

Aurora Absolute Return Fund Performance Report - 31 July 2014

ASX Code: ABW



Summary

- The Fund returned 0.12% for July whilst the the RBA Cash Rate returned 0.21%.
- The main detractor from performance was again the Protective Options strategy
- A potential catalyst for an increase in volatility is reporting season

Performance¹

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
Aurora Absolute Return Fund (ABW)	0.12%	0.01%	0.94%	3.57%	5.31%	3.75%
RBA Cash Rate	0.21%	0.63%	1.26%	2.53%	3.31%	4.59%
S&P/ASX200 Accumulation Index (S&P/ASX200AI)	4.40%	3.54%	10.93%	16.54%	13.48%	6.02%

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	\$27 million
Strategy Size ³	\$208 million
Net Asset Value per Unit	\$1.0293

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%
30 Jun 14	\$0.0160	\$0.0120	\$0.0280	10.60%
Total	\$0.8202	\$0.1604	\$0.9806	

Performance Statistics - Master Fund

Performance Since Inception - March 05 (p.a)	7.76%
Volatility % p.a.	2.71%
Sharpe Ratio	1.12
% positive months	88%
Best Month	3.63%
Worst Month	-1.60%
Average positive monthly return	0.79%
Average negative monthly return	-0.53%

Performance Commentary - Master Fund

July ended with substantial outperformance by Pan Asian equities over Western Developed markets. The ASX200 Accumulation Index climbed 4.4% and Hong Kong's Hang Seng increased by 6.8%. In stark contrast, European and US Equities were down -3.5% and -1.4% respectively (as measured by the Euro Stoxx 50 and S&P500). The fears which drove the Western developed markets underperformance (geopolitical, cheap credit, valuations) have much reason to cause angst in global markets. We look forward to the rest of the year, expecting these factors to drive wider dispersion in the ASX200. Much of the ASX outperformance can be attributed to a return to favour for the bulk miners with ASX Materials index up 7.7% for the month. Gains were well spread amongst other sub sectors with no large detractors. ABW returned 0.07% for the month.

Activity in Mergers and Acquisitions (+0.29%) increased considerably during the month. Several new deals were announced whilst existing deals gained momentum. B2Gold Corporation's (BTO.CN) scrip bid for Papillon Resources (PIR.ASX) traded close to terms at month end despite having an expected implementation date of late September. The Australand (ALZ.AU) cash bid by Frasers Centrepoint Limited (FCL.SP) continued on timetable with approval by the Foreign Investment Review Board. The David Jones Limited (DJS.ASX) scheme of arrangement with South African retailer Woolworth Holdings Limited (WHL.DJ) was approved by shareholders and the court; this concluded a risky deal that the Master Fund did not participate in until very near completion due to our analysis of potential downside on a deal break compared to the limited upside.

Yield (+0.11%) spreads continue to compress as participants clamour for yield in a low interest rate environment. The Master Fund is purposefully avoiding duration exposure and seeks to invest in short dated, high quality exposure and special situations. Transpacific Industries Group Preference (TPAPA.ASX) remains our largest exposure in this space with a redemption date of mid-October. During the month the Master Fund had a significant exposure to Healthscope Notes (HLNG.ASX), which had an option for cash redemption or conversion into equity through the IPO process out of Carlyle Private Equity Group. We chose cash redemption as we continue to be concerned about IPO's in the current environment; it is just four years since Carlyle purchased Healthscope.

The Long Short portfolio (+0.09%) benefitted from short term block trades in Poseidon Nickel Ltd (POS.ASX) and Triton Minerals Ltd (TON.ASX). Pre-event trading was mixed with PanAust Ltd (PNA.ASX) contributing positively whilst SAI Global Ltd (SAI.ASX) detracted from performance. The Master Fund continues to maintain low exposure levels to pre-event situations and anticipates many of these situations will become larger, profitable positions as they move into the M&A cycle.

The Convergence book (+0.01%) was flat for the month impacted by low global volumes and a lack of dispersion globally. The Antares Energy Convertible Notes (AZZG.ASX) performed well after the company announced that they have received an indicative, non-binding takeover proposal which improved the value of the embedded call option in the convertible security.

The Options portfolio (-0.43%) was again a significant detractor. Realised volatility for the month reached a new low. Single stocks namely Oil Search Ltd (OSH.ASX), Fortescue Metals Ltd (FMG.ASX) and Rio Tinto Ltd (RIO.ASX) were the largest detractors. The Master Fund expects volatility to increase over the course of the year due to macro factors as well as the onset of reporting season. The Master Fund has targeted specific names into reporting season for increased volatility. We would also like to draw investor's attention to our latest thought piece "Defensive Strategies and Low Volatility" which can be accessed on our website under "Latest News".

On a personal note, we would like to congratulate Donna Murphy (our Head of Operations) on the birth of her daughter Madison.

About Aurora

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

The combined group has in excess of \$275 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.

Disclaimer: This information has been prepared by Aurora Funds Management Ltd (ABN 69 092 626 885, AFSL 222110) in its capacity as Responsible Entity for the Aurora Absolute Return Fund (ARSN 110 303 430). It has been prepared without taking into account the objectives, financial situation or needs of any investor, which should be considered before investing. Investors should consider a copy of the Product Disclosure Statement and seek their own financial advice prior to investing in the Fund. The information in this Performance Report is of a summary nature only and does not constitute advice of any kind, nor is it an offer of any financial product. Past performance is not a reliable indication of future performance. In particular as the Investment strategy of the Fund was materially altered in July 2009, and March 2011 and performance prior to these dates (being from three years to 'since inception') has little bearing on future performance. The payment of franking credits to Unit holders is subject to the Fund achieving a taxable profit in that year. Please see asx.com.au for more information on the S&P/ASX200 Accumulation Index. *The investment objective is expressed after the deduction of fees and before taxation. The objective is not intended to be a forecast and is only an indication of what the investment strategy aims to achieve over the medium to long term.