



FORTITUDE CAPITAL

Aurora Fortitude Absolute Return Fund

December 2013

AURORA
 FUNDS LIMITED

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 DECEMBER 2013

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	0.74%	0.21%	0.79%
3 months	1.54%	0.63%	3.42%
6 months	3.43%	1.28%	13.97%
12 months	7.57%	2.76%	20.20%
2 years (p.a)	5.88%	3.25%	20.20%
3 years (p.a)	5.19%	3.76%	8.94%
5 years (p.a)	5.18%	3.81%	12.46%
Annualised Return Since Inception (Mar 05) - p.a.	8.15%	4.87%	7.75%
Standard Deviation	2.76%	0.40%	14.29%

A Game of Two Halves

The S&P ASX 200 Accumulation Index concluded the year with a strong final two weeks recovering the losses of the early part of the month to finish December up 0.79%. This capped off another huge year for the market up 20.2%. The low interest rate environment, the change in government, somewhat improved global economic conditions and supportive monetary policy globally all help to buoy our market, particularly industrial stocks, including financials and consumer discretionary sectors, whilst materials and energy were notable laggards. Global indices outperformed with the S&P500 up 29.6% and the Japanese Nikkei +56.7%. The Aurora Fortitude Absolute Return Fund produced a return of 0.74% for the month against the cash benchmark of 0.21% and concluded another low-volatility year.

Mergers and Acquisitions was the best performing strategy (+0.28%). The largest contributor was The Trust Company Limited (TRU.ASX) and Perpetual Limited (PPT.ASX) merger after the deal concluded. This situation provided free optionality by offering Trust shareholders the ability to elect their preferred mix of cash and scrip consideration. This proved valuable with increased market volatility. Also providing good returns for the month were Commonwealth Property Office Fund (CPA.ASX) which received an increased competitive bid from Dexus Property Group (DXS.ASX) and RHG Limited (RHG.ASX) which implemented the scheme of arrangement with Resimac Limited.

The protective **Options** strategy performed well (+0.25%) as a result of market volatility increasing. Within December, the market fell almost 5% in the first two weeks but then recovered to finish in positive territory. Some of the Fund's best performing option

caused accentuated moves in prices such as QBE Insurance Group Limited (QBE.ASX) downgrading their earnings forecast, Amcor Limited (AMC.ASX) demerging Orora Limited (ORA.ASX) and Brambles Limited (BXB.ASX) also demerging Recall Holdings Limited (REC.ASX). Offsetting gains were mark downs in the Aussie bank positions.

Yield (+27%) benefitted from the Fund's largest holdings in the Yancoal Contingent Value Rights (YALN.ASX) coming up for redemption in March 2014 and ANZ Convertible Preference Shares (ANZPB.ASX). Bendigo and Adelaide Bank Limited floating rate notes (BENPC.ASX) and the Transpacific Step-Up Prefs (TPAPA.ASX) also performed well whilst representing smaller investments for the Fund.

Long/Short (-0.20%) proved costly for the month after a raft of new issuance and volatile market conditions triggered stops in some positions, most notably Transfield Services Limited (TSE.ASX) despite the company maintaining earnings guidance at their investor day and also Aristocrat Leisure Limited (ALL.ASX). Pact Group Holdings Ltd (PGH.ASX) also disappointed the market upon listing and the Fund quickly exited the small allocation that was taken in the IPO.

Convergence (+0.15%) was a solid contributor. More than half the return was generated in Linc Energy Ltd (LNC.ASX). The company delisted in Australia, and many local holders were sellers before relisting on the Singapore exchange at a significant premium to the Australian closing price. Also performing well was the close out of the IMF convertible notes positions (IMFG.ASX) after the Fund elected to convert into stock instead of receiving the cash redemption.

FINANCIAL YEAR PERFORMANCE after fees (%)													
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin/Year
13-14	1.13	0.18	0.53	0.28	0.52	0.74							3.43%
12-13	0.61	0.36	0.33	-0.23	0.54	0.02	-0.19	0.80	0.42	1.68	0.78	0.46	5.70%
11-12	0.51	1.19	0.11	0.43	0.67	0.34	0.34	0.49	0.45	0.44	0.26	0.57	5.93%
10-11	-1.60	0.86	0.58	1.61	1.37	1.05	0.31	0.90	0.16	1.25	-1.46	-0.60	4.44%
09-10	0.55	0.67	-0.58	0.82	-0.02	0.82	0.44	-0.13	-0.73	0.43	0.91	-0.49	2.79%
08-09	0.45	1.14	2.61	3.12	0.21	0.37	0.21	0.01	0.28	0.26	1.20	1.55	12.05%
07-08	0.63	3.06	-0.30	0.71	1.32	-0.23	1.34	0.17	0.27	1.21	0.63	0.18	9.40%
06-07	1.55	0.27	1.30	0.61	0.14	0.80	1.14	0.52	0.32	1.40	0.21	0.36	9.00%
05-06	0.92	0.18	0.52	1.34	0.28	-0.50	1.71	1.82	1.38	1.82	3.63	0.57	14.50%
04-05	-	-	-	-	-	-	-	-	1.02	0.96	1.50	1.58	5.16%

FUND OVERVIEW

The Fund aims to produce positive returns irrespective of the direction of the share market, by investing in predominantly Australian listed securities and derivatives.

