	\$0.0298	12.87%
30/09/2013	\$0.0139	6.00%
31/12/2013	\$0.0139	6.00%
Total since inception	\$0.1833	

Monthly Returns Since Inception (%)



INVESTMENT MANAGER

Fortitude Capital Pty Ltd (AFSL 221131) is a wholly-owned subsidiary of Aurora Funds Limited (Aurora). With over \$613 million in funds under management/administration, Aurora was listed on the ASX in July 2010 under the ASX Code: AFV.

The Aurora Group provides asset management and responsible entity/trustee services for Australian and New Zealand investors.

Aurora is also the issuer of the:

- Aurora Dividend Income Trust (Managed Fund) (ASX code: AOD)
- Aurora Absolute Return Fund (ASX code: ABW)
- Aurora Global Income Trust (ASX code: AIB)
- Aurora Property Buy-Write Income Trust (ASX code: AUP)
- van Eyk Blueprint Alternatives Plus (ASX code: VBP)

KEY FACTS		AFARF	RBA Cash
Feeder Fund	Aurora Absolute Return (ABW)	Sharpe Ratio	1.19
APIR Code	AFM0005AU	Sortino Ratio	0.73
Benchmark	RBA Cash Rate	Best month	3.63%
Prime Broker/Custodian	UBS	Worst month	-1.60%
Administrator	Unity Fund Services	Positive months	0.88
Auditors	Deloitte Touche Tohmatsu	Net Asset Value per Unit	\$ 0.9324
Fund Size	\$161.5 million	Exit Price per Unit	\$ 0.9322

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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 Fortitude Absolute Return Fund (ARSN 145 894 800). 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 PDS dated 7th October 2010 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. The investment objective is expressed after the deduction of fees and before taxation. See the PDS for details on 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. While we aim to achieve the objective, the objective and returns are not guaranteed. The payment of franking credits to Unit holders is subject to the Fund achieving a taxable profit in that year. For further information please visit www.fortitudedecapital.com or www.aurorafunds.com.au. *AFARF vs RBA vs S&P/ASX200AI graph generated with compounded monthly returns, net of fees.