

# Aurora Property Buy-Write Income Trust ASX Code: AUP

## Performance Report - 31 August 2009

### Summary

- The Trust returned +6.91% for August compared to the S&P/ASX200 Property Accumulation Index which returned +16.03%.
- The Trust returned +14.01% for the year to August, versus the S&P/ASX200 Property Accumulation Index which returned -34.54%



### Monthly Performance

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	Index
-2.90%	2.77%	0.02%	-0.74%	-7.78%	-4.83%	-16.15%	-1.05%	-0.48%	2.58%	-7.22%	-10.96%	-39.16%	-36.35%
Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	12 mths	Index
-0.99%	3.77%	-1.31%	0.34%	0.15%	0.14%	0.15%	0.17%	0.41%	-1.10%	1.13%	4.01%	6.93%	-42.27%
Jul 09	Aug 09											2 mths	Index
2.48%	6.91%											9.38%	18.39%

### Investment objective

The Aurora Property Buy-Write Income Trust (the Trust) is an ASX listed investment trust that aims to generate income from an active strategy of selling call options over a portfolio of ASX listed Australian Real Estate Investment Trusts (AREIT).

### Investment Adviser

APN Funds Management Limited (APN FM) has been appointed as the Investment Adviser with responsibility to actively manage the Trust's investment strategy.

Established in 1998, APN FM currently manages a broad range of property securities funds with total assets under management of approximately \$3.1 billion (as at 28 February 2009). APN FM has established a strong track record and market reputation for managing domestic and global property funds with a particular focus on generating consistent, growing income returns. APN FM's expertise is widely recognised in the property funds management industry, as evidenced by the following awards:

- AFR Smart Investor Blue Ribbon Award 2008 - Australian Listed Property;
- Morningstar Fund Manager of the Year 2007 - Listed Property;
- Investor Web Research Property Securities Fund Manager of the Year for 2002, 2003 and 2004;
- Property Investment Research – Property Securities Manager of the Year 2005, 2006 and 2008; and
- Monitor Money Skilled Manager of the Year 2002-2003

An active investment management style combined with a concentrated focus on the fundamentals of commercial property investments lies at the heart of APN Funds Management's philosophy. APN FM is a leader in real estate which is driven by the investment team's longstanding experience and expert knowledge of property markets and research capability.

### Trust features

Unit pricing	Monthly.
Distribution frequency	Half yearly.
Distribution policy	The Trust will distribute 100% of its net realised gains each year.
Distribution Reinvestment Plan	Available.
Applications	Investors may acquire Units on market or via the current Product Disclosure Statement.
Redemptions	On market by selling on the ASX or off-market at the end of each month.

### Trust valuations

Market capitalisation	\$17,016,702
Net Asset Value (NAV)	\$19,838,515
Units on issue	3,699,283
Net Assets Value per Unit	\$5.3628
NAV plus distributions paid (since inception)	\$6.8579

### Trust distributions (per Unit)

Period	Cash	Total	Yield at NAV (p.a)
31 Dec 07	\$0.4670	\$0.4670	10.5%
30 Jun 08	\$0.4781	\$0.4781	11.3%
31 Dec 08	\$0.3000	\$0.3000	11.1%
30 Jun 09	\$0.2500	\$0.2500	9.7%
Total	\$1.4951	\$1.4951	

## Investment Manager Commentary

by APN Funds Management Limited

The Trust delivered a return of 6.91% compared to the Index which delivered a return of 16.03% in August 2009. The selling of call options limits the capital growth of the portfolio whilst the purchase of index put protection aims to limit losses in falling markets. The total return of the Index over the 12 months to 31 August 2009 was negative 34.54%, whilst the Trust provided a return of 14.01% over the same period.

The AREIT market has just completed its reporting obligations to the market. All stocks have reported full year results to 30 June 2009 (except Westfield who delivered half year results as their accounting period is completed on a calendar year basis).

Overall, the results were good. 54% of AREITs exceeded the (admittedly, pessimistic) consensus forecasts for earnings expectations with 23% disappointing (according to JP Morgan research). The market reacted positively to the results as evidenced by the rally in the last full week of August of around 11%.

Earnings across the sector came in slightly ahead of expectations. Distributions are now, on average, approximately 80% of earnings. The buffer is being used in a disciplined fashion to allow for maintenance capex, lease incentives and debt repayment. Westfield has declared that they will payout 70-75% of operating earnings from calendar year 2010. Further, when we think back and compare how Australia has performed in previous cycles, this time is vastly different. Remember the old saying: "When the US sneezes Australia catches a cold". This referred to the fact that Australia was always far more prone to downside risk than the larger economies – particularly the US. From the relative performance of the two economies so far in this down-cycle, this appears to have changed.

Post the circa \$17bn of capital raisings over the last 12 months, sector gearing has fallen to 29.7%. This includes Westfield at 34.6%. Excluding Westfield, it is circa 26.6%. Some of the bigger names: Stockland (20.5%), Mirvac (17.7%) & GPT Group (21.1%) are at the lowest levels seen in years (Source: UBS). This means there is no way these REITs will breach debt covenants due to property devaluations. That was yesterday's story and was a key reason for the sector being sold down.

Most REITs have raised sufficient equity. Westfield stated they will not raise equity in the short term and do not have rigid rules regarding gearing proportions. They have managed their balance sheet well over the last five years and will not be dictated to by the market. Fair enough too. Some of the ING group's REITs probably need to raise equity. ING Industrial Fund (IIF), ING Healthcare Fund (IHF) and ING Entertainment Fund (IEF) are possibilities. However, these will be inconsequential to the performance of the sector.

Overall, we estimate that valuations were down around 10-20% over the financial year in Australia; 15-25% in US & Europe and 5-15% in Japan. These falls were generally in line with

our (less alarmist) outlook for markets 12 months ago. Most believe only modest capitalisation rate expansion is left in the system, with an expectation of further small yield increases in office and industrial sectors in particular. Overall however, we expect that 2009 will see the end of the valuation down cycle of recent years.

So, in light of what we have seen in recent times, what will drive the market over the next 12 months?

Unlike much of the sentiment that drove the market over the last 12 months, the market will be driven less by fear and more by opportunity. The focus has moved from balance sheets to profit and loss statements.

With most of the market recapitalising (via substantial equity issuance over the last 12 months) many AREITs are rapidly starting to look forward. Thankfully, their forward plans are focussed on low risk strategies with less offshore and less corporate earnings and more intensive asset management (extracting the most from their existing asset base).

### Top 5 Portfolio Holdings (as at 31 August 09)

	ASX Code	Weighting NAV (%)
Westfield	WDC	20.0
Dexus	DXS	13.4
General Property Trust	GPT	12.3
Stockland	SGP	11.3
CFS Retail	CFX	10.5

Source: APN Funds Management

### About Aurora

Aurora Funds Management (Aurora) is an investment management and distribution group owned and operated by a group of professionals with considerable experience in retail funds management, stockbroking, margin lending, corporate advisory and investment banking.

Aurora aims to source, package and distribute carefully researched investment strategies that are managed by specialist wholesale investment managers.

Aurora is also the Issuer of the:

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

## Aurora Funds Management

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