The Fund purchases both put and call options which allows it to profit from movements in the market both up and down. It then looks for short term trading opportunities to generate low risk returns from other strategies including;

- Mergers and Acquisitions
- Long/Short
- Share Class Arbitrage, and
- Yield securities.

Each investment considers the risk, the timeline of that risk occurring and then the potential return.

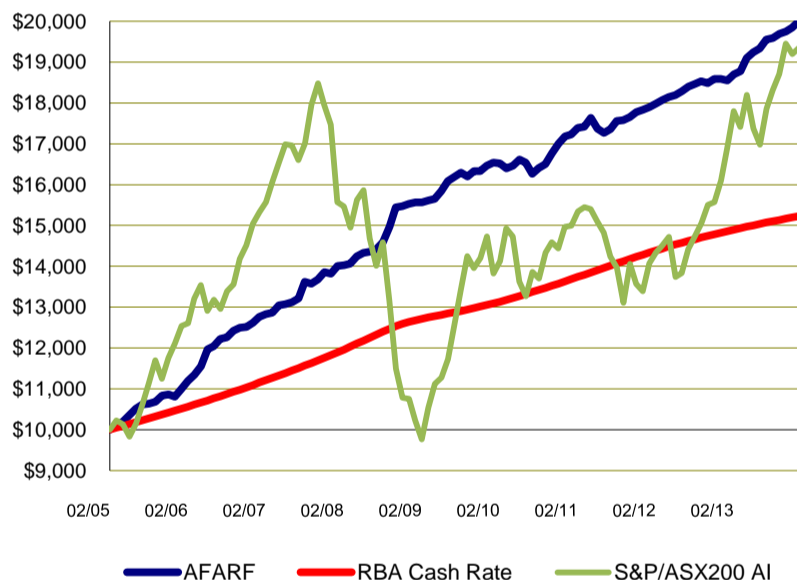
Low transaction costs and liquidity are other important factors in the success and implementation of the strategies.

Within the implementation of this strategy, the Investment Manager believes that the Australian equity market presents franking credit opportunities that are being ignored and/or mispriced by the market. As such, the Fund seeks to take

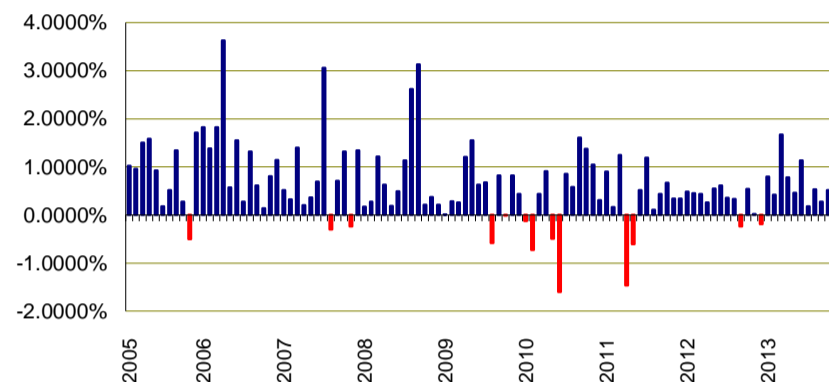
FUND DISTRIBUTIONS (per Unit)

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%
Total since inception	\$0.1833	

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



Monthly Returns Since Inception (%)



INVESTMENT MANAGER

Fortitude Capital Pty Ltd (AFSL 221131) is a wholly-owned subsidiary of Aurora Funds Limited (Aurora). With over \$620 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)
- van Eyk Blueprint Alternatives Plus (ASX code: VBP)

KEY FACTS		AFARF	RBA Cash
Feeder Fund	Aurora Absolute Return (ABW)	Sharpe Ratio	1.19
APIR Code	AFM0005AU	Sortino Ratio	0.73
Benchmark	RBA Cash Rate	Best month	0.04
Prime Broker/Custodian	UBS	Worst month	-0.02
Administrator	Unity Fund Services	Positive months	0.88
Auditors	Deloitte Touche Tohmatsu	Net Asset Value per Unit	\$ 0.9294
Fund Size	\$137 million	Exit Price per Unit	\$ 0.9292

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