



FORTITUDE CAPITAL

# Aurora Fortitude Absolute Return Fund

## August 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 AUGUST 2012

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	0.36%	0.29%	2.14%
3 months	1.52%	0.88%	7.21%
6 months	2.69%	1.91%	2.76%
12 months	5.16%	4.20%	5.48%
2 years (p.a)	6.08%	4.50%	3.68%
3 years (p.a)	4.26%	4.33%	3.17%
5 years (p.a)	6.28%	4.85%	-2.83%
Annualised Return Since Inception (p.a)	8.51%	5.23%	5.29%
Standard Deviation	2.91%	0.35%	14.82%

### Bear Market in Bulks

The S&P/ASX200AI recorded a gain of 2.14% during a busy month of results and a heavy fall in the prices of bulk materials, iron ore & coal. The extent and duration of the fall in iron ore has significant implications for the Australian market which the Fund is closely monitoring. The Australian Dollar continues to hold ground against major currencies. Whilst this scenario persists, it is difficult for many Australian companies to improve profitability. Many market commentators continue to advocate the attractiveness of yield equities in light of this scenario. Interestingly the Fund has significantly outperformed traditional "yield" equities since inception. In light of this backdrop the Materials (-1.4%) and Telecommunications (-3.6%) sectors underperformed Health Care (+6.1%) and Consumer Staples (+4.4%). The Fund finished the month up +0.36%.

The **Convergence** portfolio (+0.36%) benefitted from a new position in Yancoal (YAL.ASX) and its partially protected shares (YALN.ASX). The situation is similar to the Wesfarmers structure and we look forward to further trading opportunities in this name. The Wesfarmers (WES.ASX) position was the strongest performer in the portfolio for the month.

**Mergers and Acquisitions** (+0.23%) benefitted from an increase in the offer price for Thakral Holdings (THG.ASX) from Brookfield Asset Management Inc. This was widely largely anticipated and the Board has recommended the higher offer.

The **Options** portfolio struggled (-0.13%) as volatility continues to decline. The options position over the ASX200 index was a large detractor in light of this. The portfolio started the month well with significant moves as companies reported results. QBE Insurance Group (QBE.ASX) was particularly profitable during this period. As result season continued, moves became more benign resulting in small losses for several positions. A strong move in Insurance Australia Group (IAG.ASX) towards the end of the month was profitable.

The **Yield** book (+0.19%) continues to benefit from the Fund's strategy of concentrating on short-term, high quality structures. The CBA (CBAPB.ASX) and ANZ (ANZPB.ASX) mandatory convertible preference share structures were the most profitable holdings for the month.

The **Long/Short** portfolio (-0.29%) included small positions in proposed deals exposed to iron ore and coal prices. The widely covered potential Nathan Tinker bid for Whitehaven Coal (WHC.ASX) and a position in Northern Iron (NFE.ASX) were the largest detractors. The Fund's insistence on position limits based on size and liquidity certainly prevented significant losses in this space. Conversely the Fund profited from a short position in mining services company Campbell Brothers (ALQ.ASX).

### FINANCIAL YEAR PERFORMANCE after fees (%)

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin/Year
12-13	0.61	0.36											0.97%
11-12	0.51	1.19	0.11	0.43	0.67	0.34	0.34	0.49	0.45	0.44	0.26	0.57	5.93%
10-11	-1.60	0.86	0.58	1.61	1.37	1.05	0.31	0.90	0.16	1.25	-1.46	-0.60	4.44%
09-10	0.55	0.67	-0.58	0.82	-0.02	0.82	0.44	-0.13	-0.73	0.43	0.91	-0.49	2.79%
08-09	0.45	1.14	2.61	3.12	0.21	0.37	0.21	0.01	0.28	0.26	1.20	1.55	12.05%
07-08	0.63	3.06	-0.30	0.71	1.32	-0.23	1.34	0.17	0.27	1.21	0.63	0.18	9.40%
06-07	1.55	0.27	1.30	0.61	0.14	0.80	1.14	0.52	0.32	1.40	0.21	0.36	9.00%
05-06	0.92	0.18	0.52	1.34	0.28	-0.50	1.71	1.82	1.38	1.82	3.63	0.57	14.50%
04-05	-	-	-	-	-	-	-	-	1.02	0.96	1.50	1.58	5.16%

