

## 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 2015

	AFARF*	RBA CASH RATE	OUTPERFORMANCE
<b>1 month</b>	0.25%	0.17%	0.08%
<b>3 months</b>	-0.13%	0.50%	-0.63%
<b>6 months</b>	2.40%	1.00%	1.40%
<b>12 months</b>	4.56%	2.12%	2.44%
<b>2 years (p.a)</b>	2.62%	2.33%	0.29%
<b>3 years (p.a)</b>	4.25%	2.47%	1.78%
<b>5 years (p.a)</b>	4.16%	3.19%	0.97%
<b>Annualised Return Since Inception (Mar 05) - p.a.</b>	7.11%	4.40%	2.71%
<b>Standard Deviation</b>	2.64%	0.46%	

### Santa Came to Town

The Australian market followed a textbook "Santa Claus Rally" pattern in the second half of December to close up 2.73% (S&P ASX200 Accumulation Index). Continued distress in commodities markets contributed to sharp losses by the middle of the month. The market then rallied from 16 December into year end to the cheers of many long-only funds as Santa, guided by Blitzen, delivered a sack full of presents. The market took confidence from the long-awaiting and highly anticipated 0.25% Federal Reserve interest rate rise in the US after seven years of near zero rates. International Indices displayed similar patterns, however the majority finished December marginally negative. Volatility subsided significantly to finish the year at 16 (as measured by the S&P ASX Volatility Index "SPAVIX").

The Aurora Fortitude Absolute Return Fund returned 0.25% for the month against the cash benchmark of 0.17%. The Yield and Mergers and Acquisitions strategies provided the bulk of the returns whilst the Options strategy finished the month flat as volatility declined inversely to the market rally.

Within **Yield** (+0.22%) the Step-Up securities (Commonwealth Bank PCAPA.ASX and Westpac WCTPA.ASX) performed well. These securities will be redeemed in the first half of 2016 and the Fund will continue to add to these positions as redemption approaches. The older style Basel II ANZ CPS2 (ANZPA.ASX) mature in December 2016 and continue to provide good returns. CBA Senior Bonds (CBAHA.ASX) were redeemed during December.

The **Convergence** Strategy was also flat as volumes declined over the month.

**Mergers and Acquisitions** (+0.22%) benefitted from the release of the iProperty (IPP.ASX) scheme booklet. The booklet provided clarity on the intentions of major shareholders with regards to unlisted scrip/cash payment options. It is highly probable that the majority of smaller shareholders will receive \$4 per share from REA Group Ltd (REA.ASX) as scheme consideration. The scheme is scheduled to complete mid February 2016. Conversely the Recall/Iron Mountain Scheme continued to face competition regulatory scrutiny with the UK Competition and Markets Authority raising fresh concerns. The Fund continues to avoid this deal until further clarity is received from regulators. Evolution Mining (EVN.ASX) achieved >90% acceptances of their offer for Phoenix Gold (PXG.ASX) which triggered an additional 0.75 cent payment as part of the consideration.

The **Options** portfolio benefitted from a Suncorp downgrade (SUN.ASX). This is a classic case of new management rebasing expectations, opposed to departing management painting a picture of success. Westpac Bank (WBC.ASX) and Insurance Australia Group (IAG.ASX) provided good opportunities during the month. Offsetting strategy gains were, most notably, positions in Bluescope Steel (BSL.ASX), Commonwealth Bank (CBA.ASX) and Telstra (TLS.ASX) resulting in a flat month for the strategy overall.

The **Long/Short** strategy suffered a loss (-0.12%). OzForex (OFX.ASX) have received a non-binding indicative approach from The Western Union Company. Features of this bid are particularly attractive, however we hold a small position (1% of NAV) due to the non-binding nature of the bid. A small short-term position in Spotless Group (SPO.ASX) proved relatively costly after the company announced a downgrade to earnings, causing the stock to drop almost 40% the day of the announcement alone. The position was exited immediately, preventing further losses as the stock has continued to decline.

