

**Aurora Buy-Write Income Trust** (ARSN 110 303 430)

**Performance Report**

31 July 2008

ASX Code: ABW

www.aurorafunds.com.au

**Trust Summary**

- Cadence Asset Management Pty Ltd was appointed as Investment Manager of the Trust from 1 July 2008
- The Trust declined 0.98% during July which outperformed the S&P / ASX 200 Accumulation Index which lost 4.56% over the same period


**Investment Performance - incl. franking**

Jul 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07	12 mths
-0.16%	1.99%	3.78%	4.49%	4.04%	3.16%	2.47%	0.39%	3.36%	2.38%	0.12%	-1.56%	26.88%
Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 08	12 mths
-2.43%	2.77%	2.23%	1.94%	-1.37%	-4.21%	-7.93%	-4.38%	0.38%	-0.27%	-1.26%	-11.35%	-22.96%
Jul 08												1 mth
-0.98%												-0.98%

**Investment Objective**

The Aurora Buy-Write Income Trust (the Trust) is an ASX listed investment trust that aims to provide investors with gross income and medium term capital growth returns from an active strategy of selling call options over a portfolio of Australia's largest listed companies.

**Investment Manager**

Cadence Asset Management Pty Ltd (Cadence) has been providing investment management and advisory services to absolute return funds since October 2003. It has also been running multiple funds in a long/short Australian equity strategy since its inception. Cadence was awarded the 2007 Asian Investor award for Australian and New Zealand Hedge Funds. They were also recognised as the Best Emerging Manager at the 2007 Australian Hedge Fund Awards.

**Investment Strategy**

The Trust seeks to purchase quality S&P/ASX 100 listed companies and then selectively 'write' or sell exchange traded call options over these stocks in order to provide additional income to the portfolio. Between 15 and 25 S&P/ASX 100 stocks are usually selected for their income and capital growth potential. Call options may be sold (or 'written') by the Investment Manager on any of these stocks.

A risk management process seeks to limit the potential impact to the Trust of extreme adverse market events. This does not provide a capital guarantee, and losses can still be incurred. If the Investment Manager's outlook on the market is negative, then the Trust may chose to hold the majority of its investments in cash. The Trust may utilise debt to increase the portfolio's exposure to the investment strategy.

**Trust Features**

Trust Inception	10 July 2006
Minimum Investment	\$2,000
Unit Pricing	Monthly
Distribution Frequency	Half yearly
Distribution Reinvestment Plan	Available
Applications	Available to investors through the current PDS or on market by buying on the ASX
Redemptions	On-market by selling on the ASX or off-market at the Net Asset Value set at the end of each month

**Trust Distributions (per Unit)**

Period	Cash	Franking Credits	Total
31 Dec 06	\$0.2915	\$0.1249	\$0.4164
30 Jun 07	\$1.1774	\$0.2227	\$1.4001
31 Dec 07	\$0.2000	\$0.1990	\$0.3990
30 Jun 08	\$0.3514	\$0.2402	\$0.5916
Total	\$2.0203	\$0.7868	\$2.8071

**Summary of the Trust**

Market Capitalisation	\$10,700,186
Net Asset Value (NAV) – incl. franking	\$10,712,873
Units on Issue	1,528,598
Net Assets Value Per Unit	\$6.97
Net Assets Value Per Unit – incl. franking	\$7.01
NAV plus distributions paid (since inception)	\$9.82

## Portfolio Commentary

Investment Manager - Cadence Asset Management Pty Ltd

The Trust returned -0.98% for the month of July against an S&P/ASX200 Accumulation Index which fell 4.56%. The overall portfolio significantly outperformed the market during the month of July.

The main drivers of the performance in the month of July were a substantial reduction in the level of debt in the portfolio as well as high levels of Index put option protection held by the Trust during the month.

### Portfolio Activity

The Trust started the month of July 2008 with 63% (i.e. \$0.63 of debt for every \$1.00 of equity invested). During the month we moved quickly to reduce this debt and ended the month with 36% cash in the bank and \$0.64 cents invested for every \$1 of equity in the Trust. Despite the reduction in debt we have maintained a high level of put option exposure to protect the portfolio from adverse price movements. It is our view that during periods of extreme volatility (such as we are currently experiencing) and global financial market uncertainty it is prudent to completely eliminate debt and carry high levels of cash.

