Aurora Investment Trust plc

Annual Report December 2016

Company No. 03300814

Aurora
INVESTMENT TRUST

Contents

Strategic Report

Objective

To provide shareholders with long term returns through capital and income growth.

Policy

Phoenix Asset Management Partners (Phoenix) was appointed Investment Manager on 28 January 2016. Phoenix seeks to achieve the Objective by investing in a portfolio of UK listed equities.

The portfolio will be relatively concentrated. The exact number of individual holdings will vary over time but typically the portfolio will consist of 15 to 20 holdings.

Benchmark

Performance is benchmarked against the FTSE All-Share Index, total return, representing the overall London market.

Dividend

An interim dividend of 2.0p per share was declared on 2 March 2017 and was paid on 10 April 2017.

The Directors do not recommend a final dividend *(February 2016: 1.00p)*.

Annual General Meeting

The Annual General Meeting of the Company will be held at the offices of Grant Thornton, 30 Finsbury Square, London EC2P 2YU on 8 June 2017 at 12.00 noon.

Aurora Chairman's Statement

Lord Flight
Chairman

April 2017

This report covers the 10 month period from 29 February 2016 to 31 December 2016. The reason for the "short year" is to align Aurora's accounting period with that of its Investment Manager, Phoenix Asset Management Partners, following their appointment on 28 January 2016.

The performance for the period to end December 2016 was a 6.38% rise in net asset value (NAV), underperforming the benchmark FTSE All Share Index (total return), which rose by 19.5%.

The share price of Aurora traded at a premium to NAV for substantially all of the period in question. The average premium for the year was 2.9%, which enabled us to issue new shares during the period. Our intention is for the shares to continue to trade at a small premium to NAV.

2016: Phoenix's First Year as Investment Manager

Shareholders will recollect that Phoenix was appointed Investment Manager on 28 January 2016, which marked the beginning of a new era for Aurora. This was the conclusion of a process that had begun at the Aurora AGM in July 2014, when it was decided that a further continuation vote in 2017 would not be sought; but rather the Board and shareholders wanted an alternative future for the Trust via merger or new Investment Manager.

This was achieved by the appointment of Phoenix as Investment Manager. Key features of the Phoenix management agreement are no management fees but an annual performance only fee, equal to one third of NAV per share total returns in excess of the FTSE All Share return. This fee is subject to claw back and a high water mark and is capped at 4% of NAV p.a. in the case of an absolute increase in NAV per share; and 2% in the case of a decrease but with outperformance compared with the FTSE All Share. Aurora is managed with the same investment strategy as Phoenix's offshore open-ended Fund. Since its inception in 1998 this fund has delivered, net of fees, a cumulative NAV total return of 460.6% and annualised returns of 9.7% compared with 155.6% and 5.2% for the FTSE All Share.

An important consideration for the Aurora Board in appointing the new Investment Manager was the extent to which they would be able to grow the size of the Trust and, therefore, improve its economic viability. Phoenix were confident that by marketing their track record, they could attract new investors to the Trust. A Prospectus was issued to enable the issuance of up to 55 million new shares over a 12-month period. The initial placing in March 2016 was the first of several, which, together with the sale of 4 million shares that had previously been held in Treasury, resulted in approximately £32 million of new money being raised between 1 February and 31 December 2016. Consequently, the market capitalisation of the Trust, which had been £15 million in January 2016, finished the year at £52 million. Since 31 December 2016 the Company has raised a further £6 million, increasing the market capitalisation to £62 million.

The growth in the size of the Trust has come from two main sources. Firstly, from existing clients of Phoenix and secondly, Phoenix has attracted new investors by holding a number of "roadshow" events across the UK over the last 12 months. Today, therefore, we have a range of shareholders who support the Phoenix "value investing" approach, including family offices, wealth managers and private banks.

Phoenix Investment Philosophy

Unlike some value investors, Phoenix does not seek to buy into businesses at distressed prices. Rather, they aim to buy great businesses at attractive prices. The Phoenix definition of a great business is of it having a high return on capital (15% or above), pricing power and that it can be observed, transparently, doing business in the real world. It is from understanding why a business earns such high returns that investment outperformance can be anticipated. Phoenix builds up the required knowledge by studying the relevant industries and companies in detail – a learning

process which can take several years. When it comes to price Phoenix is disciplined in only paying up to half of what they believe the business is worth. Inevitably, the opportunities to buy great businesses at half price are rare – frequently Phoenix will identify a business which fits their objectives, but where the price does not. Inevitably, therefore, Phoenix has to be patient. Having spent considerable time identifying great businesses, they usually have to wait further years before the price reaches a level at which they are willing to invest. This often arises when there has been bad news about a particular company and the stock falls out of favour. The rarity of suitable investment candidates, combined with the time consuming nature of the investment process, results in a concentrated portfolio, typically of between 15 and 20 investments maximum. The portfolio turnover is low, with only one or two new investments made each year.

Phoenix defines risk as being the potential for a permanent loss of capital – rather than share price volatility. They see permanent loss of capital as a function of an insufficiently thorough understanding of a business and the potential threats it faces. An ongoing monitoring and research programme for every stock in the portfolio seeks to mitigate this risk. The in-depth and unusual nature of the research that Phoenix undertakes is the most distinguishing feature of its investment approach. They spend 80% of their time monitoring the businesses owned by the Funds they manage. Shareholders may be interested in reading the historic track record of the Phoenix UK Fund since inception, which is an Appendix at the back of this Report and Accounts.

As noted above, the Company underperformed the benchmark, largely as a result of having no exposure to the cyclical resources sector. As the Manager describes in his report, periods of underperformance are to be expected as a result of the Manager's long-term value approach.

Going Forward

In last year's statement I mentioned that the objective was to increase the size of Aurora to £100m over the medium term. This continues to be the case. The increase in size serves to reduce the ongoing cost per share and increases the marketability of the shares.

Dividend

The Board declared that an interim dividend of 2.0p per share be paid on 10 April 2017 to shareholders on the register as at 10 March 2017 and thus not to shareholders joining under the most recent Placing. The Board does not recommend a final dividend. The Company expects to continue to pay an annual dividend, which could be lower than recent dividends and will comprise substantially all of the net revenues for the year.

AGM

A warm welcome is extended to shareholders to the AGM to be held at 12 noon on 8 June 2017 at the offices of Grant Thornton, 30 Finsbury Square, London EC2P 2YU.

Lord Flight
Chairman
20 April 2017

Statement from the CIO of the Investment Manager

Gary Channon

April 2017

The last period was a prime example of the Phoenix investment process:

Discipline: We started with cash. This came from a combination of a lack of opportunity due to high values and various opportunities to sell some of our holdings in 2015. We entered June with over 25% of the Trust in cash.

Patience: Despite the persistence of the high cash position (it dates back to early 2015 in the Phoenix strategy although we were not managing Aurora at that time), we did not feel pressured to lower our hurdles or standards and invest.

Preparedness: When the post referendum selloff happened we were prepared. We always have a candidate universe of stocks that we would invest in given the right price. Understanding businesses, rating managements and being able to assess values takes considerable time and effort, it can't be left for when the opportunities arise because it takes too long.

Action: The vote to leave the EU sent the market into a sharp selloff, taking some of the businesses we know well into very attractive valuation territory. When many were paralysed with doom and fear, we acted. Within 2 weeks the cash position was under 10% and falling. By October we were almost fully invested.

Value: When we act it is to buy things we believe are trading at no more than half their intrinsic value. Being able to deploy cash into such opportunities significantly boosts the overall intrinsic value of the Trust which we expect in turn will result in a future rise in the NAV and share price. Our actions in 2016 we believe increased underlying value significantly.

