

Aurora Absolute Return Fund Performance Report - 31 August 2014

ASX Code: ABW



Summary

- The Fund returned 0.32% for August whilst the RBA Cash Rate returned 0.21%
- Reporting season provided some increased opportunities for the Fund
- The main contributor to performance was the Options strategy due to some share price volatility over reporting season

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	0.32%	0.12%	0.63%	3.75%	5.01%	3.75%
RBA Cash Rate	0.21%	0.63%	1.26%	2.53%	3.25%	4.59%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	0.62%	3.48%	6.34%	14.41%	14.45%	6.02%

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 achieve absolute returns (i.e. positive returns in both rising and falling equity markets) by using a number of different investments that allow the Fund to have very little correlation to the performance of the stock market index. The focus on 'absolute returns' differs from traditional funds in that the Master Fund aims to produce positive returns regardless of equity market conditions.

We research various criteria and reasons to invest in particular situations. These criteria may pertain to fundamental and quantitative analysis, company event situations; takeovers and mergers, demergers and restructuring, liquidity events, recapitalisations, multiple share classes, option availability and pricing. Once an investment decision is made, the implementation of the trade is conducted in parallel with an active focus on risk management. The Master Fund uses derivatives for risk management as well as to create new positions.

Fund Features

ASX Listed	ASX 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	\$29 million
Strategy Size ³	\$218 million
Net Asset Value per Unit	\$1.0326

Fund Distributions (Per Unit)⁴

Period (per Unit)	Cash	Franking	Total	Yield at NAV (p.a.)
FY 06-10	\$0.5034	\$0.1311	\$0.6345	
30 Sep 10	\$0.0250	\$0.0000	\$0.0250	9.50%
31 Dec 10	\$0.0230	\$0.0000	\$0.0230	8.32%
31 Mar 11	\$0.0230	\$0.0000	\$0.0230	8.19%
30 Jun 11	\$0.0227	\$0.0000	\$0.0227	7.98%
30 Sep 11	\$0.0222	\$0.0000	\$0.0222	8.01%
31 Dec 11	\$0.0222	\$0.0000	\$0.0222	8.02%
31 Mar 12	\$0.0221	\$0.0000	\$0.0221	8.03%
30 Jun 12	\$0.0220	\$0.0000	\$0.0220	8.06%
30 Sep 12	\$0.0220	\$0.0000	\$0.0220	8.12%
31 Dec 12	\$0.0170	\$0.0000	\$0.0170	6.25%
31 Mar 13	\$0.0160	\$0.0000	\$0.0160	6.02%
30 Jun 13	\$0.0159	\$0.0173	\$0.0332	12.56%
30 Sep 13	\$0.0159	\$0.0000	\$0.0159	6.22%
31 Dec 13	\$0.0159	\$0.0000	\$0.0159	6.10%
31 Mar 14	\$0.0159	\$0.0000	\$0.0159	6.09%
30 Jun 14	\$0.0160	\$0.0120	\$0.0280	10.60%
Total	\$0.8202	\$0.1604	\$0.9806	

Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	7.72%
Volatility % p.a.	2.70%
Sharpe Ratio	1.12
% positive months	88%
Best Month	3.63%
Worst Month	-1.60%
Average positive monthly return	0.79%
Average negative monthly return	-0.53%

Performance Commentary - Master Fund

Reserve Bank Governor, Glenn Stevens, commented during the month that "Volatility in many financial prices is currently unusually low" and this seems to heavily discount any possibility of interest rate rises or "other unforeseen event". This is a thematic that we have commented on a number of times in recent months as we strive to hedge our portfolio consistently using a strategy that relies on a degree of volatility and market uncertainty. We believe that it is the most appropriate strategy for the portfolio over the investment cycle, but particularly in the current environment where, as Governor Stevens highlights, a large portion of investors seem to be comfortable with current risk levels.

Over the month European and US markets seemed to take heart from stronger US economic data continuing their upward trends (FTSE +1.3%, DAX +0.7%, S&P 500 +3.8%, Dow +3.2%) closing at or near all-time highs. Asian markets seemed more concerned with data showing a slowing Chinese economy (Nikkei -1.3%, Hang Seng -0.1%, Straits Times -1.4%). The S&P/ASX 200 Accumulation Index came through the reporting season somewhat in the middle ground, +0.62%, as investors benefited from a swing of dividend payments.

Our Fund returned +0.32%, and as is often the case during reporting season our Options Protection delivered the bulk of these returns (0.32%). The most significant contributor was Suncorp Group (SUN.ASX) which surprised the market with a "special dividend" on top of increasing its ordinary dividend payment. Conversely the Fund also benefited from the severe negative reaction to the BHP Limited (BHP.ASX) announcement that it would spin off its mineral diversion but not conduct a buyback or pay a special dividend. It is interesting to note that, despite the focus on the "mining boom", over the last five years Australian investors have had a negative capital return from BHP albeit with a return of 13.77% in dividends. Other positive option positions over the month were CSL Limited (CSL.ASX), Telstra Corporation (TLS.ASX) and Woodside Petroleum (WPL.ASX).

Mergers and Acquisitions were a drawdown during the month (-0.1%). Horizon Oil (HZN.ASX) fell significantly when ROC Oil (ROC.ASX) withdrew from the proposed merger as it had received a cash bid from China based Fosun International (656.HK) which was deemed a more attractive proposition. The spread between Papillion Resources (PIR.ASX) and B2Gold (BTO.CN) widened reflecting the reduced probability of a counter bid as the scheme approaches completion in September. The Frasers Centrepoint (FCL.SP) cash bid for Australand Property (ALZ.ASX) and its Assets Trust (AAZPB.ASX) concluded and funds are expected to be received early September.

"Pre-Event" positions dominated our Long/Short portfolio (+0.06%). Stonewall Resources (SWJ.ASX) received Chinese Ministry of Commerce approval for the sale of a major asset to Shandong Qixing. This transaction requires two more Chinese regulatory approvals to complete which will result in a

capital return to SWJ holders, but the share price had a rally in response to the clearance of this hurdle. The Crowe Horwath Australia (CRH.ASX) share price reacted negatively to a poor result and the lack of update on the indicative takeover offer. Transpacific Preference Shares (TPAPA.ASX), which are approaching a late September redemption, was again the biggest contributor to our Yield Portfolio (+0.02%). Some expansion in credit spreads saw a slight drawdown from some of the longer dated holdings.

Opportunities in Convergence trading remain thin. We made some profits in Henderson Group (HGG.ASX) but these were largely offset by losses in Resmed Incorporated (RMD.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 \$295 million in funds under management and administration, and provides asset management and responsible entity/trustee services for Australian and New Zealand investors.

Aurora is also the issuer of the:

- Aurora Fortitude Absolute Return Fund
(APIR Code: AFM0005AU)
- Aurora Dividend Income Trust (Managed Fund)
(ASX Code: AOD and APIR Code: AFM0010AU)
- Aurora Global Income Trust
(ASX Code: AIB)
- Aurora Property Buy-Write Income Trust
(ASX code:AUP)

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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.