

June 2014 -0.31 %

Last 12 months +4.53 %

### Key Points: Aurora Fortitude Absolute Return Fund

- ASX listed Aurora Funds Limited established on the merger of three existing fund management businesses. Combined funds under management and administration as at 31 March 2014 totals \$230m.
- The Aurora Fortitude Absolute Return Fund (AFARF) has a 9 year track record investing in ASX listed equities. CIO John Corr has over 20 years financial market experience with a focus on risk.
- A Market Neutral overlay is used across a multi strategy approach which allows for flexible asset allocation to maximise returns and minimise risk under a variety of market conditions and cycles.
- Use of low risk "long" derivatives and option overlays has provided positive returns with low volatility during periods of market dislocation.
- 88% of monthly performances have been positive, with no losing months in 2008 and a largest monthly drawdown of -2.09%.



Key Statistics %	Aurora Fortitude ARF	ASX 200 Acc
Jun-14	-0.31	-1.50
Annualised Return	7.83	7.41
Latest 3 Months	-0.11	0.93
Latest 6 Months	1.07	3.04
Latest 12 Months	4.53	17.43
Latest 24 Months p.a.	5.12	20.02
Latest 36 Months p.a.	5.39	10.35
Latest 60 Months p.a.	4.67	11.18
% Positive Months	87.50	62.50
Best Month	3.63	7.98
Worst Month	-1.60	-12.61
Largest Drawdown	-2.09	-47.19
Average +ve Return	0.80	3.26
Average -ve Return	-0.53	-3.61
Annualised Standard Deviation	2.71	13.94
Downside Deviation (Since Inception)	1.28	10.49
Sharpe Ratio (Since Inception)	1.16	0.26
Sortino Ratio	2.36	0.25

### Management Company Overview : Aurora Funds Limited

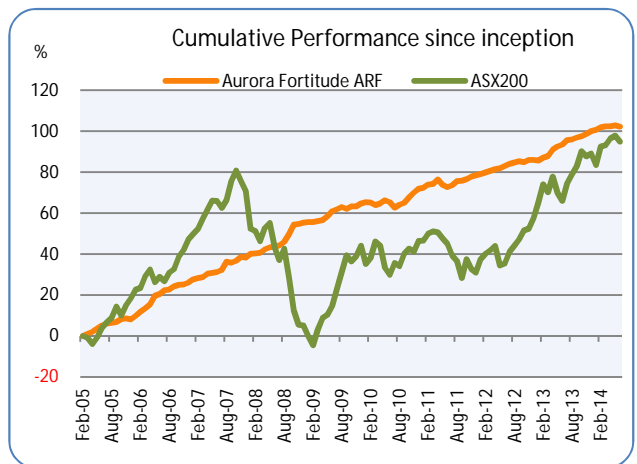
Aurora Funds Limited (ASX:AFV) was formed as a result of the merger of Aurora Funds Management Ltd, Sandringham Capital Pty Ltd and Fortitude Capital Pty Ltd prior to listing on the ASX in July 2010. Each of the three companies had an established track record in the Australian fund management industry and combined to form a Fund Manager with \$230m on behalf of over 2,500 investors, offering four strategies spread across domestic and international equities, property, infrastructure and alternative assets.

The Aurora Fortitude Absolute Return Fund was originally established in March 2005 as the Fortitude Capital Absolute Return Trust. Co-Founder and CIO John Corr has over 20 years financial market experience, including 8 years as a proprietary trader and Head of Equity Trading at Solomon Smith Barney/Citigroup.

The merger with Aurora and Sandringham was undertaken to strengthen Fortitude's overall distribution and profile, including the potential to reach retail investors. The enlarged entity was also designed to satisfy the wholesale and institutional market's ever increasing requirements for structure, compliance and critical mass post the GFC. Aurora directors, management and staff comprise approximately 50% of Aurora's share registry.

Senior Management and Directors of Aurora include Steuart Roe, MD, Simon Lindsay, Oliver Morgan, Chairman and John Corr who is Chief Investment Officer of Aurora Funds Ltd.

Chart 1: Cumulative returns since inception vs the ASX200



Performance - Net of Fees (%)														Aurora Fortitude Absolute Return Fund
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	
2014	0.32	0.62	0.24	0.01	0.19	-0.31	-	-	-	-	-	-	1.07%	
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	0.55	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	0.19	0.49	1.14	2.62	3.13	0.21	0.37	12.38%	
2007	1.14	0.52	0.32	1.40	0.21	0.36	0.69	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	0.81	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%	

### Aurora Fortitude Absolute Return Fund (AFARF)

The Aurora Fortitude Absolute Return Fund is an Australian unit trust open to both retail and wholesale investors, and is also available as an ASX listed vehicle (ASX:ABW). The Fund has an extensive track record dating back to March 2005.

