



FORTITUDE CAPITAL

# Aurora Fortitude Absolute Return Fund

## July 2014

**AURORA**  
 FUNDS LIMITED

### 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 July 2014

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	0.07%	0.21%	4.40%
3 months	-0.04%	0.63%	3.54%
6 months	0.83%	1.26%	10.93%
12 months	3.45%	2.53%	16.54%
2 years (p.a)	4.84%	2.82%	20.13%
3 years (p.a)	5.23%	3.31%	13.48%
5 years (p.a)	4.56%	3.72%	10.58%
Annualised Return Since Inception (Mar 05) - p.a.	7.76%	4.73%	8.09%
Standard Deviation	2.71%	0.42%	14.04%

#### Ready for Reporting Season

July ended with substantial outperformance by Pan Asian equities over Western Developed markets. The ASX200 Accumulation Index climbed 4.4% and Hong Kong's Hang Seng increased by 6.8%. In stark contrast, European and US Equities were down -3.5% and -1.4% respectively (as measured by the Euro Stoxx 50 and S&P500). The fears which drove the Western developed markets underperformance (geopolitical, cheap credit, valuations) have much reason to cause angst in global markets. We look forward to the rest of the year, expecting these factors to drive wider dispersion in the ASX200. Much of the ASX outperformance can be attributed to a return to favour for the bulk miners with ASX Materials index up 7.7% for the month. Gains were well spread amongst other sub sectors with no large detractors. The Fund returned 0.07% for the month.

Activity in **Mergers and Acquisitions** (+0.29%) increased considerably during the month. Several new deals were announced whilst existing deals gained momentum. B2Gold Corporation's (BTO.CN) scrip bid for Papillon Resources (PIR.ASX) traded close to terms at month end despite having an expected implementation date of late September. The Australand (ALZ.AU) cash bid by Frasers Centrepoint Limited (FCL.SP) continued on timetable with approval by the Foreign Investment Review Board. The David Jones Limited (DJS.ASX) scheme of arrangement with South African retailer Woolworth Holdings Limited (WHL.DJ) was approved by shareholders and the court; this concluded a risky deal that the Fund did not participate in until very near completion due to our analysis of potential downside on a deal break compared to the limited upside.

**Yield** (+0.11%) spreads continue to compress as participants clamour for yield in a low interest rate environment. The Fund is purposefully avoiding duration exposure and seeks to invest in short dated, high quality exposure and special situations. Transpacific Industries Group Preference (TPAPA.ASX) remains our largest exposure in this space

with a redemption date of mid-October. During the month the Fund had a significant exposure to Healthscope Notes (HLNG.ASX), which had an option for cash redemption or conversion into equity through the IPO process out of Carlyle Private Equity Group. We chose cash redemption as we continue to be concerned about IPO's in the current environment; it is just four years since Carlyle purchased Healthscope.

The **Long Short** portfolio (+0.09%) benefitted from short term block trades in Poseidon Nickel Ltd (POS.ASX) and Triton Minerals Ltd (TON.ASX). Pre-event trading was mixed with PanAust Ltd (PNA.ASX) contributing positively whilst SAI Global Ltd (SAI.ASX) detracted from performance. The Fund continues to maintain low exposure levels to pre-event situations and anticipates many of these situations will become larger, profitable positions as they move into the M&A cycle.

The **Convergence** book (+0.01%) was flat for the month impacted by low global volumes and a lack of dispersion globally. The Antares Energy Convertible Notes (AZZG.ASX) performed well after the company announced that they have received an indicative, non-binding takeover proposal which improved the value of the embedded call option in the convertible security.

The **Options** portfolio (-0.43%) was again a significant detractor. Realised volatility for the month reached a new low. Single stocks namely Oil Search Ltd (OSH.ASX), Fortescue Metals Ltd (FMG.ASX) and Rio Tinto Ltd (RIO.ASX) were the largest detractors. The Fund expects volatility to increase over the course of the year due to macro factors as well as the onset of reporting season. The Fund has targeted specific names into reporting season for increased volatility. We would also like to draw investor's attention to our latest thought piece "Defensive Strategies and Low Volatility".

On a personal note, we would like to congratulate Donna Murphy (our Head of Operations) on the birth of her daughter Madison.

#### MONTHLY PERFORMANCE after fees (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
2014	0.32	0.62	0.24	0.01	0.19	-0.31	0.07						1.15%
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	3.89%
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 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.

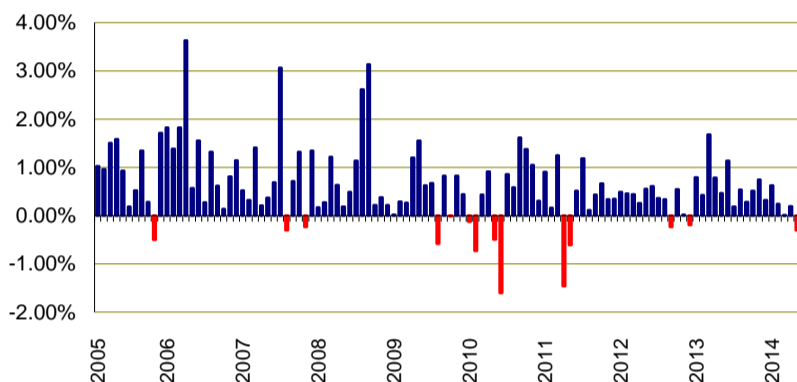
We have a wide discretion over the investments that may be held by the Fund. The pursuit of a diverse range of investments means that the Fund's returns are not necessarily dependent on the stock market's direction. In selecting investments for the Fund we follow a rigorous investment selection process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

## 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%
31/03/2014	\$0.0139	6.00%
30/06/2014	\$0.0253	10.91%
<b>Total since inception</b>	<b>\$0.2225</b>	

### Monthly Returns Since Inception (%)



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



## INVESTMENT MANAGER

Fortitude Capital Pty Ltd (AFSL 221131) is a wholly-owned subsidiary of Aurora Funds Limited (Aurora). With over \$275 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)

KEY FACTS		AFARF	RBA Cash
<b>Feeder Fund</b>	Aurora Absolute Return (ABW)	<b>Sharpe Ratio</b>	1.12
<b>APIR Code</b>	AFM0005AU	<b>Sortino Ratio</b>	0.71
<b>Benchmark</b>	RBA Cash Rate	<b>Best month</b>	3.63%
<b>Prime Broker/Custodian</b>	UBS	<b>Worst month</b>	-1.60%
<b>Administrator</b>	Unity Fund Services	<b>Positive months</b>	0.88
<b>Auditors</b>	Deloitte Touche Tohmatsu	<b>Net Asset Value per Unit</b>	\$ 0.9009
<b>Fund Size</b>	\$196 million	<b>Exit Price per Unit</b>	\$ 0.9007

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