

Aurora Buy-Write Income Trust ASX Code: ABW

Performance Report - 31 December 2008

Summary

- The Trust returned +1.20% for the month versus the S&P/ASX200 Accumulation Index which returned -0.28%
- The Trust announced a distribution of \$0.27 for the six months to 31 December 2008, representing an annualised yield of 7.6%
- The Trust holds a significant amount of cash, and is well positioned to take advantage of new investment opportunities as they arise



Monthly Performance

Jul 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07	12 mths	Index ¹
-0.16%	1.99%	3.78%	4.49%	4.04%	3.16%	2.47%	0.39%	3.36%	2.38%	0.12%	-1.56%	26.88%	28.66%
Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 08	12 mths	Index ¹
-2.43%	2.77%	2.23%	1.94%	-1.37%	-4.21%	-7.93%	-4.38%	0.38%	-0.27%	-1.26%	-11.35%	-22.96	-13.40%
Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08							6 mths	Index ¹
-1.50%	2.03%	-4.23%	-4.09%	-1.69%	1.20%							-8.15%	-26.79%

¹ S&P/ASX200 Accumulation Index

Investment objective

The Aurora Buy-Write Income Trust (the Trust) is an ASX listed investment that aims to provide investors with gross income and medium term capital growth returns from an active strategy of selling call options over a portfolio of Australia's largest listed companies.

Investment Manager

Cadence Asset Management Pty Ltd (Cadence) was appointed as Investment Manager on 1 July 2008¹. Cadence has been providing investment management and advisory services to absolute return funds since October 2003. It has also been running multiple funds in a long/short Australian equity strategy since its inception. Cadence was awarded the 2007 Asian Investor award for Australian and New Zealand Hedge Funds. They were also recognised as the Best Emerging Manager at the 2007 Australian Hedge Fund Awards.

Investment strategy

The Trust seeks to purchase quality S&P/ASX100 listed companies and then selectively 'write' or sell exchange traded call options over these stocks in order to provide additional income to the portfolio. Between 15 and 25 S&P/ASX100 stocks may usually be selected for their income and capital growth potential. Call options may be sold (or 'written') on any of these stocks.

A risk management process (which may include the purchase of put options or other derivative positions) seeks to limit the potential impact to the Trust of extreme adverse market events. This does not provide a capital guarantee, and losses can still be incurred. If the Investment Manager's outlook on the market is negative, then the Trust may choose to hold the majority of its investments in cash. The Trust may utilise debt to increase the portfolio's exposure to the investment strategy.

Trust features

Unit pricing	Monthly.
Distribution frequency	Half yearly.
Distribution policy	The Trust will distribute 100% of its net realised gains each year.
Distribution Reinvestment Plan	Available.
Applications	Investors may acquire Units on market or via the current Product Disclosure Statement.
Redemptions	On market by selling on the ASX or off-market at the end of each month.

Trust valuations

Market capitalisation	\$9,268,992
Net Asset Value (NAV)	\$9,872,664
Units on issue	1,584,443
Net Assets Value per Unit	\$6.2310
NAV plus distributions paid (since inception)	\$9.3081

Trust distributions (per Unit)

Period	Cash	Franking	Total	Yield at NAV (p.a.)
31 Dec 06	\$0.2915	\$0.1249	\$0.4164	9.0%
30 Jun 07	\$1.1774	\$0.2227	\$1.4001	25.3%
31 Dec 07	\$0.2000	\$0.1990	\$0.3990	7.6%
30 Jun 08	\$0.3514	\$0.2402	\$0.5916	11.9%
31 Dec 08	\$0.2700	\$0.0000	\$0.2700	7.6%
Total	\$2.2903	\$0.7868	\$3.0771	

Investment Manager commentary

By Cadence Asset Management Pty Ltd

The Trust returned 1.20% for the month against an S&P/ASX200 Accumulation Index return of -0.28%. For the 6 months since July 2008 the Trust has returned -8.15%, while the S&P/ASX200 Accumulation Index returned -26.79% and the ASX All Ordinaries Accumulation Index returned -29.69%. For the 6 months since July 2008 the Trust has outperformed these indices by 18.64% and 21.54% respectively. The Trust continues to hold significant levels of cash.

