Aurora Fortitude Absolute Return Fund

ARSN 145 894 800

ANNUAL REPORT

For the year ended 30 June 2013

Contents

Directors' report

The directors of Aurora Funds Management Limited (ABN 69 092 626 885), the Responsible Entity of Aurora Fortitude Absolute Return Fund ("the Trust"), present their report together with the financial statements of the Trust for the financial year ended 30 June 2013.

Principal activities

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

The Trust did not have any employees during the year.

There were no significant changes in the nature of the Trust'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
Simon Lindsay
Richard Matthews (resigned as director on 3 May 2013)
Steuart Roe

Review and results of operations

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

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

	Year ended	
	30 June 2013	30 June 2012
	$	$
Operating profit/(loss) before finance costs attributable to unitholders	**3,048,270**	3,786,623
Distribution paid and payable	**6,060,985**	5,380,219
Distribution (cents per unit) 30 September	**1.90**	1.93
Distribution (cents per unit) 31 December	**1.42**	1.94
Distribution (cents per unit) 31 March	**1.40**	1.93
Distribution (cents per unit) 30 June	**1.39**	1.92

Reconciliation of Net assets for Unit pricing and financial reporting purposes

	30 June 2013	30 June 2012
	$	$
Net assets for unit pricing purposes	**102,044,594**	80,205,893
Permanent differences		
Difference between net market value (for unit pricing) and fair value (financial statements) of financial assets held at fair value through profit or loss	**56,187**	279,716
Franking credits included in unit pricing	**(215,510)**	(129,881)
Temporary differences		
Other	-	1,402
Net assets under Australian Accounting Standards	**101,885,271**	80,357,130

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 Trust that occurred during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

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

The results of the Trust's operations will be affected by a number of factors, including the performance of investment markets in which the Trust 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 Trust 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 Trust.

Indemnity and insurance of officers

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

Indemnity of auditors

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

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

Fees paid to the Responsible Entity and its associates out of Trust property during the year are disclosed in note 13 to the financial statements.

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

The number of interests in the Trust held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 13 to the financial statements.

Interests in the Trust

The movement in units on issue in the Trust during the year is disclosed in note 7 to the financial statements.

The values of the Trust's assets and liabilities are disclosed on the Balance Sheet and derived using the basis set out in note 2 to the financial statements.

Environmental regulation

The operations of the Trust 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 Trust were held by the Responsible Entity or its associates or by directors:

Director	Units	%
John Corr	252,938	0.229
Simon Lindsay	116,661	0.106

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

Steuart Roe

Director

30 September 2013

Auditor's Independence Declaration

As lead auditor for the audit of Aurora Fortitude Absolute Return Fund for year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Aurora Fortitude Absolute Return Fund for the period.

Joe Sheeran
Partner
PricewaterhouseCoopers

Sydney
30 September 2013

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Statement of Comprehensive Income

	Notes	Year ended 30 June 2013 $	30 June 2012 $
Income			
Interest income		**550,788**	1,164,127
Dividend and distribution income		**9,510,333**	4,138,923
Net gains on financial instruments held at fair value through profit or loss	6	**8,225,323**	6,311,483
Other operating income		**12,940**	99,484
Total net investment income		**18,299,384**	11,714,017
Expenses			
Management fees	13	**1,339,467**	974,151
Performance fees	13	**583,694**	-
Administration costs		**103,000**	13,954
Other operating expenses	4	**833,232**	382,534
Dividend expenses		**12,391,721**	6,556,755
Total operating expenses		**15,251,114**	7,927,394
Operating profit for the year		**3,048,270**	3,786,623
Finance costs attributable to unitholders			
Distributions to unitholders	8	**6,060,985**	5,380,219
Decrease in net assets attributable to unitholders	7	**(3,012,715)**	(1,593,596)
Profit/(loss) for the year		**-**	-
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**-**	-

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

Balance Sheet

	Notes	As at 30 June 2013 $	30 June 2012 $
Assets			
Cash and cash equivalents	9	**1,306,253**	300,849
Receivables		**2,427,567**	603,166
Due from brokers - receipts for securities sold		**71,488,417**	42,652,888
Financial assets held at fair value through profit or loss	10	**176,306,491**	103,833,187
		251,528,728	147,390,090
Liabilities			
Borrowing account	9	**35,278,597**	3,594,820
Distributions payable	8	**1,533,582**	1,618,424
Due to brokers - payments for securities purchased		**50,149,293**	23,859,344
Financial liabilities held at fair value through profit or loss	11	**61,446,625**	34,908,586
Other liabilities		**1,235,360**	3,051,786
Total liabilities (excluding net assets attributable to unitholders)		**149,643,457**	67,032,960
Net assets attributable to unitholders - liabilities	7	**101,885,271**	80,357,130