Monitoring: our real world monitoring of our businesses gives us unique insights. In the week after Brexit our routine visits to building sites throughout the country told us that other than in Central London there was no impact from the referendum result on the housing market in the UK, houses were still selling at a good rate. This reinforced our confidence in our valuation estimates and showed us that the market was overreacting.

Our 19 years of investing with the same strategy have some discernible patterns: a build-up of cash when valuations become unattractive; a sharp drawdown in bad markets as we buy what is the cheapest and unpopular; a big increase in our estimate of the intrinsic value eventually resulting in a sharp rebound in the prices of our holdings. The period under review fits that pattern and the value we have accumulated in 2016 should serve us well in delivering strong returns from here.

Gary Channon
CIO Phoenix Asset Management Partners
20 April 2017

Investment Manager's Review and Outlook

Tristan Chapple

April 2017

The NAV per share of the Trust increased by 6.38% during the period, an underperformance of the market (which was up by 19.5%). Investors did slightly better than this suggests, as the share price increased by 9.8%. The shares traded at an average premium to NAV of 2.9% during the year, ending December at a 0.5% premium.

On the one hand, delivering a substantial return for investors and earning no fees at all is disappointing (we charge a zero management fee). On the other hand, our performance fee structure sets quite a specific expectation to you as investors that we will deliver a better return than the stock market. That definitively remains our belief although it is a simple fact that in some individual years that won't happen. We draw considerable heart from our 19-year track record of managing the Phoenix UK Fund (which has a very similar portfolio to Aurora). Over that period of time, we have beaten the FTSE All Share by an average annualised 4.5% per annum, after all fees. We have achieved this by beating the market considerably in some years and lagging it in others. We point to this as being the best guide to what to expect over coming years.

The remainder of this section comprises an overview of the major portfolio holdings. This will not extend to any crystal ball gazing when it comes to predictions about share prices. This is because we do not think that share prices can be predicted over the short term (which we think is a minimum of three years). Rather, we think that the undervalued shares we own will increase in value at some point in the future if the business fundamentals justify such a move. Clearly, if we own shares in a business, it is because we think that's what going to happen and so we spend our time continually testing our investment hypotheses and it is through that lens that we consider company news.

Let's start with the investment that looks the worst in several respects, **Sports Direct**. The share price fell by 31% over the course of the year as the business: issued a profit warning; was subject to a dogged campaign by the Guardian newspaper that unearthed some slightly rum working practices; parted company with the longstanding CEO and the head of finance; announced a change of property strategy in the core UK business; halted attempts to expand in Europe until the operating model has been proven to be sustainably profitable; all of which sounds like five years' worth of news rather than a summary of what happened in 2016. So what's going on and how concerned are we?

We could consider each of these issues in some detail although a general answer is probably what's called for here. Mike Ashley has grown Sports Direct from a standing start to being a major European business in a single generation. It is an extraordinary success story. And yet, during his interrogation by a UK Parliamentary committee earlier this year, he implied that the company had, in some ways, become too big for him to manage, that parts of the business were not being run as they should, especially with regards to staff welfare and working standards. Later in the year, at a meeting for City analysts, he also implied that the European business was not developing in the way that he would like, admitting that this was largely because of a conscious decision he had taken many years earlier to delegate virtually all responsibility for Europe to his long standing CEO Dave Forsey. Dave Forsey has now left the business and Mike Ashley is back in day-to-day operational control of Sports Direct with an agenda to mend what's fixable and sell or close what isn't.

In terms of our assessment of the situation, we make a few points. Firstly, an observation: Phoenix has been invested in Sports Direct to varying degrees for nearly ten years and we have followed the business and management closely all that time. We first invested in the wake of the initial public offering, when the shares plunged in response to a profit warning, some terrible PR and some short term operational problems – plus ça change, plus c'est la même chose. Today, in 2017, we don't think Mike Ashley has gone from being a great retailer to a twit in less than a year, although the press reports and share price might give you cause to think otherwise. Our national store visits and web-site monitoring suggest that Sports Direct currently

retain their competitive advantage of being the lowest cost producer in the sector and the core UK business seems to be in fine shape. We will pay close attention to the new property strategy, which favours freeholds over leaseholds and to move part of the estate upmarket. We will watch with interest how the in-store offer develops, given Mike's intent to sell more expensive lines from the large third party suppliers such as Nike and Adidas. Above all, we will look for signs that Mike remains the completely rational businessman that we have found him to be over the last ten years. If we are right about that, then there is plenty of reason to be excited about the investment, which we think is worth more than twice the current share price and is also why we increased the portfolio weight over the course of the year. Moreover, for all the bad publicity the Company has had recently, we believe that the management team has integrity and wants to do the right thing.

Last year, in the 2016 annual report, we summarised the many positive tailwinds currently being enjoyed by large housebuilders in the UK and remarked how fortunate we were to own **Barratt Developments** and **Bellway**, then valued at less than a ten times multiple of earnings. We talked about the undersupply of housing in the UK, ongoing low interest rates, reforms to the planning system and a raft of helpful government incentives. Well, this year, those tailwinds are all still blowing and those businesses are now valued at roughly eight times earnings. Their share prices fell sharply in the wake of the Brexit vote and haven't yet fully recovered. We leapt at the opportunity to buy more shares at much lower prices, adding to both holdings. The share price falls were probably driven by a combination of fears about both house price falls and fears that there could be a short-term drop in transaction volumes, both of which were very plausible short-term scenarios although neither of which we think makes much difference to the businesses' ultimate value. Why? Because (and apologies to those who have heard this from us before) falling house prices cause only a temporary decline in accounting earnings; the real damage caused to the business is far less than at first appears to be the case because falling house prices are compensated for by much lower land costs, land being a builder's single biggest cost. In other words, cheap land bought in a downturn turbocharges profits in future years.

During 2016 parts of the London housing market, especially new-build properties priced above £1 million, have seen a substantial fall in transaction volumes and falls in selling prices of around 10%. This was the case before the Brexit vote, and was most likely caused by both the new punitive stamp duty levy – that becomes disproportionately painful between £900k and £1 million – and also the recent tax increases on both "Buy to Let" and second properties. It was this London slowdown (and the reasonable probability of it continuing or getting worse), that caused us to reduce the size of our holding in Barratt Developments. However, we used the proceeds from that sale to buy more Bellway shares and also to add a third housebuilding investment, **Redrow**. We continue to think that Barratt is a very attractive investment at these levels (we still retain a sizable shareholding, after all), although Redrow and Bellway are more attractively priced and come without exposure to the shaky part of the London market. For the year in question (i.e. March '16 – December '16) Bellway's and Redrow's shares are almost unchanged and Barratt has fallen over 16%. This is despite all three businesses reporting almost unalloyed strong trading conditions (except prime London as previously mentioned), increased sales and profits and the prospects of considerable further progress over coming years. We remain greatly enthused about our house-building investments, which we think are substantially undervalued. Also, and very importantly, we are not invested in any sector that is more "transparent" than housebuilding, which helps to gives us a high degree of comfort with the size of the investment we have made. "Transparent" is in quotation marks because it has a very specific meaning in the context in which it has been used here. Transparency means the degree to which our own research can effectively monitor the fundamentals in a business without us having to wait and read the financial results. In this case we can and do visit building sites nationwide,

visit sales offices, speak to the numerous listed competitors, land suppliers and land buyers. Also, by monitoring internet activity we can track indicators of revenue in something close to real time.