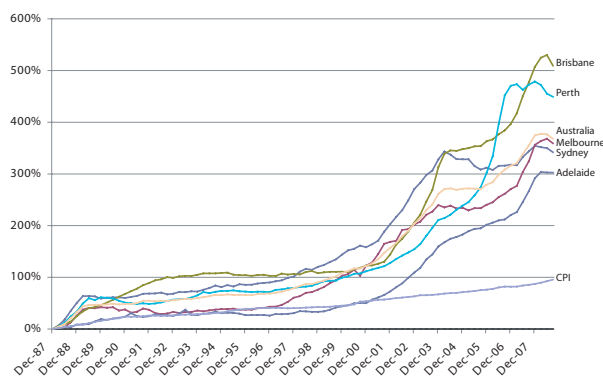
Portfolio Activity

During the month the Trust exited a position in Wesfarmers while entering positions in NAB, Westpac, Boral, Telstra and Crown. To increase income from the portfolio the Trust has written call options over Telstra, IAG and Boral.

The Trust started the month with 89% cash and ended the month with 78% cash. We believe that as compelling investment opportunities arise the Trust will be well positioned to take advantage of these opportunities.

Australian House Prices and their impact on the economy and stock market

Australian house prices have risen strongly over the past twenty years as shown by the chart below. The chart is based on the Australian Bureau of Statistics publication, House Price Indexes: Eight Capital Cities, Sep 2008.



As can be seen from the chart, house prices in all cities have grown significantly faster than inflation, with the CPI doubling over the period. It can also be seen that price increases have accelerated in recent years. It took 12 years from December 1987 for Australian capital cities (labeled Australia) to double, and then only another 7 years for them to double again. This has generated an amazing amount of wealth for Australian homeowners.

Up until 2008 the general upward trend for house prices had been sustained for so long that it was common to hear homeowners, and potential homeowners, argue that houses were a good investment because they would always go up in price in the medium to long term. This type of logic has helped to drive house prices even higher as property investors overlooked low rental yields due to the expectation of high capital growth.

economy. The equity that has built up in homeowners' houses has enabled them to draw down on their mortgages to support their lifestyle. People could use the extra equity in their home to undertake renovations, furnish the house, go on holiday or buy a new car.

Australian house prices have recently fallen 2% according to the latest ABS data. If Australian home owners experienced 25% price falls like in the USA then homeowners would have to reduce spending as much as possible to rebuild their personal balance sheets. Making extra mortgage repayments to keep positive equity in their home would be the goal of many homeowners. This would have a devastating effect on the economy and also the stock market.

For these reasons Cadence believes that it is extremely important for stock market investors to closely monitor the housing market. At this stage the Australian housing market is holding up relatively well, but we need to consider the possibility that there could be further house price falls in Australia in the short to medium term.

Significant portfolio holdings

	Weight (NAV%)
Telstra	5.9
Westpac	3.1
Boral	3.0
IAG	2.7
NAB	2.7
Other holdings	4.7
Total invested as a % of NAV	22.1

Top Buy & Write Positions

Bought Position	Calls Sold
Boral	BLD Jan 09 \$4.25
IAG	IAG Jan 09 \$4.15
Telstra	TLS Jan 09 \$3.85

About Aurora

Aurora Funds Management (Aurora) is an investment management and distribution group that aims to source, package and distribute carefully researched investment strategies that are managed by specialist wholesale investment managers.

Aurora is also the issuer of the:

- Aurora Sandringham Dividend Income Trust (ASX code: AOD)
- Aurora Infrastructure Buy-Write Income Trust (ASX code: AIB)
- Aurora Property Buy-Write Income Trust (ASX code: AUP)
- van Eyk Blueprint Alternatives Plus (ASX code: VBP)

Aurora Funds Management

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1. The Investment Manager Cadence Asset Management Pty Ltd replaced Blackrock Investment Management Ltd from 1 July 2008. 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 Buy-Write Income Trust (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 Trust. The information in this newsletter 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. The payment of franking credits to Unitholders is subject to