

Aurora Absolute Return Fund Performance Report - 31 July 2012

ASX Code: ABW



Summary

- The Fund returned 0.46% for July whilst the the RBA Cash Rate returned 0.29%.
- Over the last 12 months, the Fund returned 5.94% which has outperformed the S&P/ASX200 Accumulation Index which has returned 1.31%.

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	0.46%	1.22%	2.72%	5.94%	8.10%	3.34%
RBA Cash Rate	0.29%	0.90%	1.97%	4.31%	4.32%	5.18%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	4.28%	-2.00%	2.53%	1.31%	4.64%	1.38%

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	\$85.5 million
Net Assets Value per Unit	\$1.0888

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%
30 June 12	\$0.0220	\$0.0000	\$0.0220	8.02%
Total	\$0.6856	\$0.1311	\$0.8163	

Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	8.56%
Volatility % p.a.	2.92%
Sharpe Ratio	1.14
% positive months	88%
Best Month	3.63
Worst Month	-1.60%
Average positive monthly return	0.87%
Average negative monthly return	-0.43%

Performance Commentary - Master Fund

The S&P/ASX200 Accumulation Index put in a strong performance for July characterised by a chase for dividend yield from domestic and international investors. Thus the Telecommunications, Consumer Staples, REITs & Financials sectors dramatically outperformed the Materials and Energy sectors. The macro backdrop continued to dominate with encouraging commentary from Europe. The direction of the market in future months will continue to be impacted by any action/lack of action from the European Central Bank's president, Mario Draghi. Countering this we saw a continued cooling in U.S. macro indicators and a poor U.S. reporting season, particularly in technology which left Australia reasonably unscathed. The S&P/ASX200AI finished the month up 4.28%. The Fund returned +0.46% for the month.

The **M&A** portfolio was the most profitable strategy for the month. Zijin received FIRB and Chinese regulatory approvals for its \$0.27 per share off market takeover bid for Norton Goldfields (NGF.ASX). The bid should go unconditional shortly which will also provide good trading opportunities. The Saint Barbara Mining (SBM.ASX) bid for Allied Gold (ALD.ASX) by scheme of arrangement traded at favourable spreads during the month which the Master Fund was able to take advantage of.

The **Options** strategy benefitted from aggressive upside moves in yield names with positions held in Commonwealth Bank (CBA.ASX) & Tabcorp (TAH.ASX) particularly profitable. Woodside Petroleum (WPL.ASX) and Lend Lease (LLC.ASX) also had aggressive upside moves during the month on the back of encouraging corporate news. Reporting season begins in August and the Master Fund will be targeting similar names with imminent corporate news for profitable opportunities. The Master Fund's position over the S&P/ASX200 Index (XJO.ASX) offset this as volatility declined during the month.

The **Convergence** strategy was the only unprofitable strategy for the month. The Yancoal takeover of Gloucester Coal (GCL.ASX) resulted in the issue of new CVR shares (YALN.ASX) in addition to the ordinary Yancoal shares (YAL.ASX). This situation was unprofitable during the month, however the Master Fund envisages many profitable trading opportunities in this situation during the 18 month course of the issue. The Yancoal situation is not dissimilar to the Wesfarmers partially protected shares issue (WES.ASX/WESN.ASX) which was profitable again during the month.

The **Long/Short** portfolio benefitted from a placement taken in Maverick Drilling and Exploration limited (MAD.ASX) and a block trade in Nexus Energy (NXS.ASX). These positions were offset by losses in Whitehaven Coal (WHC.ASX) as the market continued to discount Nathan Tinkler's ability to fund this deal.

The **Yield** portfolio was profitable with the CBA PERLS IV issue (CBAPB.ASX) going ex-dividend during the month. The issue has a mandatory conversion date of 31 October and the Master Fund continues to see attractive short dated yield in the position as it approaches maturity.

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 \$500 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.