



FORTITUDE CAPITAL

Aurora Fortitude Absolute Return Fund

March 2014

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 MARCH 2014

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	0.24%	0.21%	0.29%
3 months	1.19%	0.63%	2.09%
6 months	2.75%	1.26%	5.58%
12 months	7.74%	2.64%	13.46%
2 years (p.a)	5.83%	3.03%	16.68%
3 years (p.a)	5.13%	3.57%	8.54%
5 years (p.a)	5.32%	3.75%	13.38%
Annualised Return Since Inception (Mar 05) - p.a.	8.06%	4.81%	7.78%
Standard Deviation	2.73%	0.41%	14.22%

Geopolitical Risks Come and Go?

The "Ukraine Crisis" and Chinese growth concerns dominated the news in the first half of the month which resulted in broad market weakness, but the impact of successive interest rate reductions appears to have spurred increased domestic retail sales and a buoyant housing market. By month end the ASX200 Accumulation Index recorded a moderate gain of 0.29%. The Materials Index declined 4.2% whilst the Financials index remained the star performer with a 2.3% gain. International Indices were mixed with the Dow continuing its run +0.8%, whilst Hong Kong's HSI -3.0% reflected ongoing Chinese concerns, and the UK FTSE declined 3.1%. The Fund returned 0.24% for the month against the cash benchmark of 0.21%.

The **Yield** Strategy (+0.27%) provided the majority of the returns. The Transpacific Step-Up Preference Securities (TPAPA.ASX) was the best performing hybrid over the semi-annual interest period. This was a result of issuer Transpacific Industries Group Ltd (TPI.ASX) announcing that they have entered into an agreement to sell their New Zealand waste business, with the proceeds to be used to redeem the expensive debt securities. Another catalyst yield position emerged when CapitaLand sold down their 39% interest in Australand Property Group (ALZ.ASX) at a small discount, a portion of which went to Stockland (SGP.ASX). Stockland have moved to 19.9% of the company. The Fund holds a profitable position in Australand's listed debt (AAZPB.ASX) as an early redemption of expensive debt becomes increasingly likely. The proceeds for the redemption of Yancoal Contingent Value Rights (YALN.ASX) were received in line with the stated maturity having delisted in February.

The **Mergers & Acquisitions** strategy was flat for the month (0.00%) as the Dexu Property Group (DXS.ASX) bid for Commonwealth Property Office Fund (CPA.ASX) moved towards compulsory acquisition. A proportionate bid was launched by Leighton Holdings (LEI.ASX) parent Hochtief AG for every 3 out of 8 shares owned. Short Interest in Leighton is unusually high and the Fund expects further price spikes on short covering as stock is tendered into the offer.

The **Options** Strategy (-0.08%) was a small negative as volatility continues to trade at record lows. A short fallout over Chinese corporate default concerns caused volatility to spike in iron-ore names mid-month. By the end of the month volatility had subsided and no material gains were recorded in these names. The Fund does see risks to the downside in companies tied to future growth in China and continues to hold downside exposure to these names. Profitable positions for the month included Echo Entertainment Group Limited (EGP.ASX) and AMP Limited (AMP.ASX). Commonwealth Bank of Australia (CBA.ASX) was the largest detractor as volatility in domestic banks headed towards single figures.

Trading in Twenty-First Century FOX Inc (FOX.ASX) dominated the **Convergence** strategy (+0.03%) as shareholders approved delisting the company from the Australian Securities Exchange effective 8 May 2014. The Fund expects trading opportunities in the name to continue into this event.

The **Long/Short** strategy was also flat (+0.02%) for the month. The market was slow to react to a negative drilling report from Beach Energy Limited (BPT.ASX) which resulted in a profitable shorting opportunity which was quickly covered. Initial Public Offer activity continued in March with two floats trading below the issue price, whilst another was abandoned. Many offers continue to involve Private Equity taking advantage of market re-rating. The Fund continues to view each offering on a stand-alone basis. Envestra Limited (ENV.ASX) finally released their scheme implementation agreement with APA Group (APA.ASX) however the split recommendations of board members has left questions about the likelihood of gaining a 75% majority approval at a scheme meeting. The Fund held less than 1% of NAV in this position due to lack of legal documentation and the high level of risk, and has subsequently exited the position awaiting further developments.

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	0.32	0.62	0.24				4.66%
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 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.

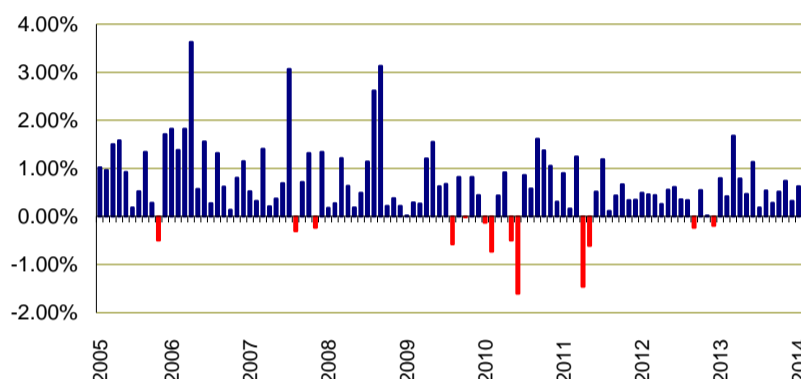
We have a wide discretion over the investments that may be held by the Fund. The pursuit of a diverse range of investments means that the Fund's returns are not necessarily dependent on the stock market's direction. In selecting investments for the Fund we follow a rigorous investment selection process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

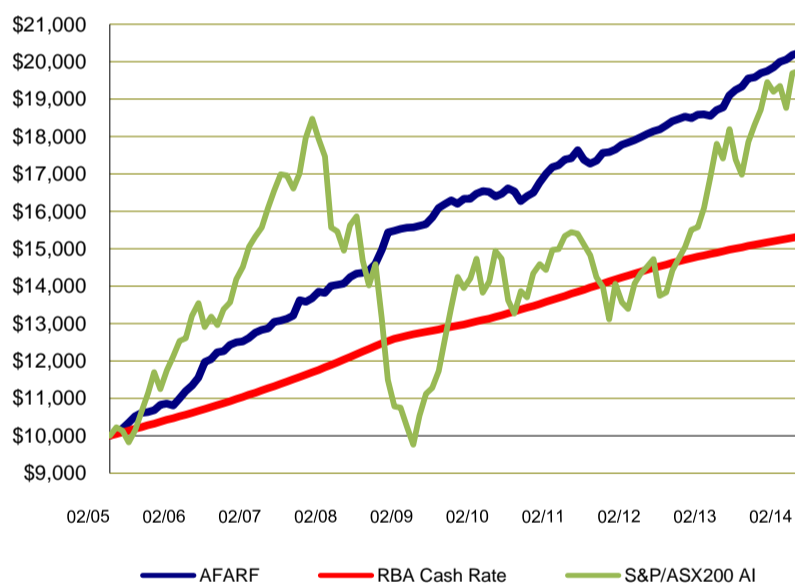
FUND DISTRIBUTIONS (per Unit)

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%
Total since inception	\$0.7916	

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 \$220 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	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	\$ 0.9265
Fund Size	\$173.5 million	Exit Price per Unit	\$ 0.9263

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