MONTHLY PERFORMANCE* (after fees %)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
2015	-0.04	0.75	0.55	0.34	0.31	0.17	0.50	1.44	0.59	-0.17	-0.21	0.25	4.56%
2014	0.32	0.62	0.24	0.01	0.19	-0.31	0.07	0.30	-0.07	-0.29	0.38	-0.74	0.72%
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	4.23%
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 DISTRIBUTIONS (per Unit)

Period (per Unit)	Amount (\$)	Yield at NAV (p.a)
June 2005 to June 2011	\$0.5944	
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%
30/09/2014	\$0.0135	-0.34%
31/12/2014	\$0.0298	13.39%
31/03/2015	\$0.0085	4.00%
30/06/2015	\$0.0183	8.55%
30/09/2015	\$0.0085	4.05%
31/12/2015	\$0.0239	11.12%
<b>Total since inception</b>	<b>\$0.9001</b>	

## 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.

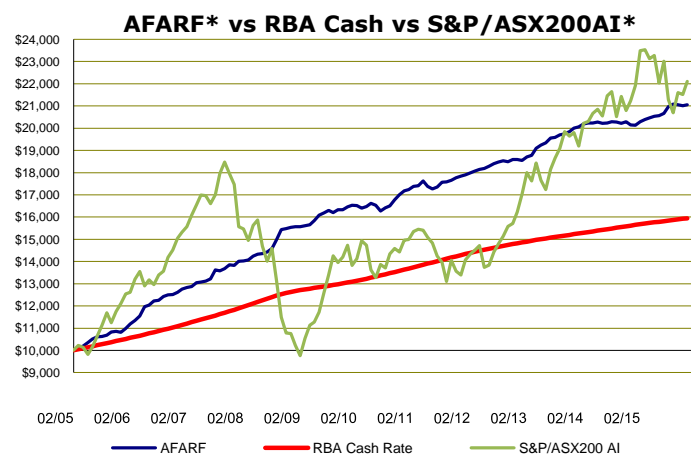
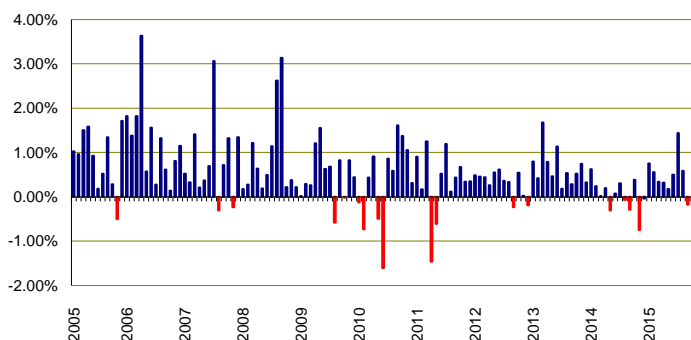
KEY FACTS		AFARF*	RBA Cash
<b>Feeder Fund</b>	Aurora Absolute Return (ABW)	<b>Sharpe Ratio</b>	1.03
<b>APIR Code</b>	AFM0005AU	<b>Sortino Ratio</b>	0.71
<b>Benchmark</b>	RBA Cash Rate	<b>Best month</b>	3.63%
<b>Prime Broker/Custodian</b>	UBS	<b>Worst month</b>	-1.60%
<b>Administrator</b>	Unity Fund Services	<b>Positive months</b>	85%
<b>Auditors</b>	Deloitte Touche Tohmatsu	<b>Net Asset Value per Unit</b>	\$ 0.8329
		<b>Exit Price per Unit</b>	\$ 0.8327

Level 4, 1 Alfred Street, Sydney NSW 2000  
 PO Box R1695, Royal Exchange NSW 1225  
 Telephone: +61 2 9080 2377, Fax: +61 2 9080 2378  
 Visit: [www.aurorafunds.com.au](http://www.aurorafunds.com.au)  
 Email: [enquiries@aurorafunds.com.au](mailto:enquiries@aurorafunds.com.au)

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 Fortitude Absolute Return Fund (ARSN 145 894 800). 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 PDS dated 29 January 2014 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. The investment objective is expressed after the deduction of fees and before taxation. See the PDS for details on 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. While we aim to achieve the objective, the objective and returns are not guaranteed. The payment of franking credits to Unit holders is subject to the Fund achieving a taxable profit in that year. For further information please visit [www.aurorafunds.com.au](http://www.aurorafunds.com.au).

\*AFARF vs RBA vs S&P/ASX200AI graph generated with compounded monthly returns, net of fees. Franking included in both AFARF and S&P/ASX 200 AI after May 2012.

## Monthly Returns Since Inception (%)



## INVESTMENT MANAGER

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 established a long track record of producing risk adjusted returns for retail, institutional and high net worth investors. They aim to deliver income whilst also managing the risks associated in investing in Australian and global equities. The investment strategies are offered through both ASX listed investment vehicles and managed funds.

### 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)
- HHY Fund (ASX code: HHY)