

## 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 DECEMBER 2011

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	0.34%	0.35%	-1.35%
3 months	1.44%	1.13%	2.12%
6 months	3.29%	2.33%	-9.71%
12 months	3.83%	4.79%	-10.54%
2 years (p.a)	4.08%	4.61%	-4.68%
3 years (p.a)	4.72%	4.18%	7.58%
5 years (p.a)	7.17%	5.18%	-2.31%
Annualised Return Since Inception (p.a)	8.83%	5.35%	4.35%
Standard Deviation	3.03%	0.35%	15.09%

## TOUGH TIMES IN 2011

The fund returned +0.34% (ASX200 Accumulation Index -1.35% and RBA cash rate +0.35%) for the month of December. The month was dominated by downgrades to retailers with Billabong and JB Hi-Fi hosing down expectations significantly. This contributed to a month where the ASX200AI underperformed offshore markets (DOW +1.4%, FTSE +1.2%) led by Consumer Discretionary (-4%), Materials (-4%) and Energy (-5%).

The fund finished the year +3.83%, outperforming the ASX200AI by 14.4% (ASX200AI -10.54%) and the Market Neutral Hedge Fund Index by 7% (MHFRX -3.2%). The fund does rely on the market presenting opportunities and 2011 has been one of the worst years in terms of this. We do believe there will be more liquidity events over the course of 2012 which we intend to take full advantage of. Significant consolidation within the equities landscape in Australia should result in wider margins on deals and developments in late 2011 in the listed hybrid & M&A space should result in increased volume. We remain committed to our target of 5-10% above cash annually.

The **Mergers and Acquisitions** portfolio was the strongest performer for December (+0.20% net return) with the completion of the SAB Miller Scheme of Arrangement with Foster's (FGL) and a merger of equals between Adamus (ADU) and Endeavour (EDV.TO) generating the largest gains. During the month several new deals were announced including: Whitehaven Coal and Aston Resources, Oohmedia (OOH), & APA Group (APA) and Hastings (HDF).

The **Convergence** portfolio produced a small loss (-0.04%) with the book suffering from a severe reduction in liquidity and a contraction in spreads. There were no material individual stock performances during the month.

The **Long Short** strategy was relatively flat at (0.02%); however the performance suffered late in the month when CSG (CSV) abandoned takeover talks with interested parties. Offsetting this, the strongest contributors were: Charter Hall Office (CQO) as they improved the terms and progressed negotiations for a formal takeover with a consortium including investment vehicles for Singapore and Canadian entities; and a long position in Thakral (THG) generated good performance as talk about the potential sale of their Wynyard asset and other news sparked some interest in the stock.

The **Options** portfolio (-0.03%) had a small loss in a difficult month for net buyers of options due to reduced implied volatility, low realised volatility & low liquidity. The overall portfolio was smaller than usual during December, due to the opportunities present; the size of the options book mirrored this. The ASX200 index strangle and a position in Channel Ten (TEN) had small losses whilst the volatility in the energy space led to small gains for Oil Search (OSH) and Origin (ORG). We anticipate that the fund will increase options exposure during January as market activity picks up.

The **Yield** strategy was also a solid contributor (+0.19%) as the Southern Cross Airports SKIES issue ceased trading in lead up to redemption in early January. All holdings were positive with the best performing instrument being the Goodman Preferred Step Ups (GMPPA) and a spread of bank hybrids.

Performance after fees (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	0.31	0.90	0.16	1.25	-1.46	-0.61	0.51	1.19	0.11	0.43	0.67	0.34	3.83%
2010	0.44	-0.13	-0.73	0.43	0.91	-0.49	-1.60	0.86	0.58	1.61	1.37	1.05	4.33%
2009	0.21	0.01	0.28	0.26	1.20	1.55	0.63	0.67	-0.58	0.82	-0.02	0.82	6.01%
2008	1.34	0.17	0.27	1.21	0.63	0.18	0.45	1.14	2.61	3.13	0.21	0.37	12.38%
2007	1.14	0.52	0.32	1.40	0.21	0.36	0.63	3.06	-0.30	0.71	1.32	-0.23	9.55%
2006	1.71	1.82	1.38	1.82	3.63	0.57	1.55	0.27	1.32	0.61	0.14	0.80	16.75%
2005			1.02	0.96	1.50	1.58	0.92	0.18	0.52	1.34	0.28	-0.50	8.06%

