



FORTITUDE CAPITAL

# Aurora Fortitude Absolute Return Fund

## June-2012

**AURORA**  
 FUNDS LIMITED

### 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 JUNE 2012

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	0.57%	0.29%	0.66%
3 months	1.27%	0.96%	-4.68%
6 months	2.57%	2.04%	3.32%
12 months	5.95%	4.42%	-6.71%
2 years (p.a)	5.18%	4.60%	2.09%
3 years (p.a)	4.38%	4.30%	5.65%
5 years (p.a)	6.86%	4.95%	-3.99%
Annualised Return Since Inception (p.a)	8.58%	5.27%	4.52%
Standard Deviation	2.94%	0.35%	14.91%

### Bid or No Bid?

The S&P/ASX200AI finished up +0.66% contrary to an incredible month of M&A gamesmanship and the continued merry go round of European economics and politics.

The market was left guessing with undisclosed approaches for Whitehaven Coal (WHC.ASX) and David Jones (DJS.ASX). David Jones saw fit to disclose to the market an approach from an obscure Private Equity firm based in the United Kingdom with \$200m under management. Fortescue Metals Group's (FMG.ASX) largest shareholder attempted an unsuccessful "all or none bid" for shares at an above market price. Additionally Fairfax Media (FXJ.ASX) and Billabong (BBG.ASX) saw interesting price action on equally bizarre corporate activity.

On the Macro side the market held its breath on a Greek exit with the possibility of anti Euro party Syriza taking power. These fears were allayed but quickly replaced by soaring Spanish and Italian bond yields. The last day of the month saw a sharp rally as European leaders pledged further integration. The Fund finished the month +0.57%, the twelfth positive month in a row to finish the financial year +5.95%. The ASX200 Accumulation Index finished the financial year down -6.71%.

The **M&A** portfolio (+0.21%) performed well despite the impact of continued concerns regarding the ability of offshore bidders to complete transactions in the current environment. We generated positive returns from positions in Rocklands Richfield (RCI.ASX) and Norton Goldfields (NGF.ASX) despite these concerns, but Sundance Resources (SDL.ASX) was a drawdown. The Fund benefited from completed deals in Customers Limited (CUS.ASX), Nexbis Limited (NBS.ASX), and Ludowici Limited (LDW.ASX)

The **Long/Short** portfolio posted a loss (-0.12%). Cape Lambert (CFE.ASX) announced an unexpected amended tax assessment at the beginning of the month and we exited the position immediately. We booked profits in Consolidated Media Holdings (CMJ.ASX) after an approach for the company was made by NewsCorp (NWS.ASX). We also made a small profit on Echo Entertainment (EGP.ASX). The CMJ and EGP situations appear competitive and we look forward to further trading opportunities in these names.

The **Convergence** portfolio was the largest contributor for the month (+0.50%). NewsCorp (NWS.ASX) announced a demerger which led to increased volume and spreads. AGL Energy (AGK.ASX) raised \$532m through an entitlement offer with the trading of retail rights on market. The Wesfarmers spread between the common stock (WES.ASX) and the partially protected shares (WESN.ASX) continued to widen which generated good profits.

The **Yield** portfolio continues to perform well (+0.46%). The Fund continues to add to short dated structures with pricing certainty and potential upside on conversion to equity. The Dexus Rents Trust (DXRPA.ASX) were redeemed at face value during the month.

The **Options** portfolio was the largest detractor (-0.50%). The options market priced in a large market fall on macro concerns at the beginning of the month. With such a fall not eventuating option prices fell. The biggest detractors were a position over the S&P/ASX200 Index and Commonwealth Bank (CBA.ASX).

On a personal note we would like to congratulate Sheriden Hure (Portfolio Manager) on the birth of her son, Liam.

Performance after fees (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	0.34	0.49	0.45	0.44	0.26	0.57							2.57%
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.

