

**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 DECEMBER 2012

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	0.02%	0.25%	3.35%
3 months	0.32%	0.79%	6.94%
6 months	1.63%	1.68%	16.39%
12 months	4.23%	3.75%	20.26%
2 years (p.a)	4.02%	4.26%	3.71%
3 years (p.a)	4.13%	4.32%	2.99%
5 years (p.a)	6.10%	4.62%	-1.62%
Annualised Return Since Inception (Mar 05) - p.a.	8.23%	5.14%	6.26%
Standard Deviation	2.88%	0.36%	14.57%

The Dash for Dividends!

December was dominated by posturing and horse trading over the fiscal cliff in the United States. The ASX200 also saw a reversal in fortunes for mining stocks with positive data emerging from China. The hunt for yield continued as offshore investors appear to have embraced a higher Australian Dollar and dominated flow in high yielding equities. The S&P/ASX200 Accumulation Index finished the month up 3.35% with the Materials and Industrials sectors particularly strong (+4.9% and +5.2% respectively). The Fund was up 0.02% for the month.

With the fiscal cliff negotiated (at time of writing) and sovereign quantitative easing ("QE") continuing short term downside risk has been negated. However, 2013 will not be without further turmoil as debt ceiling negotiations approach (remember the last round in August 2011?) and China continues to navigate a soft landing. In light of this backdrop we are confident we can generate returns within our stated objectives:

* Volatility levels reduced significantly during 2012 and options prices have reverted to the low levels seen prior to the Global Financial Crisis;

* We see further issuance in listed hybrids after the success of 2012 (\$8bn in issuance);

* Increased M&A spreads due to recent deal failures;

* Increased equity market volumes, corporate activity and M&A as Global QE Infinity is utilised.

The **Long/Short** strategy delivered 0.05% of performance benefiting from exposure to mining services; ALS Ltd (ALQ.ASX) rallied sharply prior to an anticipated catalyst and Miclyn Express (MIO.ASX) attracted attention as a potential takeover target.

M&A delivered a return of 0.17%. DuluxGroup (DLX.ASX) successfully acquired Alesco Corporation (ALS.ASX) and the scheme of arrangement between Silver Lake Resources (SLR.ASX) and Integra Mining (IGR.ASX) was approved. The saga surrounding Sundance Resources (SDL.ASX) scheme of arrangement continued. Hanlong Mining unable to meet another deadline and the scheme meeting was again deferred.

Convergence strategy was a small positive (+0.09%), this was largely achieved through the increased interest in, and hence improving price, of the Yancoal Contingent Value Shares (YALN.ASX)

The **Yield** book continues to generate positive returns (+0.10%) with the CBA PERLS III issue (PCAPA.ASX) generating strong returns. We were able to take advantage of liquidity in this name and will look to exit the position as margins compress. The Fund will add to positions in shorter dated hybrid securities as opportunities present.

The **Options** portfolio (-0.31%) struggled in light of continued declining volatility. The book was well positioned for market volatility on fiscal cliff negotiations & a pullback in high yielding dividend names. Larger drawdowns were experienced in the ASX200 Index (XJO.ASX), Insurance Australia Group (IAG.ASX) and Woodside Petroleum (WPL.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	0.33	-0.23	0.54	0.02							1.63%
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;

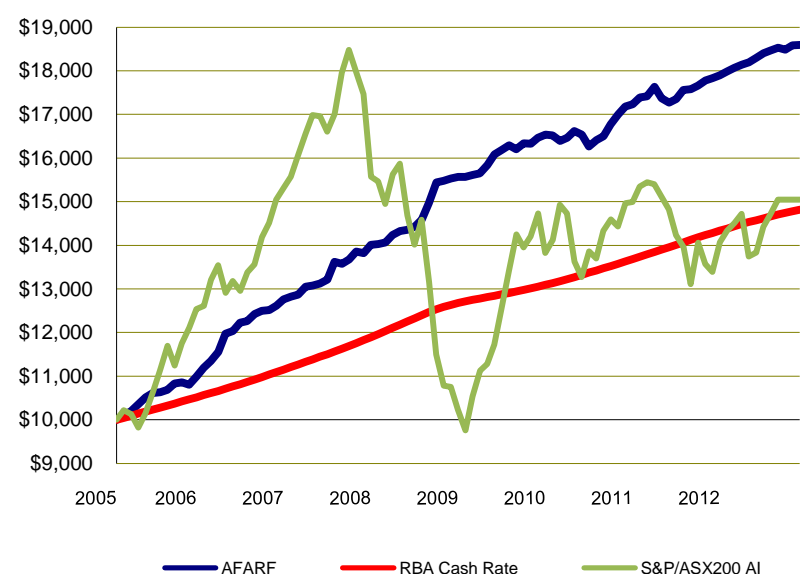
- Mergers and Acquisitions
- Long/Short
- Share Class Arbitrage, and
- Yield securities.

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.

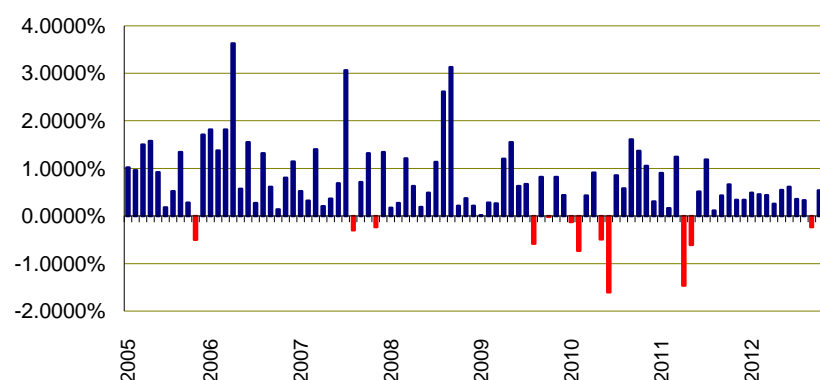
AFARF vs RBA Cash vs S&P/ASX200AI (\$)



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%
31/12/2012	\$0.0142	6.00%
Total since inception	\$0.6545	

Monthly Returns Since Inception (%)



INVESTMENT MANAGER

Fortitude Capital Pty Ltd (AFSL 221131) is a wholly-owned subsidiary of Aurora Funds Limited (Aurora). With over \$550 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	1.07
Feeder Fund	Aurora Absolute Return (ABW)	Best month	3.63%
APIR Code	AFM0005AU	Worst month	-1.60%
Benchmark	RBA Cash Rate	Positive months	87.23%
Administrator	Unity Administration	Prime Broker/Custodian	UBS

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