Our supermarket businesses, **Tesco** and **Morrisons** – whose share prices rose 15% and 16% respectively during the period – both made fundamental progress during the year. The recent history doesn't bear repeating in any detail here. Suffice to say that, to varying degrees, both firms lost sight of how to delight their customers and then egregiously compounded the error by making some dubious capital allocation decisions that they would later reverse (witness Morrisons' half-hearted foray into convenience store retailing and Tesco's attempt to build a business in the US). Also, as most UK domestic food retailers were taking their eye off the ball, the formidable German discounters, Aldi and Lidl, were taking market share from everyone else. So, 2016, whilst not exactly the year that Tesco and Morrison's began to fight back (the competitive response to the Germans was earlier than that), it was the year that we started to see meaningful results from their efforts. Like all good retailers, Tesco and Morrisons now appear to be doing two important things: firstly, they are listening to what their customers want and then giving it to them, and secondly they are copying their competitor's good ideas. Both companies acknowledge that there is still some way to go, although they seem to be on the right track. When we have gone into Tesco or Morrisons stores this year, we think that both have improved compared to earlier visits, although we are still observing failings in some areas. The valuation of Tesco is, we think, further below our estimate of intrinsic value than Morrison's, although, having had a year of positive like-for-like sales in both, we remain enthusiastic about the prospects for both investments.

Lloyds is an interesting case because we think that the business fundamentals have been on the turn (i.e. improving) for some time and yet the shares remain cheap. It is a good example of why it pays not to stick ones neck out and talk about when and why a share price might start to rise. Since 2010 the balance sheet has improved considerably and the Group now has a class-leading capital ratio, far fewer unwanted legacy or "run-off" assets and much less reliance on wholesale funding than in the past. The management team have been reducing the cost base (by closing underperforming branches for example) and simplifying the operating model. Meanwhile, the business continues to enjoy high market shares and strong underlying profitability. For example, they have 25% of UK current accounts, 23% of UK retail deposits and 22% of UK mortgage balances. Importantly, our monitoring research continues to support the relatively simple hypothesis that we use to explain why Lloyds in particular (and UK banking in general) is such a strong business: customers in the UK are very loyal to their bank, often ignoring indifferent customer service and high product fees. It has been this way for many years despite it being relatively easy for customers to switch banks. Over the coming years Lloyds will be a high dividend payer. Also, it will soon have returned to full private ownership as the Government selling will soon have concluded.

We think that Lloyds' shares (that fell 10% over the period) are worth more than twice the current share price. We added to the holding following the Brexit vote and believe that eventually, the strong underlying business fundamentals will weigh on the valuation of the business. Just don't ask us when!

JD Wetherspoon had a year of steady, modest progress against a backdrop of increasing costs, most notably rising wages. They continue to open new pubs (951 and counting) in areas where the economics of doing so make sense, and to close pubs that are not pulling their weight. The intention over the long term continues to be to increase the proportion of freehold rather than leasehold properties. Ten years ago this split was 42/58 in favour of leasehold and today the mix is 51/49 in favour of freehold. One of the consequences of this strategy has been for the debt level to gradually rise. Founder of the business, Tim Martin thinks that a higher freehold mix gives the business greater flexibility to add value from property development such

as building hotel rooms above pubs in space that would otherwise be redundant. We continue to rate the pub operating business very highly and our research consistently reveals high standards of pub-keeping including clean toilets and food that, once ordered, arrives promptly. The share price increased 25% over the period and we watch with interest for signs that sufficient returns are being generated on the capital being deployed within the business.

A study of the history of the pharmaceutical industry, shows, among other things, a perpetual cycle of drug discovery and then, eventually, patent expiry; although the world's great pharma businesses tend to endure, their most important products (almost) never do. It is therefore fitting that **Glaxo** continues to reshape itself, as a suite of new products replace those of the past. During the year, the Group reported ongoing progress as a broader portfolio of new drugs and vaccines replaced lost revenue from "blockbusters" such as Advair. Also during the year, CEO Andrew Witty announced his retirement. He is to be replaced by Emma Walmsley, the current head of Glaxo's Consumer Healthcare business. The shares continue to trade significantly below our estimation of their intrinsic value.

In the 2016 Annual Report we said that **Vesuvius** was doing a good job in a difficult market for steel and, in a nutshell, that remains the case today. The vicissitudes of the steel market have some bearing on the business, although not as much as may be first assumed. Why should this be the case? Because unless you completely decommission a steel foundry, even if steel volumes decline substantially, the demand remains for the perishable steel production components that Vesuvius produces. We think the business is being well managed and using sensible self-help measures to cope with current market conditions. There are also plenty of signs that the underlying consumer demand for steel products (such as cars for example) continues to be robust and there are indications that the steel industry may have turned. Despite rising 39% over the period, the shares are trading at a level considerably below our intrinsic value and we had increased the position during the year.

Our day job could be characterised as a hunt for first class businesses selling at reasonable prices (we never want to pay more than half what we think a business is worth). Every so often we come across a potential investment that is not necessarily an excellent business, but whose shares are so cheap that we are interested regardless. These are what Warren Buffett might call "Cigar Butt" investments – we call them "value plays". These morsels are opportunistic and comprise a very occasional and small part of our portfolio. **CPP** is one such example. The business offers "consumer assistance" products (lost credit card or wallet insurance for example) and ran into serious regulatory issues when they were found to have mis-sold policies to a number of customers. This led to the business being fined by the FCA and having to make redress payments to affected customers. Beyond that, this is probably not the place for too much detail about the Company's sad and sorry past. Suffice to say that these issues predate the investment we made this year and that the business now has a new management team and is mapping out a different future. We paid six pence per share for our holding in November 2016 and at the end of December they had risen to 14 pence. We are watching the Company's ongoing progress with considerable interest.

Outlook

Following a recent news binge (Sunday papers, Andrew Neil, Al Jazeera) I told my wife that if I heard the phrase "post-Brexit uncertainty" one more time, I wanted to spend the remainder of 2017 under a blanket. That was until she pointed out that the urge to enshroud myself may itself be a symptom of my own subconscious post-Brexit uncertainty, upon which I went for a stroll to clear my head.

Despite personal misgivings about the press blaming the Brexit vote for everything, it does seem reasonable for investors to acknowledge that it has been

influencing some decisions and will continue to do so, even if part of that influence is nothing more than self-fulfilling prophecy. Clearly there is no way of knowing what the terms of the UK's exit from the EU will involve and we aren't going to play guessing games. It seems sensible to expect some periods of uncertainty, general doom and gloom as well as some genuine setbacks which, history suggests, are likely to feel scarier and more significant at the time than is warranted by a rational appraisal of the facts.

A foreseeable short-term factor that does merit a mention is the likelihood (in some cases imminence) of currency related inflation. For Tesco and Morrison's this is likely to be positive and reverse a relatively persistent recent trend of food price deflation. All other things being equal, a bit of inflation is probably a good thing for these businesses. It isn't a good thing for housebuilders, who will be seeing the price of some of their materials, such as timber (sourced in Euros, paid in sterling), increase substantially overnight. The impact will have been cushioned until now by long term supply agreements but at some point they will start paying higher prices. The good news is that the affected materials are a relatively small part of the overall cost base and that the rate of labour cost inflation (which, with land, are the most significant costs) has been coming down. The overall result is likely to be that build costs rise three to four per-cent this year, which won't have a material impact on profits.

One other note of caution regarding the house building sector: a UK Government White Paper on housing has recently been published. The paper has outlined a series of Government measures intended to increase housebuilding. From the perspective of an investor in the sector, the paper seems to contain both carrots and sticks. The Paper is currently in the consultation phase and we will watch with interest to see whether some of the measures become enshrined in legislation. Our hope is that the "sticks" do not cause building firms to develop fewer houses, rather than more. If the White Paper ultimately does have some unintended consequences and leads to lower levels of house building, we would expect the counterproductive measures to be swiftly reversed.