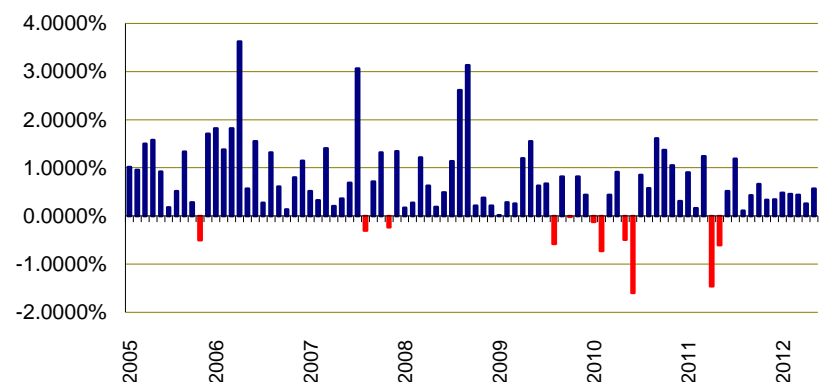
Low transaction costs and liquidity are other important factors in the success and implementation of the strategies.

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. Accordingly, from 14 May 2012, the value of the franking credits earned by the Fund are included in the performance returns of the Fund - including within the calculation of Application/Redemption prices and management/performance fees.

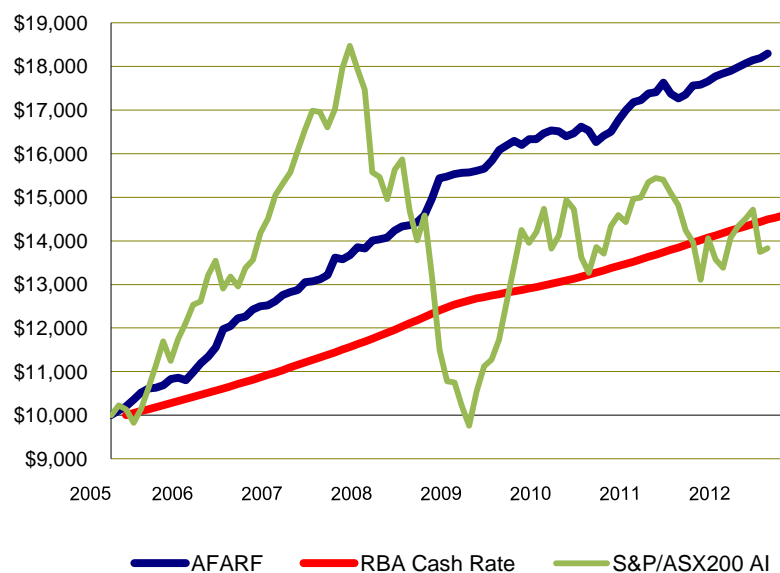
## FUND DISTRIBUTIONS (per Unit)

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)
31/03/2012	\$0.0191	8% (annualised)
30/06/2012	\$0.0205	8% (annualised)
<b>Total since inception</b>	<b>\$0.6727</b>	

### Monthly Returns Since Inception (%)



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



## INVESTMENT MANAGER

Fortitude Capital Pty Ltd (AFSL 221131) is a wholly-owned subsidiary of Aurora Funds Limited (Aurora). With nearly \$480 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 2,500 Australian and New Zealand investors.

### Aurora is also the issuer of the:

- Aurora Sandringham Dividend Income Trust (ASX code: AOD)
- Aurora Dividend Income Trust (APIR code: AFM0010AU)
- 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>	1.13
<b>Feeder Fund</b>	Aurora Absolute Return (ABW)	<b>Best month</b>	3.63%
<b>APIR Code</b>	AFM0005AU	<b>Worst month</b>	-1.60%
<b>Benchmark</b>	RBA Cash Rate	<b>Positive months</b>	87.50%
<b>Administrator</b>	Mackenzie Coultas Funds Admin	<b>Prime Broker/Custodian</b>	UBS

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