

INVESTMENT OBJECTIVE

The Aurora Fortitude Absolute Return Fund (AFARF), aims to produce positive returns irrespective of the direction of the share market by investing in predominantly Australian listed securities and derivatives.

FUND PERFORMANCE TO 31 August 2014

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	0.30%	0.21%	0.62%
3 months	0.06%	0.63%	3.48%
6 months	0.50%	1.26%	6.34%
12 months	3.57%	2.53%	14.41%
2 years (p.a)	4.81%	2.77%	19.24%
3 years (p.a)	4.92%	3.25%	14.45%
5 years (p.a)	4.48%	3.71%	10.05%
Annualised Return Since Inception (Mar 05) - p.a.	7.72%	4.71%	8.08%
Standard Deviation	2.70%	0.42%	13.97%

Thankyou Governor, We Concur

Reserve Bank Governor, Glenn Stevens, commented during the month that "Volatility in many financial prices is currently unusually low" and this seems to heavily discount any possibility of interest rate rises or "other unforeseen event". This is a thematic that we have commented on a number of times in recent months as we strive to hedge our portfolio consistently using a strategy that relies on a degree of volatility and market uncertainty. We believe that it is the most appropriate strategy for the portfolio over the investment cycle, but particularly in the current environment where, as Governor Stevens highlights, a large portion of investors seem to be comfortable with current risk levels.

Over the month European and US markets seemed to take heart from stronger US economic data continuing their upward trends (FTSE +1.3%, DAX +0.7%, S&P 500 +3.8%, Dow +3.2%) closing at or near all-time highs. Asian markets seemed more concerned data showing a slowing Chinese economy (Nikkei -1.3%, Hang Seng -0.1%, Straits Times -1.4%). The S&P/ASX 200 Accumulation Index came through the reporting season somewhat in the middle ground, +0.62%, as investors benefited from a swag of dividend payments.

Our Fund returned +0.30%, and as is often the case during reporting season our **Options Protection** delivered the bulk of these returns (0.32%). The most significant contributor was Suncorp Group (SUN.ASX) which surprised the market with a "special dividend" on top of increasing its ordinary dividend payment. Conversely the Fund also benefited from the severe negative reaction to the BHP Limited (BHP.ASX) announcement that it would spin off its mineral diversion but not conduct a buyback or pay a special dividend. It is interesting to note that, despite the focus on the "mining boom", over the last five years Australian investors have had a negative capital return from BHP albeit with a return of 13.77% in dividends.

Other positive option positions over the month were CSL Limited (CSL.ASX), Telstra Corporation (TLS.ASX) and Woodside Petroleum (WPL.ASX).

Mergers and Acquisitions were a drawdown during the month (-0.1%). Horizon Oil (HZN.ASX) fell significantly when ROC Oil (ROC.ASX) withdrew from the proposed merger as it had received a cash bid from China based Fosun International (656.HK) which was deemed a more attractive proposition. The spread between Papillion Resources (PIR.ASX) and B2Gold (BTO.CN) widened reflecting the reduced probability of a counter bid as the scheme approaches completion in September. The Frasers Centrepoint (FCL.SP) cash bid for Australand Property (ALZ.ASX) and its Assets Trust (AAZPB.ASX) concluded and funds are expected to be received early September.

"Pre-Event" positions dominated our **Long/Short** portfolio (+0.06%). Stonewall Resources (SWJ.ASX) received Chinese Ministry of Commerce approval for the sale of a major asset to Shandong Qixing. This transaction requires two more Chinese regulatory approvals to complete which will result in a capital return to SWJ holders, but the share price had a rally in response to the clearance of this hurdle. The Crowe Horwath Australia (CRH.ASX) share price reacted negatively to a poor result and the lack of update on the indicative takeover offer.

Transpacific Preference Shares (TPAPA.ASX), which are approaching a late September redemption, was again the biggest contributor to our **Yield** Portfolio (+0.02%). Some expansion in credit spreads saw a slight drawdown from some of the longer dated holdings.

Opportunities in **Convergence** trading remain thin. We made some profits in Henderson Group (HGG.ASX) but these were largely offset by losses in Resmed Incorporated (RMD.ASX).

MONTHLY PERFORMANCE after fees (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
2014	0.32	0.62	0.24	0.01	0.19	-0.31	0.07	0.30					1.46%
2013	-0.19	0.80	0.42	1.68	0.78	0.46	1.13	0.18	0.53	0.28	0.52	0.74	7.57%
2012	0.34	0.49	0.45	0.44	0.26	0.57	0.61	0.36	0.33	-0.23	0.54	0.02	3.89%
2011	0.31	0.90	0.16	1.25	-1.46	-0.61	0.51	1.19	0.11	0.43	0.67	0.34	3.83%
2010	0.44	-0.13	-0.73	0.43	0.91	-0.49	-1.60	0.86	0.58	1.61	1.37	1.05	4.33%
2009	0.21	0.01	0.28	0.26	1.20	1.55	0.63	0.67	-0.58	0.82	-0.02	0.82	6.01%
2008	1.34	0.17	0.27	1.21	0.63	0.18	0.45	1.14	2.61	3.13	0.21	0.37	12.38%
2007	1.14	0.52	0.32	1.40	0.21	0.36	0.63	3.06	-0.30	0.71	1.32	-0.23	9.55%
2006	1.71	1.82	1.38	1.82	3.63	0.57	1.55	0.27	1.32	0.61	0.14	0.80	16.75%
2005			1.02	0.96	1.50	1.58	0.92	0.18	0.52	1.34	0.28	-0.50	8.06%

FUND OVERVIEW

The 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 Fund aims to produce positive returns regardless of equity market conditions.