The above Balance Sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

	Year ended 30 June 2013 $	Year ended 30 June 2012 $
Total equity at the beginning of the year	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
Total comprehensive income	-	-
Transactions with owners in their capacity as equity holders	-	-
Total equity at the end of the financial year	-	-

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 2013 $	30 June 2012 $
Cash flows from operating activities			
Proceeds from sale of financial instruments		**2,460,225,739**	1,773,570,502
Purchase of financial instruments		**(2,500,154,240)**	(1,832,782,078)
Dividends and distributions received		**7,410,827**	(3,078,616)
Interest received		**551,908**	1,197,744
Other income		**12,940**	99,484
Interest paid		**(171,040)**	(22,743)
Management fees paid		**(1,273,308)**	(901,911)
Dividend expenses		**(12,288,034)**	-
Payment of other expenses		**(686,358)**	(751,348)
Net cash outflows from operating activities	14 (a)	**(46,371,566)**	(62,668,966)
Cash flows from financing activities			
Proceeds from applications by unitholders		**29,762,121**	39,358,838
Payments for redemptions by unit holders		**(9,210,311)**	(1,347,104)
Distributions paid		**(4,858,617)**	(2,859,966)
Net cash inflows from financing activities		**15,693,193**	35,151,768
Net decrease in cash and cash equivalents		**(30,678,373)**	(27,517,198)
Cash and cash equivalents at the beginning of the year		**(3,293,971)**	24,223,227
Cash and cash equivalents at the end of the year	9	**(33,972,344)**	(3,293,971)
Non-cash financing activities	14 (b)	**1,287,210**	**1,191,512**

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

Notes to the Financial Statements

Contents

1 General information

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

The Responsible Entity of the Trust 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 Trust, and any public announcements made by the Trust during the year ended 30 June 2013 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001.*

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

The financial statements were authorised for issue by the directors of the Responsible Entity on 30 September 2013. 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 trust 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 Balance Sheet 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 Trust also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

New and amended standards adopted by the Trust

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(b) Financial instruments

(i) Classification

The Trust investments are classified at fair value through profit or loss. They comprise:

- Financial instruments designated at fair value through profit or loss upon initial recognition.

These include financial assets that are not held for trading purposes and which may be sold. These are investments in exchange traded equity instruments and equity derivative instruments.

The Trust may sell securities short in anticipation of a decline in fair value of that security. When the Trust 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.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Classification (continued)

Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Trust's documented investment strategy. The Trust'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

(ii) Recognition/derecognition

The Trust recognises financial assets and financial liabilities on the date that it have 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 Trust 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 Trust 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 Trust 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 Trust 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 3(e).

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet 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.

2 Summary of significant accounting policies (continued)

(c) 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 Trust is required to distribute its distributable income. The units can be put back to the Trust 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 Trust.

(d) 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 borrowings in the Balance Sheet.

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 Trust's main income generating activity.

(e) 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.

(f) 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(b).

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 Trust 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 Trust 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.

Trust distributions are recognised on an entitlements basis.

(g) Expenses

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

(h) Income tax

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

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

2 Summary of significant accounting policies (continued)

(i) Distributions

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

(j) 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.

(k) Foreign currency translation

(i) Functional and presentation currency

Items included in the Trust'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 Trust competes for funds and is regulated. The Australian dollar is also the Trust's presentation currency.

(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.

(l) 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 Trust 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.

(m) Receivables

Receivables may include amounts for dividends, interest, trust distributions and securities sold where settlement has not yet occurred. Dividends and trust 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 Trust 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.

2 Summary of significant accounting policies (continued)

(n) Payables

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

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

(o) Applications and redemptions

Applications received for units in the Trust are recorded net of any entry fees payable prior to the issue of units in the Trust. Redemptions from the Trust 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 Trust, divided by the number of units on issue.

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

The GST incurred on the costs of various services provided to the Trust by third parties, has been passed onto the Trust. The Trust 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 Balance Sheet. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

(q) Use of estimates

The Trust 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 Trust'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.

