

**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 AUGUST 2013**

	AFARF RETURNS%	RBA CASH RATE	S&P/ASX200AI
1 month	0.18%	0.21%	2.50%
3 months	1.79%	0.67%	5.33%
6 months	4.74%	1.40%	2.83%
12 months	6.06%	3.02%	24.28%
2 years (p.a)	5.60%	3.61%	14.47%
3 years (p.a)	6.08%	4.01%	10.13%
5 years (p.a)	6.07%	4.02%	4.64%
Annualised Return Since Inception (Mar 05) - p.a.	8.22%	4.96%	7.36%
Standard Deviation	2.81%	0.39%	14.50%

**Aussie Sports Teams Struggle, but Share Market Streaks Ahead**

The S&P/ASX200 Accumulation Index outperformed all developed markets in August posting a monthly return of 2.5% (Dow Jones -4.4%, FTSE -3.1%, Nikkei -2%). This was juxtaposed with a continued deterioration in the fortunes of Australian sporting teams. We await the summer Ashes series to observe if this relationship is statistically significant or a pure coincidence. Our Fund posted a 0.18% gain for the month of August.

The Index outperformance was led by positive share price reactions during reporting season. The market continues to look through the cycle and believe management commentary in several poorly performing companies notably Boral Ltd (BLD.ASX) and Origin Energy (ORG.ASX). Sentiment towards China appears to have turned with the materials index posting a solid 3.7% gain for the month. US Macro data continued to impress, however September does bring a large number of Macro risks to the table including the Tapering debate; Fed Chairman continuity; US Debt Ceiling; German Elections and ongoing tensions in Syria. Investors appear agnostic about the outcome of the Australian federal elections. The **Convergence** book (+0.16%) posted the strongest returns of the strategies for the month. The News Corporation (NWS.ASX) demerger continues to present attractive trading opportunities, particularly the spin off Twenty-First Century FOX (FOX.ASX) where the company buy-back remains active. The Fund also benefited from a small convertible note position in IMF Ltd (IMF.ASX). The Wesfarmers Partially Protected shares structure (WESN.ASX) continues to present excellent opportunities and is our largest exposure.

The **Yield** portfolio continues to deliver consistent returns (+0.12%) in high quality short-dated names. The Westpac Stapled Preferred Securities (WBCPA.ASX) provided a large portion of the returns for the month. The security matures at the end of September and the Fund continues to opportunistically add to the position. The Fund will also look to add to similar structures maturing in 2014.

The **Options** portfolio (-0.30%) posted a disappointing loss with many result catalysts not playing out as expected. As outlined previously, share prices reacted in a "buy the rumour, sell the fact" manner with notable detractors to performance being Boral Ltd (BLD.ASX) and Origin Energy (ORG.ASX). BHP (BHP.ASX) reported a full year profit largely in line with expectations which provided limited trading opportunities; on the flip side, Newcrest Mining was a strong performer for the month with favourable volatility resulting from an announced US gold ETF change to be made in September to now include gold companies outside of the US and smaller market capitalisation stocks. The S&P/ASX200 index position was also a positive contributor with an at-the-money call strike providing good hedging opportunities.

The **Long/Short** (+0.08%) portfolio benefitted from a spectacular debut by Steadfast Group Ltd (SDF.ASX). The IPO saw significant demand on its debut day with the stock up 25% at one point. The Fund duly exited its position. Conversely placements in LNG Ltd (LNG.ASX) and NextDC (NDC.ASX) performed poorly.

The **Mergers & Acquisitions** strategy (+0.11%) benefitted from increasing confidence in Dingyi Investment Group's bid for Elemental Minerals Ltd (ELM.ASX). There are many significant hurdles to completion of this deal and the Fund exited its position on this strength. We will look to increase exposure on share price weakness and/or necessary approvals being obtained. Clough Ltd (CLO.ASX) also performed well during August. A Scheme Implementation Agreement was signed with their largest shareholder Murray & Roberts and this deals offers an attractive risk return proposition particularly for domestic holders due to the inclusion of a full franked special dividend as part of the consideration. Detracting from performance in a minor way was the Trust Company (TRU.ASX) and Perpetual (PPT.ASX) merger after the ACCC postponed their initial timetable and invited further submission.

