

## 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 JANUARY 2013

|   | AFARF RETURNS% | RBA CASH RATE | S&P/ASX200AI |
|---|----------------|---------------|--------------|
| 1 month   | -0.19%         | 0.25%         | 4.95%        |
| 3 months  | 0.36%          | 0.77%         | 8.99%        |
| 6 months  | 0.82%          | 1.64%         | 17.14%       |
| 12 months   | 3.67%          | 3.64%         | 20.11%       |
| 2 years (p.a)                                     | 3.76%          | 4.19%         | 6.15%        |
| 3 years (p.a)                                     | 3.91%          | 4.30%         | 6.91%        |
| 5 years (p.a)                                     | 5.78%          | 4.55%         | 1.64%        |
| Annualised Return Since Inception (Mar 05) - p.a. | 8.11%          | 5.12%         | 6.84%        |
| Standard Deviation                                | 2.88%          | 0.37%         | 14.58%       |

### Great Rotation

The S&P/ASX200 Accumulation Index finished January up 4.95%. This was buoyed by the Aussie banks contributing the most by index points (WBC.ASX, NAB.ASX and ANZ.ASX), and the IT and Consumer Discretionary sectors putting in stellar returns, +15.2% and 8.6% respectively. The main arguments for the rally were: the rotation from bonds to equities as investors seek higher returns than interest-bearing assets offer; positioning for a good reporting season; less market risk post the fiscal cliff being averted, and encouraging Chinese and global economic data. The Fund finished the month with a negative return of -0.188% with the key principles of the Fund, market neutrality and option protection, being maintained.

The **Options** portfolio (-0.71%) continued its recent struggle despite Sydney Airport (SYD.ASX), Commonwealth Bank (CBA.ASX) and Incitec Pivot (IPL.ASX) generating strong returns. Marked downs in volatility and some directional positioning resulted in losses in Woodside (WPL.ASX), Woolworths (WOW.ASX), BHP Billiton (BHP.ASX) and Westpac (WBC.ASX). The options overlay continues to be a drawdown as actual volatility is at all time lows. But we expect volatility will return to long term averages at some point in the future.

The **Long/Short** strategy (-0.22%) underperformed for the month. Shorts in Metcash MTS.ASX and Myer (MYR.ASX) were drawdowns, whilst Primeag (PAG.ASX) rallied due to a potential takeover of the company. Also adding to performance was a long position in Sundance Energy (SEA.ASX). This is an unusual position, in that, this company is actually the bidder for Texon (TXN.ASX), however, instead of hedging the scrip offer, the Fund held a long position to take advantage of anticipated synergies the merger will create. We will look to exit the position at an appropriate price and trade the pair as a traditional M&A trade thereafter.

The **Yield** book continues to generate positive returns (+0.23%) across a spread of short dated instruments in the financial sector. Because of the sector exposure, the Fund currently targets options protection in relevant names to provide some fat-tail risk protection.

**Mergers and Acquisitions** added (+0.25%) to performance. The best performer for the month was Skywest Airlines (SXR.ASX) after the ACCC announced that they would not oppose the acquisition by Virgin Australia (VAH.ASX). The Texon Petroleum (TXN.ASX) and SEA.ASX scheme of arrangement documentation was released in January with the deal on track to complete in March and both share prices tracking higher. Strong positive performance also came from LinQ Resources Fund (LRF.ASX) in response to IMC opening an Institutional Acceptance Facility in order to increase their chance of getting to 90% acceptances and declaring the bid unconditional. Australian Infrastructure Fund (AIX.ASX) and Real Estate Capital Partners (RCU.ASX) were the largest draw downs. AIX traded down in light of negative press about the fairness of the values ascribed to assets for the purpose of pre-emptive rights in the asset sale process, which could cause a delay if lengthy legal disputes were to result. The Fund used the weakness to add to the investment. RCU had their asset sale resolution approved at the EGM however, the resolutions to return the capital and wind up the trust were voted down by the major shareholder.

The **Convergence** strategy was a positive contributor to performance (+0.25%). The Wesfarmers position (long WESN.ASX, short WES.ASX and options) has been volatile of late. The Fund is very active in managing this position because of the large gross exposure. We are confident we understand the potential downside of the investment and are being adequately rewarded for the risk involved. The closing prices on a daily and monthly basis can have a noticeable impact on the overall performance.

| 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  | -0.19 |       |       |      |       |       | 1.44%    |
| 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;

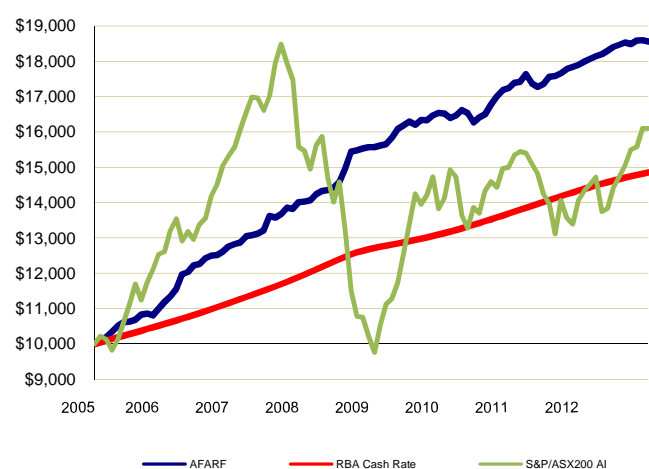
- Mergers and Acquisitions
- Long/Short
- Share Class Arbitrage, and
- Yield securities.

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.

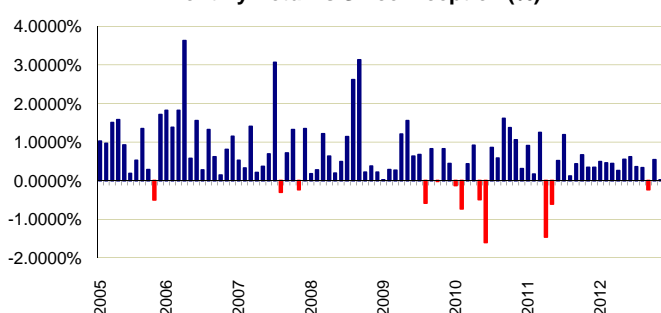
AFARF vs RBA Cash vs S&P/ASX200AI (\$)



## 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%              |
| <b>Total since inception</b> | <b>\$0.6545</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 \$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 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>           | 1.07     |
| <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>        | 86.32%   |
| <b>Administrator</b> | Unity Administration         | <b>Prime Broker/Custodian</b> | UBS      |

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