

Aurora Absolute Return Fund Performance Report - 31 December 2012

ASX Code: ABW



Summary

- The Fund returned +0.04% for December whilst the the RBA Cash Rate returned 0.25%.
- The Fund announced a cash distribution of \$0.017 per Unit for the three months ending 31 December 2012, which represents an annualised yield of 6.40%.

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	0.04%	0.44%	1.68%	4.33%	3.31%	3.31%
RBA Cash Rate	0.25%	0.79%	1.68%	3.75%	4.32%	5.06%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	3.35%	6.94%	16.39%	20.26%	2.99%	3.15%

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	\$89.9 million
Net Assets Value per Unit	\$1.0629

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%
31 Dec 12	\$0.0170	\$0.0000	\$0.0170	6.40%
Total	\$0.7246	\$0.1311	\$0.8557	

Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	8.23%
Volatility % p.a.	2.88%
Sharpe Ratio	1.07
% 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

December was dominated by posturing and horse trading over the fiscal cliff in the United States. The ASX200 also saw a reversal in fortunes for mining stocks with positive data emerging from China. The hunt for yield continued as offshore investors appear to have embraced a higher Australian Dollar and dominated flow in high yielding equities. The S&P/ASX200 Accumulation Index finished the month up 3.35% with the Materials and Industrials sectors particularly strong (+4.9% and +5.2% respectively). The Fund was up 0.04% for the month.

With the fiscal cliff negotiated (at time of writing) and sovereign quantitative easing ("QE") continuing short term downside risk has been negated. However, 2013 will not be without further turmoil as debt ceiling negotiations approach (remember the last round in August 2011?) and China continues to navigate a soft landing. In light of this backdrop we are confident we can generate returns within our stated objectives:

* Volatility levels reduced significantly during 2012 and options prices have reverted to the low levels seen prior to the Global Financial Crisis;

* We see further issuance in listed hybrids after the success of 2012 (\$8bn in issuance);

* Increased M&A spreads due to recent deal failures;

* Increased equity market volumes, corporate activity and M&A as Global QE Infinity is utilised.

The **Long/Short** strategy delivered 0.05% of performance benefiting from exposure to mining services; ALS Ltd (ALS.ASX) rallied sharply prior to an anticipated catalyst and Miclyn Express (MIO.ASX) attracted attention as a potential takeover target.

M&A delivered a return of 0.17%. DuluxGroup (DLX.ASX) successfully acquired Alesco Corporation (ALS.ASX) and the scheme of arrangement between Silver Lake Resources (SLR.ASX) and Integra Mining (IGR.ASX) was approved. The saga surrounding Sundance Resources (SDL.ASX) scheme of arrangement continued. Hanlong Mining unable to meet another deadline and the scheme meeting was again deferred. Convergence strategy was a small positive (+0.09%), this was largely achieved through the increased interest in, and hence improving price, of the Yancoal Contingent Value Shares (YALN.ASX).

The **Yield** book continues to generate positive returns (+0.10%) with the CBA PERLS III issue (PCAPA.ASX) generating strong returns. We were able to take advantage of liquidity in this name and will look to exit the position as margins compress. The Master Fund will add to positions in shorter dated hybrid securities as opportunities present.

The **Options** portfolio (-0.31%) struggled in light of continued declining volatility. The book was well positioned for market volatility on fiscal cliff negotiations & a pullback in high yielding dividend names. Larger drawdowns were experienced in the ASX200 Index (XJO.ASX), Insurance Australia Group (IAG.ASX) and Woodside Petroleum (WPL.ASX).

About Aurora

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

The combined group has in excess of \$550 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.