(r) New accounting standards and interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2013 reporting period and have not been early adopted by the Trust. The directors' assessment of the impact of these standards (to the extent relevant to the Trust) and interpretations is set out below:

(i) AASB 9 *Financial Instruments and* AASB 2009-11 *Amendments to Australian Accounting Standards arising from* AASB 9 *and* AASB 2010-7 *Amendment to Australian Accounting Standards arising from* AASB 9 (December 2010) and AASB 2012-6 *Amendments to Australian Accounting Standards - Mandatory Effective Date of* AASB 9 *and Transition Disclosures (effective from 1 January 2015).*

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. The directors do not expect this to have significant impact on the recognition and measurement of the Trust's financial instruments as they are carried at fair value through profit or loss.

2 Summary of significant accounting policies (continued)

(r) New accounting standards and interpretations (continued)

(ii) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from* AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures

Application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Trust will adopt the new standard from its operative date, which means that it would be applied in the annual reporting period ending 30 June 2014. The directors do not expect this to have a significant impact on the Scheme.

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.

(s) Comparative figures

Where necessary, comparative figures have been reclassified to conform with changes in presentation in these financial statements.

3 Financial risk management

The Trust'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 Trust's overall risk management program focuses on ensuring compliance with the Trust's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Trust 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 Trust 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 Trust'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 Trust is exposed to equity securities and derivative securities price risk. This arises from investments held by the Trust for which prices in the future are uncertain. Investments are classified in the Balance Sheet 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 Trust.

A sensitivity analysis was performed showing how the effect of a 10 % increase (2012: 10 %) and a 10 % decrease (2012: 10 %) in market prices would have increased/decreased the impact on operation profit/net assets attributable to unitholders as at 30 June 2013. The results of this analysis are disclosed in 'Note 3(b) - sensitivity analysis' on page 18.

(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 Trust 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.

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest risk

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

The Trust'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 balance sheet and cash flows. The risk is measured using sensitivity analysis. The only financial asset held by the Trust subject to interest rate risk is cash and cash equivalents.

The Trust 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 Trust 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 Trust'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 Trust as the Trust 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 (2012: 100 basis point) and a 100 basis point decrease (2012: 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 2013. The results of this analysis are disclosed in note 3(b) – sensitivity analysis' on page 18.

The table below summarises the Trust's exposure to interest rate risks. It includes the Trust'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 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				
Borrowing 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

3 Financial risk management (continued)

(a) Market risk (continued)

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

30 June 2012	Floating interest rate	Fixed interest rate	Non interest bearing	Total
Financial Assets				
Cash and cash equivalents	300,849	-	-	300,849
Receivables	-	-	603,166	603,166
Due from brokers - receipts for securities sold	-	-	42,652,888	42,652,888
Financial assets held at fair value through profit or loss	2,329,606	-	101,503,581	103,833,187
Financial Liabilities				
Borrowing account	(3,594,820)	-	-	(3,594,820)
Distributions payable	-	-	(1,618,424)	(1,618,424)
Due to brokers - payments for securities purchased	-	-	(23,859,344)	(23,859,344)
Financial liabilities held at fair value through profit or loss	-	-	(34,908,586)	(34,908,586)
Other liabilities	-	-	(3,051,786)	(3,051,786)
Net exposure	(964,365)	-	81,321,495	80,357,130

(b) Summarised sensitivity analysis

The following tables summarise the sensitivity of the Trust'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 Trust'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 Trust 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 2013	**(11,485,987)**	**11,485,987**	**(339,723)**	**339,723**
30 June 2012	(6,892,460)	6,892,460	(9,644)	9,644

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.

(c) Credit risk

The Trust 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 Trust 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 Trust has a prime brokerage agreement with UBS, the Trust's prime broker, and some of the Trust's assets will be pledged as collateral for amounts drawn under the overdraft facility. At balance sheet date $99,667,161 of assets is pledged as collateral.

3 Financial risk management (continued)

(c) Credit risk (continued)

Certain assets of the Trust 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 Trust held by a Custodian will be subject to a charge to secure the Trust's obligations to the Prime Broker.

There were no other significant concentrations of credit risk to counterparties at 30 June 2013. No individual investment, other than cash, exceeded 10 % of the net assets attributable to unit holders at 30 June 2013. The Trust only has a material credit risk exposure to the bank that holds the Trust's cash assets at 30 June 2013.

