

## 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 MAY 2011

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	-1.46%	0.40%	-1.97%
3 months	-0.07%	1.19%	-1.60%
6 months	2.20%	2.41%	4.60%
12 months	4.56%	4.76%	10.84%
2 years (p.a)	4.73%	4.18%	15.71%
3 years (p.a)	6.63%	4.52%	-1.64%
5 years (p.a)	7.73%	5.35%	3.18%
Annualised Return Since Inception (p.a)	9.48%	5.41%	6.81%
Standard Deviation	3.10%	0.36%	15.04%

## Event Trades Hit Red-Light

Fears regarding European debt and softer Chinese economic data saw global markets generally weaker during May. The fall in Australia was broadly in line; the S&P/ASX200 Index falling 2.4% with the 5.2% fall by Financials sub-index being the major contributor. Investors seemed particularly concerned about the Australian banking sectors exposure to a weakening domestic housing market.

The late failure of a takeover deal rather than general market weakness was the major contributor to the negative return from ARARF for the month.

The US private equity firm Carlyle Group and Macquarie Bank had proposed to buy Reflex Holdings (RDF), an operator of red-light and speed camera systems via a scheme of arrangement. RDF's directors had unanimously recommended the scheme after negotiations with a number of different parties, and terms were finally agreed on in March 2011. The terms were actually increased in the week before the vote was held (to a minimum of \$2.75), but a small shareholder group led by a former director voted against the scheme.

Of the votes lodged 63.44% of shares voted in favour of the scheme and 82.95% of shareholders voted for the scheme, but this was not sufficient under a scheme of arrangement structure for the takeover to go ahead (requires 75% of shares to be voted in favour).

The shares initially traded down 36.3% post the vote and finished the month down 25%.

We exited the bulk of our position over the balance of the month.

We are conscious of the dangers of the scheme of arrangement structure in a takeover but it is highly unusual for a deal to fail with such strong board support and particularly unusual for dissenting shareholders not to lobby for better terms or conditions in a significantly more vocal and public way.

Interestingly two other transactions (which we did not have positions in) were terminated in May, and we expect this should see extra caution and subsequently improved margins for taking risk in these transactions. In line with this we saw significant profits from the closing of our Manta Resources (MRU) position through a scheme of arrangement at month end.

During the month we added to our position in Equinox Mining (EQN) which is under takeover by Canadian miner Barrack Resources which is expected to be concluded in June.

Our yield portfolio performed in line with expectations and although we remain cautious about general market and economic conditions we felt comfortable adding to positions in Woolworths Limited (WOWHB) and Orica Limited (ORIPB).

Whilst the fall in the market was significant, realisable volatility remained relatively low (i.e. the fall was fairly gradual over the month) which made it difficult for us to profit from most of our option positions. We do believe that this is the most appropriate way to hedge the portfolio and we specifically added to option positions in the larger miners (BHP and RIO) as well as holding just out of the money index put options for the June expiry.

Performance after fees (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	0.31	0.90	0.16	1.25	-1.46								1.14%
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	0.55	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 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.

The Fund purchases both put and call options which allows it to profit from movements in the market both up and down. It then looks for short term trading opportunities to generate low risk returns from other strategies including;

- Mergers and Acquisitions
- Long/Short
- Share Class Arbitrage, and
- Yield securities

Each investment considers the risk, the timeline of that risk occurring and then the potential return.

Low transaction costs and liquidity are other important factors in the success and implementation of the strategies.

## INVESTMENT MANAGER

Fortitude Capital Pty Ltd is a wholly-owned subsidiary of Aurora Funds Limited (Aurora). With in excess of \$500 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 over 3,500 Australian and New Zealand investors.