## 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.

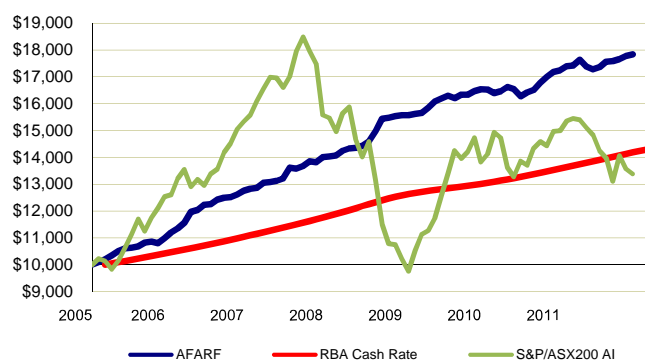
Each investment considers the risk, the timeline of that risk occurring and then the potential return.

Low transaction costs and liquidity are other important factors in the success and implementation of the strategies.

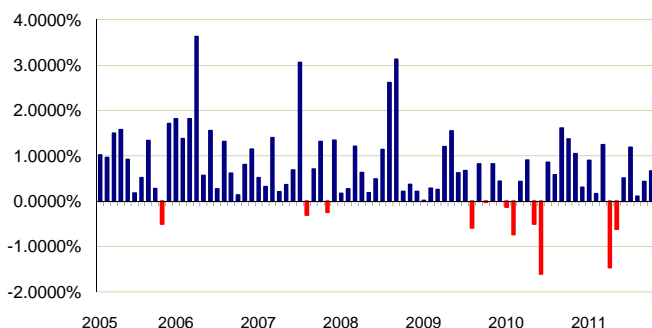
## FUND DISTRIBUTIONS (per Unit)

Period (per Unit)	Amount (\$)	Yield (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	8% (annualised)
31/12/2011	\$0.0194	8% (annualised)
<b>Total since inception</b>	<b>\$0.6331</b>	

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



Monthly Returns Since Inception (%)



## INVESTMENT MANAGER

Fortitude Capital Pty Ltd (AFSL 221131) is a wholly-owned subsidiary of Aurora Funds Limited (Aurora). With in excess of \$440 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 over 3,000 Australian and New Zealand investors.

**Aurora is also the issuer of the:**

- Aurora Sandringham Dividend Income Trust (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>	1.15	-
<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%	0.25%
<b>Benchmark</b>	RBA Cash Rate	<b>Positive months</b>	86.59%	100.00%
<b>Administrator</b>	Mackenzie Coultas Funds Admin	<b>Prime Broker/Custodian</b>	UBS	

## AURORA FUNDS LIMITED

Level 2, 350 George Street, Sydney NSW 2000

PO Box R1695, Royal Exchange NSW 1225

Telephone: +61 2 9080 2377, Fax: +61 2 9080 2378

Visit: [www.FortitudeCapital.com](http://www.FortitudeCapital.com) or [www.AuroraFunds.com.au](http://www.AuroraFunds.com.au)

Email: [info@fortitudecapital.com](mailto:info@fortitudecapital.com) or [enquiries@aurorafunds.com.au](mailto:enquiries@aurorafunds.com.au)

Disclaimer: This information has been prepared by Aurora Funds Management Ltd (ABN 69 092 626 885, AFSL 222110) in its capacity as responsible entity for the Aurora Fortitude Absolute Return Fund (ARSN 145 894 800). It has been prepared without taking into account the objectives, financial situation or needs of any investor, which should be considered before investing. Investors should consider a copy of the PDS dated 7th October 2010 and seek their own financial advice prior to investing in the Fund. The information in this Performance Report is of a summary nature only and does not constitute advice of any kind, nor is it an offer of any financial product. Past performance is not a reliable indication of future performance. The investment objective is expressed after the deduction of fees and before taxation. See the PDS for details on taxation. The objective is not intended to be a forecast, and is only an indication of what the investment strategy aims to achieve over the medium to long term. While we aim to achieve the objective, the objective and returns are not guaranteed. The payment of franking credits to Unit holders is subject to the Fund achieving a taxable profit in that year. For further information please visit [www.fortitudecapital.com](http://www.fortitudecapital.com) or [www.aurorafunds.com.au](http://www.aurorafunds.com.au)