Two notes to end on. Firstly, a historical context. For at least the last 500 years (and arguably much longer than that) Britain has managed to be one of the world's 10 largest economies even though it has only enjoyed membership of the EU since 1973. History suggests therefore, that Britain is, eventually, likely to make a relatively decent fist of things outside of the EU. Secondly, for 19 years Phoenix have followed an investment philosophy that results in us buying great business that we think will also be great investments over the long-term despite what is happening in the news at any one time. That remains the case today; we think we have a portfolio of undervalued winners where investment success is not dependent on a particular macro outcome, Brexit or otherwise.

Tristan Chapple
Investment Manager
Phoenix Asset Management Partners
20 April 2017

Investment policy and performance

This report deals with the results of Aurora Investment Trust plc. The Company's former subsidiary AIT Trading Limited (AIT) has been dissolved.

The Company adopted a revised Investment Policy on 28 January 2016, with the appointment of Phoenix Asset Management Partners ("Phoenix") as the Company's new Investment Manager.

Investment Policy

The Company's objective is to provide shareholders with long term returns through capital and income growth by investing in a concentrated portfolio of UK listed equities.

The Company seeks to achieve its investment objective by investing in a portfolio of UK listed equities. The portfolio will be relatively concentrated. The exact number of individual holdings will vary over time but typically the portfolio will consist of 15 to 20 holdings. The Company may use derivatives and similar instruments for the purpose of capital preservation. There are no pre-defined maximum or minimum exposure levels for each individual holding or sector, but these exposures are reported to, and monitored by, the Board in order to ensure that adequate diversification is achieved. The Company's policy is not to invest more than 15% of its gross assets in any one investment.

While there is a comparable index for the purposes of measuring performance over material periods, no attention is paid to the composition of this index when constructing the portfolio and the composition of the portfolio is likely to vary substantially from that of the index. The Company may from time to time invest in other UK listed investment companies, but the Company will not invest more than 10% in aggregate of the total assets of the Company in other listed closed-ended funds other than closed-ended investment funds which themselves have published investment policies to invest no more than 15 per cent of their total assets in other listed closed-ended funds. The Company will not invest in any other fund managed by the Company's Investment Manager.

The Company does not currently intend to use gearing. However, if the Board did decide to utilise gearing the aggregate borrowings of the Company would be restricted to 30 per cent of the aggregate of the paid up nominal capital plus the capital and revenue reserves.

Any material change to the investment policy of the Company will only be made with the approval of the Shareholders.

Dividend Policy

The revised investment policy does not include any fixed dividend policy. However, the Board will distribute substantially all of the net revenue arising from the investment portfolio. Accordingly, the Company is expected to continue to pay an annual dividend, but this could be lower than the level of recent dividends and may vary each year.

Objectives and Key Performance Indicators (KPIs)

The Company's principal investment objective is to achieve capital growth. The Company's success in attaining its objective is measured by reference to KPIs as follows:

a. To make an absolute total return for shareholders on a long-term basis.

b. The Company's Benchmark is the FTSE All-Share Index (total return), against which the Net Asset Value (NAV) return is compared. After achieving the goal of making absolute returns for shareholders, the next aim is to provide a better return from the portfolio than from the market as measured by the Benchmark.

c. The Company seeks to ensure that the operating expenses of running the Company as a proportion of NAV (the Ongoing Charges Ratio) are reasonable.

Performance

With effect from 28 January 2016, the Investment Manager has been Phoenix Asset Management Partners Limited, which is regulated by the FCA. The Chief Investment Officer of Phoenix is Gary Channon. Phoenix reports in detail upon the Company's activities in the IMR.

Under the Investment Management Agreement no regular management fees are payable. A performance fee is payable to the Investment Manager only if the benchmark is beaten.

Upon the change of Investment Manager, the benchmark became the FTSE All-Share Index Total Return. The Company's financial year end was brought forward from 28 February to 31 December.

Performance during the current period of ten months and during the period in January to February 2016 when the Phoenix was Investment Manager, was as follows:

	Period 1 March 2016 to 31 December 2016	Period 28 January 2016 to 29 February 2016
Net Asset Value per share	+6.38%	+4.50%
Benchmark (total return)	+19.50%	+2.32%

The Ongoing Charges ratio was as follows:

	Period from 1 March 2016 to 31 December 2016	Year ended 29 February 2016
Ongoing Charges Ratio (annualised)	1.04%	2.48%

The ratio is calculated excluding finance costs but including operating expenses charged to capital and applied to the average NAV of the year. Expenses of a type not expected to recur under normal circumstances are excluded from the calculation.

Revenue Result and Dividend

The Company's revenue profit after tax for the period amounted to £636,037 *(Year to 29 February 2016: £203,622)*.

On 2 March 2017 the directors declared an interim dividend of 2.00p per share, absorbing £614,526. The directors do not propose a final dividend. The interim dividend was paid on 10 April 2017 to shareholders on the register at 10 March 2017; the ordinary shares were marked ex-dividend on 9 March 2017. In accordance with International Financial Reporting Standards this dividend is not reflected in the financial statements for the period ended 31 December 2016.

In July 2016 a final dividend of 1.00p per ordinary share was paid, absorbing £187,479.

Risk Analysis

The Board considers that the principal risks faced by the shareholders of the Company fall into two categories:

External Risks

Poor performance in the UK and/or world economies; poor corporate profits and dividends.

Poor stock market performance caused by market-specific factors, such as rising interest rates, the unwinding of "bubbles" or disinvestment by institutions, superimposed on general economic factors, or caused by shocks, wars, disease etc. The Board does not consider, however, that short-term volatility represents a risk for the long-term shareholder, since it regards long-term performance to be of primary importance.

Internal Risks

Poor asset management, which may include poor stock selection, excessive concentration of the portfolio, mistakes regarding currency movements, speculation in shares of companies without sound or established businesses and speculation in derivatives.

Poor governance, compliance or administration, including particularly the risk of loss of investment trust status.

All these and other risks can result in shareholders not making acceptable returns from their investment in the Company.

Risk Controls

External risks

As described in the Investment Policy section above, external risks are mitigated by diversification of the portfolio and by not utilising gearing.

Risk diversification

An element of risk is inherent in investment undertaken on a selective basis. The Company seeks to mitigate the degree of risk by investing in securities in substantial organisations, normally listed and traded on the London Stock Exchange, and by spreading its investments across a range of such securities. At 31 December 2016 the Company held 19 stocks, spread across 8 main sectors.

Gearing

The Company has discontinued the use of gearing as an element of its investment policy. Under the articles, borrowings are permitted up to a maximum of 30% of NAV. The Company's agreement with BNP also permits borrowing of up to 30% of NAV, but there is currently no intention to make use of this allowance.

The Board will keep under review whether any provision should be made for the use of short-term borrowing for the sole purpose of meeting working capital requirements from time to time.

Further details concerning currency risks, liquidity risks and interest rate risks are given in note 19.

Internal risks

The control of risks related to governance, compliance and administration is dealt with in the report on Corporate Governance.

Viability Statement

The Company is subject to continuation votes every three years. As a consequence of the appointment of the new Investment Manager the Directors proposed the replacement of the pre-existing continuation vote schedule by a new three-year schedule, with the next vote falling due in 2019. This was approved by the AGM held in July 2016.

The Directors consider that a three-year time frame, being the period up to the proposed date of the next continuation vote, is an appropriate period over which to assess the Company's viability.

After making inquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence and meet its liabilities as they fall due for at least three years from the date of approval of this document.

In reaching this conclusion, the directors have considered each of the principal risks and uncertainties set out above. They have considered the liquidity and solvency of the Company, the level of discount to net asset value at which its shares trade, its income and expenditure profile including the absence of monthly management fees and the discontinuation of the use of gearing as an instrument of normal investment policy. The Company's investments comprise readily realisable securities which could, if necessary, be sold to meet the Company's funding requirements. The Company's plan to expand by the issue of new share capital and the sale of shares from treasury is kept under close, ongoing review by the Board. Portfolio changes and market developments are also discussed at quarterly Board meetings. The internal control framework of the Company is subject to formal review on at least an annual basis.

