

## Aurora Absolute Return Fund Performance Report - 31 May 2015

ASX Code: ABW



### Summary

- The Fund returned 0.43% for May whilst the RBA Cash Rate returned 0.17%.
- Options was the best performing strategy in May in a month when market volatility fell 15%.
- The Fund has returned 2.14% in the last four months.

### 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)	0.43%	1.38%	1.35%	1.53%	4.22%	3.59%
RBA Cash Rate	0.17%	0.54%	1.15%	2.42%	2.74%	4.38%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	0.40%	-1.37%	11.12%	9.93%	17.43%	6.25%

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 off-market at the end of each month

### Fund Valuations

Fund Size	\$25 million
Strategy Size <sup>3</sup>	\$97 million
Net Asset Value per Unit	\$0.9886

### 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%
<b>Total</b>	<b>\$0.8608</b>	<b>\$0.1774</b>	<b>\$1.0382</b>	

### Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	7.26%
Volatility % p.a.	2.70%
Sharpe Ratio	1.02
% positive months	85%
Best Month	3.63%
Worst Month	-1.60%
Average positive monthly return	0.77%
Average negative monthly return	-0.47%

## Performance Commentary - Master Fund

Australian equities had a mixed month in May. Volatility (as measured by the Australian Volatility Index) declined over the month (from 18 to 15.3). Three of the "Big Four" banks reported and went ex-dividend over the month. National Australia Bank (NAB.ASX) announced a \$5.5 billion capital raising. The spectre of further equity raisings, funding of the NAB deal and concerns over housing leverage resulted in a weak month for the Financials Index (-2.3%). In contrast, the Materials Index increased 2.1%. Globally the US S&P500 Index was down -2.3% and the Eurostoxx Index declined -1.2%. Towards the end of the month Greek concerns resurfaced as a payment to the International Monetary Fund looms in the first week of June. The cash rate was cut by 0.25% in May to a record low of 2% p.a. with the RBA citing ongoing economic weakness. The Aurora Absolute Return Fund returned 0.43% for the month outperforming the cash benchmark of 0.17%.

The Options portfolio provided a 0.18% return. The banks (NAB.ASX, ANZ.ASX, WBC.ASX and CBA.ASX) all provided good returns as volatility increased significantly at the beginning of the month. Conversely positions in resource stocks suffered from a lack of volatility with loss making positions in Orica Ltd (ORI.ASX) and Rio Tinto Ltd (RIO.ASX). The Australian VIX declined 15% during the month, which was evidenced by a loss in the Master Funds options position over the S&P/ASX200 Index.

South32 Ltd (S32.ASX) debuted on the ASX and London's FTSE on 18 May after demerging from BHP Billiton Ltd (BHP.ASX). This provided good Convergence trading opportunities as a diverse range of investors created large liquidity and spreads in both markets. Unfortunately trading in many of the Master Funds other preferred names was not profitable over the month and the strategy finished the month down -0.03%.

Mergers & Acquisitions (+0.15%) was dominated by the increased unconditional offer for PanAust Limited (PNA.ASX) from the largest shareholder Guangdong Rising Asset Management (GRAM). Toll Holdings (TOL.ASX), another profitable position, was the largest holding for the Master Fund as the scheme of arrangement with Japan Post concluded. The Master Fund also benefitted from small trading positions in the newly announced Independence Group (IGO.ASX) takeover of Sirius Resources (SIR.ASX) via scheme of arrangement and also the conclusion of the Novion Property Group (NVN.ASX) and Federation Centres (FDC.ASX) deal.

The Yield strategy provided a small positive return (+0.05%). The Bendigo and Adelaide Bank Preference Shares (BENPB.ASX) went ex the final distribution prior to the securities being redeemed in mid-June. This is the Master Fund's largest hybrid position. The National Bank Income Securities (NABHA.ASX) sold off as a result of the yield curve moving lower and the instrument being priced off a running yield, ignoring the possibility of redemption in less than 7 years' time when the Tier 1 qualification is completely phased out by APRA.

Long/Short trading was down -0.03% for the month. Several block trading opportunities in Qantas Airways Ltd (QAN.ASX) provided good returns. The spread between Recall Holdings Limited (REC.ASX) and Iron Mountain Inc (IRM.US) continued to provide good opportunities. We expect a formal announcement on a merger of the companies in early June. Positions in Caltex Australia Limited (CTX.ASX) and Triton Minerals Ltd (TON.ASX) were drawdowns over the month.

## 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)

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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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