

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 2016

	AFARF*	RBA CASH RATE	OUTPERFORMANCE
1 month	0.36%	0.17%	0.19%
3 months	0.40%	0.50%	-0.10%
6 months	2.26%	1.00%	1.26%
12 months	4.97%	2.08%	2.89%
2 years (p.a)	2.64%	2.31%	0.33%
3 years (p.a)	4.44%	2.44%	2.00%
5 years (p.a)	4.17%	3.14%	1.03%
Annualised Return Since Inception (Mar 05) - p.a.	7.09%	4.38%	2.71%
Standard Deviation	2.63%	0.46%	

New Year's Hangover

January was a horror month for share markets globally and sage reminder of the futility of trying to predict when market volatility will occur. The fall in the S&P/ASX200 Accumulation Index of -5.48% looked relatively modest in the context of China's Shanghai Composite index falling -22.7%, the Hang Seng down -10.2%, Nikkei -8%, EuroStoxx50 -6.8% and the US S&P500 -5.1%. Markets generally suffered as a result of Chinese economic fears, oil price weakness from tensions between Saudi Arabia and Iran, and concerns over the US Fed's tightening cycle. Oil (WTI) fell -9.2% during the month. Gold was a safe haven during the market turmoil finishing +5.3%.

The Aurora Fortitude Absolute Return Fund returned +0.36% for the month against a cash benchmark of +0.17%.

The best performing strategy for the month was the Fund's Protective **Options** overlay (+0.58%). The best positions were the ASX/S&P200 index (XJO) and the Commonwealth Bank (CBA.ASX). Nearly all positions benefitted from the increase in both realised and implied volatility. Macquarie (MQG.ASX) was a detractor as the net position had a long bias. The Fund had a seasonally small volatility book as a result of volatility remaining elevated in December and generally quiet markets following December 2015 expiry.

Long/Short (+0.02%) and **Convergence** (-0.06%) were relatively flat despite a mix of offsetting positions. A short position in Healthscope (HSO.ASX) worked particularly well and generally the larger capitalisation (cap) stocks outperformed small cap stocks. Some small cap stocks trading at a discount to cash offered wider discounts still during the wave of selling.

Mergers and Acquisitions (+0.19%) was also profitable during the month. The best performing deal was M2 Group (MTU.ASX) and Vocus Communications (VOC.ASX) as their merger received shareholder approval at the scheme meeting. Asciano (AIO.ASX) received a formal competing offer from Qube Holdings (QUB.ASX). This is one of the Fund's largest holdings as we continue to monitor the competitive situation with Brookfield Infrastructure Partners (BIP.US). The Fund also took the opportunity to add to positions in iProperty (IPP.ASX) and Veda (VED.ASX) as a result of the market volatility and liquidity requirements reflecting a 'risk-off' market leading to better risk-return metrics.

Yield was a small detractor (-0.16%) as credit spreads widened across most debt instruments. The Westpac Trust Step-Up Prefs (WCTPA.ASX) price fell and yield rose as liquidity and concerns over banking margins weighed on the instruments despite the impending mid-year step-up date. The Fund used the weakening oil price to build a small position in the Origin Subordinated Notes (ORGHA.ASX) also approaching a call date in December this year. The National Bank Income Securities (NABHA.ASX) sold off as investors sought higher returns due to the lower chance of these being bought-back early, as bank borrow costs generally increased.

MONTHLY PERFORMANCE* (after fees %)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
2016	0.36												0.36%
2015	-0.04	0.75	0.55	0.34	0.31	0.17	0.50	1.44	0.59	-0.17	-0.21	0.25	4.56%
2014	0.32	0.62	0.24	0.01	0.19	-0.31	0.07	0.30	-0.07	-0.29	0.38	-0.74	0.72%
2013	-0.19	0.80	0.42	1.68	0.78	0.46	1.13	0.18	0.53	0.28	0.52	0.74	7.57%
2012	0.34	0.49	0.45	0.44	0.26	0.57	0.61	0.36	0.33	-0.23	0.54	0.02	4.23%
2011	0.31	0.90	0.16	1.25	-1.46	-0.61	0.51	1.19	0.11	0.43	0.67	0.34	3.83%
2010	0.44	-0.13	-0.73	0.43	0.91	-0.49	-1.60	0.86	0.58	1.61	1.37	1.05	4.33%
2009	0.21	0.01	0.28	0.26	1.20	1.55	0.63	0.67	-0.58	0.82	-0.02	0.82	6.01%
2008	1.34	0.17	0.27	1.21	0.63	0.18	0.45	1.14	2.61	3.13	0.21	0.37	12.38%
2007	1.14	0.52	0.32	1.40	0.21	0.36	0.63	3.06	-0.30	0.71	1.32	-0.23	9.55%
2006	1.71	1.82	1.38	1.82	3.63	0.57	1.55	0.27	1.32	0.61	0.14	0.80	16.75%
2005			1.02	0.96	1.50	1.58	0.92	0.18	0.52	1.34	0.28	-0.50	8.06%

