

Aurora Absolute Return Fund Performance Report - 31 October 2014

ASX Code: ABW



Summary

- The Fund returned -0.26% for October whilst the RBA Cash Rate returned 0.21%.
- The main detractor to performance was the Options strategy.
- The Mergers & Acquisitions portfolio contributed positively with WOTIF.com receiving final approvals.

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	-0.26%	-0.02%	-0.01%	2.54%	4.70%	3.75%
RBA Cash Rate	0.21%	0.63%	1.26%	2.53%	3.12%	4.59%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	4.43%	-0.57%	2.95%	6.39%	13.74%	6.02%

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	\$29 million
Strategy Size ³	\$140 million
Net Asset Value per Unit	\$1.0137

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	6.07%
Total	\$0.8356	\$0.1604	\$0.9960	

Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	7.55%
Volatility % p.a.	2.71%
Sharpe Ratio	1.06
% positive months	86%
Best Month	3.63%
Worst Month	-1.60%
Average positive monthly return	0.79%
Average negative monthly return	-0.48%

Performance Commentary - Master Fund

Global equity markets approached October with the usual trepidation associated with a month that produced some of history's largest sell offs. However American and Asian markets generally produced positive returns (Dow Jones +2%, S&P 500 +2.3%; Nikkei +1.5%, Hang Seng +4.6%), but concerns around German economic growth saw weaker returns from European markets (FTSE -1.2%, DAX -1.6%).

The S&P/ASX 200 Accumulation Index rallied 4.4% rebounding from September's selloff. This rally was largely in high yielding industrial companies (Financials +6.9%, Telcos +6.0% and Healthcare +6.4%), whilst a 11% fall in the oil price and ongoing concerns about commodity prices saw flat or negative returns from most major resources names.

Mergers and Acquisitions was the best performing strategy (+0.28% net return). Wotif.com Holdings Limited (WTF.ASX) produced good returns as a result of receiving both ACCC and shareholders' approval for Expedia to acquire them. The New Zealand Commerce Commission (NZCC) approval was the last remaining condition and this was received shortly after month end with the scheme consideration due to settle in mid-November.

The Master Funds Options Overlay was the main detractor from performance (-0.37%). Woodside Petroleum Ltd (WPL.ASX) Woolworths Ltd (WOW.ASX) and National Australia Bank Ltd (NAB.ASX) all suffered losses from both theta; a loss of option value as it approaches expiry, and vega; the change in an option price due to moves in the volatility. This was particularly the case later in the month when implied volatility was sold down as a result of the market recovery. Profitable positions included BHP Billiton (BHP.ASX), RIO Tinto (RIO.ASX) and Westpac Bank (WBC.ASX). These stocks offered good dynamic hedging opportunities early in the month and as commodity prices struggled.

The Yield book (-0.02% net) farewelled the Bendigo and Adelaide Step-Up Preference securities (BENPC) which concludes a string of calendar year 2014 hybrid redemptions. The Master Fund is actively assessing current margins after some recent improvements in the returns offered. The Master Fund continues to favour short dated instruments.

Long/ Short was slightly negative (-0.11% net). Pre-event trading in Crowe Horwath Australasia Ltd (CRH.ASX) was the standout performer due to a \$0.50 per share offer via a Scheme Implementation with Findex being agreed to. Chesser Resources Ltd (CHZ.ASX) closed an asset sale that is facilitating a \$0.15 per share capital return due in December 2014. WDS LTD (WDS.ASX) suffered a 69% fall after lowering profit guidance and the Master Fund exited the balance of a block trade position following this poor announcement in line with stop loss procedures. PanAust continued to weaken with lower copper prices and failure of a takeover agreement to emerge with GRAM, the largest existing shareholder.

There are a couple of small convertible note positions in the portfolio that offer good yields and attractive stock optionality. The Kiwi Income Property Trust (KIPGC.ASX) are due to be converted into equity in December 2014 and entered the pricing period in the preceding month. Antares Energy (AZZ.ASX and AZZG.ASX) also announced an asset sale and subsequent on-market share buyback. Overall the Convergence strategy was marginally negative (-0.07% net) as a result of small losses in dual listed trading positions.

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.