



FORTITUDE CAPITAL

# Aurora Fortitude Absolute Return Fund

## March-2012

**AURORA**  
 FUNDS LIMITED

### 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 MARCH 2012

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	0.45%	0.35%	1.22%
3 months	1.29%	1.07%	8.40%
6 months	2.75%	2.21%	10.69%
12 months	3.74%	4.66%	-6.06%
2 years (p.a)	4.96%	4.67%	-1.43%
3 years (p.a)	4.98%	4.23%	11.24%
5 years (p.a)	7.01%	5.08%	-2.04%
Annualised Return Since Inception (p.a)	8.70%	5.32%	5.39%
Standard Deviation	2.98%	0.35%	14.93%

### Banking on a Rally

World markets posted another positive month with a notable outperformance of financials over resources (ASX200 Financials +3.7%, ASX200 Materials -4.2%). The month began with weak Chinese data and a rally in the US\$. This led to predictions of weaker gold and the end of the substantial bull-run in treasuries. This view was tempered by signaling of further accommodative monetary policy by Ben Bernanke and another round of Euro printing by the European Central Bank as part of its Long Term Refinancing Operation (LTRO). Chinese data reverted to positive territory by month end with a Manufacturing PMI print of 53.1 on the last day of the month. The ASX200 Accumulation Index finished the month up 1.22%, outperforming the Dow Jones (+0.4%) with Banks particularly strong. The Fund finished the month +0.45%, the 9th positive month in a row.

The **Yield** strategy was the largest contributor to performance (+0.24%). The IAG Reset Convertible Preference Securities (IAGPA.ASX) announced that they will be redeeming in mid-June in line with our most conservative valuation. The issuer did have the option to convert the hybrid into IAG ordinary shares at a discounted price, which the fund would have been able to profit from, however they elected to redeem for cash instead. The CBA Perls IV (CBAPB.ASX) issue and the floating rate bonds (CBAHA.ASX) also performed well after the flood of new hybrid issues were digested by the market.

The **Long Short** strategy posted strong returns (+0.18%). Tishman Speyer (TSO) unit holders voted in favor of selling the assets and distributing the cash which provided the most significant return. Systematic trading strategies provided mixed returns with small positions in Kagara Ltd (KZL.ASX) and White Energy (WEC.ASX) performing very well against poor performance by Challenger Limited (CGF.ASX) and Aristocrat Limited (ALL.ASX).

Thakral Holdings (THG.ASX) was the largest underperformer after recent outperformance and an update that there has yet to be a suitable proposal received for their Wynyard asset.

The **Mergers & Acquisitions** strategy was a positive performer for the month (+0.11%) however delays to the US asset sale timetable meant that the Charter Hall Office scheme of arrangement did not complete within the month and will now subsequently settle in April. The Brockman Resources takeover by Wah Nam was declared unconditional during March and the spread narrowed. The Fund monitored but avoided a roller-coaster of ACCC issues regarding the Foxtel bid for Austar (AUN.ASX) and APA Group's (APA.ASX) bid for Hasting Diversified Utilities Fund (HDF.ASX).

Wesfarmers (long WESN.ASX and short WES.ASX) was the major contributor for the **Convergence** portfolio (+0.07%). The value of the embedded optionality of the partially protected shares (WESN.ASX) increased in line with the share price falling. To date this relationship has not been particularly strong however we expect the correlation will increase dramatically as the instrument approaches maturity over the next few years (NB- the shares are convertible 1 for 1 in the interim). The convergence book continues to hold about 6-12 liquid dual listed stocks. There were no other material contributors or detractors for the month.

The Fund continues to run a reduced **Options** portfolio, however the continued decrease in volatility resulted in a negative performance for the book (-0.16%). Worst hit were key positions over the ASX200 Index, IAG (IAG.ASX) and Orica Limited (ORI.ASX). Volatility in Resource names early in the month led to strong gains for BHP Billiton (BHP.ASX), however this was somewhat tempered by a reduction in volatility towards month end on a more favourable outlook for resources.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	0.34	0.49	0.45										1.29%
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;

