

Aurora Absolute Return Fund Performance Report - 31 December 2014

ASX Code: ABW



Summary

- The Fund returned -0.76% for December whilst the RBA Cash Rate returned 0.21%.
- The main detractor to performance was the Long/Short strategy.
- The Options portfolio contributed positively due to the increasing levels of volatility.

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	-0.76%	-0.61%	-0.26%	0.89%	4.22%	3.51%
RBA Cash Rate	0.21%	0.63%	1.26%	2.53%	3.01%	4.48%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	2.06%	3.11%	2.50%	5.61%	15.13%	5.45%

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	\$28 million
Strategy Size ³	\$126 million
Net Asset Value per Unit	\$0.9778

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%
30 Sep 14	\$0.0154	\$0.0000	\$0.0154	5.99%
31 Dec 14	\$0.0153	\$0.0170	\$0.0323	12.71%
Total	\$0.8509	\$0.1774	\$1.0283	

Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	7.37%
Volatility % p.a.	2.70%
Sharpe Ratio	1.01
% positive months	86%
Best Month	3.63%
Worst Month	-1.60%
Average positive monthly return	0.78%
Average negative monthly return	-0.50%

Performance Commentary - Master Fund

Commodity prices and the currency again struggled through December, but the Australian equity market finished the year with a gain for the month (S&P/ASX200 Accumulation Index +2.06%). This was largely a case of heavy weight Industrials (All Industrials +2.8%) outperforming the resources sector (All Resources -2.6%). Global markets were generally flat to weaker (S&P 500 -0.4%, FTSE -2.3%, Dax -1.8%, Nikkei -0.10%, Hang Seng -1.6%).

The Aurora Absolute Return Fund returned -0.76% for the month. This was again through Long/Short trading (-1.26%) in the Master Fund, largely caused by the collapse of a planned asset sale by Stonewall Resources (SWJ.ASX). In November 2013 the company had agreed to terms to sell its major asset to a Chinese listed group Shandong Qixing (002359.CH) subject to usual regulatory approvals; over the following 12 months all approvals bar Chinese Securities Regularity Commission (CSRC) had been received, however in November 2014 Shandong withdrew its application to CSRC and withdrew from the agreed purchase. We await further developments, including potential litigation.

The Initial Public Offer (IPO) of Australian Careers Network (ACO.ASX) was also a drawdown within the Long/Short strategy as the market became more cautious of vocational education and training businesses after a competitor had a major downgrade. As part of our ongoing risk management process we continue to unwind some of the smaller, less liquid positions where price and time stop losses have been triggered.

Mergers and Acquisitions was the most profitable strategy for the month (+0.25%). The acquisition of Crowe Horwath Australasia (CRH.ASX) by Findex was approved by both shareholders and the Court. CRH officially declared the fully franked special dividend component of the consideration which exceeded our conservative estimate. Indophil Resources (IRN.ASX) also received approval at the scheme meeting paving the way for Alsons to conclude the takeover in January 2015.

The Option overlay was profitable (+0.19%) due to increasing levels of volatility. The strong moves in industrial names provided positive returns from Wesfarmers (WES.ASX), Westpac (WBC.ASX), Stockland (SGP.ASX) and Macquarie Group (MQG.ASX). Rio Tinto (RIO.ASX) and Newcrest (NCM.ASX) were the best of the resources positions against some underperformance from Woodside Petroleum Ltd (WPL.ASX) and BHP Billiton (BHP.ASX).

Convergence trading contributed +0.07% for the month. The Harvey Norman (HVN.ASX) rights issue provided some significant opportunities as did the pricing period and subsequent redemption of the Kiwi Property Group (KIPGC.ASX) Convertible Notes.

About Aurora

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

The combined group has in excess of \$225 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)

Aurora Funds Limited

Level 4, 1 Alfred Street, Sydney NSW 2000 PO Box R1695, Royal Exchange NSW 1225

Telephone: 1300 553 431, Visit: www.aurorafunds.com.au, or Email: enquiries@aurorafunds.com.au

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.