

## 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 2013

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	0.53%	0.21%	2.19%
3 months	1.86%	0.65%	10.20%
6 months	4.86%	1.36%	7.46%
12 months	6.28%	2.93%	24.29%
2 years (p.a)	5.82%	3.51%	19.44%
3 years (p.a)	6.06%	3.95%	9.27%
5 years (p.a)	5.63%	3.94%	7.30%
Annualised Return Since Inception (Mar 05) - p.a.	8.21%	4.94%	7.56%
Standard Deviation	2.80%	0.39%	14.44%

### Can Politics Ruin the Party?

Tony Abbott's September Federal Election victory was widely anticipated and the market found solid footing despite the global and macro risks. Also bolstering market confidence was the US Treasury announcing that they are still biding their time as to when Quantitative Easing will begin to be tapered. The German election reinstated the incumbent and the political disarray in Italy seems to be the norm rather than the exception, so the markets continue unfazed. In the US the S&P500 was up +3%, Germany and France each gained more than 5%, the Nikkei +8%, Shanghai Comp +3.6%. The S&P/ASX 200 Accumulation Index posted a +2.2% September month finishing the quarter with a staggering return of 10.2%. The Aurora Fortitude Absolute Return Fund posted a 0.53% return against the cash benchmark of 0.21%. Whilst equities have staged an impressive rally, the backdrop includes some major political and macro risks, the most topical seems to be the US government shutdown and the potential breaching of the debt-ceiling.

Within the Fund, the **Convergence** strategy was the largest positive contributor for the month +0.26%. The main driver was the Wesfarmers Partially Protected shares (WESN.ASX) against the underlying Wesfarmers shares (WES.ASX). Wesfarmers completed their dividend neutralization on-market buyback, with some market participants predicting this would see the share price trade through the cap and prompt and early conversion. This, however, was not the case and the life of our favourite securities continues to provide cheap optionality and trading opportunities. The Yancoal Contingent Value Rights (YALN.ASX) also increased in price as the time to maturity early next year looms and investors look forward to redemption or conversion.

The **Long/Short** strategy whilst not generally a large part of the Fund's exposure was profitable (+0.12%) relative to the weighting. Long positions in Stonewall Resources (SWJ.ASX), Qantas (QAN.ASX) and also Shopping Centres Australasian (SCP.ASX) were the best performers.

A short position in Australand Property Group (ALZ.ASX) was closed as the chances of a sell down of the Capital Land stake diminish.

The **Mergers and Acquisitions** strategy also performed well (+0.19). The Trust Company (TRU.ASX) received another takeover proposal, this time from IOOF (IFL.ASX), making it the third listed potential acquirer to provide a competitive offer. Perpetual (PPT.ASX) came back with an improved offer in order to maintain the recommendation from the target board as the preferred bidder. We like this situation and continue to add to our investment. RHG Limited (RHG.ASX) was a small detractor after the Pepper-Cadence bid was improved and creates a greater likelihood that their deal will succeed detracting from the certainty of the all-cash offer from Resimac.

The **Yield** portfolio (+0.16%) saw the redemption of the Westpac Preferred Security (WBCPA.ASX) in line with the Fund's timetable. The ANZ Convertible Preference Share CPS1 (ANZPB.ASX) also performed well and is now our largest exposure in the yield space. As such, we maintain ANZ options protection as part of the options strategy and for the benefit of the Fund's broader bank positioning.

The **Options** portfolio was a large drawdown on the monthly return (-0.20%) as realisable volatility remained low despite the potential political and global macro catalysts. Poor positioning in Origin (ORG.ASX) and Newcrest (NCM.ASX), combined with expensive protection in the major banks generally cost the portfolio. Amcor (AMC.ASX) and the futures over the S&P/ASX 200 provided some offset.

On a personal note, the team would like to congratulate Andrew and his wife Natasha on the arrival of their daughter.

FINANCIAL YEAR PERFORMANCE after fees (%)													
Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin/Year
13-14	1.13	0.18	0.53										1.86%
12-13	0.61	0.36	0.33	-0.23	0.54	0.02	-0.19	0.80	0.42	1.68	0.78	0.46	5.70%
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.

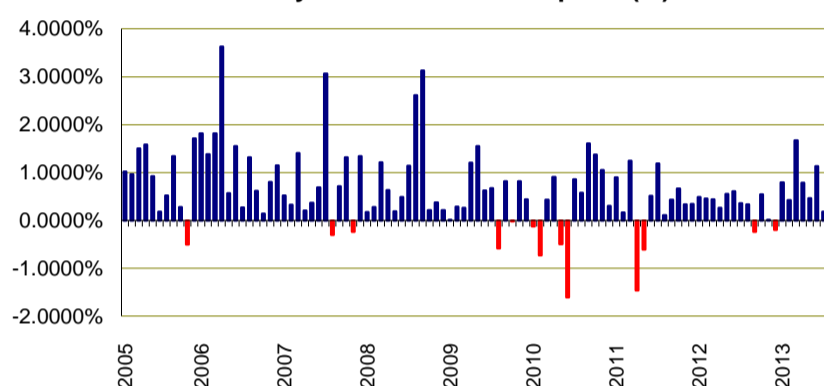
AFARF vs RBA Cash vs S&P/ASX200AI (\$)



## 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%
31/03/2013	\$0.0140	6.00%
30/06/2013	\$0.0298	12.87%
30/09/2013	\$0.0139	6.00%
<b>Total since inception</b>	<b>\$0.7638</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 \$640 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 Dividend Income Trust (Managed Fund) (ASX code: AOD)
- Aurora Absolute Return Fund (ASX code: ABW)
- Aurora Global Income Trust (ASX code: AIB)
- Aurora Property Buy-Write Income Trust (ASX code: AUP)
- van Eyk Blueprint Alternatives Plus (ASX code: VBP)

	KEY FACTS		AFARF	RBA Cash
<b>Strategy</b>	Market Neutral	<b>Sharpe Ratio</b>	1.17	-
<b>Feeder Fund</b>	Aurora Absolute Return (ABW)	<b>Best month</b>	3.63%	0.60%
<b>APIR Code</b>	AFM0005AU	<b>Worst month</b>	-1.60%	0.21%
<b>Benchmark</b>	RBA Cash Rate	<b>Positive months</b>	87.38%	100.00%
<b>Prime Broker/Custodian</b>	UBS	<b>Fund Size</b>	\$113.9 million	
<b>Administrator</b>	Unity Fund Services	<b>Net Asset Value per Unit</b>	\$	0.9290

Level 4, 1 Alfred Street, Sydney NSW 2000  
 PO Box R1695, Royal Exchange NSW 1225  
 Telephone: +61 2 9080 2377, Fax: +61 2 9080 2378  
 Visit: [www.AuroraFunds.com.au](http://www.AuroraFunds.com.au)  
 Email: [enquiries@aurorafunds.com.au](mailto:enquiries@aurorafunds.com.au)

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