

## INVESTMENT OBJECTIVE

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.

## FUND PERFORMANCE TO 31 JANUARY 2012

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	0.34%	0.35%	5.08%
3 months	1.35%	1.09%	0.06%
6 months	3.11%	2.29%	-1.20%
12 months	3.87%	4.75%	-6.17%
2 years (p.a)	4.03%	4.63%	0.88%
3 years (p.a)	4.77%	4.18%	11.21%
5 years (p.a)	7.00%	5.15%	-1.69%
Annualised Return Since Inception (p.a)	8.77%	5.34%	5.05%
Standard Deviation	3.02%	0.35%	15.10%

### A Little Less Conversation, A Little More Action

Equity markets made a strong start to 2012 (ASX200AI: +5.08%) boosted by easing bond yields in peripheral Europe and expectations of supportive central bank policy. Stronger risk appetite resulted in a large outperformance of the Resources index (+10.7%) over traditional defensive laggards (Utilities +2.5%; Healthcare -1.2%). Banks also lagged the rally (+3.7%) as funding costs steepened with covered bonds issued by majors carrying higher spreads than usual. Strong, stable markets and subdued news flow triggered a 4 point fall in the volatility index (VIX: -17%). The Fund carried a small book into the New Year and positions are being built as the market presents opportunities. Earnings season begins in February which should see several opportunities present as stock specific factors override the macro environment.

The **Mergers and Acquisitions** strategy posted a small gain for the month (+0.09%) with broad increases across all positions, the most notable were: Charter Hall Office (CQO.ASX), Flinders Mine (FMS.ASX), Brockman Resources (BRM.ASX) and Signature Metals (SBL.ASX).

The **Long/Short** strategy was a small positive contributor (+0.06%) largely as a result of a long position in Thackral Holdings (THG.ASX). The smaller capitalised positions generally outperformed the larger caps as the market gained confidence and bought risk.

The **Convergence** strategy also performed well (0.14%). The major contributor was the Wesfarmers Partially Protected Shares (WESN.ASX) against the ordinary stock (WES.ASX). The protection and optionality offered by the Partially Protected Shares allowed the Fund to overlay some options, which helped earn income at the same time as the spread widening from a relatively tight level last month. Strong moves in Paladin (PDN) also presented good cross-border trading opportunities but offsetting this News Corporation and Resmed were small detractors.

The **Yield** strategy (0.16%) generated steady gains as the Fund held relatively high levels of cash and listed hybrids relative to the exposures across the other strategies. A major talking point during the month was the covered bond issue completed by Commonwealth Bank (CBA.ASX). This resulted in a widening of margins for most of the listed bank hybrids because a new benchmark for risk and margin/return was set. A small position in the Goodman Preferred Step-Up Units was the best performer as the market repriced the chance that the securities will be called in 2013 instead of being stepped-up.

The **Options** strategy (-0.12%) struggled in light of the fall in volatility. The fund strictly maintains a position on the ASX200 Index which was hardest hit during the month. QBE posted a strong profit after the stock fell post a downgrade due to record claims from natural disasters and weaker investment markets.

Performance after fees (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	0.34												0.34%
2011	0.31	0.90	0.16	1.25	-1.46	-0.61	0.51	1.19	0.11	0.43	0.67	0.34	3.83%
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	0.63	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%

## FUND OVERVIEW

The Fund 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.

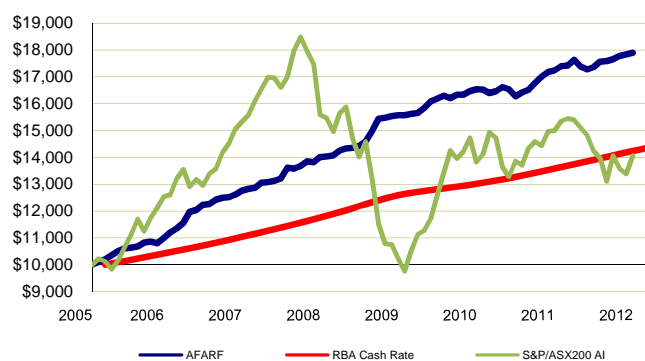
Each investment considers the risk, the timeline of that risk occurring and then the potential return.

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

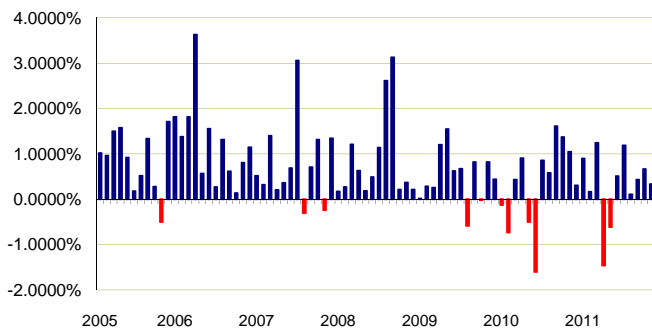
## FUND DISTRIBUTIONS (per Unit)

Period (per Unit)	Amount (\$)	Yield (p.a)
30/06/2005	\$0.0516	15.48%
30/06/2006	\$0.1449	14.49%
30/06/2007	\$0.1040	10.40%
30/06/2008	\$0.0961	9.75%
30/06/2009	\$0.1384	14.09%
30/06/2010	\$0.0256	2.66%
30/06/2011	\$0.0338	3.47%
30/09/2011	\$0.0193	8% (annualised)
31/12/2011	\$0.0194	8% (annualised)
<b>Total since inception</b>	<b>\$0.6331</b>	

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



Monthly Returns Since Inception (%)



## INVESTMENT MANAGER

Fortitude Capital Pty Ltd (AFSL 221131) is a wholly-owned subsidiary of Aurora Funds Limited (Aurora). With in excess of \$460 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 3,000 Australian and New Zealand investors.

**Aurora is also the issuer of the:**

- Aurora Sandringham Dividend Income Trust (ASX code: AOD)
- Aurora Absolute Return Fund (ASX code: ABW)
- Aurora Global Income Trust (ASX code: AIB)
- Aurora Property Buy-Write Income Trust (ASX code: AUP)
- van Eyk Blueprint Alternatives Plus (ASX code: VBP)

	KEY FACTS		AFARF	RBA Cash
<b>Strategy</b>	Market Neutral	<b>Sharpe Ratio</b>	1.14	-
<b>Feeder Fund</b>	Aurora Absolute Return (ABW)	<b>Best month</b>	3.63%	0.60%
<b>APIR Code</b>	AFM0005AU	<b>Worst month</b>	-1.60%	0.25%
<b>Benchmark</b>	RBA Cash Rate	<b>Positive months</b>	86.75%	100.00%
<b>Administrator</b>	Mackenzie Coultas Funds Admin	<b>Prime Broker/Custodian</b>	UBS	

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