

# Aurora Absolute Return Fund Performance Report - 31 July 2015

ASX Code: ABW



## Summary

- The Fund returned 0.49% for July whilst the RBA Cash Rate returned 0.17%.
- Yield was the best performing strategy as the perceived benign APRA outcomes relieved pressure.
- Volatility fell dramatically in the second half of the month.

## Performance<sup>1</sup>

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	0.49%	1.03%	2.77%	2.35%	4.11%	3.59%
RBA Cash Rate	0.17%	0.50%	1.07%	2.34%	2.66%	4.34%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	4.40%	-0.74%	4.23%	5.68%	15.11%	5.98%

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 <sup>2</sup> 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

Fund Size	\$20 million
Strategy Size <sup>3</sup>	\$87 million
Net Asset Value per Unit	\$0.9716

## Fund Distributions (Per Unit)<sup>4</sup>

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%
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%
31 Mar 15	\$0.0099	\$0.0000	\$0.0099	4.05%
30 Jun 15	\$0.0098	\$0.0130	\$0.0228	9.29%
<b>Total</b>	<b>\$0.8706</b>	<b>\$0.1904</b>	<b>\$1.0610</b>	

## Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	7.21%
Volatility % p.a.	2.65%
Sharpe Ratio	1.03
% positive months	86%
Best Month	3.63%
Worst Month	-1.60%
Average positive monthly return	0.76%
Average negative monthly return	-0.47%

## Performance Commentary - Master Fund

The Australian market performed well in July as macro concerns continued to dominate world markets. Popular attention was fixed on Greece, however Chinese equity markets were belted with a drawdown of -14.3% for the month. The Chinese authorities face a difficult balance between continued growth and constraint. After much political theatrics the European periphery situation appears to have been "kicked down the road". The EuroStoxx Index finished the month +5.2% whilst the U.S. market (S&P500) finished the month +2.1% with the half year reporting season in full swing. Domestically the miners (-1.1%) were the largest laggards reflecting the uncertainty in Chinese markets. The Financials index performed well (+4.8%) as APRA released their review of capital requirements. The market viewed the findings as benign which led to a strong rally and significant reduction in volatility. The Aurora Absolute Return Fund returned 0.49% for the month.

The Options strategy (-0.07%) initially benefitted from continued volatility across miners and banks. Volatility fell dramatically in the second half of the month with the Australian VIX falling -27% to 14.5 by the end of the month. This is an attractive level and the Master Fund added to volatility positions towards the end of the month, particularly in companies reporting during August. Positions in miners (BHP.ASX and RIO.ASX) were particularly profitable whilst the strategy recorded drawdowns in bank positions (notably ANZ.ASX and CBA.ASX) as well as CSL Ltd (CSL.ASX) and Woolworths Limited (WOW.ASX). We have increased exposure to this strategy at month end with a view to increased single stock volatility over the August reporting period.

The Yield strategy performed well (+0.27%) as the perceived benign APRA outcomes relieved pressure on banking sector hybrids across the board. National Australia Bank's Income Securities (NABHA.ASX) were the best performer after a poor June performance lead to an attractive running yield and price recovery.

We continue to see an increase in opportunities in the Convergence strategy (+0.17%). Increased volatility often leads to wider spreads with South32 (S32.ASX) particularly profitable over the month. The AMP Capital China Fund (AGF.ASX), a listed investment trust investing in China's leading 300 companies, also provided excellent spread trading opportunities.

Long/Short trading (+0.11%) was limited to upcoming catalyst based situations with Genworth Mortgage Insurance Australia (GMA.ASX) the most profitable position. The Master Fund expects increased dividends and capital management at the company's result in early August.

Several Mergers & Acquisition deals were announced during the month (+0.02%). Many of these are highly conditional and trading at prices the Master Fund perceives as unattractive. We continue to add to exposures at attractive levels, particularly in IINET (IIN.ASX) and Recall Holdings Ltd (REC.ASX). Notably, key Recall directors purchased shares on market over the month as the spread widened relative to Iron Mountain (IRM.US). The principal risk to this deal remains with US Federal Trade Commission approval, which the Master Fund continues to actively assess.

## 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. The investment strategies are offered through both ASX listed investment vehicles and managed funds. They aim to deliver income whilst also managing the risks associated in investing in Australian and global equities.

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.

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