

Aurora Absolute Return Fund Performance Report - 31 May 2012

ASX Code: ABW



Summary

- The Fund returned 0.28% for May whilst the the RBA Cash Rate returned 0.31%.
- Over the last 12 months, the Fund returned 5.29% versus the S&P/ASX200 Accumulation Index which returned -9.00%

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	0.28%	1.27%	2.48%	5.29%	10.84%	3.27%
RBA Cash Rate	0.31%	1.02%	2.10%	4.53%	4.29%	5.22%
S&P/ASX200 Accumulation Index (ASX200AI)	-6.64%	-4.15%	1.26%	-9.00%	6.80%	0.52%

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 in 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	\$84 million
Net Assets Value per Unit	\$1.1006

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	8.07%
31 Mar 12	\$0.0221	\$0.0000	\$0.0221	8.10%
Total	\$0.6636	\$0.1311	\$0.7943	

Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	8.59%
Volatility % p.a.	2.96%
Sharpe Ratio	1.15
% 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

The S&P/ASX200AI finished down -6.64% with the Master Fund recording a gain of +0.26% for the month. A combination of reduced Chinese growth expectations, Greek polling uncertainty and Spanish bank capitalisation resulted in the heaviest one month fall for the index since May 2010. Commodities and Energy names bore the brunt of the sell-off as equities followed large falls in gold (-12%); Oil (-9%) and Iron Ore spot (-16%). Financials weathered early uncertainty but eventually succumbed after Spain flagged capital issues within its largest banks as well as several regional banks.

The **Options** portfolio (+0.27%) provided the best returns as expected in this environment. The strategy is heavily weighted towards financials given the large exposure to this sector within the yield and parts of the M&A book. Unfortunately there was little exposure within Materials and Energy names, where the Master Fund saw drawdowns on very small positions. The top performers within the Options strategy were the S&P/ASX200, Westpac Bank (WBC.ASX) and Commonwealth Bank (CBA.ASX). A position in Woodside Petroleum (WPL.ASX) performed poorly during the month.

A variety of combined events generated a negative return from the Master Funds **M&A** portfolio (-0.19%). Flinders Mines (FMS.ASX) remained stuck in a legal battle with a Russian court due to an injunction by a minority shareholder of the bidder, Magnitogorsk Iron & Steel Works OJSC (MMK). The injunction has been postponed to 2 July, however the appeal by Flinders mines will be heard on June 6. If the appeal is successful the takeover will proceed; Sundance Resources (SDL.ASX) agreed to final terms on a Scheme of Arrangement with Hanlong Mining but continues to trade at a wide discount whilst it awaits approval from Cameroon and Chinese authorities as well as confirmation of funding; Spotless Group (SPT.ASX) continued to trade at a significant discount to the terms of the Scheme of Arrangement that it has with Private Equity Partners, as investors are uncertain of its ability to meet the "profit guidance" condition. On the positive front Ludowici (LDW.ASX) shareholders approved the Scheme of Arrangement with FLSmidth, including a fully franked special dividend.

The **Convergence** strategy (+0.07%) produced a small positive return. The Wesfarmers Partially Protected Shares (WESN.ASX) over the ordinary shares (WES.ASX) spread continues to be profitable and present good trading opportunities. NewsCorp (NWS.ASX) ADR trading also provided substantial profits whilst Purseus Limited (PRU.ASX) struggled in light of the severe drawdowns within the commodities sector.

The **Long/Short** strategy provided a small negative return (-0.05%). The pre-event space was negatively impacted by the sell-off of Norton Goldfields (NGF.ASX) and Cape Lambert (CFE.ASX). The Master Fund maintained/added to these positions through the sell-off and awaits critical news regarding the Zijin approach for Norton Goldfields, and the Cape Lambert Marampa IPO scheduled for the beginning of June. Santos (STO.ASX) also provided a negative return during the month. One of the most profitable positions for the Master Fund during the month was a short position in Toll Holdings (TOL.ASX), who downgraded guidance and wrote-down businesses during the month.

The **Yield** strategy contributed (0.17%). The Master Fund continues to add to short dated structures with pricing certainty and potential upside on conversion to equity. Conversely the Master Fund continues to exit longer dated structures. The IAG notes (IAGPA.ASX) delisted on 24/05 with payment expected on June 18th; Dexus Rents Trust (DXRPA.ASX) will be redeemed at the end of June.

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 \$470 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 Dividend Income Trust
(APIR Code: AFM0010AU)
- 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.