

# Aurora Buy-Write Income Trust ASX Code: ABW

## Performance Report - 31 May 2009

### Summary

- The Trust was unchanged for the month versus the S&P/ASX200 Accumulation Index which returned +1.36%
- Since Cadence has taken over as Investment Manager, the Trust has returned -8.29% compared to the S&P/ASX200 Accumulation Index which has returned -23.21%



### 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 <sup>1</sup>	Outperformance
-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%	-1.78%
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 <sup>1</sup>	Outperformance
-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%	-9.56%
Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09		11mths <sup>2</sup>	Index <sup>1</sup>	Outperformance
-1.50%	2.03%	-4.23%	-4.09%	-1.69%	1.20%	-1.20%	+1.08%	-0.19%	0.17%	0.00%		-8.29%	-23.21%	+14.93%

### 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 2008<sup>3</sup>. 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	\$8,695,586
Net Asset Value (NAV)	\$8,942,369
Units on issue	1,437,287
Net Assets Value per Unit	\$6.2217
NAV plus distributions paid (since inception)	\$9.2988

### 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%
<b>Total</b>	<b>\$2.2903</b>	<b>\$0.7868</b>	<b>\$3.0771</b>	

## Investment Manager commentary

By Cadence Asset Management Pty Ltd

The Trust was unchanged for the month of May against an S&P/ASX200 Accumulation Index return of 1.36%. For the 11 months since July 2008 the Trust has returned -8.29%, while the S&P/ASX200 Accumulation Index returned -23.21% and the ASX All Ordinaries Accumulation Index returned -25.09%. For the 11 months since July 2008 the Trust has outperformed these indices by 14.93% and 16.80% respectively.

### Portfolio Activity

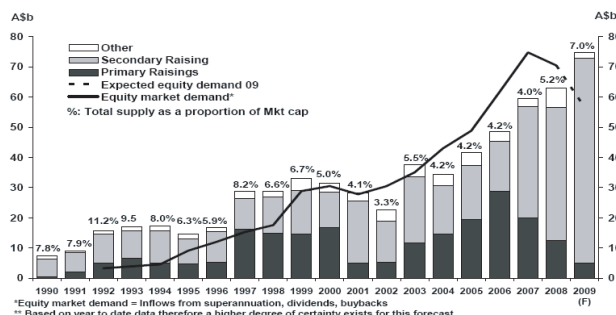
During the month the Trust added to its positions in Westpac, QBE, Telstra, ANZ, IAG, Newcrest and NAB. To increase income from the portfolio the Trust has written call options over those stocks. The written call options over QBE, Telstra, ANZ and Westpac held at the beginning of the month expired during the month, enhancing returns for the Trust.

Calls written over Newcrest, IAG and NAB were exercised during the month and the stock was called away. The Newcrest, IAG and NAB positions produced a positive performance for the month.

Cash levels reduced over the month, and as at month end the Trust held 61% cash. Since the end of May further investments have been made, and we envisage the fund moving to a higher level of investment over the medium term.

### Capital Raisings

The chart below shows that over the last few years there has been a decrease in IPO activity (primary raisings) and a significant increase in secondary capital raisings, especially in the last twelve months.



After taking part in only a few capital raisings in the first half of 2008, we have taken part in a significant number of capital raisings in the last twelve months, and all of them have been secondary capital raisings.

It has been common recently to see a company's share price fall significantly due to a perception that it has too much debt on the balance sheet. To reduce debt, a company may conduct a capital raising at a discount to its current share price. If a capital raising is not possible the company may need to sell assets at depressed prices or enter administration, which is generally not a good outcome for shareholders.

Secondary capital raisings are often done at a significant discount to the current share price. The large discounts on

offer ensure that there is demand for all of the shares available, so the announcement of an underwritten capital raising is often seen as the solution to a company's debt problems.

In most of the recent capital raisings debt problems were depressing the share price of the company, and companies that have raised capital have generally performed well relative to the issue price in the 30 days following the capital raising as shown in the chart below.



The capital raisings we have participated in during the last twelve months have performed well in general. We are ahead on most of the raisings that we were involved in, and our main problem has been that in some of the capital raisings we have not been allocated as many shares as we wanted. This is understandable though, as in some cases we have not been a shareholder in the company, and existing shareholders are generally allocated more shares than non-shareholders.

We will continue to evaluate all capital raising opportunities as they arise and believe that there should be more good opportunities in the near future.

### Significant portfolio holdings

	Weight (NAV%)	Calls Sold
Telstra	7.2	Yes
IAG	6.3	Yes
Westpac	5.6	Yes
NAB	4.7	Yes
ANZ	4.6	Yes
Other holdings	10.7	
Total invested as a % of NAV	39.1	

### About Aurora

Aurora Funds Management 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 S&P/ASX200 Accumulation Index. 2. Assumes reinvestment of cash distributions 3. The Investment Manager Cadence Asset Management Pty Ltd replaced Blackrock Investment Management Ltd from 1 July 2008.  
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