**FINANCIAL YEAR PERFORMANCE after fees (%)**

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin/Year
13-14	1.13	0.18											1.32%
12-13	0.61	0.36	0.33	-0.23	0.54	0.02	-0.19	0.80	0.42	1.68	0.78	0.46	5.70%
11-12	0.51	1.19	0.11	0.43	0.67	0.34	0.34	0.49	0.45	0.44	0.26	0.57	5.93%
10-11	-1.60	0.86	0.58	1.61	1.37	1.05	0.31	0.90	0.16	1.25	-1.46	-0.60	4.44%
09-10	0.55	0.67	-0.58	0.82	-0.02	0.82	0.44	-0.13	-0.73	0.43	0.91	-0.49	2.79%
07-08	0.63	3.06	-0.30	0.71	1.32	-0.23	1.34	0.17	0.27	1.21	0.63	0.18	9.40%
06-07	1.55	0.27	1.30	0.61	0.14	0.80	1.14	0.52	0.32	1.40	0.21	0.36	9.00%
05-06	0.92	0.18	0.52	1.34	0.28	-0.50	1.71	1.82	1.38	1.82	3.63	0.57	14.50%
04-05	-	-	-	-	-	-	-	-	1.02	0.96	1.50	1.58	5.16%

## 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.

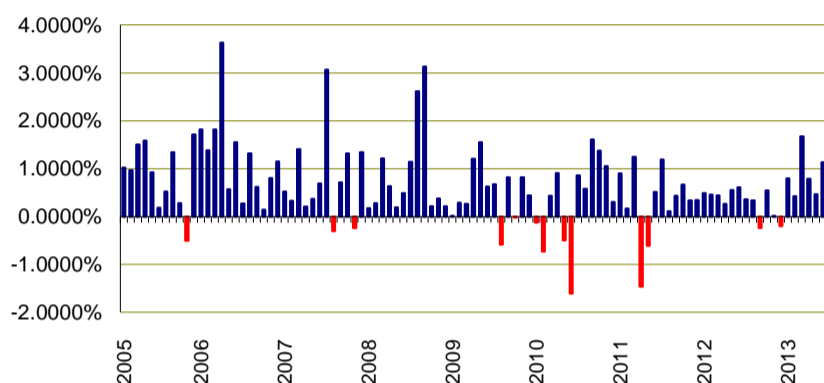
AFARF vs RBA Cash vs S&P/ASX200AI (\$)



## FUND DISTRIBUTIONS (per Unit)

Period (per Unit)	Amount (\$)	Yield at NAV (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	7.93%
31/12/2011	\$0.0194	8.00%
31/03/2012	\$0.0193	8.00%
30/06/2012	\$0.0205	8.55%
30/09/2012	\$0.0190	8.00%
31/12/2012	\$0.0142	6.00%
31/03/2013	\$0.0140	6.00%
30/06/2013	\$0.0298	12.87%
<b>Total since inception</b>	<b>\$0.7499</b>	

Monthly Returns Since Inception (%)



## INVESTMENT MANAGER

Fortitude Capital Pty Ltd (AFSL 221131) is a wholly-owned subsidiary of Aurora Funds Limited (Aurora). With over \$640 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 Australian and New Zealand investors.

### Aurora is also the issuer of the:

- Aurora Dividend Income Trust (Managed Fund) (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>	1.16	-
<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%	0.21%
<b>Benchmark</b>	RBA Cash Rate	<b>Positive months</b>	87.25%	100.00%
<b>Prime Broker/Custodian</b>	UBS	<b>Fund Size</b>	\$109.1 million	
<b>Administrator</b>	Unity Fund Services	<b>Net Asset Value per Unit</b>	\$0.9379	

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