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

	Year ended	
Cash at bank, margin accounts with broker and short term bank deposits	**30 June 2013 $**	30 June 2012 $
Rating		
A	**(35,278,597)**	(3,594,820)
AA-	**1,306,253**	300,849
Total	**(33,972,344)**	(3,293,971)

(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 AA - or higher.

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

(iii) Other

The Trust 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.

(d) Liquidity risk

Liquidity risk is the risk that the Trust 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 Trust 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. Only a limited proportion of its assets are held in investments not actively traded on a stock exchange.

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

The Trust 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 Trust 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.

3 Financial risk management (continued)

(c) Liquidity risk (continued)

In order to manage the Trust'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 Trust'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 2013					
Borrowing 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**

	Less than 1 month $	1-6 months $	6-12 months $	1-2 years $	Total $
As at 30 June 2012					
Borrowing account	3,594,820	-	-	-	3,594,820
Distributions payable	1,618,424	-	-	-	1,618,424
Due to brokers - payments for securities purchased	23,859,344	-	-	-	23,859,344
Financial liabilities held at fair value through profit or loss	34,908,586	-	-	-	34,908,586
Other liabilities	3,051,786	-	-	-	3,051,786
Net assets attributable to unitholders	80,357,130	-	-	-	80,357,130
Contractual cash flows (excluding gross settled derivatives)	147,390,090	-	-	-	147,390,090

The following table analyses the Trust'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 Trust's investment strategy.

	Less than 1 month $	1-6 months $	6-12 months $	1-2 years $	Total $
As at 30 June 2013					
Net settled derivatives					
Australian traded options	-	**2,570,353**	-	-	**2,570,353**
Australian share price index futures	-	-	-	-	-

3 Financial risk management (continued)

(c) Liquidity risk (continued)

	Less than 1 month	1-6 months	6-12 months	1-2 years	Total
	$	$	$	$	$
As at 30 June 2012					
Net settled derivatives					
Australian traded options	-	705,067	-	-	705,067
Australian share price index futures	-	(24,250)	-	-	(24,250)

(e) Fair value estimation

The carrying amounts of the Trust's assets and liabilities at the end of each reporting period approximate their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Comprehensive Income.

(i) Fair value in an active market

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 Trust values its investments in accordance with the accounting policies set out in note 2. For the majority of its investments, the Trust 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 Trust is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Trust holds derivatives with offsetting market risks, it uses mid-market 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

(ii) Fair value in an inactive or unquoted market

Investments in other unlisted unit trusts 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 Trust for similar financial instruments.

(f) Fair value hierarchy

(i) Classification of financial assets and financial liabilities

The Trust classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

3 Financial risk management (continued)

(f) Fair value hierarchy (continued)

The determination of what constitutes "observable" requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The tables below sets out the Trust's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2013 and 30 June 2012.

	Level 1	Level 2	Level 3	Total
	$	$	$	$
As at 30 June 2013				
Financial assets				
Financial assets held for trading:				
Derivatives	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	803,499	-	-	803,499
Total	61,446,625	-	-	61,446,625

	Level 1	Level 2	Level 3	Total
	$	$	$	$
As at 30 June 2012				
Financial assets				
Financial assets held for trading:				
Derivatives	1,271,880	-	-	1,271,880
Financial assets designated at fair value through profit or loss:				
Equity securities	102,561,307	-	-	102,561,307
Total	103,833,187	-	-	103,833,187
Financial liabilities				
Financial liabilities held for trading:				
Equity securities sold short	34,366,023	-	-	34,366,023
Derivatives	542,563	-	-	542,563
Total	34,908,586	-	-	34,908,586

3 Financial risk management (continued)

(f) Fair value hierarchy (continued)

Investments, whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities and exchange traded derivatives.

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 the 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.

There have been no transfers between levels 1, 2 and 3 during the year.

