

Aurora Absolute Return Fund Performance Report - 31 October 2012

ASX Code: ABW



Summary

- The Fund returned -0.20% for October whilst the the RBA Cash Rate returned 0.27%.
- The Investment Strategy has produced positive returns every financial and calendar year since inception.

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	-0.20%	0.57%	1.79%	4.73%	4.98%	3.29%
RBA Cash Rate	0.27%	0.86%	1.76%	3.97%	4.35%	5.11%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	2.98%	7.48%	5.33%	10.27%	3.57%	2.58%

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 1.5% 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	\$88.7 million
Net Assets Value per Unit	\$1.0730

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%
30 Sept 12	\$0.0220	\$0.0000	\$0.0220	8.00%
Total	\$0.7076	\$0.1311	\$0.7076	

Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	8.33%
Volatility % p.a.	2.90%
Sharpe Ratio	1.09
% positive months	87%
Best Month	3.63
Worst Month	-1.60%
Average positive monthly return	0.86%
Average negative monthly return	-0.57%

Performance Commentary - Master Fund

The S&P/ASX200 Accumulation Index gained 2.98% during September. Both the Hong Kong and China indices were up 3.8% and 7.6% respectively, whilst most other equities indices were down (Dow -2.5%) to slightly positive (UK +0.7%). An Aurora representative spent some time on the ground in Hong Kong towards the end of the month, where there is a common belief amongst institutional participants that a large portion of European and U.S Quantitative Easing is making its way towards China. Given the Chinese proxy nature of the S&P/ASX200 Australia is a beneficiary of this theory. The Materials Index posted a large gain (+8.4%) whilst Utilities (-1.6%) was the only negative sector for the month.

The Fund posted its first monthly loss (-0.20%) since June 2011 (15 months) primarily due to further pre-event failures and a decrease in implied volatilities.

The **Long/Short** portfolio struggled due to pre-event failures. TPG withdrew a non-binding offer for Billabong (BBG.ASX) which resulted in a large fall for the stock. Northern Iron (NFE.ASX) was also a significant drawdown as it conducted an entitlement offer in the midst of a strategic review and due-diligence process by two potential bidders. The Master Fund has significantly scaled back its exposure to Echo Entertainment (EGP.ASX) as competitive tension for Echo's Sydney casino license subsides. The NSW State Government's remarks during the month with regards to issuing a second Sydney license are surprising and should result in a discount in the Echo share price.

The **Yield** portfolio was particularly profitable as the CBA PERLS IV (CBAPB.ASX) issue matured, and the yield on several short dated instruments contracted. The Master Fund continues to focus on high quality short dated instruments and will continue to scale into these positions approaching maturity on a price sensitive basis.

The **Convergence** book had an uncharacteristic negative month. Positioning in News Corporation (NWS.ASX) and Resmed Incorporated (RMD.ASX) was harshly impacted by the rally in the Australian Dollar against the US Currency. The Master Funds position in Yancoal Australia suffered as both the Ordinary Shares (YAL.ASX) and the Contingent Value Rights (YALN.ASX) fell in value, this should be an unusual event and we used this an opportunity to add to the position.

The **Options** book struggled in the face of a large decline in volatility. Protective positions in the finance sector were expensive, but we are conscious these play a larger role in the portfolio. Incitec Pivot (IPL.ASX) was particularly profitable with Phosphate prices continuing a strong rise against all other commodities. Boral Limited was also profitable and the Master Fund eagerly awaits the company's AGM at the beginning of November where we expect heightened volatility.

The **M&A** portfolio was largely compliant; we accepted the APA Group (APA.ASX) takeover for our holding in the Hastings Diversified Fund (HDF.ASX); the scheme of arrangement between Consolidated Media Holdings (CMJ.ASX) and NewsCorp (NWS.ASX) was approved by shareholders at the end of the month and is expected to settle in November. We received settlement proceeds from the Gerald Lighting (GLG.ASX) scheme of arrangement. The Master Fund's largest net position is held in Industea Limited (IDL.ASX) which received approval from the Chinese Ministry of Commerce for the Scheme of Arrangement with GE Mining Services. This was seen as the last hurdle before the scheme meeting and vote in November 2012.

About Aurora

Aurora Funds Limited ('Aurora', ASX Code: AFV) was listed on the ASX in July 2010.

The combined group has in excess of \$540 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. From 1 October 2012 the Fund intends to always distribute at least 1.5% 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.