

# Aurora Property Buy-Write Income Trust ASX Code: AUP

## Performance Report - 28 February 2009

### Summary

- The Trust returned +0.17% for February compared to the S&P/ASX200 Property Accumulation Index which returned -16.2%
- Since 1 October 08 (whilst the Trust's assets have been in cash) the Trust returned +0.95% compared to the S&P/ASX 200 Property Accumulation Index which returned -51.3%



### Monthly Performance

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
-2.90%	2.77%	0.02%	-0.74%	-7.78%	-4.83%	-16.15%	-1.05%	-0.48%	2.58%	-7.22%	-10.96%	-39.2%	-37.7%
Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09					8 mths	Index
-0.99%	3.77%	-1.31%	0.34%	0.15%	0.14%	0.15%	0.17%					2.43%	-52.7%

### Investment objective

The Aurora Property Buy-Write Income Trust (the Trust) is an ASX listed investment trust that aims to generate income from an active strategy of selling call options over a portfolio of ASX listed Australian Real Estate Investment Trusts (A-REIT).

### Investment Adviser

APN Funds Management Limited (APN FM) has been appointed as the Investment Adviser with responsibility to actively manage the Trust's investment strategy.

Established in 1998, APN FM currently manages a broad range of property securities funds with total assets under management of approximately \$3.1 billion (as at 28 February 2009). APN FM has established a strong track record and market reputation for managing domestic and global property funds with a particular focus on generating consistent, growing income returns. APN FM's expertise is widely recognised in the property funds management industry, as evidenced by the following awards:

- AFR Smart Investor Blue Ribbon Award 2008 - Australian Listed Property;
- Morningstar Fund Manager of the Year 2007 - Listed Property;
- Investor Web Research Property Securities Fund Manager of the Year for 2002, 2003 and 2004;
- Property Investment Research – Property Securities Manager of the Year 2005, 2006 and 2008; and
- Monitor Money Skilled Manager of the Year 2002-2003

An active investment management style combined with a concentrated focus on the fundamentals of commercial property investments lies at the heart of APN Funds Management's philosophy. APN FM is a leader in real estate which is driven by the investment team's longstanding experience and expert knowledge of property markets and research capability.

### 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	\$18,632,330
Net Asset Value (NAV)	\$19,208,487
Units on issue	3,906,149
Net Assets Value per Unit	\$4.9258
NAV plus distributions paid (since inception)	\$6.1709

### Trust distributions (per Unit)

Period	Cash	Total	Yield at NAV (p.a)
31 Dec 07	\$0.4670	\$0.4670	10.5%
30 Jun 08	\$0.4781	\$0.4781	11.3%
31 Dec 08	\$0.3000	\$0.3000	11.1%
Total	\$1.2451	\$1.2451	

## Market Commentary

by APN Funds Management Limited

The S&P/ASX 200 Property Accumulation index was down 16.2% in February 2009. The AREIT sector substantially underperformed the broader equity index over February. The underperformance of the AREIT sector relative to the S&P/ASX 200 was 11.8%. Reporting season confirmed asset devaluations resulting in problematic debt levels for many AREITs, while progress on asset sales remains limited, leaving an equity overhang. Asset write-downs are expected to accelerate in 2H FY09. Accordingly, capital management remains the key focus for all AREITs.

Best to worst, the spread of total returns was 76.4%. Commonwealth Property Office Fund (CPA) was up 12.8%, whilst Goodman Group (GMG) was down 63.6%. Industrial AREITs were the weakest sector (down 62.2%) while the retail sub sector was the strongest - only falling 8% due to the relative strength of Westfield (negative 7.7%); CFS Retail (negative 5.6%) and Bunnings Warehouse (negative 1.4%). The key retail trusts were notable outperformers over February, reporting stronger than expected retail sales and occupancy numbers, supported by the extensive government stimulus package.

The \$2.9bn equity raising by Westfield and \$300m raising by Lend Lease completed issuances from all the majors. Around \$9bn of new equity has now been raised since August 2008.

All the AREITs have recently completed their ongoing formal disclosure obligations to the market and reported their half year results (to 31 December 2008). The following comments provide a brief summation of APN FM's view on the key themes emerging from the reporting season:

### Operating Environment

■ No surprises here ... It has deteriorated from the last time the AREIT's reported.

■ The weaker global economic environment is seemingly sparing no-one. Many countries are officially in recession. Australia is moving in that direction (albeit it has been more resilient to date).

### Debt - gearing levels and relativity to covenants

■ Target gearing levels have reduced. As many managers realise the folly of excess gearing, they are now winding back their preferred gearing levels. This reversal of strategy will be good for the sector. Whilst it will cap returns in the long term, those returns will more closely approximate real property returns. Returns will be less volatile and more attractive.

■ Whilst preferred gearing levels have reduced and amortisation of debt has been reducing actual liabilities, the key issue confronting the sector is falling capital values which are increasing gearing ratios (the denominator effect).

■ Increasing cost of debt. Margins continue to increase for domestic debt. Margins appear to range between 300-400 bps which coincidentally is the same amount by which official interest rates have reduced over the last 6 months.

### Valuations

■ AREIT asset devaluations resulted in problematic Loan to Value Ratios (LVR) for many, with progress on asset sales limited. Asset devaluations were generally in the order of 5-10% with cap rates softening circa 50bps over the period. Valuation write-downs are likely to accelerate in the 2H of 2009, putting more pressure on LVR covenants agreed with banks.

### Disclosure

■ Overall, the level of disclosure by AREITs has been very good. They typically provide excellent summaries of all aspects of the portfolios and financing arrangements.

### Distributions

■ Falling asset values and impairments to other balance sheet assets has resulted in increasing total debt versus assets. Retaining cash where appropriate has become paramount for all AREITs. The majority of AREITs have now reduced (and some have even suspended distributions either by their own accord or at the insistence of the banks) their distributions per unit and have adjusted their distribution payout policies to be more in line with underlying cash earnings.

### Corporation and Offshore Earnings

■ Pleasingly, one of the key themes from those AREITs that have run active businesses in recent years was that they are winding back those aspects to their businesses. Examples include Abacus, Stockland, Mirvac and GPT.

■ The long held APN philosophy is that we believe AREITs should be simple, passive rent collectors. It has of course been the move away from such strategies that has caused much of the recent mayhem in the sector. The price they paid for these businesses and variability of the earnings streams has come home to haunt many managers. It is not surprising that many are winding back their active / corporation earning strategies. This is a positive for the sector.

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

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