

**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 MAY 2014

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	0.19%	0.21%	0.68%
3 months	0.44%	0.63%	2.76%
6 months	2.15%	1.26%	5.43%
12 months	5.36%	2.57%	16.45%
2 years (p.a)	5.57%	2.90%	21.37%
3 years (p.a)	5.28%	3.44%	10.25%
5 years (p.a)	5.06%	3.73%	12.40%
Annualised Return Since Inception (Mar 05) - p.a.	7.93%	4.77%	7.91%
Standard Deviation	2.71%	0.42%	14.09%

Interest Rates, Opinion Polls and Iron Ore Prices

The popular "Sell in May" did not apply to global markets in 2014. International equity markets (S&P500 +2.1%, FTSE +1.0%, Nikkei 2.3%) seemed to take comfort from a rally in US Bond prices and the expectation that the European Central Bank would continue with loose monetary policy; all indications are that interest rates will stay at very accommodating levels for an extended period.

Specific Australian related factors held the domestic market back in comparison (S&P/ASX200 Accumulation Index +0.68%); Spot Iron Ore prices fell by approximately 13% dragging heavyweight miners lower (BHP -1.96%, RIO -3.89%, FMG -12.89%) and the Coalition Government's first Federal Budget caused a significant backlash in opinion polls and the potential for minority parties to block the budget bills in the senate. Despite these significant factors the Australian Dollar remained steady throughout the month, reflecting the relative attractiveness of Australian interest rates against those of other developed economies.

The Aurora Fortitude Absolute Return Fund returned +0.19% for the month.

Our namesake Aurora Oil and Gas (AUT.ASX) was the standout in our **Merger & Acquisition** strategy (+0.145%). Canadian company Baytex Energy (BTE.CN) increased its cash offer to ensure that the scheme of arrangement was approved by shareholders. Shareholders duly approved the scheme and the company was delisted before month end. The partial bid for Leighton Holdings (LEI.ASX) also completed during the month making a small contribution to this strategy.

There were limited opportunities in **Convergence** Strategies

(+0.019%) but the Fund benefited from the final close down of the Twenty-First Century Fox (FOX.ASX/FOX.NY) dual listed structure (see last month's commentary).

Yield (+0.196%) was again our best performing strategy for the month. Transpacific Preference Shares (TPAPA.ASX) was the largest contributor as the company made progress towards their New Zealand waste business asset sale which will lead to a timely redemption. The Australand Assets Trust (AAZPB.ASX) rallied as the company agreed to allow Stockland Group (SGP.ASX) to conduct due diligence following an increase in its indicative bid price for the companies ordinary shares. The June maturity of ANZ Preference Shares (ANZPB.ASX) saw expected price improvement, and will result in the closure of one of our largest positions.

Again the Protective **Option** Overlay was a drawdown on performance (-0.30%). The lack of volatility in global markets has been a major discussion point in the financial press with the continuation of easy monetary policy and low interest rates being seen as the major factors contributing to this ongoing phenomenon. We remain committed to our approach in this area, and are confident of the long term outcome, but are clearly conscious of the short term drag on performance.

One of the benefits of our option strategy is that it allows us to trade some riskier positions in larger size, and this was reflected in more positive returns in our **Long/Short** Portfolio (+0.129%). Positive returns were generated in opportunistic trading in OZ Forex (OFX.ASX), GPT Group (GPT.ASX) and Macquarie Atlas Roads (MQA.ASX) as well as positioning in Australand Property (ALZ.ASX) ahead of SGP increasing its indicative offer.

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								1.40%
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.

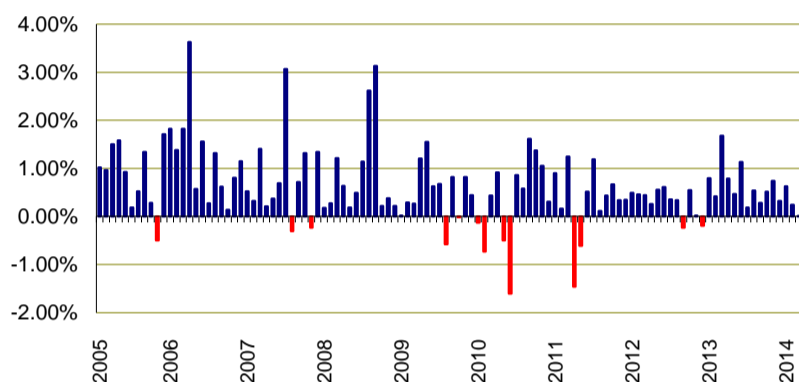
We have a wide discretion over the investments that may be held by the Fund. The pursuit of a diverse range of investments means that the Fund's returns are not necessarily dependent on the stock market's direction. In selecting investments for the Fund we follow a rigorous investment selection process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

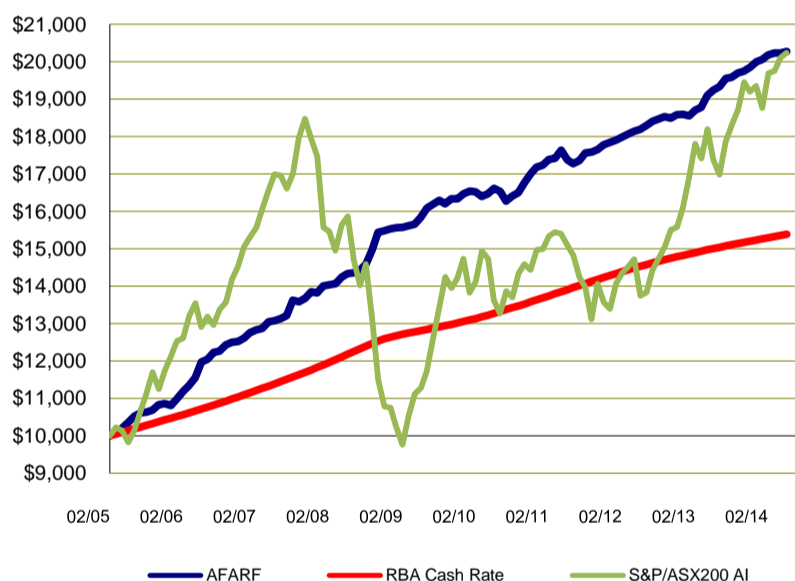
FUND DISTRIBUTIONS (per Unit)

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%
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 \$250 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	1.17
APIR Code	AFM0005AU	Sortino Ratio	0.72
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	\$ 0.9284
Fund Size	\$197.7 million	Exit Price per Unit	\$ 0.9282

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
 Email: enquiries@aurorafunds.com.au

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