



FORTITUDE CAPITAL

## Aurora Fortitude Absolute Return Fund December-10

**AURORA**  
FUNDS LIMITED

Key Facts		AFARF	RBA Cash
Strategy	Market Neutral	1 Month Return	1.05%
Domicile	Australia	12 Month Return	4.33%
Min. Investment	\$A100,000	Annualised Return p.a.	9.71%
Management Fee	1.5375% p.a. (includes GST)	Return Since Inception	71.79%
Performance Fee	20.5% p.a. with high water mark	Best month	3.63%
Benchmark	RBA Cash Rate	Worst month	-1.60%
Prime Broker & Custodian	UBS	% Positive months	87%
Administrator	Kingsway Taitz	Annualised Std Deviation	3.06%
Auditor	PricewaterhouseCoopers	Sharpe Ratio	1.39

### Riding the American Recovery Wave

A strong month for American equity markets (S&P 500 +6.5%) saw most international markets finish 2010 on a positive note. The ASX/S&P 200 gained 3.5% although it finished off its highs as heavy rains and flooding in Queensland started to impact a number of companies, particularly large coal exporters.

The Aurora Fortitude Absolute Return Fund returned +1.05%, which is actually the best December performance for the life of the fund. December is traditionally a month of low volatility for the Australian equity market and this year was no exception. The realisable volatility of the ASX 200 index is the lowest level since early 2007 and subsequently implied volatility of most options has continued to fall. This is a difficult scenario for our option strategy and it was again a draw on our performance, however as always we are committed to the strategy as a form of protection and a source of alpha.

Corporate activity remains a major feature of the market and this has helped generate positive returns in the Mergers and Acquisitions portfolio. During December, Equinox Minerals (EQN) gained control of Citadel Resources (CGG) via their takeover bid which was declared unconditional. We added to this position during the month and at month end it was one of our largest positions.

We also added to our position in the ING Industrial Fund (IIF) which has formally entered into a scheme of arrangement with a consortium led by Goodman Group (GMG). We initiated a position in Tower Australia Group (TAL) which entered a scheme of arrangement with Japanese based insurer Dai-ichi Life. Canadian goldminer Goldcorp completed its scheme to acquire Andean Resources (AND). An improvement in price saw us reduce our position in AXA Asia Pacific (AXA), however we expect to get the opportunity to increase the position again on better terms. We anticipate this to be one of our major focus points in the first quarter of 2011.

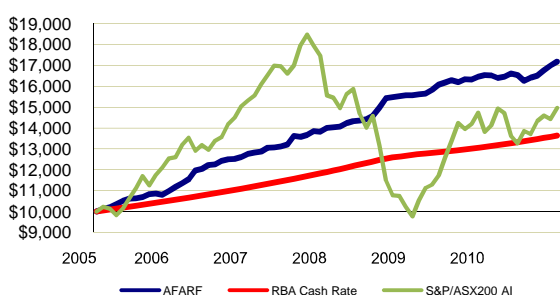
Our Long/Short portfolio benefited from selected exposure to mid and small cap capital raisings and sell downs. This sector of the market has seen increased turnover particularly in the resources names.

We also participated in the high profile float of the Queensland Government's Rail Assets, QR National (QRN). This remains a topical name with a tight register and significant international interest given the impact of the floods on Queensland based companies.

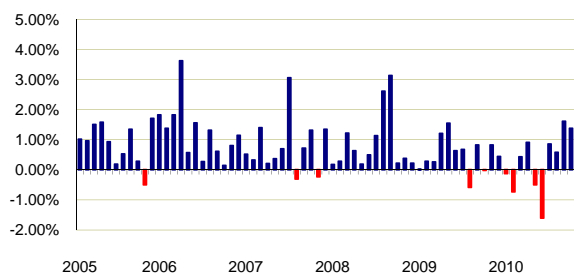
Our yield exposure continues to be concentrated in Fairfax Media Preference Securities (FXJPB) and as the maturity of these approaches we maintain our search for appropriate alternative exposures.

