

Aurora Buy-Write Income Trust ASX Code: ABW

Performance Report - 28 February 2009

Summary

- The Trust returned +1.08% for the month versus the S&P/ASX200 Accumulation Index which returned -4.57%
- 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	Jan 09	Feb 09					8 mths ²	Index ¹
-1.50%	2.03%	-4.23%	-4.09%	-1.69%	1.20%	-1.20%	+1.08%					-7.59%	-33.54%

1 S&P/ASX200 Accumulation Index.

2. Assumes reinvestment of cash distributions.

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 2008³. 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	\$8,537,034
Net Asset Value (NAV)	\$8,898,535
Units on issue	1,429,989
Net Assets Value per Unit	\$6.2228
NAV plus distributions paid (since inception)	\$9.2999

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 1.08% for the month of February against an S&P/ASX200 Accumulation Index return of -4.57%. For the 8 months since July 2008 the Trust has returned -7.59%, while the S&P/ASX200 Accumulation Index returned -33.54% and the ASX All Ordinaries Accumulation Index returned -36.01%. For the 8 months since July 2008 the Trust has outperformed these indices by 25.95% and 28.42% respectively. The Trust continues to hold significant levels of cash.

Portfolio Activity

During the month the Trust exited positions in Boral and the Commonwealth Property Office Fund while entering positions in Newcrest, Wesfarmers, IAG and OZ Minerals. To increase income from the portfolio the Trust has written call options over Telstra, QBE, Newcrest and NAB. The written call options over Telstra, Newcrest, NAB, IAG and QBE held at the beginning of the month expired during the month, enhancing returns for the Trust.

Calls written over Westpac were exercised during the month and the stock was called away. The Westpac position produced a positive performance for the month.

The Trust started the month with 78% cash and ended the month with 76% cash. Holding high levels of cash over the past 8 months has served the Trust well. Going forward we see opportunities to invest this cash at better valuations and would envisage the fund moving to a higher level of investment over the medium term.

The proposed takeover of Oz Minerals

OZ Minerals has recently received a takeover offer from China Minmetals, who is proposing to buy all of OZ Minerals shares at 82.5 cents each.

The chart below shows the OZ Minerals share price compared to the All Ordinaries Accumulation Index. The company was called Oxiana prior to merging with Zinifex in mid 2008 and changing its name to OZ Minerals. The chart tracks the



The company's share price rose from \$1 in 2005 to almost \$4 in 2006 as the resources boom took hold, and the company's management started using the phrase 'Stronger Forever', which was a way of saying that they expected the resources boom to go on forever. The boom ended in 2008, and the share price fell from over \$4 to back to 55 cents in less than one year.

As with the Chinalco investment in Rio Tinto that we discussed in our newsletter last month, investors from China appear to be willing to pay a significant premium to what other investors are prepared to pay for mining assets in the current environment.

The deal is expected to be completed in June 2009. The main hurdles to completion of the deal are Australian Foreign Investment Review Board approval, extension of a \$1.1 billion debt facility until completion of the deal, and shareholder approval. If completion of the deal does not occur then the most likely outcome for OZ Minerals is administration due to an inability to refinance the \$1.1 billion of debt.

OZ Minerals shares resumed trading in the middle of February at 71 cents, a 14% discount to the Minmetals offer price. In the week that followed they fell to a low of 40 cents as speculation increased that the lenders would not extend the debt, which could derail the Minmetals offer. We believed that it was in the lenders best interests to extend the debt and allow the Minmetals deal to progress, and we bought some OZ Minerals shares on the 25th of February. The debt was then extended until the end of March, and the share price has since increased by about 20% to 61 cents. The share price is still well below the 82.5 cents offered by Minmetals.

It will be interesting to see if there are more twists and turns in the next few months, but we believe that there is a very good chance that the deal will go ahead, and that shareholders will receive the 82.5 cents per share cash payment around June 2009.

Significant portfolio holdings

	Weight (NAV%)	Calls Sold
Telstra	6.0	Yes
Oz Minerals	3.7	No
Adelaide Asset Backed Yield Trust	3.5	No
IAG	3.3	Expired
NAB	2.5	Yes
Other holdings	5.4	
Total invested as a % of NAV	24.4	

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)

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3. The Investment Manager Cadence Asset Management Pty Ltd replaced Blackrock Investment Management Ltd from 1 July 2008.

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