## 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.

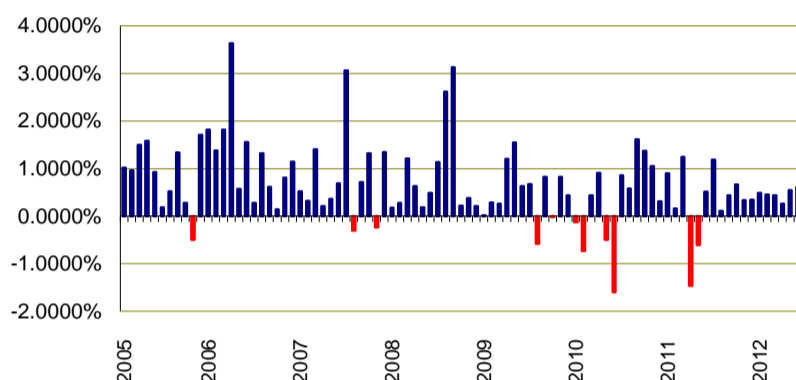
Low transaction costs and liquidity are other important factors in the success and implementation of the strategies.

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 seeks to take advantage of these opportunities as they arise.

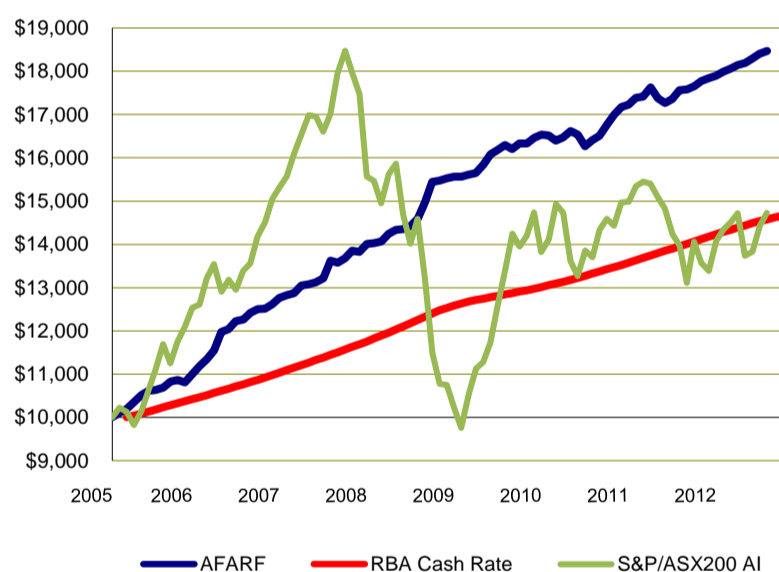
## FUND DISTRIBUTIONS (per Unit)

Period (per Unit)	Amount (\$)	Yield at NAV (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	7.93%
31/12/2011	\$0.0194	8.00%
31/03/2012	\$0.0191	8.00%
30/06/2012	\$0.0205	8.55%
<b>Total since inception</b>	<b>\$0.6727</b>	

### Monthly Returns Since Inception (%)



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



## INVESTMENT MANAGER

Fortitude Capital Pty Ltd (AFSL 221131) is a wholly-owned subsidiary of Aurora Funds Limited (Aurora). With over \$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 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)

KEY FACTS		AFARF	RBA Cash
<b>Strategy</b>	Market Neutral	<b>Sharpe Ratio</b>	1.15
<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>	87.78%
<b>Administrator</b>	Mackenzie Coultas Funds Admin	<b>Prime Broker/Custodian</b>	UBS

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