

Aurora Property Buy-Write Income Trust Performance Report - September 2016

ASX Code: AUP



Summary

- The Trust fell -2.37% in September, as the Listed Property Index was sold off heavily finishing down -4.33%. Whilst the Trust's more defensive stock selection cushioned the fall, there were few places to hide for property investors with virtually every trust declining.
- During the month we executed our derivatives overlay of selling calls and buying put protection for the next quarter, which netted the trust +1.5%. Additionally we have increased the quarterly distribution to be paid in early October by 2% over the June quarter's distribution.

Performance¹

| | 1 mth | 3 mths | 6 mths | 12 mths | 3 yrs (p.a.) | 5 yrs (p.a.) | Since inception (p.a.) | Standard deviation |
|--|--------|--------|--------|---------|--------------|--------------|------------------------|--------------------|
| Aurora Property Buy-Write Income Trust | -2.37% | -2.21% | 1.44% | 9.05% | 8.95% | 10.64% | 3.04% | 9.80% |
| S&P/ASX200 Property Accumulation Index | -4.33% | -1.95% | 7.12% | 20.80% | 17.69% | 19.57% | 0.76% | 19.16% |

Investment Objective*

The Aurora Property Buy-Write Income Trust (the Trust) is an ASX listed investment trust that seeks to capture returns from investing in some of Australia's leading ASX listed property securities, with the objective of increasing the income generated by implementing an active call option selling ('writing') strategy. A portion of the additional income may be used to purchase put options for protection.

Aurora Funds Management (Aurora) uses quantitative and qualitative analysis to identify property securities within the Australian property sector (the 'Investment Universe') with the objective to:

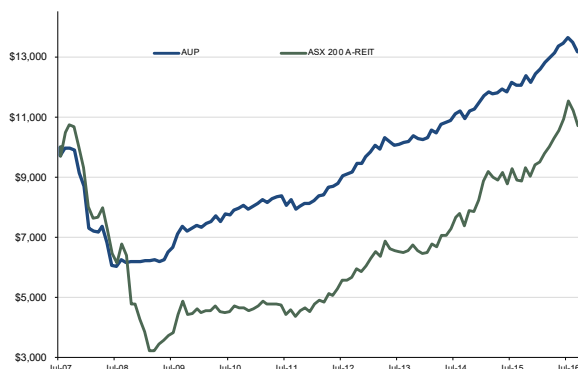
- Provide a higher than average distribution yield over the medium term;
- Generate a higher percentage of recurring income with lower gearing; and
- Provide the scope for additional income generation by the Trust systematically writing over the counter call options on these securities.

Investment Philosophy

Aurora's approach to investing in Australian Real Estate Investment Trusts (A-REITs) is consistent with our approach to investing across our other funds. The objective is to build a portfolio of high quality listed property securities with recurring earnings and downside protection. In addition to the returns from trust selection, the selling of call options generates additional income for investors.

Investment Performance¹

AUP Performance vs A-REIT Index



Trust Features

| | |
|----------------------------------|--|
| Unit pricing | Daily |
| Distribution frequency | Quarterly |
| Distribution policy ² | At least 2.0% of Net Asset Value per Unit |
| Distribution Reinvestment Plan | Available |
| Applications | Investors may acquire Units on the ASX or via the current Product Disclosure Statement |
| Redemptions | On market by selling on the ASX or daily via the share registry |

Trust Valuations

| | |
|--|-----------|
| Net Assets Value per Unit | \$5.4497 |
| Exit Price Value per Unit | \$5.4443 |
| NAV including distributions (since inception) ¹ | \$12.7907 |

Sector Exposure

| | Index | AUP | Active |
|----------------------|-------|-----|--------|
| Industrial | 19% | 4% | -16% |
| Discretionary Retail | 52% | 52% | 0% |
| Staples Retailing | 7% | 21% | 13% |
| Office | 17% | 19% | 2% |
| Residential | 4% | 4% | 0% |

Portfolio Characteristics

| | Index | AUP |
|-------------------------|-------|-------|
| Price Earnings Ratio | 17.5 | 15.4 |
| Premium to NTA (ex WFD) | 30.6% | 18.7% |
| Recurring Income % | 82% | 96% |
| Distribution Yield | 4.7% | 8.0% |
| Beta | 1.00 | 0.35 |

Commentary

Performance Update:

The S&P/ASX200 Property Index fell by -4.33% in September, (recovering from being down -8% mid-month), and fared worse than the broader equity market, as REITs were sold off globally.