The directors do not expect there to be any material increase in the annual ongoing charges of the Company over the period of their assessment. The Company's income from investments and cash realisable from the sale of investments provide substantial cover to the Company's operating expenses and any other costs likely to be faced by the Company during the period under review.

Social, Ethical, Human Rights and Environmental Matters

Being an investment company, with no staff, premises, manufacturing or other operations of its own, the Company does not have any direct influence on social, ethical, human rights and environmental matters. The Company has no greenhouse gas emissions to report from its operations, nor any responsibility for emission producing sources.

Boardroom Diversity

The Company has no employees other than the Directors. At 31 December 2016 the Company had five directors, all of whom were male. The Company's policy is that the Board should have a broad range of skills; while keeping this in mind, consideration is given to the recommendations of the AIC Code and other guidance on boardroom diversity.

Five Year Summary

The following data are all expressed as pence per share. NAV figures are all calculated at bid prices.

Year	NAV p	Dividend in respect of year	Share price (mid market) p
Year ended 28 February 2013	186.13	3.75	152.75
Year ended 28 February 2014	191.78	3.80	166.00
Year ended 28 February 2015	171.37	3.85	147.50
Year ended 29 February 2016	162.30	1.00	158.00
Period to 31 December 2016	172.66	2.00	173.50

Outlook

The outlook for Aurora is discussed in the Chairman's Statement and the Manager's Review and Outlook.

Top Holdings at 31 December 2016

Stock	Date of first purchase	Weight %	By valuation £	Avg. Cost per share* £	Share Price £	Market Cap £	Net Cash/ (Debt) £
Bellway	Dec-15	14.7	7,585,970	23.15	24.76	3.0bn	26.5m
Tesco	Dec-15	12.7	6,543,359	1.77	2.07	16.8bn	(4.4bn)
Lloyds Banking Group	Dec-15	11.3	5,793,770	0.64	0.63	44.6bn	(12.2bn)
Sports Direct	Dec-15	8.1	4,166,880	3.38	2.79	1.6bn	(72m)
Barratt Developments	Dec-15	7.3	3,752,284	5.57	4.62	4.7bn	592m
Morrison Supermarkets	Dec-15	6.5	3,334,413	1.91	2.31	5.4bn	(1.3bn)
Vesuvius	Dec-15	5.3	2,704,777	3.34	3.95	1.1bn	(310m)
Glaxosmithkline	Dec-15	5.0	2,571,704	14.82	15.62	76.6bn	(14.9bn)
JD Wetherspoon	Jan-16	4.4	2,274,399	7.13	8.88	987m	(651m)
Redrow	Oct-16	4.0	2,071,753	4.02	4.29	1.6bn	(139m)
CPP Group	Oct-16	3.6	1,862,000	0.06	0.15	124m	4m
Other (<3%)		14.4					
Total		96.9					
Cash		2.7					
Overall Total		100.0					

* Net cost including sales.

Portfolio Analysis at 31 December 2016

	Percentage of Portfolio
Retail	30.4
Construction	26.1
Financial	14.9
Leisure	9.5
Industrials	5.3
Pharmaceuticals	5.0
Food & Beverage	4.8
Insurance	1.3
Cash	2.7
	100.0

Analysis by Type, Market and Currency

All investments are of Ordinary Shares, denominated in sterling. All holdings carried at a value are in listed companies with the exception of Randall & Quilter, which is quoted on AIM. The Company also has registered holdings in China Chaintek, but this has been written down to a valuation of £Nil.

This Strategic Report was approved by the Board on 20 April 2017.
Lord Flight
Chairman
20 April 2017

Governance

Directors, Investment Manager And Advisers

Directors
Lord Flight (Chairman)
The Honourable James Nelson
RM Martin
T Chapple
D Stevenson

Investment Manager
Phoenix Asset Management Partners Limited
64-66 Glentham Road
London SW13 9JJ
Telephone: 0208 600 0100

Depository & Custodian
BNP Securities Services
London Branch
55 Moorgate
London EC2R 6PA

Secretary & Registered Office
PraxisIFM Fund Services (UK) Limited
Mermaid House
2 Puddle Dock
London EC4V 3DB

Registrar
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

Administrator
PraxisIFM Fund Services (UK) Limited
Mermaid House
2 Puddle Dock
London EC4V 3DB

Stockbroker
Liberum Capital Limited
25 Ropemaker Street
London EC2Y 9LY

Auditor
Grant Thornton UK LLP
30 Finsbury Square
London EC2P 2YU

A MEMBER OF THE ASSOCIATION OF INVESTMENT COMPANIES

Directors' Report

By Order of the Board
John Luetchford
PraxisIFM Fund Services (UK) Limited
Company Secretary

20 April 2017

Legal And Taxation Status

The Company has sought and obtained ongoing approval from HM Revenue and Customs of its status as an investment trust under Section 1159 of the Corporation Tax Act 2010. In the opinion of the Directors, the Company has conducted its affairs so as to be able to maintain such status in respect of the period ended 31 December 2016.

Under Section 833 of the Companies Act 2006 the Company is an investment company and operates as such.

The Company's former wholly-owned subsidiary AIT Trading Limited has been dissolved.

The Board And Re-Election Of Directors

The Directors of the Company at any time during the year are stated below. Except where indicated they held office throughout the year.

Lord Flight (Chairman)
The Honourable James Nelson
Richard Martin
Tristan Chapple
David Stevenson

All directors are non-executive, in as much as Mr Chapple is an employee of the Investment Manager and not of the Company.

Directors are required by the Company's Articles to retire by rotation at the Annual General Meeting (AGM) so that each director is subject to re-election at a maximum interval of three years. Mr Chapple, being a representative of the Manager, is subject to annual re-election. The Board has determined as a matter of policy, however, that all directors should in any case submit to annual re-election.

Accordingly, resolutions will be put to re-appoint Lord Flight, The Honourable James Nelson, Mr Martin, Mr Chapple and Mr Stevenson.

The report on Corporate Governance below contains a description of the Board's composition, of its method of operation, of its work during the year and that of its Committees and of how its performance has been evaluated. The Board recommends that all directors should be re-elected.

Under the Articles, the Directors are indemnified by the Company against losses and liabilities incurred in the performance of their duties. The Articles permit insurance cover against directors' and officers' liabilities to be arranged by the Company and such a policy is maintained.

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that Grant Thornton UK LLP be re-appointed as auditors of the Company will be put to the AGM. This is item 7 in the Notice of Meeting.

Disclosure of information to auditor

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Share Capital

The Company has one class of capital, Ordinary Shares. There are no special restrictions or obligations. Shareholders have equal rights with regard to distributions of all kinds in proportion to their shareholdings. Final dividends are payable subject to approval by the AGM; interim dividends can be declared by the Directors.

Purchases of the Company's own shares may be carried out if the relevant sanction is given by shareholders. Resolutions at general meetings may be carried by show of hands, when each shareholder present in person or by proxy has one vote, or by poll, when each shareholder present in person or by proxy has one vote for every share.

On 29 March 2016 a Placing of 4,858,750 shares was accomplished and an Ongoing Placing Programme set in place. Further Placings were accomplished of 5,965,750 shares on 1 September 2016 and of 4,200,727 shares on 22 December 2016. A Block Listing facility was also put in place and issues of new shares were made from this facility. Further details are given in note 12 to the financial statements.

At 31 December 2016, there were 29,792,305 shares in issue. All shares formerly held in treasury have been sold. Therefore the number of shares with voting rights was 29,792,305.

Additional issues of new shares have been made since 1 January 2017; further details of these are given in note 22 to the financial statements.

