

Aurora Absolute Return Fund

Performance Report - 31 May 2014

ASX Code: ABW



Summary

- The Fund returned 0.22% for May whilst the the RBA Cash Rate returned 0.21%.
- The Fund has returned 5.49% outperforming the RBA Cash Rate by 2.57% over the last twelve months.

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a.)	Since Inception (p.a.)
Aurora Absolute Return Fund (ABW)	0.22%	0.52%	2.23%	5.49%	5.49%	3.85%
RBA Cash Rate	0.21%	0.63%	1.26%	2.57%	3.44%	4.63%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	0.68%	2.76%	5.43%	16.45%	10.25%	5.76%

On 1 March 2011, the Fund changed its investment strategy and commenced investing via the unlisted Aurora Fortitude Absolute Return Fund (ARSN 145 894 800, the 'Master Fund'). The performance prior to this date is of different investment strategies than those currently implemented. The Master Fund which is the current investment strategy, has been in existence since March 2005, and its historical performance is referred to in the charts and tables below.

Investment Objective*

The Fund aims to achieve a high rate of return, comprising both income and capital growth (and preservation of the capital of the Fund) over both rising and falling equity markets. Please note that while we aim to achieve this objective, the returns are not guaranteed.

Investment Strategy - Master Fund

The Master 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 Master Fund aims to produce positive returns regardless of equity market conditions.

We research various criteria and reasons to invest in particular situations. These criteria may pertain to fundamental and quantitative analysis, company event situations; 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 Master Fund uses derivatives for risk management as well as to create new positions.

Fund Features

ASX Listed	ASX Code: ABW
Distribution Policy	At least 1.5% of Net Asset Value ² per Unit per quarter
Distribution Reinvestment Plan	Available
Applications	Investors may acquire Units on the ASX or via the current Product Disclosure Statement
Redemptions	On market by selling on the ASX or off-market at the end of each month

Fund Valuations

Fund Size	\$22.9 million
Strategy Size ³	\$197.8 million
Net Asset Value per Unit	\$1.0595

Fund Distributions (Per Unit)⁴

Period (per Unit)	Cash	Franking	Total	Yield at NAV (p.a.)
FY 06-10	\$0.5034	\$0.1311	\$0.6345	
30 Sep 10	\$0.0250	\$0.0000	\$0.0250	9.50%
31 Dec 10	\$0.0230	\$0.0000	\$0.0230	8.32%
31 Mar 11	\$0.0230	\$0.0000	\$0.0230	8.19%
30 Jun 11	\$0.0227	\$0.0000	\$0.0227	7.98%
30 Sep 11	\$0.0222	\$0.0000	\$0.0222	8.01%
31 Dec 11	\$0.0222	\$0.0000	\$0.0222	8.02%
31 Mar 12	\$0.0221	\$0.0000	\$0.0221	8.03%
30 Jun 12	\$0.0220	\$0.0000	\$0.0220	8.06%
30 Sep 12	\$0.0220	\$0.0000	\$0.0220	8.12%
31 Dec 12	\$0.0170	\$0.0000	\$0.0170	6.25%
31 Mar 13	\$0.0160	\$0.0000	\$0.0160	6.02%
30 Jun 13	\$0.0159	\$0.0173	\$0.0332	12.56%
30 Sep 13	\$0.0159	\$0.0000	\$0.0159	6.22%
31 Dec 13	\$0.0159	\$0.0000	\$0.0159	6.10%
31 Mar 14	\$0.0159	\$0.0000	\$0.0159	6.09%
Total	\$0.8042	\$0.1484	\$0.9526	

Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a.)	7.93%
Volatility % p.a.	2.70%
Sharpe Ratio	1.17
% positive months	88%
Best Month	3.63
Worst Month	-1.60%
Average positive monthly return	0.80%
Average negative monthly return	-0.54%

Performance Commentary - Master Fund

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 Absolute Return Fund returned +0.22% 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 Master 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.

About Aurora

Aurora Funds Limited ('Aurora', ASX Code: AFV) was listed on the ASX in July 2010.

The combined group has in excess of \$250 million in funds under management and administration, and provides asset management and responsible entity/trustee services for Australian and New Zealand investors.

Aurora is also the issuer of the:

- Aurora Fortitude Absolute Return Fund
(APIR Code: AFM0005AU)
- Aurora Dividend Income Trust (Managed Fund)
(ASX Code: AOD and APIR Code: AFM0010AU)
- Aurora Global Income Trust
(ASX Code: AIB)
- Aurora Property Buy-Write Income Trust
(ASX code: AUP)

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1. This number represents a cumulative return and assumes reinvestment of distributions. 2. From 1 October 2012 the Fund intends to always distribute at least 1.5% of NAV per Unit, excluding any franking credits, per quarter regardless of Fund performance. This means that if the Fund has insufficient net income in a given quarter, investors may receive a partial (or full) return of capital. 3. Incorporates all unit classes within the Fund, and also individual mandates that are external to the Fund but utilise the investment strategy or direct variants thereof. 4. Each historical distribution has been divided by six to reflect the Unit split carried out in November 2009.

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