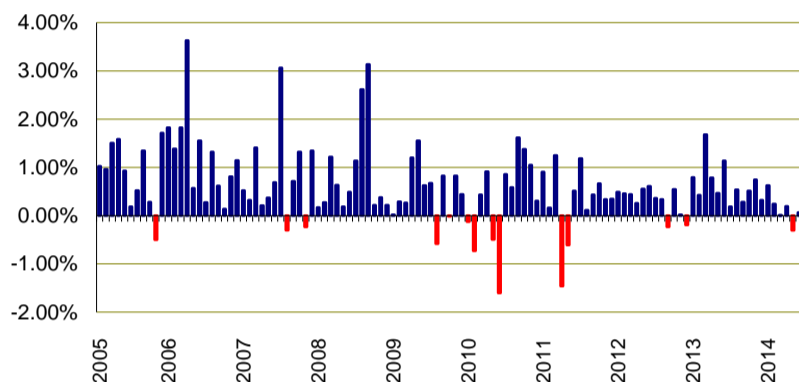
We have a wide discretion over the investments that may be held by the Fund. The pursuit of a diverse range of investments means that the Fund's returns are not necessarily dependent on the stock market's direction. In selecting investments for the Fund we follow a rigorous investment selection process which includes detailed qualitative and fundamental research.

We research various criteria and reasons to invest in particular situations. These criteria may pertain to fundamental and quantitative analysis, company event situations such as 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 Fund uses derivatives for risk management as well as to create new positions.

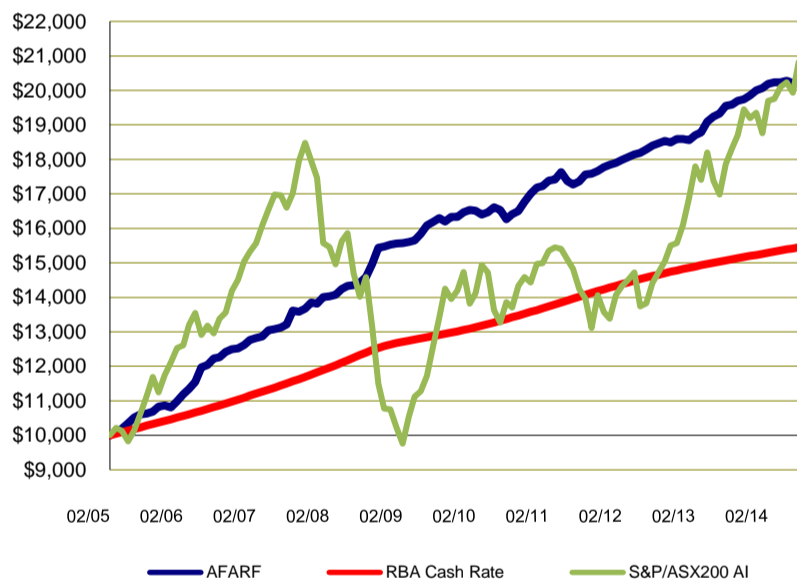
FUND DISTRIBUTIONS (per Unit)

Period (per Unit)	Amount (\$)	Yield at NAV (p.a)
June 2005 to June 2011	\$0.5944	
30/09/2011	\$0.0193	7.93%
31/12/2011	\$0.0194	8.00%
31/03/2012	\$0.0193	8.00%
30/06/2012	\$0.0205	8.55%
30/09/2012	\$0.0190	8.00%
31/12/2012	\$0.0142	6.00%
31/03/2013	\$0.0140	6.00%
30/06/2013	\$0.0298	12.87%
30/09/2013	\$0.0139	6.00%
31/12/2013	\$0.0139	6.00%
31/03/2014	\$0.0139	6.00%
30/06/2014	\$0.0253	10.91%
Total since inception	\$0.2225	

Monthly Returns Since Inception (%)



AFARF vs RBA Cash vs S&P/ASX200AI (\$)*



INVESTMENT MANAGER

Fortitude Capital Pty Ltd (AFSL 221131) is a wholly-owned subsidiary of Aurora Funds Limited (Aurora). With over \$295 million in funds under management/administration, Aurora was listed on the ASX in July 2010 under the ASX Code: AFV.

The Aurora Group provides asset management and responsible entity/trustee services for Australian and New Zealand investors.

Aurora is also the issuer of the:

- Aurora Dividend Income Trust (Managed Fund) (ASX code: AOD)
- Aurora Absolute Return Fund (ASX code: ABW)
- Aurora Global Income Trust (ASX code: AIB)
- Aurora Property Buy-Write Income Trust (ASX code: AUP)

KEY FACTS		AFARF	RBA Cash
Feeder Fund	Aurora Absolute Return (ABW)	Sharpe Ratio	1.12
APIR Code	AFM0005AU	Sortino Ratio	0.70
Benchmark	RBA Cash Rate	Best month	3.63%
Prime Broker/Custodian	UBS	Worst month	-1.60%
Administrator	Unity Fund Services	Positive months	0.88
Auditors	Deloitte Touche Tohmatsu	Net Asset Value per Unit	\$ 0.9036
Fund Size	\$217 million	Exit Price per Unit	\$ 0.9034

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