Since that time the Manager has consistently applied a low risk market neutral strategy focusing on ASX listed equities designed to provide investors with returns of 3% to 10% over cash, with low volatility and minimum drawdowns during varying market conditions.

#### Investment Strategy

The overall strategy is Market Neutral, but the Manager uses five broad sub strategies with uncorrelated returns to build diversification into the portfolio. These sub strategies include:

- ❑ Long volatility derivatives (Options), generally long individual stock or equity index options, providing protection when markets gap down, and positive returns when markets move strongly.
- ❑ Convergence, investing in ADR's and CDI's with a focus on liquidity and short term (< 2 years) convertible arbitrage.
- ❑ Yield, investing in Australian debt/equity structures to provide arbitrage opportunities especially as debt prices disconnect approaching maturity.
- ❑ Event Driven (Mergers and Acquisitions) investing only in announced schemes or takeovers which in Australia have a historically high completion rate.
- ❑ Long/Short mainly from short term opportunities resulting from market experience, access to broker research and deal flows such as book builds and placements.

#### Strategy Implementation

Aurora has an investment team of 7, with 3 dedicated to the AFARF. The balance of the team, 3 of whom are located in Melbourne, provide additional analysis as required. John Corr is CIO and is assisted by two experienced Senior Portfolio Managers, Sheriden Hure who joined in 2005, and Andrew Ward in 2006.

The investment team meets daily to discuss market moves and opportunities, with formal investment meetings held every fortnight.

The Fund aims to manage risk at both strategy and portfolio level. Corr's aversion to risk ensures that the potential downside of a trade is the primary consideration prior to entering any position.

The underlying purpose behind the implementation of the Fund's multi strategy approach is to have a flexible allocation model between each, so the manager can maximise opportunities at different stages of the market to drive returns whilst offsetting market risk.

During the Fund's past history the exposure and performance attribution of each strategy has varied significantly as allocations were adjusted to suit market conditions.

The significant use of long (bought) options provided protection and positive returns in 2008 as markets fell sharply and volatility increased. In contrast during 2009, 2010 and 2011 falling volatility resulted in negative returns from the Option strategy, while Long/Short, Yield, M&A and Convergence drove performance.

#### Aurora Fortitude Absolute Return Fund Key Facts

Strategy	Equity Market Neutral
Domicile	Australia
Investor Type	Wholesale and Retail
Min. Investment	AS\$2,000
Additional Investment	AS\$500
Management Fee	1.48625% p.a incl GST
Performance Fee	20.5% p.a, inc GST with HWM
Performance Hurdle	RBA Cash Rate
Min. Term	N/A
Redemption	Daily with 0.02% buy/sell spread
Inception Date	Mar-05
Strategy Size	AS\$196 million
Manager's Total FUM	AS\$246 million
Distribution:	Quarterly

Chart 2: Monthly returns since inception

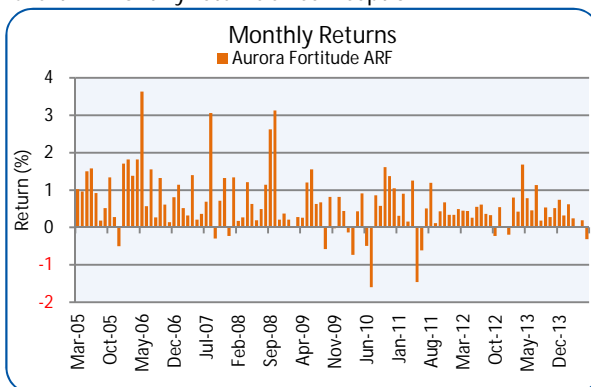


Chart 3: Distribution of monthly returns

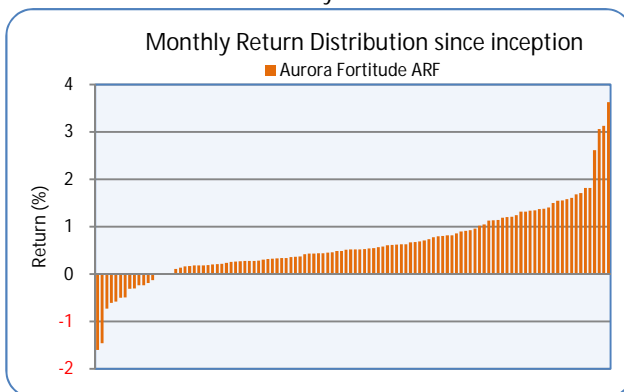
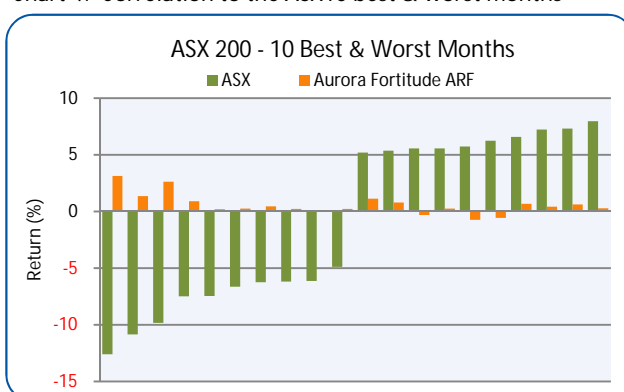