Performance after fees (%)														YTD
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
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	0.55	0.67	-0.58	0.82	-0.02	0.82	6.01%	
2008	1.34	0.17	0.27	1.21	0.63	0.18	0.45	1.14	2.61	3.13	0.21	0.37	12.38%	
2007	1.14	0.52	0.32	1.40	0.21	0.36	0.63	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	0.80	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%	

AFARF vs RBA Cash vs S&P/ASX200AI (\$)



Monthly Returns Since Inception (%)



## FUND OVERVIEW

The Aurora Fortitude Absolute Return Fund (AFARF) aims to produce positive returns irrespective of the direction of the share market, by investing in predominantly Australian listed securities and derivatives.

The Fund purchases both put and call options which allows it to profit from movements in the market both up and down. It then looks for short term trading opportunities to generate low risk returns from other strategies including;

- Mergers and Acquisitions
- Long/Short
- Share Class Arbitrage, and
- Yield securities.

Each investment considers the risk, the timeline of that risk occurring and then the potential return.

Low transaction costs and liquidity are other important factors in the success and implementation of the strategies.

## INVESTMENT MANAGER

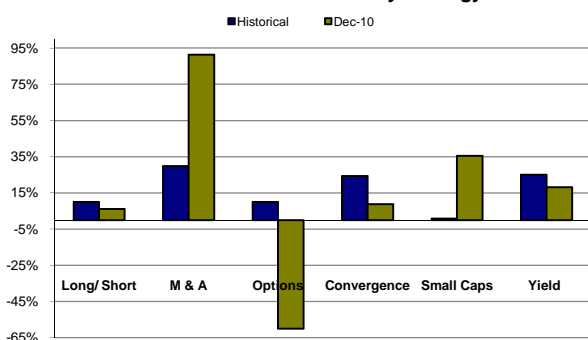
Fortitude Capital Pty Ltd is a wholly-owned subsidiary of Aurora Funds Limited (Aurora). With in excess of \$500 million in funds under management/administration, Aurora was listed on the ASX in July 2010 under the ASX Code: AFV.

The Aurora Group provides asset management and responsible entity/trustee services for over 3,500 Australian and New Zealand investors.

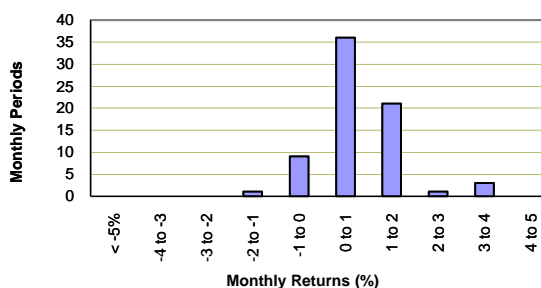
Aurora is also the issuer and/or distributor of the:

- Aurora Sandringham Dividend Income Trust (ASX code: AOD)
- Aurora Sandringham Australian Equity Income Trust (ASX Code: ABW)
- Aurora Sandringham Global Income Trust (ARSN 131 291 499)
- Aurora Global Infrastructure Income Trust (ASX code: AIB)
- Aurora Property Buy-Write Income Trust (ASX code:AUP)
- van Eyk Blueprint Alternatives Plus (ASX code: VBP)
- CORALS Commodities Fund (ARSN 131 196 882)

**Profit & Loss Contribution by Strategy**

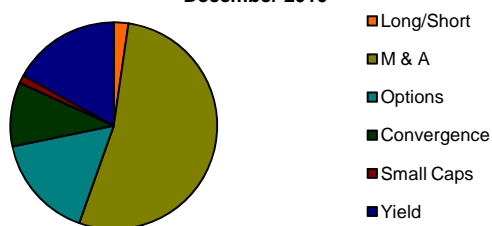


**Distributions of Returns**

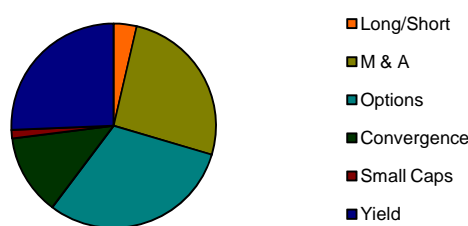


**Strategy Weightings**

December 2010



**Historical**



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