

Aurora Absolute Return Fund Performance Report - 31 December 2015

ASX Code: ABW



Summary

- The Fund returned 0.26% for December whilst the RBA Cash Rate returned 0.17%.
- The Yield and Mergers & Acquisitions strategies were the most significant contributors for the month.
- The Fund distributed 1% in cash and 1.8% in franking credits for the December quarter representing an annualised yield of 10.94%.

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	0.26%	-0.09	2.40%	4.69%	4.34%	3.63%
RBA Cash Rate	0.17%	0.50%	1.00%	2.12%	2.47%	4.23%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	2.73%	6.48%	-0.53%	2.56%	9.19%	5.13%

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 1.0% of Net Asset Value ² per Unit per quarter plus franking credits
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 daily off-market redemptions

Fund Valuations

Net Asset Value per Unit	\$0.9489
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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	
FY 10-11	\$0.0937	\$0.0000	\$0.0937	7.98%
FY 11-12	\$0.0885	\$0.0000	\$0.0885	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%
31 Mar 15	\$0.0099	\$0.0000	\$0.0099	4.05%
30 Jun 15	\$0.0098	\$0.0130	\$0.0228	9.29%
30 Sep 15	\$0.0145	\$0.0000	\$0.0145	6.00%
31 Dec 15	\$0.0098	\$0.0169	\$0.0267	10.94%
Total	\$0.8949	\$0.2073	\$1.1022	

Performance Statistics - Master Fund

Performance Since Inception p.a. - March 05	7.11%
Volatility % p.a.	2.64%
Sharpe Ratio	1.03
% positive months	85%
Best Month	3.63%
Worst Month	-1.60%
Average positive monthly return	0.76%
Average negative monthly return	-0.45%

Performance Commentary - Master Fund

The Australian market followed a textbook “Santa Claus Rally” pattern in the second half of December to close up 2.73% (S&P ASX200 Accumulation Index). Continued distress in commodities markets contributed to sharp losses by the middle of the month. The market then rallied from 16 December into year end to the cheers of many long-only funds as Santa, guided by Blitz, delivered a sack full of presents. The market took confidence from the long awaited and highly anticipated 0.25% Federal Reserve interest rate rise in the US after seven years of near zero rates. International Indices displayed similar patterns, however the majority finished December marginally negative. Volatility subsided significantly to finish the year at 16 (as measured by the S&P ASX Volatility Index “SPAVIX”).

The Aurora Absolute Return Fund returned 0.26% for the month against the cash benchmark of 0.17%. The Yield and Mergers and Acquisitions strategies provided the bulk of the returns whilst the Options strategy finished the month flat as volatility declined inversely to the market rally.

Within Yield (+0.22%) the Step-Up securities (Commonwealth Bank PCAPA.ASX and Westpac WCTPA.ASX) performed well. These securities will be redeemed in the first half of 2016 and the Master Fund will continue to add to these positions as redemption approaches. The older style Basel II ANZ CPS2 (ANZPA.ASX) mature in December 2016 and continue to provide good returns. CBA Senior Bonds (CBAHA.ASX) were redeemed during December.

The Convergence Strategy was also flat as volumes declined over the month.

Mergers and Acquisitions (+0.22%) benefitted from the release of the iProperty (IPP.ASX) scheme booklet. The booklet provided clarity on the intentions of major shareholders with regards to unlisted scrip/cash payment options. It is highly probable that the majority of smaller shareholders will receive \$4 per share from REA Group Ltd (REA.ASX) as scheme consideration. The scheme is scheduled to complete mid February 2016. Conversely the Recall/Iron Mountain Scheme continued to face competition regulatory scrutiny with the UK Competition and Markets Authority raising fresh concerns. The Master Fund continues to avoid this deal until further clarity is received from regulators. Evolution Mining (EVN.ASX) achieved >90% acceptances of their offer for Phoenix Gold (PXG.ASX) which triggered an additional 0.75 cent payment as part of the consideration.

The Options portfolio benefitted from a Suncorp downgrade (SUN.ASX). This is a classic case of new management rebasing expectations, opposed to departing management painting a picture of success. Westpac Bank (WBC.ASX) and Insurance Australia Group (IAG.ASX) provided good opportunities during the month. Offsetting strategy gains were, most notably, positions in Bluescope Steel (BSL.ASX), Commonwealth Bank (CBA.ASX) and Telstra (TLS.ASX) resulting in a flat month for the strategy overall.

The Long/Short strategy suffered a loss (-0.12%). OzForex (OFX.ASX) have received a non-binding indicative approach from The Western Union Company. Features of this bid are particularly attractive, however we hold a small position (1% of NAV) due to the non-binding nature of the bid. A small short-term position in Spotless Group (SPO.ASX) proved relatively costly after the company announced a downgrade to earnings, causing the stock to drop almost 40% the day of the announcement alone. The position was exited immediately, preventing further losses as the stock has continued to decline.

About Aurora

Aurora Funds Management Limited is a fully owned subsidiary of ASX listed, Keybridge Capital (ASX Code: KBC). Aurora is a boutique investment manager that was established in 2003, and has a long track record of producing risk adjusted returns for retail, institutional and high net worth investors. They aim to deliver income whilst also managing the risks associated in investing in Australian and global equities. The investment strategies are offered through both ASX listed investment vehicles and managed funds.

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)
- HHY Fund
(ASX code:HHY)

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1. This number represents a cumulative return and assumes reinvestment of distributions. 2. From 24 March 2015 the Fund intends to always distribute at least 1.0% 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 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.