

Aurora Absolute Return Fund Performance Report - 29 February 2012

ASX Code: ABW



Summary

- The Fund returned 0.49% for February whilst the the RBA Cash Rate returned 0.35%.
- Over the last 12 months, the Fund returned 3.94% versus the S&P/ASX200 Accumulation Index which is -6.57%

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	0.49%	1.20%	2.45%	3.94%	10.37%	3.19%
RBA Cash Rate	0.35%	1.07%	2.25%	4.70%	4.20%	5.27%
S&P/ASX200 Accumulation Index (ASX200AI)	1.91%	5.64%	2.65%	-6.57%	13.66%	1.37%

On 1 March 2011, the Fund changed its investment strategy and commenced investing via the unlisted Aurora Fortitude Absolute Return Fund (ARSN 145 894 800, the 'Master Fund'). The performance prior to this date is of different investment strategies than those currently implemented. The Master Fund which is the current investment strategy, has been in existence since March 2005, and its historical performance is referred to in the charts and tables [below](#).

Investment Objective*

The Fund aims to achieve a high rate of return, comprising both income and capital growth (and preservation of the capital of the fund) over both rising and falling equity markets. Please note that while we aim to achieve this objective, the returns are not guaranteed.

Investment Strategy - Master Fund

The Master Fund aims to produce positive returns irrespective of the direction of the share market, by investing predominantly Australian listed securities and derivatives.

The Master 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
- 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.

Fund Features

ASX Listed	Code: ABW
Distribution Policy	At least 2.0% of Net Asset Value ² per Unit per quarter
Distribution Reinvestment Plan	Available
Applications	Investors may acquire Units on the ASX or via the current Product Disclosure Statement
Redemptions	On market by selling on the ASX or off-market at the end of each month

Fund Valuations

Fund Size ³	\$113.4 million
Net Assets Value per Unit	\$1.1100

Fund Distributions (Per Unit)⁴

Period (per Unit)	Cash	Franking	Total	Yield at NAV (p.a.)
31 Dec 06	\$0.0486	\$0.0208	\$0.0694	9.00%
30 Jun 07	\$0.1962	\$0.0371	\$0.2333	25.30%
31 Dec 07	\$0.0333	\$0.0332	\$0.0665	7.60%
30 Jun 08	\$0.0586	\$0.0400	\$0.0986	11.90%
31 Dec 08	\$0.0450	\$0.0000	\$0.0450	7.60%
30 Jun 09	\$0.0267	\$0.0000	\$0.0267	5.10%
31 Dec 09	\$0.0450	\$0.0000	\$0.0450	8.80%
31 Mar 10	\$0.0250	\$0.0000	\$0.0250	8.10%
30 Jun 10	\$0.0250	\$0.0000	\$0.0250	8.20%
30 Sep 10	\$0.0250	\$0.0000	\$0.0250	9.50%
31 Dec 10	\$0.0230	\$0.0000	\$0.0230	8.30%
31 Mar 11	\$0.0230	\$0.0000	\$0.0230	7.95%
30 Jun 11	\$0.0227	\$0.0000	\$0.0227	8.00%
30 Sep 11	\$0.0222	\$0.0000	\$0.0222	8.01%
31 Dec 11	\$0.0222	\$0.0000	\$0.0222	8.02%
Total	\$0.6415	\$0.1311	\$0.7726	

Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	8.74%
Volatility % p.a.	3.00%
Sharpe Ratio	1.14
% positive months	87%
Best Month	3.63
Worst Month	-1.60%
Average positive monthly return	0.90%
Average negative monthly return	-0.61%

Performance Commentary - Master Fund

February was characterised by a strong reversion in the fortunes of beaten up Consumer Discretionary (+5.3%) and Industrial (+6.3%) sectors. Interest from private equity and the squeezing of concentrated short positions resulted in an overdue recovery for retail institutions such as Billabong (BBG.ASX), Goodman Fielder (GFF.ASX) and David Jones (DJS.ASX). International markets were buoyed by a second auction of Long Term Refinancing Operations (LTRO's) by the European Central Bank, agreement on a bailout plan for Greece, and a decline in the U.S unemployment to 8.3%.

The S&P/ASX200 Accumulation Index finished the month up 1.9% and the Dow Jones Index finished up 2.5%, continuing its recent stellar run. The continued underperformance of the ASX200 against the Dow Jones can partly be attributed to the high level of the AUD/USD and continued concern over growth rates in China. We also believe that this relates to the unwinding of a "cult of equities" in Australia, resulting in reallocation of savings from long only equities to cash and cash equivalents (including alternatives). The Fund finished the month up 0.49%, the 8th straight month of positive returns.