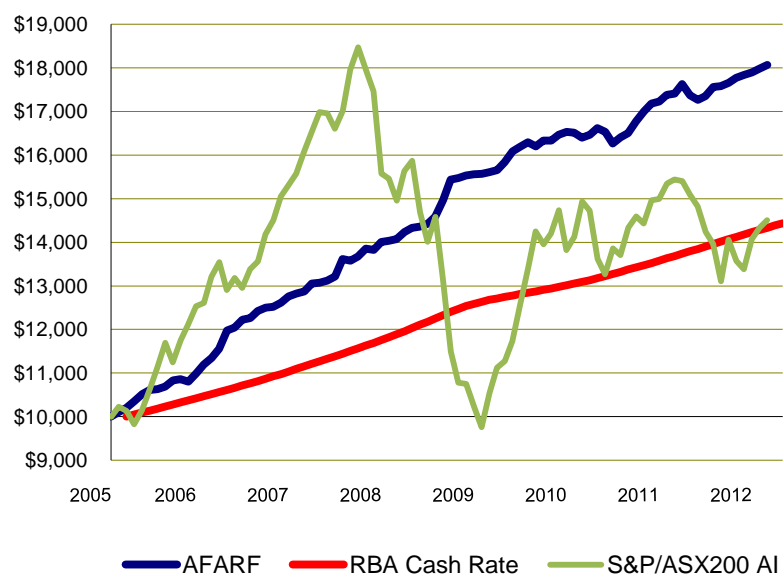
- Mergers and Acquisitions
- Long/Short
- Share Class Arbitrage, and
- Yield securities.

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.

Within the implementation of this strategy, the Investment Manager believes that the Australian equity market presents franking credit opportunities that are being ignored and/or mispriced by the market. As such, the Fund intends to seek to take advantage of these opportunities as they arise. Accordingly, from 14 May 2012, the value of the franking credits earned by the Fund will be included in the performance returns of the Fund - including within the calculation of Application/Redemption prices and management/performance fees.

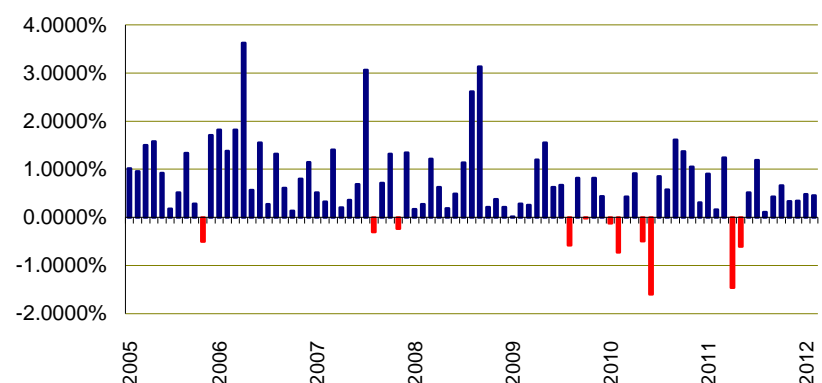
AFARF vs RBA Cash vs S&P/ASX200AI (\$)



## 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)
31/03/2012	\$0.0191	8% (annualised)
<b>Total since inception</b>	<b>\$0.6522</b>	

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 \$430 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 2,500 Australian and New Zealand investors.

### Aurora is also the issuer of the:

- Aurora Sandringham Dividend Income Trust (ASX code: AOD)
- Aurora Dividend Income Trust (APIR code: AFM0010AU)
- 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>	1.13
<b>Feeder Fund</b>	Aurora Absolute Return (ABW)	<b>Best month</b>	3.63%
<b>APIR Code</b>	AFM0005AU	<b>Worst month</b>	-1.60%
<b>Benchmark</b>	RBA Cash Rate	<b>Positive months</b>	87.06%
<b>Administrator</b>	Mackenzie Coultas Funds Admin	<b>Prime Broker/Custodian</b>	UBS

## AURORA FUNDS LIMITED

Level 2, 350 George Street, Sydney NSW 2000

PO Box R1695, Royal Exchange NSW 1225

Telephone: +61 2 9080 2377, Fax: +61 2 9080 2378

Visit: [www.FortitudeCapital.com](http://www.FortitudeCapital.com) or [www.AuroraFunds.com.au](http://www.AuroraFunds.com.au)

Email: [info@fortitudecapital.com](mailto:info@fortitudecapital.com) or [enquiries@aurorafunds.com.au](mailto:enquiries@aurorafunds.com.au)

Disclaimer: This information has been prepared by Aurora Funds Management Ltd (ABN 69 092 626 885, AFSL 222110) in its capacity as responsible entity for the Aurora Fortitude Absolute Return Fund (ARSN 145 894 800). It has been prepared without taking into account the objectives, financial situation or needs of any investor, which should be considered before investing. Investors should consider a copy of the PDS dated 7th October 2010 and seek their own financial advice prior to investing in the Fund. The information in this Performance Report is of a summary nature only and does not constitute advice of any kind, nor is it an offer of any financial product. Past performance is not a reliable indication of future performance. The investment objective is expressed after the deduction of fees and before taxation. See the PDS for details on taxation. The objective is not intended to be a forecast, and is only an indication of what the investment strategy aims to achieve over the medium to long term. While we aim to achieve the objective, the objective and returns are not guaranteed. The payment of franking credits to Unit holders is subject to the Fund achieving a taxable profit in that year. For further information please visit [www.fortitudecapital.com](http://www.fortitudecapital.com) or [www.aurorafunds.com.au](http://www.aurorafunds.com.au).