

Aurora Absolute Return Fund Performance Report - 30 June 2014

ASX Code: ABW



Summary

- The Fund returned -0.32% for June whilst the the RBA Cash Rate returned 0.21%.
- The Fund distributed 7.17% in cash and franking credits for the 2014 financial year.

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	-0.32%	0.06%	1.16%	4.60%	5.47%	3.77%
RBA Cash Rate	0.21%	0.63%	1.26%	2.55%	3.37%	4.61%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	-1.50%	0.93%	3.04%	17.43%	10.37%	5.48%

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	\$25 million
Strategy Size ³	\$203 million
Net Asset Value per Unit	\$1.0281

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)	7.83%
Volatility % p.a.	2.72%
Sharpe Ratio	1.13
% positive months	88%
Best Month	3.63
Worst Month	-1.60%
Average positive monthly return	0.80%
Average negative monthly return	-0.53%

Performance Commentary - Master Fund

Volumes remain light and returns from global equity markets again varied during June. US markets continue to trade at record prices (S&P 500 +1.9%, Nasdaq +3.9%); European markets weaker (FTSE -1.5%, DAX -1.1%) and Asian indices mixed (Nikkei +3.6%, Hang Seng +0.5%, Straits Times Index -1.2%).

Continued budget concerns and an ongoing flow of IPO and other corporate lines appeared to affect the Australian market. The S&P ASX200 Accumulation Index fell 1.5% over the month.

The Aurora Absolute Return Fund also had a negative return for the month (-0.32%).

Lack of volatility remains a feature of most global markets and this continues to be a drain on our Protective Option Strategy (-0.51%). Woodside Petroleum (WPL.ASX) was the most significant drawdown. The Master Fund took the opportunity through the Shell Energy sell down of 13.6% of the company to establish a position to benefit from a possible rerating ahead of August profit and dividend announcements whilst still maintaining downside protection. Oil Search (OSH.ASX) was also a significant drawdown as the stock traded in a very tight range during the month. We anticipate a significant price movement as it appears that a large portion of the market believes the company will receive a takeover bid, whilst we remain more sceptical on the possibility of this development.

We expect that the July/August reporting season for Australian corporates is likely to provide some degree of uncertainty and price volatility, which should provide some significant opportunities for this portion of our portfolio.

In the current low volatility environment it is not surprising that the Master Funds Yield Strategy was again the most positive performing section of the portfolio (+0.28%) and that all positions produced positive returns for the month.

A bid for Australand Property Group (ALZ.ASX) by Singaporean development group Frasers Centrepoint Limited (FCL.SG) saw a significant contraction the discount to face value of the stapled security Australand Assets Trust (AAZPB.ASX). This bid is likely to lead to an early redemption for AAZPB which was the best performer in this section of the portfolio.

ALZ was also the best performer in our Long/Short portfolio, but this strategy produced a drawdown for the month (-0.09%). A major theme in this drawdown was the underperformance of new listings. Whilst the Master Fund only had small exposures to new floats Mantra Group (MTR.ASX), Monash Ivf Group (MVF.ASX) and The Pas Group (PGR.ASX) all listed at a discount to issue price; obviously we proceed with caution in this space.

Mergers and Acquisitions had mixed results (+0.02%) during the month. A small exploration company, Ambassador Oil and Gas (AQO.ASX) was in the very unusual position of having two competing unconditional bids which has provided attractive trading opportunities with limited downside; Horizon Oil Limited (HZN.ASX) came under pressure as it merger partner, ROC Oil Company (ROC.ASX), received a "indicative non-binding" takeover proposal which has the potential to scuttle the current scheme of arrangement; we continue to add to our position in Papillion Resources Limited (PIR.ASX) although the spread to B2Gold Corporation (BTO.CN) did widen towards month end.

The Master Fund maintains a small exposure to David Jones Limited (DJS.ASX). This has been a very topical situation as the press and investors speculate as to the probable intentions of Solomon Lew who has accumulated a 9.9% holding and could possibly vote against the Scheme of Arrangement with Woolworths Holdings (WHL.JO). If the deal was to fail we believe there is significant downside the current DJS price of \$3.94.

Convergence was a small drawdown (-0.01%). Current low trading volumes limit short term opportunities in this space and we await more attractive risk/reward situations.

About Aurora

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

The combined group has in excess of \$250 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.

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