The **Long Short** strategy was the best performer for the month, generating +0.28% due to the long positioning of this part of the portfolio. The largest contributor was David Jones (DJS.ASX) as the retail space thrived on news of private equity having interest in Billabong, following on from Pacific Brands (PBG.ASX) the previous month. PBG was also a strong performer. Tishman Speyer (TSO.ASX) provided good returns and trading opportunities after management proposed a sale of the US REIT assets which could result in a cash distribution and winding up of the fund. This transaction has been defined as part of the long short strategy (and not M&A) due to the nature of the asset sale by way of a shareholder meeting and lack of takeover legal protection. Detracting from performance was a placement in Saracen Minerals (SAR.ASX).

The **Convergence** strategy returned +0.14%. Dolomatrix (DMX.ASX) completed an asset sale and returned capital to shareholders. This left a small 'stub'; the shell of the company will be wound up later in the year. The premium of the Wesfarmers Partially Protected Shares (WESN.ASX) above the ordinary shares (WES.ASX) also increased during February. The News Corp (NWS.ASX /NWSLV.ASX) half yearly result disappointed and led to a small drawdown for the dual listed trade.

The **Yield** strategy returned +0.11% despite a sell-off in many of the names in this sector. The listed credit market received a flood of new issuance with ANZ, Colonial and Westpac all coming to market, following recent successful hybrid issues by Origin and Woolworths. As a result, many of the shorter dated instruments were sold off to free up liquidity. The Master Fund uses these liquidity events to build positions in shorter dated, preferred structures.

The **Mergers and Acquisitions** strategy was marginally positive +0.04%. Brockman Resources (BRM.ASX) was the strongest contributor as directors lodged their acceptances and minimal conditions remain outstanding (80% acceptances required). The Master Fund's largest position is Charter Hall Office (CQO.ASX), whilst this was a small negative contributor for February, the scheme vote is due mid-March and we expect implementation by the end of the month.

The **Options** strategy (-0.08%) was buoyed by news that Crown (CWN.ASX) had increased its stake in Echo Entertainment (EGP.ASX) to 10%. James Packer unveiled ambitious plans for a casino in Sydney's Barangaroo district under Echo's Star City Licence. This situation should present good trading opportunities going forward. Key positions over the ASX200 Index, Westfield (WDC.ASX) and BHP (BHP.ASX) suffered from a very low level of volatility.

About Aurora

Aurora Funds Limited ('Aurora', ASX Code: AFV) was listed on the ASX in July 2010. Aurora comprises the merged businesses of Aurora Funds Management Limited, Fortitude Capital Pty Ltd and Sandringham Capital Pty Ltd.

The combined group has in excess of \$430 million in funds under management and administration, and provides asset management and responsible entity/trustee services for over 2,500 Australian and New Zealand investors.

Aurora is also the issuer of the:

- Aurora Fortitude Absolute Return Fund
(APIR Code: AFM0005AU)
- Aurora Sandringham Dividend Income Trust
(ASX Code: AOD)
- Aurora Global Income Trust
(ASX Code: AIB)
- Aurora Property Buy-Write Income Trust
(ASX code:AUP)
- van Eyk Blueprint Alternatives Plus
(ASX code: VBP)

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1. This number represents a cumulative return and assumes reinvestment of distributions. 2. The Fund intends to always distribute at least 2.0% of NAV per Unit, excluding any franking credits, per quarter regardless of Fund performance. This means that if the Fund has insufficient net income in a given quarter, investors may receive a partial (or full) return of capital. 3. Incorporates all unit classes within the Fund, and also individual mandates that are external to the Fund but utilise the investment strategy or direct variants thereof. 4. Each historical distribution has been divided by six to reflect the Unit split carried out in November 2009.

Disclaimer: This information has been prepared by Aurora Funds Management Ltd (ABN 69 092 626 885, AFSL 222110) in its capacity as Responsible Entity for the Aurora Absolute Return Fund (ARSN 110 303 430). It has been prepared without taking into account the objectives, financial situation or needs of any investor, which should be considered before investing. Investors should consider a copy of the Product Disclosure Statement and seek their own financial advice prior to investing in the Fund. The information in this Performance Report is of a summary nature only and does not constitute advice of any kind, nor is it an offer of any financial product. Past performance is not a reliable indication of future performance. In particular as the Investment strategy of the Fund was materially altered in July 2009, and March 2011 and performance prior to these dates (being from three years to 'since inception') has little bearing on future performance. The payment of franking credits to Unit holders is subject to the Fund achieving a taxable profit in that year. Please see asx.com.au for more information on the S&P/ASX200 Accumulation Index. *The investment objective is expressed after the deduction of fees and before taxation. The objective is not intended to be a forecast and is only an indication of what the investment strategy aims to achieve over the medium to long term.