Holding Shares In Treasury

The Board monitors on an ongoing basis whether shares should be repurchased and, if so whether they should be held in Treasury, or whether they can and should be sold from Treasury. Sales of shares from Treasury are made at prices not less than the latest available NAV per share at the time of sale. At 31 December 2016 there were no shares held in Treasury.

Issues of Shares and Sales of Treasury Shares

At the AGM held on 13 July 2016 the directors were granted authority to issue up to 55 million new Ordinary Shares on a non pre-emptive basis in connection with a Placing programme established on 22 March 2016. This authority will expire at the forthcoming AGM. The Placing programme itself expired on 21 March 2017. Although the directors plan to issue a new Prospectus in due course, to establish a new Placing programme, they do not propose to do so immediately.

In addition, a block listing was also established of up to 3,850,028 shares. Issues have been made from time to time totalling 1,509,689 shares under the terms of the block listing. The directors believe that it is in the interests of the Company that they can continue to be able to issue new shares under the block listing facility, to meet market demand from time to time.

The directors are therefore seeking authority to renew their power to allot Ordinary Shares on a non pre-emptive basis, but unless and until a new Prospectus is published this will cover only the balance of the block listing quantity. Resolution 11 in the Notice of the Annual General Meeting will, if passed, give the directors the general power to allot securities up to an aggregate nominal amount of £585,085, representing approximately 7.0% of the issued share capital as at the date of this report.

Resolution 12, which is a special resolution, will, if passed, empower the Directors to make allotments of shares other than according to the statutory pre-emption rights which otherwise require all new shares to be offered first to all existing shareholders.

Purchase Of Own Shares

A resolution is to be proposed at the AGM to renew the Company's powers to purchase its own shares. This is item 10 in the Notice of Meeting, which is a special resolution.

Although the current position of the Company is directed towards active expansion, the Directors nevertheless recommend that the general power to purchase shares continues to be held in reserve in case of need. The renewed authority sought by the Company is to purchase up to 14.99% of the voting shares that are in issue as at the date of the AGM.

Investment Management Contract

The Company entered into a new Investment Management contract with Phoenix Asset Management Partners ("Phoenix") on 28 January 2016. Prior to that date the Investment Manager was Mars Asset Management Limited ("Mars").

Phoenix does not earn an ongoing annual management fee. It will be paid an annual performance fee equal to one third of the outperformance of the Company's net asset value total return (including dividends and adjusted for the impact of share buybacks and the issue of new shares) over the FTSE All-Share Total Return for each financial year. The first performance fee period ended on 31 December 2016 to coincide with the new financial year end. The Company's net asset value return is based on the weighted number, and net asset value, of the shares in issue over the relevant period.

The total annual performance fee is capped at 4 per cent. per annum of the net asset value of the Company at the end of the relevant financial year, in the event that the net asset value per share has increased in absolute terms over the period, and 2 per cent., in the event that the net asset value per share has decreased in absolute terms over the period. Any outperformance that exceeds these caps will be carried forward and only paid if the Company outperforms, and the annual cap is not exceeded, in subsequent years.

The performance fee is subject to a high water mark so that no performance fee will be payable in any year until all underperformance of the Company's net asset value since the last performance fee was payable has been made up. The performance fee will also be subject to a clawback if, over a rolling period of three years following the end of the last financial year for which a performance fee was payable, the Company underperforms.

The performance fee will be paid to Phoenix in ordinary shares (issued at the net asset value per share on the date of issue) and such shares must be retained by Phoenix for a minimum period of three years from the date of issue.

No performance fee was earned in the period ended 31 December 2016. In the year ended 29 February 2016 a fee of £124,821 was accrued, reflecting outperformance at that time, but this has been reversed in the period ended 31 December 2016.

Investment Management Engagement

The Remuneration Committee has reviewed the position of the Investment Manager and recommended to the Board that the Phoenix investment management contract should be continued. The process of evaluation is described in the report on Corporate Governance. Having taken into account the long-term performance of Phoenix, the prospects for the Company and the recommendations of the Remuneration Committee, the Board has concluded that continuing with the Phoenix investment management contract is in the interests of shareholders.

Recommendation Regarding Resolutions

The directors consider that all the resolutions to be considered at the AGM are in the best interests of the Company and its shareholders as a whole and are likely to promote the success of the Company. The directors unanimously recommend that shareholders vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings.

Alternative Investment Fund Managers Directive (AIFMD)

The Company is classified as an alternative investment fund under AIFMD and is therefore required to have an alternative investment fund manager (AIFM).

Phoenix took over the role of AIFM from Mars Asset Management on 28 January 2016. Because of the scale of its overall funds under management, Phoenix is classed as a full-scope AIFM. This brings the Company into the full scope of AIFMD, requiring *inter alia* the appointment of a Depository.

The AIFM is required to make certain disclosures on its remuneration in respect of the AIFM's relevant reporting period, which is the year ended 31 December 2016. These disclosures are available on the AIFM's website or are available on request from the AIFM.

Leverage (under AIFMD)

The AIFM is required to set a limit as a percentage of net assets for the Company utilising methods prescribed under AIFMD. These methods are known as the gross method and the commitment method. Under both methods the AIFM has set a maximum limit of leverage for the Company of 100%. This equates to nil leverage. As described in the Strategic Report the Phoenix policy is not to use leverage. The Company's leverage under each of these methods at its year end is shown below:

	Gross method	Commitment method
Maximum leverage limit	100%	100%
Actual leverage at 29 February 2016	100%	100%

Depository and Custodian

Prior to the appointment of Phoenix, the Northern Trust Company was custodian to the Group and there was no requirement under AIFMD for a depositary to be appointed. From 28 January 2016 the positions of Depository and Custodian to the Company have been taken up by BNP.

Retail Distribution of Investment Company Shares

The Company has concluded that the distribution of its shares, being ordinary shares in an investment trust, is not restricted under the FCA rules which determine the investment products that can be promoted to ordinary retail investors. The Company conducts its affairs so that there is no bar to a financial adviser recommending the Company's shares to ordinary retail investors when the adviser deems it appropriate.

Company Secretary And Administrator

Prior to 1 July 2016 Cavendish Administration Limited ("Cavendish") was the secretary and administrator of the Company. Cavendish was acquired by PraxisIFM Fund Services (UK) Limited ("Praxis") in November 2015. The agreement with Cavendish was novated to Praxis with effect from 1 July 2016.

Praxis is responsible for all administrative matters. It is appointed under a contract subject to 180 days' notice. It receives a fee of one-twelfth of £40,000 plus one-twelfth of 0.075% of the Company's net assets at the end of each calendar month on net assets up to £100 million and one-twelfth of 0.025% of net assets thereafter, subject to a minimum fee of £6,500 per month, plus VAT.

Banking And Borrowings

The Company's banker during the period ended 31 December 2016 was Coutts & Co (Coutts). During the year commenced on 1 January 2017 the Company has undertaken to set up a new bank account with Metro Bank and to close the account with Coutts.

At 31 December 2016 the gross external borrowings of the Company were £Nil *(29 February 2016: £Nil)*. The Company held cash balances with Coutts and the overall net position vis-a-vis Coutts at 31 December 2016 was a positive cash balance of £10,078 *(29 February 2016: £54,557)*.

Market Information

The Company's share capital is listed on the London Stock Exchange. The market price is shown daily in the *Financial Times*. The NAV per share is calculated daily and released daily to the London Stock Exchange and monthly to the Association of Investment Companies. The Company subscribes to the website www.trustnet.com, which compares the Company's performance to that of its peer group.