Chart 4: Correlation to the ASX10 best & worst months



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### Performance and Risk Analysis

The Aurora Fortitude Absolute Return Fund has one of the most risk averse Key Performance Statistics of any fund in AFM's database.

The Fund's ability to avoid losses during the GFC whilst providing investors a return of over 12% in 2008, and to provide positive monthly performances over 87% of the time since inception indicate the strategy's focus on protection of investors' capital. A further indicator of the strategy is the Fund's very low volatility of 2.71% compared to the equity market's (ASX200 Acc) of 13.94%.

However the focus on protecting investors' capital can lead to underperformance compared with their peers in strong markets.

This is best demonstrated by Chart 4 on Page 2 showing the Fund has produced positive returns when the market has fallen sharply, but lags significantly in strong markets.

Whilst past performance cannot be guaranteed to be repeated, the Fund's strategy of using risk averse "long volatility" options and derivatives, along with Corr's insistence on viewing potential losses prior to implementing trades, contribute to the Fund's risk record.

### Operations and Risk Management

The Fund has a range of documented risk limits across the portfolio to restrict position size and concentration. Total investment in small cap companies (under \$500m) is limited to 10%, and the entire portfolio must be able to be liquidated in under 3 days. Leverage is limited to 5 times NAV, but historically has never exceeded 1.3 times.

There is no risk committee as such, with Corr monitoring and overseeing the positions of each strategy on a daily basis. However minuted fortnightly Investment Committee meetings monitors risk and portfolio limits.

In turn the Compliance and Operational Committee chaired by CFO Betty Poon meets quarterly and oversees the Investment Committee to ensure strategy and risk limits are maintained. Two external members of the Compliance Committee attend each quarter.

Key person risk is strongly dependant on John Corr in spite of having an experienced investment team at both Fund and Company level.

Corr's role as CIO and director of a listed entity managing multiple funds possibly posed a distraction to the Fund's performance in early 2010. Co-incidentally or otherwise, the Fund's previously consistently positive track record faltered for a period of 6 to 8 months prior to the listing in July 2010, before returning to the previous "norm" which has since continued. Senior Portfolio Managers Sheriden Hure has been with Aurora for 8 years and Andrew Ward for 7 years.

The introduction of a committee to manage compliance are an important step in Aurora's strategy of becoming acceptable to asset allocators and institutional investors. Business risk has been significantly reduced following the creation and listing of Aurora Funds Limited, providing critical mass and the opportunity to broaden the investor base using Aurora's existing distribution team.

### Investor Relations

The Aurora Fortitude Absolute Return Fund is an unlisted Australian unit trust open to wholesale and retail investors with minimum initial investment of \$10,000. Strategy FUM is \$196m spread across HNW investors and retail fund flows. Strategy capacity is estimated at \$1bn.

The strategy is also available via an ASX listed version, the Aurora Absolute Return Fund, (ASX:ABW) which invests 95% of its assets in the unlisted Fund, with 5% being retained as cash to manage liquidity for redemptions.

Unlike ASX Listed Investment Companies (LIC's) which have a closed end structure and can suffer from poor liquidity or trade at a large discount to NAV, the structure of the ABW listed fund is open ended. Aurora are committed to make a total spread of 0.5 of a cent around the NAV, providing both daily liquidity (T+3) and a fair price to reflect the portfolio's daily NAV.

In addition to having no minimums and ASX liquidity, both the listed and unlisted version pays a minimum distribution of 1.5% each quarter, plus franking providing an attractive yield for investors seeking a regular income stream. However depending on investment performance a part of this distribution may be paid out of capital.

### Structure and Compliance

Aurora Funds Management Limited holds AFSL 222110 and Fortitude Capital holds AFSL 221131. This is a legacy from Fortitude Capital and is likely to be rationalised in due course.

### Service Providers

Prime Broker: UBS  
Administrator: Unity Administration  
Auditor: PriceWaterhouseCoopers  
Legal: Baker and McKenzie

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**AUSTRALIAN FUND MONITORS**  
Targeting Absolute Returns

# AFM Fund Review

## Aurora Fortitude Absolute Return Fund

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