



FORTITUDE CAPITAL

# Aurora Fortitude Absolute Return Fund

## October 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 OCTOBER 2012

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	-0.23%	0.27%	2.98%
3 months	0.46%	0.86%	7.48%
6 months	1.89%	1.76%	5.33%
12 months	4.69%	3.97%	10.27%
2 years (p.a)	4.99%	4.40%	3.07%
3 years (p.a)	4.21%	4.35%	3.57%
5 years (p.a)	6.21%	4.74%	-3.45%
Annualised Return Since Inception (p.a)	8.33%	5.19%	5.88%
Standard Deviation	2.90%	0.36%	14.70%

### QE Kangaroo!

The S&P/ASX200 Accumulation Index gained 2.98% during September. Both the Hong Kong and China indices were up 3.8% and 7.6% respectively, whilst most other equities indices were down (Dow -2.5%) to slightly positive (UK +0.7%). We spent some time on the ground in Hong Kong towards the end of the month, where there is a common belief amongst institutional participants that a large portion of European and U.S Quantitative Easing is making its way towards China. Given the Chinese proxy nature of the ASX200 Australia is a beneficiary of this theory. The materials index posted a large gain (+8.4%) whilst Utilities (-1.6%) was the only negative sector for the month.

The Fund posted its first monthly loss (-0.23%) since June 2011 (15 months) primarily due to further pre-event failures and a decrease in implied volatilities.

The **Long/Short** portfolio (-0.31%) struggled due to pre-event failures. TPG withdrew a non-binding offer for Billabong (BBG.ASX) which resulted in a large fall for the stock. Northern Iron (NFE.ASX) was also a significant drawdown as it conducted an entitlement offer in the midst of a strategic review and due-diligence process by two potential bidders. The Fund has significantly scaled back its exposure to Echo Entertainment (EGP.ASX) as competitive tension for Echo's Sydney casino license subsides. The state government's remarks during the month with regards to issuing a second Sydney license are surprising and should result in a discount in the Echo share price.

The **Yield** portfolio (+0.48%) was particularly profitable as the CBA PERLS IV (CBAPB.ASX) issue matured, and the yield on several short dated instruments contracted. The Fund continues to focus on high quality short dated instruments and will continue to scale into these positions approaching maturity on a price sensitive basis.

The **Convergence** book had an uncharacteristic negative month (-0.37%). Positioning in News Corporation (NWS.ASX) and Resmed Incorporated (RMD.ASX) was harshly impacted by the rally in the Australian Dollar against the US Currency. Our position in Yancoal Australia suffered as both the Ordinary Shares (YAL.ASX) and the Contingent Value Rights (YALN.ASX) fell in value, this should be an unusual event and we used this an opportunity to add to the position.

The **Options** book (-0.24%) struggled in the face of a large decline in volatility. Protective positions in the finance sector were expensive, but we are conscious these play a larger role in the portfolio. Incitec Pivot (IPL.ASX) was particularly profitable with Phosphate prices continuing a strong rise against all other commodities. Boral Limited was also profitable and the Fund eagerly awaits the company's AGM at the beginning of November where we expect heightened volatility.

The **M&A** portfolio (+0.20%) was largely compliant; we accepted the APA Group (APA.ASX) takeover for our holding in the Hastings Diversified Fund (HDF.ASX); the scheme of arrangement between Consolidated Media Holdings (CMJ.ASX) and NewsCorp (NWS.ASX) was approved by shareholders at the end of the month and is expected to settle in November. We received settlement proceeds from the Gerald Lighting (GLG.ASX) scheme of arrangement. The Fund's largest net position is held in Industea Limited (IDL.ASX) which received approval from the Chinese Ministry of Commerce for the Scheme of Arrangement with GE Mining Services. This was seen as the last hurdle before the scheme meeting and vote in November.

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	-0.23									1.07%
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;

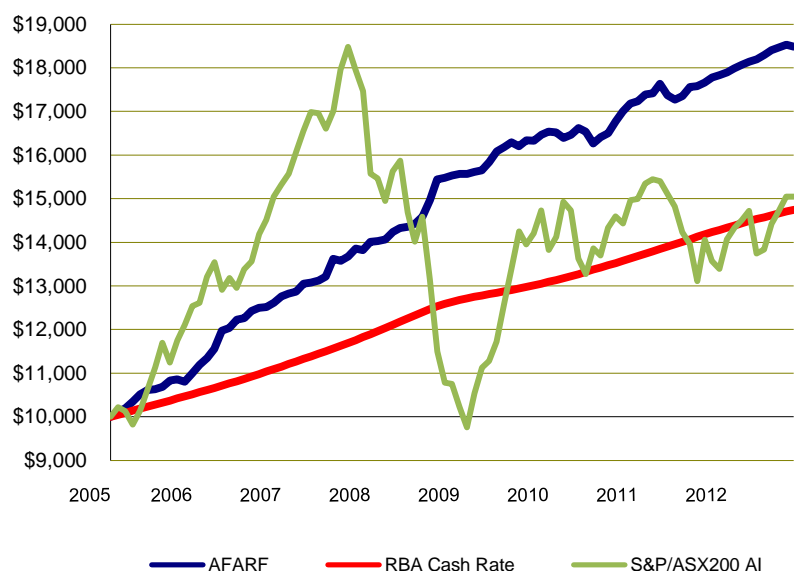
- Mergers and Acquisitions
- Long/Short
- Share Class Arbitrage, and
- Yield securities.

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.

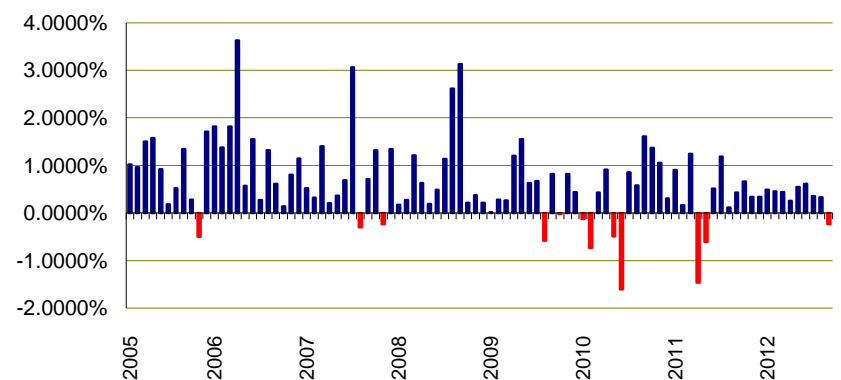
AFARF vs RBA Cash vs S&P/ASX200AI (\$)



## 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	\$0.0193	8.00%
30/06/2012	\$0.0205	8.55%
30/09/2012	\$0.0190	8.00%
<b>Total since inception</b>	<b>\$0.6919</b>	

Monthly Returns Since Inception (%)



## 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
<b>Strategy</b>	Market Neutral	<b>Sharpe Ratio</b>	1.09
<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>	86.96%
<b>Administrator</b>	Unity Administration	<b>Prime Broker/Custodian</b>	UBS

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