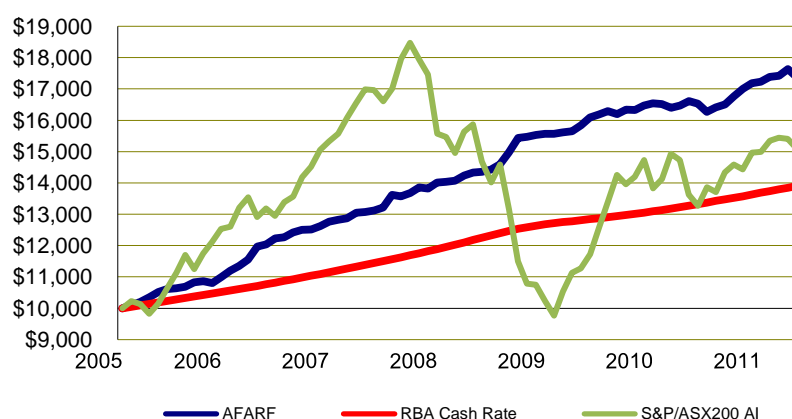
### Aurora is also the issuer and/or distributor of the:

- Aurora Sandringham Dividend Income Trust (ASX code: AOD)
- Aurora Absolute Return Fund (ASX Code: ABW)
- Aurora Sandringham Global Income Trust (ARSN 131 291 499)
- Aurora Global Income Trust (ASX code: AIB)
- Aurora Property Buy-Write Income Trust (ASX code: AUP)
- van Eyk Blueprint Alternatives Plus (ASX code: VBP)
- CORALS Commodities Fund (ARSN 131 196 882)

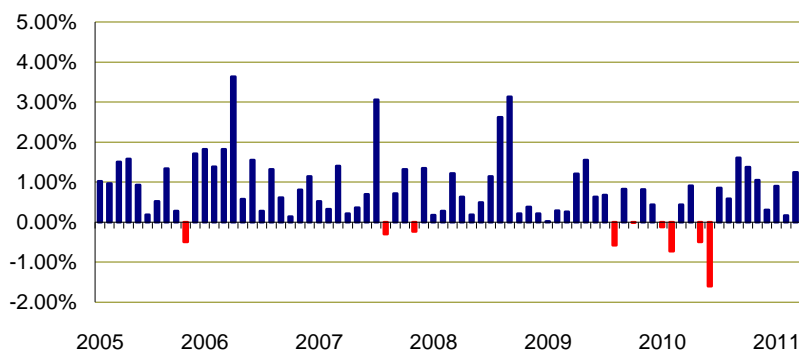
## TRUST DISTRIBUTIONS (per unit)

Period (per unit)	Amount (\$)	Yield (p.a)
31/06/2005	\$0.0516	15.48%
31/06/2006	\$0.1449	14.49%
31/06/2007	\$0.1040	10.40%
31/06/2008	\$0.0961	9.75%
31/06/2009	\$0.1384	14.09%
31/06/2010	\$0.0256	2.66%
31/12/2010	\$0.0275	5.71%
<b>Total since inception</b>	<b>\$0.5881</b>	

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



Monthly Returns Since Inception (%)



KEY FACTS		AFARF	RBA Cash
<b>Strategy</b>	Market Neutral	<b>Sharpe Ratio</b>	1.42
<b>ASX Code</b>	ABW	<b>Best month</b>	3.63%
<b>APIR Code</b>	AFM0005AU	<b>Worst month</b>	-1.60%
<b>Benchmark</b>	RBA Cash Rate	<b>Positive months</b>	86.67%
<b>Administrator</b>	Mackenzie Coultas Funds Admin	<b>Prime Broker/Custodian</b>	UBS

## AURORA FUNDS LIMITED

Level 2, 350 George Street, Sydney NSW 2000

PO Box R1695, Royal Exchange NSW 1225

Telephone: +61 2 9080 2377, Fax: +61 2 9080 2378

Visit: [www.FortitudeCapital.com](http://www.FortitudeCapital.com) or [www.AuroraFunds.com.au](http://www.AuroraFunds.com.au)

Or Email: [info@fortitudecapital.com](mailto:info@fortitudecapital.com) or [enquiries@aurorafunds.com.au](mailto:enquiries@aurorafunds.com.au)

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