

Aurora Fortitude Absolute Return Fund

May 2015



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 2015

	AFARF*	RBA CASH RATE	OUTPERFORMANCE
1 month	0.31%	0.17%	0.14%
3 months	1.21%	0.54%	0.67%
6 months	1.17%	1.15%	0.02%
12 months	1.26%	2.42%	-1.16%
2 years (p.a)	3.29%	2.50%	0.79%
3 years (p.a)	4.11%	2.74%	1.37%
5 years (p.a)	4.32%	3.50%	0.82%
Annualised Return Since Inception (Mar 05) - p.a.	7.26%	4.54%	2.72%
Standard Deviation	2.67%	0.44%	

Banks in Focus?

Australian equities had a mixed month in May. Volatility (as measured by the Australian Volatility Index) declined over the month (from 18 to 15.3). Three of the "Big Four" banks reported and went ex-dividend over the month. National Australia Bank (NAB.ASX) announced a \$5.5 billion capital raising. The spectre of further equity raisings, funding of the NAB deal and concerns over housing leverage resulted in a weak month for the Financials Index (-2.3%). In contrast, the Materials Index increased 2.1%. Globally the US S&P500 Index was down -2.3% and the Eurostoxx Index declined -1.2%. Towards the end of the month Greek concerns resurfaced as a payment to the International Monetary Fund looms in the first week of June. The cash rate was cut by 0.25% in May to a record low of 2% p.a. with the RBA citing ongoing economic weakness. The Aurora Fortitude Absolute Return Fund returned 0.31% for the month outperforming the cash benchmark of 0.17%.

The **Options** portfolio provided a 0.18% return. The banks (NAB.ASX, ANZ.ASX, WBC.ASX and CBA.ASX) all provided good returns as volatility increased significantly at the beginning of the month. Conversely positions in resource stocks suffered from a lack of volatility with loss making positions in Orica Ltd (ORI.ASX) and Rio Tinto Ltd (RIO.ASX). The Australian VIX declined 15% during the month, which was evidenced by a loss in our options position over the S&P/ASX200 Index.

South32 Ltd (S32.ASX) debuted on the ASX and London's FTSE on 18 May after demerging from BHP Billiton Ltd (BHP.ASX). This provided good **Convergence** trading opportunities as a diverse range of investors created large liquidity and spreads in both markets. Unfortunately trading in many of our other preferred

names was not profitable over the month and the strategy finished the month down -0.03%.

Mergers & Acquisitions (+0.15%) was dominated by the increased unconditional offer for PanAust Limited (PNA.ASX) from the largest shareholder Guangdong Rising Asset Management (GRAM). Toll Holdings (TOL.ASX), another profitable position, was the largest holding for the Fund as the scheme of arrangement with Japan Post concluded. The Fund also benefitted from small trading positions in the newly announced Independence Group (IGO.ASX) takeover of Sirius Resources (SIR.ASX) via scheme of arrangement and also the conclusion of the Novion Property Group (NVN.ASX) and Federation Centres (FDC.ASX) deal.

The **Yield** strategy provided a small positive return (+0.05%). The Bendigo and Adelaide Bank Preference Shares (BENPB.ASX) went ex the final distribution prior to the securities being redeemed in mid-June. This is the Fund's largest hybrid position. The National Bank Income Securities (NABHA.ASX) sold off as a result of the yield curve moving lower and the instrument being priced off a running yield, ignoring the possibility of redemption in less than 7 years' time when the Tier 1 qualification is completely phased out by APRA.

Long/Short trading was down -0.03% for the month. Several block trading opportunities in Qantas Airways Ltd (QAN.ASX) provided good returns. The spread between Recall Holdings Limited (REC.ASX) and Iron Mountain Inc (IRM.US) continued to provide good opportunities. We expect a formal announcement on a merger of the companies in early June. Positions in Caltex Australia Limited (CTX.ASX) and Triton Minerals Ltd (TON.ASX) were drawdowns over the month.

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							1.93%	
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 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.

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. The investment strategies are offered through both ASX listed investment vehicles and managed funds. They aim to deliver income whilst also managing the risks associated in investing in Australian and global equities.

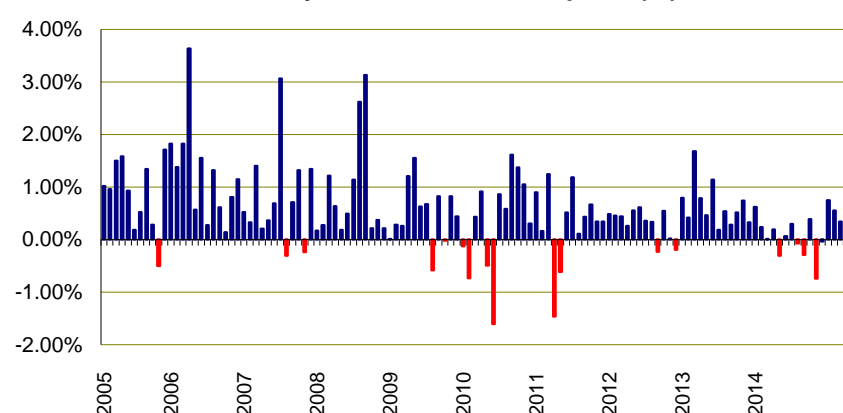
Aurora is also the issuer of the:

- 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)

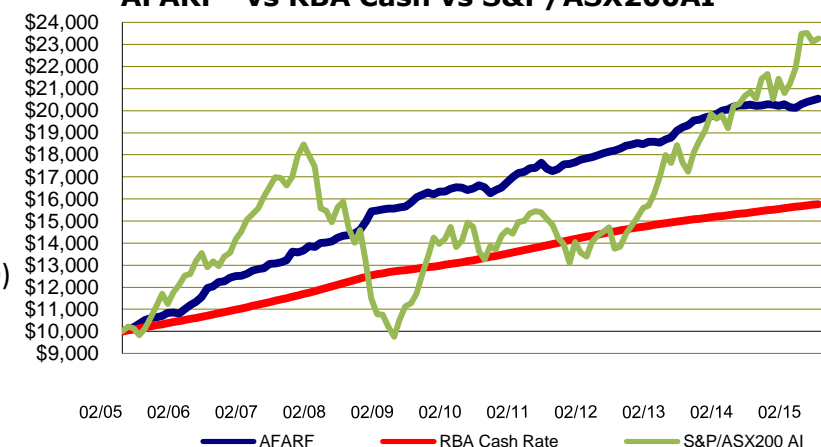
FUND DISTRIBUTIONS (per Unit)

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	0.14%
31/12/2014	\$0.0298	0.67%
31/03/2015	\$0.0085	0.02%
Total since inception	\$0.2550	-1.16%
		0.79%

Monthly Returns Since Inception (%)



AFARF* vs RBA Cash vs S&P/ASX200AI*



KEY FACTS		AFARF*	RBA Cash
Feeder Fund	Aurora Absolute Return (ABW)	Sharpe Ratio	1.02
APIR Code	AFM0005AU	Sortino Ratio	0.69
Benchmark	RBA Cash Rate	Best month	3.63%
Prime Broker/Custodian	UBS	Worst month	-1.60%
Administrator	Unity Fund Services	Positive months	85%
Auditors	Deloitte Touche Tohmatsu	Net Asset Value per Unit	\$ 0.8618
Fund Size	\$97 million	Exit Price per Unit	\$ 0.8616

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*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.