When compelling investment opportunities arise the Trust will be well positioned to take advantage of these opportunities.

During July the Trust closed positions in Wesfarmers, Westfield, Bluescope, ANZ, AMP, Commonwealth Bank, Suncorp Metway, Oz Minerals, Insurance Australia Group, Macquarie Group, Tabcorp, Qantas, David Jones and Westpac.

At the end of July 2008 we maintained Index put option protection to September 2008 over the entire portfolio.

### Market Commentary

The Reserve Bank of Australia has increased the cash rate steadily over the past six years from 4.25% in early 2002 to it currently being 7.25%. In the last few weeks a view has been forming that interest rates will start to decline soon due to inflation being under control, and the economy slowing. This is reflected by the sharp decrease in the spread between the RBA cash rate and the Bank Bill Swap rate (3 month) from 60 basis points two months ago to only 4 basis points now.

We note that 5 year interest rates have also fallen significantly recently, indicating that the anticipated decrease in interest rates is expected to last for a significant amount of time. Both AAA Australian corporate bond yields and Australian government bond yields are down by approximately 1% over a very short period of time. It is also interesting to that Australian government bond yields are not significantly higher now than they have been over the last eight years. The average Australian government bond yield over the last eight years is 5.6%, and the current yield is 5.75%. This indicates that the cost of money on a risk free basis is not the major driving factor behind the current movements we are seeing in markets at the moment.

Exchange rates have also moved significantly recently, with the Australian dollar dropping from 98 US cents one month ago, to 87 US cents at the moment. This is partially due to changed inflation and interest rate expectations in Australia as discussed above and partially due to non Australian specific factors, since the Euro and the British pound have also fallen recently against the US dollar, but not by as much as the Australian dollar. There is speculation that the US government may have intervened in currency markets to support the US dollar.

One group of stocks that may benefit from the falling Bank Bill Swap Rate spread are the Australian Banks. They have increased rates on residential mortgages recently beyond the RBA cash rate increases because they have argued that their wholesale funding costs have been increasing. Now that the Bank Bill Swap Rate spread is falling there is significant pressure for the banks to reduce their rates, and it will be interesting to see if they bow to the pressure, and reduce residential mortgage rates, or are able to use the drop in funding costs to increase their net interest margin.

The falling Australian dollar helps Australian exporters. Most Australian resource stocks are exporters, so we would expect that they would benefit from the falling dollar, but the price of resources such as copper, oil and gold have also been falling recently with expectations that western economies are slowing, and the possibility that China's high rate of growth may begin to fall.

In summary, Australian interest rates and the exchange rate have both risen significantly over the last few years, and especially in the last year or so due to the credit crisis. We are now starting to see drops in both interest rates and the exchange rate, which if they continue, should lead to better business conditions for Australian companies in the future.

## Significant Portfolio Holdings

	Weight (%)
BHP	20.0
Telstra	12.8
CSR	5.9
Fosters	5.2
St George Bank	4.2
Boral	3.9

Source: Cadence (31 July 2008)

## Top Buy & Write Positions

Bought Position	Calls Sold
BHP	BHP Sep 2008 \$45.00
Boral	BLD Sep 2008 \$6.00
CSR	CSR Sep 2008 \$3.25

Source: Cadence (31 July 2008)

## About Aurora

Aurora Funds Management (Aurora) is an investment management and distribution specialist that aims to source, package and distribute carefully researched investment strategies that are managed by specialist wholesale investment managers.

Aurora is also the issuer of:

- Aurora Sandringham Dividend Income Trust (ASX Code: AOD)
- Aurora Infrastructure Buy-Write Income Trust (ASX Code: AIB)
- Aurora Property Buy-Write Income Trust (ASX Code: AUP)
- van Eyk Blueprint Alternatives Plus (ASX Code: VBP)

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1. The Investment Manager Cadence Asset Management Pty Ltd replaced Blackrock Investment Management Ltd from 1 July 2008.

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