Significant Shareholdings

The directors have been notified of, or have identified, at 20 April 2017 the following shareholdings comprising 3% or more of the issued voting shares of the Company:

	At 31 December 2016		At 20 April 2017	
	Ordinary shares	%	Ordinary shares	%
Clients of Rothschild Wealth Management	5,813,995	19.5	6,288,101	18.9
Clients of Cannacord Genuity Wealth Management	2,364,173	7.9	2,853,748	8.6
Clients of Ravenscroft	2,030,581	6.8	2,567,304	7.7
Phoenix Asset Management Partners	2,412,246	8.1	2,412,246	7.3
Clients of Sand Aire	2,410,278	8.1	2,410,278	7.2
Clients of Banque Privee E de Rothschild	1,203,745	4.0	1,203,745	3.6
Troy Asset Management	1,172,832	3.9	1,172,832	3.5
Clients of Hargreaves Lansdowne	1,094,746	3.7	1,111,567	3.3
Miton Asset Management	1,055,161	3.5	1,055,161	3.2

Settlement of Ordinary Share Transactions

Ordinary shares in the Company are settled by the CREST share settlement system.

Donations

The Company did not make any donations during the year under review.

Going Concern

The financial statements have been prepared on the going concern basis. The directors have a reasonable expectation, after making enquiries, that the Company has adequate resources to continue in existence for at least twelve months from the date of approval of this document. In reaching this conclusion, the directors have considered the liquidity of the Company's portfolio of investments as well as its cash position, income and expense flows. As at 31 December 2016, the Company held £1,403,394 in cash and £49,849,164 in quoted investments. It is estimated that the majority of the portfolio could be realised in seven days under normal conditions. The total operating expenses for the period ended 31 December 2016 were £307,578. At the date of approval of this document, the Company has in excess of 197 years' cover of operating and finance costs. The Company's net assets at 31 March 2017 were £60,853,061.

Corporate Governance

April 2017

By Order of the Board
John Luetchford
PraxisIFM Fund Services (UK) Limited
Company Secretary

Corporate Governance Statement

The Company is committed to high standards of corporate governance. The Board has put in place a framework for corporate governance which it believes is appropriate for the Company. In doing so, the Board has considered the principles and recommendations of the AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting in line with the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide sufficient information to shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

a. The role of the chief executive
b. Executive directors' remuneration
c. The need for an internal audit function

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

There is no schedule of matters specified as being reserved for the Board, since the Board effectively reviews all aspects of the Company's governance on an ongoing basis.

The size and structure of the Board is such that it is considered unnecessary to identify a senior independent director other than the Chairman, who is *de facto* the senior independent director.

The Board has considered the issue of boardroom diversity and in principle supports a policy of greater diversity. With only a small number of independent positions to fill, it has not to date proved possible to give practical effect to such a policy.

The Board

Board composition

The Board currently consists of a Chairman, Lord Flight, three independent directors, Mr Martin, The Honourable James Nelson and Mr Stevenson, and Mr Chapple, who is an employee of the Investment Manager.

Mr Chapple joined the Board on 28 January 2016. Mr Stevenson joined the Board on 1 February 2016. Mr Martin has served on the Board since 8 September 2010. Lord Flight and The Honourable James Nelson joined the Board on 18 July 2011 and the Board appointed Lord Flight as Chairman from that date.

With the exception of Mr Chapple, all Board members are independent of the Investment Manager, Phoenix. Previously, all directors with the exception of Mr Barstow were independent of Mars. Phoenix supplied fund management services to the Company throughout the period under a contract described under the "Management" section in the Directors' Report. With this exception, there were no contracts subsisting during or at the end of the year in which a director was or is materially interested.

Lord Flight

Lord Flight has worked for over forty years in the financial services industry, starting his career at Rothschilds as an investment adviser. He was co-founder and joint managing director of Guinness Flight, formed in 1986 and acquired by Investec Asset Management in 1998, of which he remains a director. He is chairman of Downing Four VCT and Flight and Partners and a director of Metro Bank. He is a Commissioner of the Guernsey Financial Services Commission and a consultant to Arden Partners and Duff & Phelps. Lord Flight was the Member of Parliament for Arundel and South Downs from 1997-2005, Shadow Chief Secretary to the Treasury and was a member of the Shadow Cabinet during 2001-2004. He was appointed to the House of Lords in 2010 and is a working Conservative peer, focusing mainly on Treasury and EU affairs.

The Honourable James Nelson

The Honourable James Nelson has had a long career in the financial service sector, working in banking with Morgan Guaranty Trust Company of New York (the predecessor to JP Morgan) in investment management with Foreign & Colonial, where he was a director of F & C Management Limited, and in private equity with Graphite Capital Management Limited as a founding partner. He has held many non-executive directorships, more recently with the Henderson Smaller Companies Investment Trust Plc, Syncora Guarantee (UK) Limited and Intermediate Capital Group Plc. He is a past chairman of the BVCA and is currently chairman of the McGill University Trust.

Richard Martin

Richard Martin is an adviser to various family groups as well as chairman of F & C Managed Portfolio Trust plc and a director of Odysseus Capital Management Limited. He was previously CIO and adviser to T. Bailey Asset Management Limited for fourteen years. Previously he was chairman of the investment committee of the National Trust for Scotland.

Tristan Chapple

Tristan Chapple is a director of Phoenix Asset Management Partners. He joined Phoenix in 2001 as a business manager, providing support to the firm during a period of growth. In 2004 he became a research analyst and in 2010 he became a partner of Phoenix. Tristan holds a BA (War Studies) from King's College, London.

David Stevenson

David Stevenson is a columnist for the Financial Times, Investment Week and Money Week and author of a number of books on investment matters. He was the founding director of Rocket Science Group. Currently he is a director of GLI Alternative Finance Plc, a listed investment fund, AltFi Limited and AltFi Data Limited and a strategy consultant to a number of asset management firms and investment banks.

As described below under "Evaluation of Board Performance" the Board conducts a review of its strengths and weaknesses, with the aim of ensuring that there is available a good balance of attributes that are useful to the direction of the Company, in addition to the skills and commitment of the Investment Manager. The Chairman has wide and deep experience of the management and governance of investment trusts through the other relevant directorships that he holds and has held. The Honourable James Nelson and Mr Martin have a long track record of success in the fields of investment and asset management. The attributes that Mr Chapple and Mr Stevenson are able to bring to the Board were carefully considered at the time of their appointments. Mr Chapple is a member of a highly successful investment management team, while Mr Stevenson has a strong record of independent scrutiny of the markets and commentary upon them.

The Board confirms that its members are highly experienced, both generally and in respect of the direction of an investment trust, and that the backgrounds and seniority of the independent directors provide the Board with a high overall level of independence.

Evaluation of Board performance

The Board arranged for an objective evaluation of its performance during the period ended 31 December 2016 to be carried out by means of a written questionnaire circulated by the Secretary. This evaluation was completed during October-November 2016. The Board gave careful consideration to the detailed results of the survey and concluded that no major changes were required to the composition and operation of the Board.

Policy with regard to tenure and reappointment

The Board considers the benefits of experience and seniority to be particularly important and generally to help promote independent performance by directors in carrying out their duties. Therefore the Board's policy will not be to follow rigid procedures in the matter of requiring directors to cease to act either at the end of nine years' service or on reaching the age of 70.

The Directors have appointment letters which do not state any specific term. The Company's Articles of Association state that a third of the directors, or the nearest whole number not exceeding one-third, retire by rotation at each Annual General Meeting. The Company's Articles require that directors are subject to re-election at a maximum interval of three years. Also, the Listing Rules of the UK Listing Authority require a director representing the Manager, in the Company's case Mr Chapple, to stand for re-election at the AGM each year.

Further to the above requirements, the Board recognises that different shareholders may have different views on issues of tenure and reappointment. Bearing this in mind, the Board has decided as a matter of Company policy that each director will be subject to annual re-election by shareholders, although this is not a requirement of the Articles.