FUND DISTRIBUTIONS (per Unit)

Period (per Unit)	Amount (\$)	Yield at NAV (p.a)
June 2005 to June 2011	\$0.5944	
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%
31/03/2014	\$0.0139	6.00%
30/06/2014	\$0.0253	10.91%
30/09/2014	\$0.0135	-0.34%
31/12/2014	\$0.0298	13.39%
31/03/2015	\$0.0085	4.00%
30/06/2015	\$0.0183	8.55%
30/09/2015	\$0.0085	4.05%
31/12/2015	\$0.0239	11.12%
Total since inception	\$0.9001	

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.

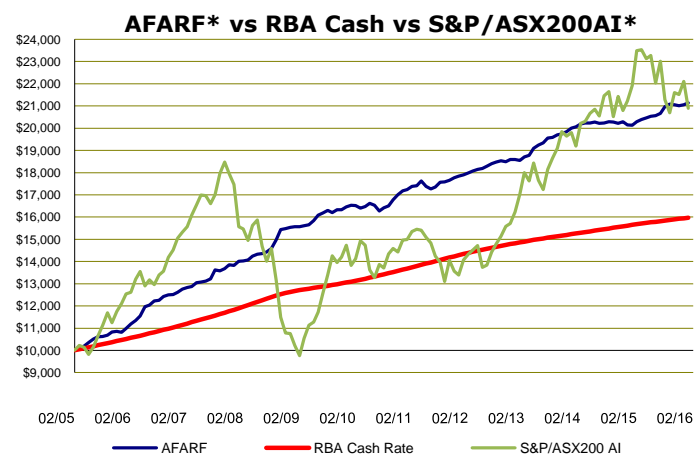
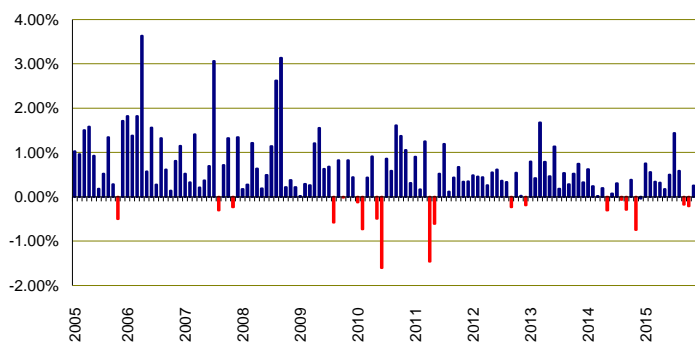
KEY FACTS		AFARF*	RBA Cash
Feeder Fund	Aurora Absolute Return (ABW)	Sharpe Ratio	1.03
APIR Code	AFM0005AU	Sortino Ratio	0.71
Benchmark	RBA Cash Rate	Best month	3.63%
Prime Broker/Custodian	UBS	Worst month	-1.60%
Administrator	Unity Fund Services	Positive months	85%
Auditors	Deloitte Touche Tohmatsu	Net Asset Value per Unit	\$ 0.8359
		Exit Price per Unit	\$ 0.8357

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*AFARF vs RBA vs S&P/ASX200AI graph generated with compounded monthly returns, net of fees. Franking included in both AFARF and S&P/ASX 200 AI after May 2012.

Monthly Returns Since Inception (%)



INVESTMENT MANAGER

Aurora Funds Management Limited is a fully owned subsidiary of ASX listed, Keybridge Capital (ASX Code: KBC). Aurora is a boutique investment manager that was established in 2003, and has established a long track record of producing risk adjusted returns for retail, institutional and high net worth investors. They aim to deliver income whilst also managing the risks associated in investing in Australian and global equities. The investment strategies are offered through both ASX listed investment vehicles and managed funds.

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)
- HHY Fund (ASX code: HHY)