4 Other operating expenses

	Year ended	
	30 June 2013	30 June 2012
	$	$
Bank, prime broker and brokerage fees	**361,866**	329,620
Interest expense	**280,991**	22,743
Other expenses	**190,375**	30,171
	833,232	382,534

5 Remuneration of auditors

During the year the following fees were paid or payable by the Responsible Entity on behalf of the Trust for services provided by the auditor for the Trust:

	Year ended	
	30 June 2013	30 June 2012
	$	$
Audit and other assurance services		
Audit and review of financial statements	**8,278**	9,142
Audit of the compliance plan	**1,429**	1,428
	9,707	10,570
Taxation services		
Tax compliance services	**7,000**	4,900
Total remuneration for tax services	**7,000**	4,900
Total remuneration paid to PricewaterhouseCoopers	**16,707**	15,470

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

	Year ended	
	30 June 2013	30 June 2012
	$	$
Financial assets		
Net realised gains on financial assets held at fair value through profit or loss	**10,128,247**	6,549,279
Net unrealised losses on financial assets held at fair value through profit or loss	**(1,902,924)**	(237,796)
Total net gains on financial instruments held at fair value through profit or loss	**8,225,323**	6,311,483

7 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 2013 Number of units	30 June 2012 Number of units	**30 June 2013 $**	30 June 2012 $
Opening balance	**84,398,440**	47,114,454	**80,357,130**	45,660,780
Applications	**31,417,296**	40,441,636	**29,762,121**	39,358,838
Redemptions	**(6,950,191)**	(4,390,034)	**(6,508,475)**	(4,260,404)
Units issued upon reinvestment of distributions	**1,371,326**	1,232,384	**1,287,210**	1,191,512
Decrease in net assets attributable to unitholders	**-**	-	**(3,012,715)**	(1,593,596)
Closing balance	**110,236,871**	84,398,440	**101,885,271**	80,357,130

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

Capital risk management

The Trust 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 Trust is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Trust's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Trust 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.

8 Distribution to unitholders

The distributions for the year were as follows:

	Year ended			
	30 June 2013		30 June 2012	
	$	**CPU**	$	CPU
Distributions paid	**4,527,403**	**4.72**	3,761,795	5.82
Distributions payable	**1,533,582**	**1.39**	1,618,424	1.92
Total distributions	**6,060,985**	**6.11**	5,380,219	7.74

9 Cash and cash equivalents

	As at	
	30 June 2013	30 June 2012
	$	$
Cash at bank	**1,306,253**	300,849
Borrowing account	**(35,278,597)**	(3,594,820)
Total	**(33,972,344)**	(3,293,971)

10 Financial assets held at fair value through profit or loss

	As at	
	30 June 2013	30 June 2012
	$	$
Held for trading		
Derivatives (note 12)	**3,373,852**	1,271,880
Total held for trading	**3,373,852**	1,271,880
Designated at fair value through profit or loss		
Equity securities	**172,932,639**	102,561,307
Total designated at fair value through profit or loss	**172,932,639**	102,561,307
Total financial assets held at fair value through profit or loss	**176,306,491**	103,833,187
Comprising:		
Derivatives		
Exchange traded options	**3,373,852**	1,271,880
Total derivatives	**3,373,852**	1,271,880
Equity securities		
Australian equity securities	**172,932,639**	102,561,307
Total equity securities	**172,932,639**	102,561,307
Total financial assets held at fair value through profit or loss	**176,306,491**	103,833,187

11 Financial liabilities held at fair value through profit or loss

	As at	
	30 June 2013	30 June 2012
	$	$
Held for trading		
Derivatives (note 12)	**803,499**	542,563
Total held for trading	**803,499**	542,563
Designated at fair value through profit or loss		
Equity securities	**60,643,126**	34,366,023
Total designated at fair value through profit or loss	**60,643,126**	34,366,023
Total financial liabilities held at fair value through profit or loss	**61,446,625**	34,908,586
Comprising:		
Derivatives		
Australian exchange traded options	**803,499**	566,813
Australian share price index futures	**-**	(24,250)
Total derivatives	**803,499**	542,563
Equity securities		
Equity securities	**60,643,126**	34,366,023
Total equity securities	**60,643,126**	34,366,023
Total financial liabilities held at fair value through profit or loss	**61,446,625**	34,908,586

12 Derivative financial instruments

In the normal course of business the Trust 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 Trust'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 Trust 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 Trust.

12 Derivative financial instruments (continued)

The Trust 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. At 30 June 2013 the Trust did not hold any futures.

(b) Options

An option is a contractual arrangement under which the seller (writer) grants the purchases (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 Trust are exchange-traded. The Trust 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.

