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Aurora Property Buy-Write Income Trust ASX Code: AUP
Performance Report - 31 July 2009

Summary

- The Trust returned +2.48% for July compared to the S&P/ASX200 Property Accumulation Index which returned +2.42%.
- The Trust returned +10.67% for the year to July, versus the S&P/ASX200 Property Accumulation Index which returned -37.78%

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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%	-39.16%	-36.35%
Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	12 mths	Index
-0.99%	3.77%	-1.31%	0.34%	0.15%	0.14%	0.15%	0.17%	0.41%	-1.10%	1.13%	4.01%	6.93%	-42.27%
Jul 09												1 mth	Index
2.48%												2.48%	2.42%

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 (AREIT).

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	$16,377,456
Net Asset Value (NAV)	$18,671,416
Units on issue	3,722,149
Net Assets Value per Unit	$5.0163
NAV plus distributions paid (since inception)	$6.5114

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%
30 Jun 09	$0.2500	$0.2500	9.7%
Total	$1.4951	$1.4951	

Investment Manager Commentary

by APN Funds Management Limited

The Trust delivered a return of 2.48% compared to the Index which delivered a return of 2.42% in July 2009. Over the longer term, market returns remain negative as the ramifications of the Global Financial Crisis (GFC) are digested. The total return of the Index over the 12 months to 31 July 2009 was negative 37.78%.

The early Nineties v. The late Noughties – the similarities, the differences, the aftermath? Did we learn our lessons from the 90s?

To answer the last question first, "did we learn our lessons from the 90's?" – we think that the answer is both yes and no. Some lessons were learnt and remembered by some. Clearly though, a fair proportion of the AREIT market did not learn the lessons. Certainly if the lessons were based on risk management then clearly many AREIT managers forgot what they learned!

The fact that many real estate investment managers chose to gear up excessively, buy fringe assets, invest in risky cash flows (business earnings, hotels and the like) and ignore the attribute that property investments should deliver income indicates many failed to learn from the property crisis of the early nineties.

However, when we compare now and then we can see that the vital signs of the underlying economy and property markets (in Australia) are completely different. Indeed, the global recession we are now experiencing is a function of overheated financial markets delivering a shock to the system that threatened to turn into a catastrophe. Back in the early nineties many more underlying factors (particularly in Australia) were indicative of major structural problems in the economy.

Further, when we think back and compare how Australia has performed in previous cycles, this time is vastly different. Remember the old saying: "When the US sneezes Australia catches a cold". This referred to the fact that Australia was always far more prone to downside risk that the larger economies – particularly the US. From the relative performance of the two economies so far in this down-cycle, this appears to have changed.

So, what is the biggest difference about this cycle?

This cycle is all about financial market conditions – particularly credit markets. It has been a crisis of confidence due to a freeze in global credit markets. The crisis originated out of the excesses (and structural inefficiencies of the residential market in the US). Investment in repackaged residential debt products by banks all over the world that did not understand the risks set off reverberations that have impacted governments, corporations and individuals alike.

So, whilst in so many ways we can demonstrate that this downturn is in no way as severe as the early 1990s this is cold comfort for investors who have been hit by the varied impacts of the GFC. The dilution of earnings following capital raisings necessitated by the lack of credit, higher credit costs (due to debt scarcity), lower payout ratios (as income was allocated to debt repayment or used for building repairs and maintenance) and reductions in operating income (as some businesses reduce their demand for space) has been severe. It has shaken the very basis of the sector – the income component. Shaken but not broken.

The good news is that the sector has recalibrated itself. Payout ratios (distributions to earnings) are lower. AREIT balance sheets are in order and can sustain potential falls in asset values. Credit markets are actually starting to normalise; equity markets have been supportive and many general economic indicators are beginning to reflect some positive signals. Earnings security has returned. The AREIT sector has acted swiftly to confront this unprecedented period of global financial market upheaval and is now positioned on a more sustainable footing than prior to the GFC.

Top 5 Portfolio Holdings (as at 31 July 09)

	ASX Code	Weighting NAV (%)
Westfield	WDC	19.6
Dexus	DXS	14.4
General Property Trust	GPT	11.6
CFS Retail	CFX	10.4
Stockland	SGP	10.3

Source: APN Funds Management

About Aurora

Aurora Funds Management (Aurora) is an investment management and distribution group owned and operated by a group of professionals with considerable experience in retail funds management, stockbroking, margin lending, corporate advisory and investment banking.

Aurora 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)

Aurora Funds Management

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