



FORTITUDE CAPITAL

Aurora Fortitude Absolute Return Fund

May-2012

AURORA
 FUNDS LIMITED

INVESTMENT OBJECTIVE

The Aurora Fortitude Absolute Return Fund (AFARF), aims to produce positive returns irrespective of the direction of the share market by investing in predominantly Australian listed securities and derivatives.

FUND PERFORMANCE TO 31 MAY 2012

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	0.26%	0.31%	-6.64%
3 months	1.15%	1.02%	-4.15%
6 months	2.34%	2.10%	1.26%
12 months	4.71%	4.53%	-9.00%
2 years (p.a)	4.63%	4.64%	0.43%
3 years (p.a)	4.72%	4.29%	6.80%
5 years (p.a)	6.82%	5.00%	-4.15%
Annualised Return Since Inception (p.a)	8.59%	5.29%	4.47%
Standard Deviation	2.96%	0.35%	15.00%

Spanish Flu

The S&P ASX200AI finished May down -6.64% with the Fund recording a gain of +0.26%. 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 (cajas).

The **Options** portfolio (+0.27%) provided the best returns as expected in this environment. The book 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 Fund saw drawdowns on very small positions. The top performers within the options book were the 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 our **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, 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** book (+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** book 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 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 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 Fund continues to add to short dated structures with pricing certainty and potential upside on conversion to equity. Conversely the Fund continues to exit longer dated structures. The IAG notes (IAGPA.ASX) delisted on 24/05 with payment expected on June 18th; Dexis Rents Trust (DXRPA.ASX) will be redeemed at the end of June.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	0.34	0.49	0.45	0.44	0.26								1.99%
2011	0.31	0.90	0.16	1.25	-1.46	-0.61	0.51	1.19	0.11	0.43	0.67	0.34	3.83%
2010	0.44	-0.13	-0.73	0.43	0.91	-0.49	-1.60	0.86	0.58	1.61	1.37	1.05	4.33%
2009	0.21	0.01	0.28	0.26	1.20	1.55	0.63	0.67	-0.58	0.82	-0.02	0.82	6.01%
2008	1.34	0.17	0.27	1.21	0.63	0.18	0.45	1.14	2.61	3.13	0.21	0.37	12.38%
2007	1.14	0.52	0.32	1.40	0.21	0.36	0.63	3.06	-0.30	0.71	1.32	-0.23	9.55%
2006	1.71	1.82	1.38	1.82	3.63	0.57	1.55	0.27	1.32	0.61	0.14	0.80	16.75%
2005			1.02	0.96	1.50	1.58	0.92	0.18	0.52	1.34	0.28	-0.50	8.06%

FUND OVERVIEW

The Fund aims to 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.

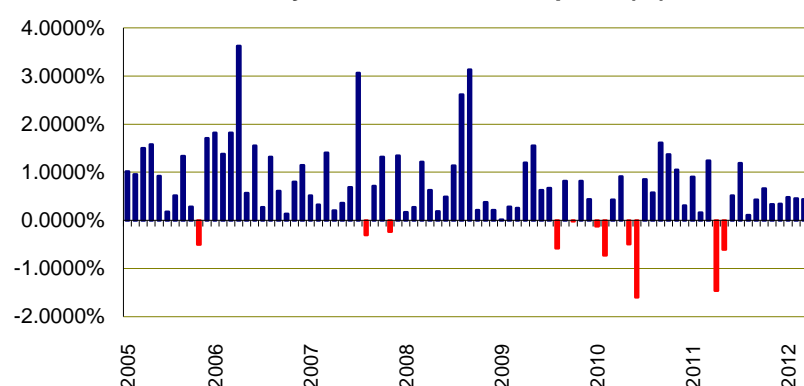
Low transaction costs and liquidity are other important factors in the success and implementation of the strategies.

Within the implementation of this strategy, the Investment Manager believes that the Australian equity market presents franking credit opportunities that are being ignored and/or mispriced by the market. As such, the Fund intends to seek to take advantage of these opportunities as they arise. Accordingly, from 14 May 2012, the value of the franking credits earned by the Fund will be included in the performance returns of the Fund - including within the calculation of Application/Redemption prices and management/performance fees.

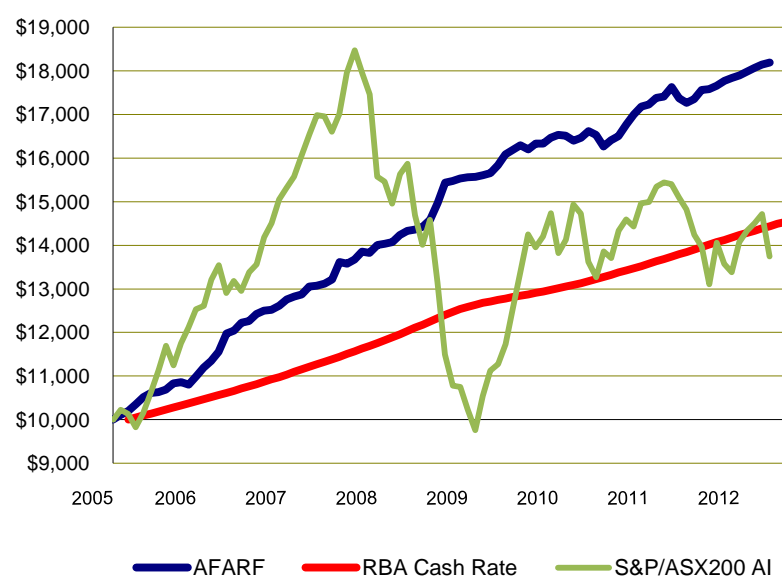
FUND DISTRIBUTIONS (per Unit)

Period (per Unit)	Amount (\$)	Yield (p.a)
30/06/2005	\$0.0516	15.48%
30/06/2006	\$0.1449	14.49%
30/06/2007	\$0.1040	10.40%
30/06/2008	\$0.0961	9.75%
30/06/2009	\$0.1384	14.09%
30/06/2010	\$0.0256	2.66%
30/06/2011	\$0.0338	3.47%
30/09/2011	\$0.0193	8% (annualised)
31/12/2011	\$0.0194	8% (annualised)
31/03/2012	\$0.0191	8% (annualised)
Total since inception	\$0.6522	

Monthly Returns Since Inception (%)



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



INVESTMENT MANAGER

Fortitude Capital Pty Ltd (AFSL 221131) is a wholly-owned subsidiary of Aurora Funds Limited (Aurora). With in excess of \$480 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 2,500 Australian and New Zealand investors.

Aurora is also the issuer of the:

- Aurora Sandringham Dividend Income Trust (ASX code: AOD)
- Aurora Dividend Income Trust (APIR code: AFM0010AU)
- Aurora Absolute Return Fund (ASX code: ABW)
- Aurora Global Income Trust (ASX code: AIB)
- Aurora Property Buy-Write Income Trust (ASX code: AUP)
- van Eyk Blueprint Alternatives Plus (ASX code: VBP)

KEY FACTS		AFARF	RBA Cash
Strategy	Market Neutral	Sharpe Ratio	1.15
Feeder Fund	Aurora Absolute Return (ABW)	Best month	3.63%
APIR Code	AFM0005AU	Worst month	-1.60%
Benchmark	RBA Cash Rate	Positive months	87.36%
Administrator	Mackenzie Coultas Funds Admin	Prime Broker/Custodian	UBS

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