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

	Fair values contract/notional $	Assets $	Liabilities $
30 June 2013			
Australian exchange traded derivatives			
Exchange traded options	**81,709,856**	**3,373,852**	**803,499**

	Fair values contract/notional $	Assets $	Liabilities $
30 June 2012			
Australian exchange traded derivatives			
Australian share price index futures	8,114,000		(24,250)
Exchange traded options	1,929,169	1,271,880	566,813

Risk exposures and fair value measurements

Information about the Trust's exposure to credit risk, foreign exchange, interest rate risk and about the methods and assumptions used in determining fair values is provided in note 3 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.

13 Related party transactions

Responsible Entity

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

Key management personnel
(a) Directors

Key management personal includes persons who were executives or directors of Aurora Funds Management Limited at any time during the financial year were as follows:

John Corr
Alastair Davidson
Simon Lindsay
Richard Matthews (resigned as director on 3 May 2013)
Steuart Roe

13 Related party transactions (continued)

(b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Trust, directly or indirectly during the financial year.

Key management personnel unitholdings

At 30 June 2013 the following units of the Trust were held by the following key management personnel:

Director	Units	%
John Corr	252,938	0.229
Simon Lindsay	116,661	0.106

Key management personnel compensation

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

Key management personnel loan disclosures

The Trust has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

Other transactions within the Trust
Apart from those details disclosed in this note, no other key management personnel have entered into a material contract with the Trust 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 Trust 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 Trust as follows:

(i) management fee payable to the Responsible Entity is 1.5375% (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 Trust's Constitution.

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

	30 June 2013	30 June 2012
	$	$
Management fees for the year paid by the Trust to the Responsible Entity	**1,339,467**	974,151
Performance fees for the year paid by the Trust to the Responsible Entity *	**583,694**	-
	1,923,161	**974,151**

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

13 Related party transactions (continued)

Related party unit holdings

Aurora Absolute Return Fund an investment scheme managed by the Responsible Entity held 10,207,082 units in the Trust (2012: 4,421,478 units), which is equivalent to 9.259 % (2012: 4.011%) of Trust.

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

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

	Year ended	
	30 June 2013	30 June 2012
	$	$
(a) Reconciliation of profit/(loss) to net cash outflows from operating activities		
Profit/(loss) for the year	**-**	-
Decrease in net assets attributable to unitholders	**(3,012,715)**	(1,593,596)
Distributions to unitholders	**6,060,985**	5,380,219
Proceeds from sale of financial instruments held at fair value through profit or loss	**2,460,225,739**	1,773,570,502
Purchase of financial instruments held at fair value through profit or loss	**(2,500,154,240)**	(1,832,782,078)
Net gains on financial instruments held at fair value through profit or loss	**(8,225,323)**	(6,311,483)
Net change in receivables	**(2,151,422)**	(553,794)
Net change in payables	**885,410**	(378,736)
Net cash outflows from operating activities	**(46,371,566)**	(62,668,966)

(b) Non-cash financing activities		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	**1,287,210**	1,191,512

As described in note 2(i), 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.

15 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 Trust disclosed in the Balance Sheet as at 30 June 2013 or on the results and cash flows of the Trust for the year ended on that date.

16 Commitments

There were no commitments for expenditure at 30 June 2013 (2012: nil).

17 Contingent assets and liabilities

There were no contingent assets and liabilities at 30 June 2013 (2012: nil).

Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) the audited financial statements and notes set out on pages 6 to 29 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Trust's financial positions as at 30 June 2013 and of their performance for the financial year ended on that date,

(b) there are reasonable grounds to believe that the Trust 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

Steuart Roe

Director

Sydney, NSW
30 September 2013

Independent auditor's report to the unitholders of Aurora Fortitude Absolute Return Fund

Report on the financial report

We have audited the accompanying financial report of Aurora Fortitude Absolute Return Fund (the registered scheme), which comprises the balance sheet as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of Aurora Funds Management Limited (the responsible entity) 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 is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors 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 and fair presentation of the financial report 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.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Auditor's opinion

In our opinion:

(a) the financial report of Aurora Fortitude Absolute Return Fund is in accordance with the *Corporations Act 2001*, including:

 (i) giving a true and fair view of the registered scheme's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the registered scheme's financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

PricewaterhouseCoopers

PricewaterhouseCoopers

Joe Sheeran
Partner

Sydney
30 September 2013