



FORTITUDE CAPITAL

Aurora Fortitude Absolute Return Fund

October 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 OCTOBER 2014

	AFARF*	RBA CASH RATE	S&P/ASX200AI*
1 month	-0.29%	0.21%	4.44%
3 months	-0.06%	0.63%	-0.08%
6 months	-0.11%	1.26%	3.71%
12 months	2.36%	2.53%	7.95%
2 years (p.a)	4.57%	2.70%	17.24%
3 years (p.a)	4.61%	3.12%	15.06%
5 years (p.a)	4.35%	3.69%	8.95%
Annualised Return Since Inception (Mar 05) - p.a.	7.55%	4.67%	8.19%
Standard Deviation	2.71%	0.43%	14.05%

Commodity Concerns Creeping In

Global equity markets approached October with the usual trepidation associated with a month that produced some of history's largest sell offs. However American and Asian markets generally produced positive returns (Dow Jones +2%, S&P 500 +2.3%; Nikkei +1.5%, Hang Seng +4.6%), but concerns around German economic growth saw weaker returns from European markets (FTSE -1.2%, DAX -1.6%).

The S&P/ASX 200 Accumulation Index rallied 4.4% rebounding from September's selloff. This rally was largely in high yielding industrial companies (Financials +6.9%, Telcos +6.0% and Healthcare +6.4%), whilst a 11% fall in the oil price and ongoing concerns about commodity prices saw flat or negative returns from most major resources names.

Mergers and Acquisitions was the best performing strategy (+0.28% net return). Wotif.com Holdings Limited (WTF.ASX) produced good returns as a result of receiving both ACCC and shareholders' approval for Expedia to acquire them. The New Zealand Commerce Commission (NZCC) approval was the last remaining condition and this was received shortly after month end with the scheme consideration due to settle in mid-November.

The Funds **Options** Overlay was the main detractor from performance (-0.37%). Woodside Petroleum Lt (WPL.ASX) Woolworths Ltd (WOW.ASX) and National Australia Bank Ltd (NAB.ASX) all suffered losses from both theta; a loss of option value as it approaches expiry, and vega; the change in an option price due to moves in the volatility. This was particularly the case later in the month when implied volatility was sold down as a result of the market recovery.

Profitable positions included BHP Billiton (BHP.ASX), RIO Tinto (RIO.ASX) and Westpac Bank (WBC.ASX). These stocks offered good dynamic hedging opportunities early in the month and as commodity prices struggled.

The **Yield** book (-0.02% net) farewelled the Bendigo and Adelaide Step-Up Preference securities (BENPC) which concludes a string of calendar year 2014 hybrid redemptions. The Fund is actively assessing current margins after some recent improvements in the returns offered. This Fund continues to favour short dated instruments.

Long/ Short was slightly negative (-0.11% net). Pre-event trading in Crowe Horwath Australasia Ltd (CRH.ASX) was the standout performer due to a \$0.50 per share offer via a Scheme Implementation with Findex being agreed to. Chesser Resources Ltd (CHZ.ASX) closed an asset sale that is facilitating a \$0.15 per share capital return due in December 2014. WDS LTD (WDS.ASX) suffered a 69% fall after lowering profit guidance and the Fund exited the balance of a block trade position following this poor announcement in line with stop loss procedures. PanAust continued to weaken with lower copper prices and failure of a takeover agreement to emerge with GRAM, the largest existing shareholder.

There are a couple of small convertible note positions in the portfolio that offer good yields and attractive stock optionality. The Kiwi Income Property Trust (KIPGC.ASX) are due to be converted into equity in December 2014 and entered the pricing period in the preceding month. Antares Energy (AZZ.ASX and AZZG.ASX) also announced an asset sale and subsequent on-market share buyback. Overall the strategy was marginally negative (-0.07% net) as a result of small losses in dual listed trading positions.

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	-0.31	0.07	0.30	-0.07	-0.29			1.09%
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%

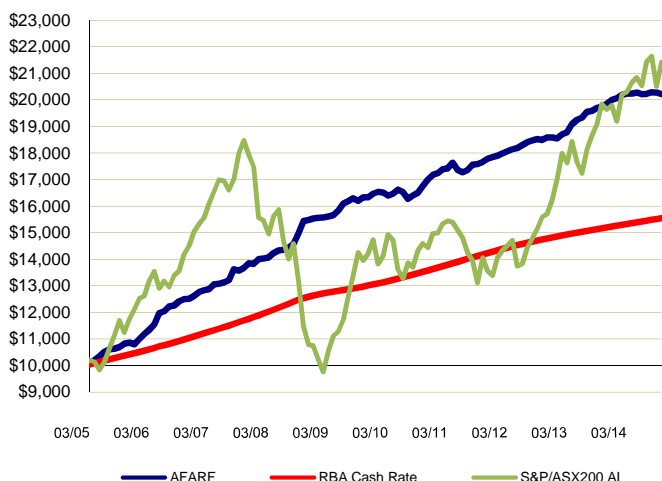
FUND OVERVIEW

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.

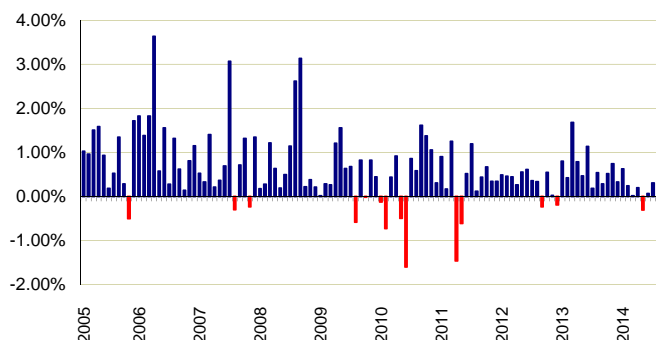
AFARF* vs RBA Cash vs S&P/ASX200AI *



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	6.00%
Total since inception	\$0.8111	

Monthly Returns Since Inception (%)



INVESTMENT MANAGER

Fortitude Capital Pty Ltd (AFSL 221131) is a wholly-owned subsidiary of Aurora Funds Limited (Aurora). With over \$225 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	1.06
APIR Code	AFM0005AU	Sortino Ratio	0.70
Benchmark	RBA Cash Rate	Best month	3.63%
Prime Broker/Custodian	UBS	Worst month	-1.60%
Administrator	Unity Fund Services	Positive months	86%
Auditors	Deloitte Touche Tohmatsu	Net Asset Value per Unit	\$ 0.8869
Fund Size	\$140 million	Exit Price per Unit	\$ 0.8867

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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.