There was minimal dispersion amongst the sectors over the month, with all property sectors falling approximately 4%. Across the index the top performing trusts were Growthpoint (+7%), Investa Office (0%) and Charter Hall Retail (-1%). Charter Hall Group (-13%), Dexus (-6%) and Cromwell (-6%) fared the worst.

Portfolio Performance:

The Aurora Property Buy-Write Income Trust returned -2.37%, which whilst disappointing was as in August less than the fall recorded by the S&P/ASX200 Property Index. Whilst our more conservative stock selection of owning rent collectors rather than developers helped performance over the month, the fall in the property market was broad-based. The protection provided by the derivatives overlay strategy also cushioned the impact of the falling market.

Stocks impacting the Trust's performance relative to the AREIT Index were our positions in Investa Office (0%), and Charter Hall Retail (-1%), as well as not owning Charter Hall Group (-13%) and Cromwell (-6%).

Portfolio Trading:

Over the month we executed the derivative overlay strategy of selling calls and buying puts for the next quarter. This delivered to the Trust a net premium of 1.5% in September, with the net premium being the cash the Trust receives for writing calls, less the cost of protection paid for the following quarter. We are currently holding a larger than normal cash balance in the Trust, after selling some positions in August.

Key announcements included:

Growthpoint (+7%) bounced as it completed its takeover of GPT Metro Office Fund. As we anticipated that Growthpoint will require a capital raising to bring its gearing back within target range, we accepted cash rather than shares for the Trust's holding of GPT Metro Office Fund.

Charter Hall (-13%) fell after the trust's largest investor sold their entire stake for around \$500 million. This represented approximately 19% of the company.

Top 5 Portfolio Holdings (as at 30 September 2016)

Source: Aurora Funds Management

ASX Code

| | |
|-----------------------|-----|
| Westfield Corporation | WFD |
| Vicinity Centres | VCX |
| Stockland | SGP |
| Scentre Group | SCG |
| Investa Office | IOF |

Trust Distributions (per Unit)

| Period | Cash | Yield at NAV (p.a) |
|--------------|-----------------|--------------------|
| CY 07-09 | \$1.4951 | - |
| FY 09-10 | \$0.5200 | 8.38% |
| FY 10-11 | \$0.4400 | 8.38% |
| FY 11-12 | \$0.4060 | 8.02% |
| FY12-13 | \$0.4230 | 8.01% |
| 30 Sep 13 | \$0.1080 | 8.01% |
| 31 Dec 13 | \$0.1090 | 8.15% |
| 31 Mar 14 | \$0.1060 | 8.04% |
| 30 Jun 14 | \$0.1057 | 8.00% |
| 30 Sep 14 | \$0.1078 | 8.00% |
| 31 Dec 14 | \$0.1088 | 8.20% |
| 31 Mar 15 | \$0.1128 | 8.24% |
| 30 Jun 15 | \$0.1100 | 8.01% |
| 30 Sep 15 | \$0.1080 | 8.00% |
| 31 Dec 15 | \$0.1082 | 8.00% |
| 31 Mar 16 | \$0.1093 | 8.00% |
| 30 Jun 16 | \$0.1118 | 8.00% |
| 30 Sep 16 | \$0.1138 | 8.00% |
| Total | \$4.7033 | |

About Aurora

Aurora Funds Management Limited is a boutique investment manager that was established in 2003, and has a long track record of producing risk adjusted returns for retail, institutional and high net worth investors. They aim to deliver income whilst also managing the risks associated in investing in traditionally volatile asset classes. The investment strategies are offered through both ASX listed investment vehicles and managed funds.

Aurora is also the Issuer of:

- Aurora Fortitude Absolute Return Fund
(APIR: AFM0005AU)
- Aurora Global Income Trust
(ASX code: AIB)
- Aurora Absolute Return Fund
(ASX code: ABW)
- Aurora Dividend Income Trust (Managed Fund)
(ASX code: AOD), (APIR code: AFM0010AU)
- HHY Fund
(ASX code: HHY)

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1. This represents a cumulative return and assumes reinvestment of distributions. 2. The Trust intends to always distribute at least 2.0% of NAV, excluding any franking credits, per quarter regardless of Trust performance. This means that if the Trust has insufficient net income in a given quarter, investors may receive a partial (or full) return of capital.

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