



FORTITUDE CAPITAL

Aurora Fortitude Absolute Return Fund

September 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 30 SEPTEMBER 2012

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	0.33%	0.29%	2.18%
3 months	1.30%	0.88%	8.84%
6 months	2.57%	1.85%	3.74%
12 months	5.39%	4.10%	14.83%
2 years (p.a)	5.95%	4.46%	2.47%
3 years (p.a)	4.58%	4.35%	1.84%
5 years (p.a)	6.41%	4.80%	-3.46%
Annualised Return Since Inception (p.a)	8.46%	5.21%	5.53%
Standard Deviation	2.90%	0.35%	14.75%

QE to Infinity and Beyond

September was characterised by another round of central bank intervention in the form of quantitative easing. Ben Bernanke put the printing press on full throttle announcing an open ended \$40bn per month round of asset purchasing with the ability to add to purchases if the U.S. labour market does not improve. Whilst it is difficult to predict the long term effects on the real economy under this policy, the benefits to short term asset prices are clear. The Dow Jones rallied in kind, up 2.6% for the month outperforming the ASX200 Accumulation Index (+2.2%). The Fund gained 0.33% for the month, a disappointing result as the Fund was well positioned for a good performance. Unfortunately the event-driven space proved to be a major drawdown. The Fund has managed to side-step many of these situations over the last 18 months and continues to do so. It is easy to abandon part of your strategy when results are not going well, but we do believe that we are seeing a large increase in margins for such deals and continue to enter/add to positions where deals show appropriate risk/return characteristics.

The **Long/Short** portfolio (+0.26%) bore the brunt of event-driven issues described above. Echo Entertainment (EGP.ASX) fell 6% during the month after Genting Singapore sold down its 5% stake. Genting Singapore's sister company Genting HK, maintains that it is seeking probity to increase its stake above 10% of the register. Moreover, we expect Crown (CWN.ASX) to receive probity approval mid to late October. Billabong (BBG.ASX) also suffered as Bain Capital withdrew from the formal bidding process. Offsetting these disappointments was a profitable placement in Marmota Energy (MEU.ASX). The Fund has purposefully avoided and scaled down its participation in such corporate activity in the last 18 months, however the strength of this issue combined with other indicators suggests that this will be a profitable strategy in future.

The **M&A** portfolio (+0.10%) remained small; Little World Beverages (LWB.ASX) completed its scheme of arrangement with Lion Group and IOOF Holdings declared its bid for Plan B Group (PLB.ASX) unconditional. We maintain positions Gerard Lighting (GLG.ASX), Hastings Diversified (HDF.ASX) and Industea Limited (IDL.ASX) which are all expected to complete within the next few months.

The **Options** portfolio struggled (-0.20%) with volatility continuing to fall at the behest of international central banks (Australian Index realised volatility has been below 10% for the last two months). Longer dated volatility (4-12 months) has also fallen and the Fund will begin to target protection in this range. The Fund did benefit from extreme movements in Fortescue Metals (FMG.ASX) whilst BHP Billiton (BHP.ASX) and IAG Insurance (IAG.ASX) detracted significantly from performance.

The **Convergence** portfolio posted a modest gain (+0.09%) with the Wesfarmers partially protected share structure (WES.ASX /WESN.ASX) profitable once more.

The **Yield** portfolio posted a small gain of +0.08%. The CBA Perls IV issue (CBAPB.ASX) was the most profitable and will be repurchased at par at the end of October. The Fund will add to the position where appropriate.

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	0.33										1.30%
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.

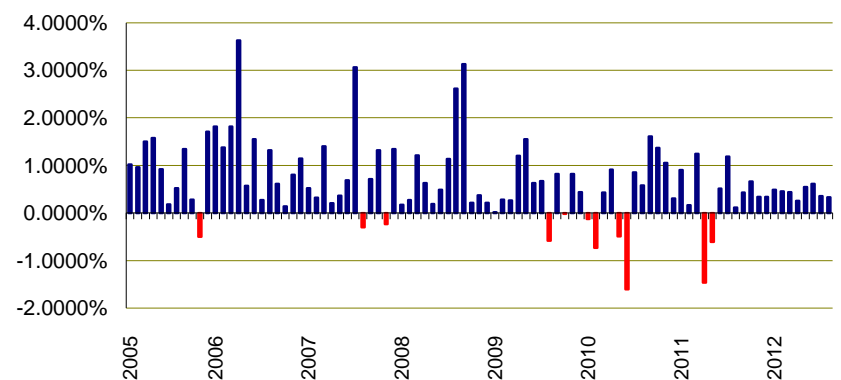
Low transaction costs and liquidity are other important factors in the success and implementation of the strategies.

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.

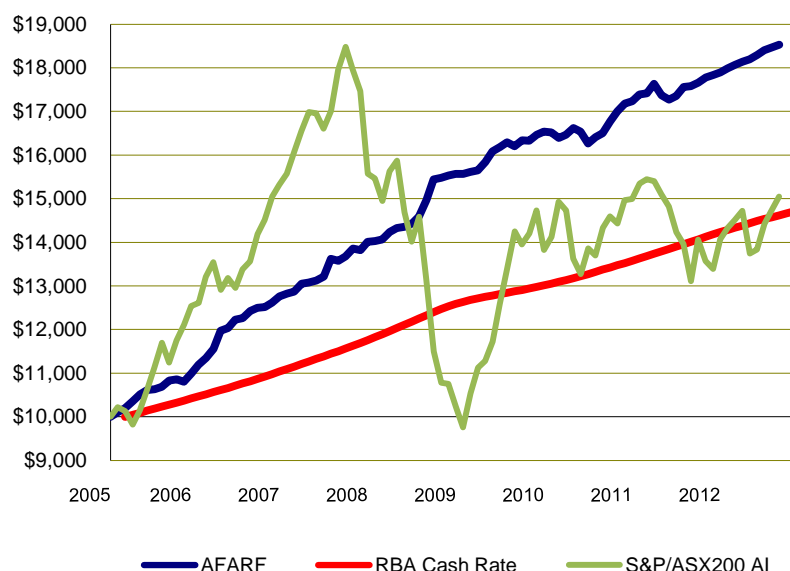
FUND DISTRIBUTIONS (per Unit)

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%
30/09/2012	\$0.0190	8.00%
Total since inception	\$0.6917	

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 \$540 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
Strategy	Market Neutral	Sharpe Ratio	1.12
Feeder Fund	Aurora Absolute Return (ABW)	Best month	3.63%
APIR Code	AFM0005AU	Worst month	-1.60%
Benchmark	RBA Cash Rate	Positive months	87.91%
Administrator	Mackenzie Coultas Funds Admin	Prime Broker/Custodian	UBS

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