How the Board operates

The Board has contractually delegated to external agencies, including the Investment Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration of the quality and cost of services offered, including the financial control systems in operation in so far as they relate to the affairs of the Company. The Board undertakes no executive functions, but is responsible to shareholders for the overall strategy and performance of the Company. It reviews and evaluates all aspects of the Company's performance and all functions performed by the service providers.

There is no formal schedule of matters reserved for the Board. Such a schedule would be inappropriate since the Board decides on all aspects of the activities of the Company and is of sufficiently small size to decide upon most such matters as a full Board.

A procedure has been adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

Attendance at Board meetings

The Board holds at least four meetings a year.

During the period ended 31 December 2016 there were three full meetings of the Board. Lord Flight, The Hon James Nelson, Mr Martin, Mr Chapple and Mr Stevenson attended all of these meetings. There were also five telephone meetings to deal with Placings and other matters; Mr Martin and Mr Chapple attended all five of these meetings, Mr Stevenson four and Lord Flight and the Honourable James Nelson each attended three.

There were also four meetings of the Board's committees, as detailed below.

Board Committees

Since all directors are non-executive and the Chairman is both non-executive and independent, the Board considers that all directors may normally be present at Committee meetings even if not formally part of the quorum. On certain occasions, as described below, it is inappropriate for the representative of the Investment Manager to be involved. The main purpose of the Committees in the context of the Company's structure is that their existence ensures that time is set aside on a formal basis to cover certain important issues of governance, without those issues obscuring the flow of general Board business. Each committee has a separate chairman, as detailed under the separate headings below. The Committees have formal terms of reference, which are available to shareholders upon request from the Company's registered office.

Remuneration and Management Engagement Committee

The Board has formed a Remuneration and Management Engagement Committee, which considers the level of fees paid to directors and also considers issues related to the engagement of the Investment Manager and other service providers, making recommendations as appropriate to the Board. Since all the executive functions of the Company are delegated to service providers, issues concerning the remuneration of those functions relate to the payment of service providers rather than of directors or employees. The Committee therefore considers whether amounts paid to service providers are appropriate, with particular reference to those contracted to the Company on a continuing basis, including the Investment Manager, and whether those contracts should be maintained. The Honourable James Nelson is chairman of the Committee.

The criteria which are taken into consideration when reviewing the performance of the Investment Manager are as follows:

- The performance of the fund
- Quality of team – the skills and particularly the experience of the team involved
- Commitment to the investment trust business generally and to the Company in particular
- Investment management skills – experience, track record, use of gearing, knowledge of currency issues and other investment related considerations
- General management skills – understanding of administrative and financial issues and working relationship with the Administrator/Company Secretary
- Shareholder relations – consciousness of and commitment to shareholders' needs and objectives, share price awareness and discount management
- Reasonableness of Management Agreement – fees, notice period and duties

When considering issues related to directors' fees and the remuneration of service providers other than the Investment Manager, the Committee comprises all the directors. Mr Chapple stands down from the Committee when the management contract is under discussion.

The work of the Committee during the period ended 31 December 2016 is further described, including the number of meetings and attendance at those meetings, in the Directors' Remuneration Report.

Audit Committee

It is considered appropriate that issues related to the review of the annual financial statements, the appointment of the auditor and internal control procedures, including those of the Investment Manager and the Secretary, should be considered by those directors who are independent. Therefore the Board has formed an Audit Committee comprised of those directors who are independent of the investment manager. During the period ended 31 December 2016 the Committee comprised Lord Flight, The Honourable James Nelson, Mr Martin and Mr Stevenson. Mr Martin is chairman of the Committee.

The Audit Committee also reviews any non-audit services provided by the auditor. Such services have been limited to the provision of advice on tax compliance. The Committee considered that such advice could be more efficiently and economically provided by the same firm as that conducting the audit, particularly in view of the fact that the audit of an investment trust cannot be completed without a review of its tax status. Under the Revised Ethical Code, however, it will be necessary for the tax compliance function to be separated from the audit role. The Company has researched the market for tax compliance services and is about to appoint an alternative provider.

All members of the Committee are active in the investment markets and/or the investment trust sector and the Committee considers that all have recent and relevant financial experience.

The work of the Audit Committee during the period ended 31 December 2016, and in relation to this annual report, is described in more detail in the Audit Committee Report.

Nominations Committee

A Nominations Committee has been established by the Board, to identify and interview candidates for vacancies on the Board. It is established as a principle that this process should be led by the independent directors and the Committee comprises all independent directors of the Company. The Honourable James Nelson is chairman of the Committee, which will meet as and when required. No meetings of the Nominations Committee were held during the period ended 31 December 2016.

Relations with Shareholders and with Investee Companies

Relations with shareholders

The Investment Manager has meetings with the largest shareholders and reports back to the Board on these meetings. The Company encourages all shareholders to attend the Annual General Meeting and seeks to provide twenty working days' notice of that meeting. The Notice of Meeting sets out the business of the AGM and any item not of an entirely routine nature is explained in the Directors' Report. Separate resolutions are proposed for each substantive issue.

Exercise of voting powers

Since the Company's investments are usually in large companies and form only a small proportion of their issued capital, the Company does not have a fixed policy always to vote its holdings, but treats each case on its merits. The Board is opposed to "mindless" voting carried out merely as a box-ticking exercise and prefers that all voting should be carefully considered. The Board delegates voting of a routine nature to the Investment Manager, but retains ultimate control and the Investment Manager consults the Board with regard to any voting on controversial issues.

Internal Controls And Risk Management

Review of internal controls

The UK Corporate Governance Code requires the Board to review the effectiveness of the Company's risk management and system of internal controls. The Board recognises its ultimate responsibility for the Company's system of internal controls and for monitoring its effectiveness. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable assurance against material misstatement or loss. The Board has undertaken a review of risk management and internal control and has identified risk management controls in the key areas of business objectives, accounting, compliance, operations and secretarial as being matters of particular importance upon which it requires reports. The Board believes that the existing arrangements, set out below, represent an appropriate framework to meet the internal control requirements. By these procedures the directors have kept under review the effectiveness of the risk management and internal control system throughout the year and up to the date of this report.

Assessment by the Board of service providers

The Investment Manager and the Administrator are normally invited to attend each full meeting of the Board and have in practice done so. Between these meetings there is further, regular contact with the Investment Manager and the Administrator. The Investment Manager reports in writing to the Board on operational and compliance issues prior to each meeting, and otherwise as necessary. Directors receive and consider regular monthly reports from the Administrator, giving full details of all holdings in the portfolio and of all transactions and of all aspects of the financial position of the Company. The Administrator reports separately in writing to the Board concerning risks and internal control matters within its purview, including internal financial control procedures, compliance with investment trust rules and secretarial matters, highlighting any changes which have occurred. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Corporate Company Secretary, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

This contact with the Investment Manager and the Administrator enables the Board to monitor the Company's progress towards its objectives and encompasses an analysis of the risks involved. These matters are assessed on an ongoing basis through the year and again, formally, at year end and this process of assessment has continued up to the date of this report.

Financial Aspects of Internal Control

The directors are responsible for the internal financial control systems of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Company are safeguarded. In accordance with item C.2.1 of the UK Corporate Governance Code, the directors are responsible for making a robust assessment of the principal risks facing the Company and they have done so. As stated above, the Board has contractually delegated to external agencies the services the Company requires, but they are fully informed of the internal control framework established by the Investment Manager and the Administrator to provide reasonable assurance on the effectiveness of internal financial controls.

The key procedures include monthly production of management accounts and daily NAV calculations, monitoring of performance at regular board meetings, supervision by directors of the valuation of securities, segregation of the administrative function from that of securities and cash custody and of both from investment management, maintenance of appropriate insurance and adherence to physical and computer security procedures. In addition, the Board keeps under its own direct control all material payments out of the company other than for investment purposes.

The directors' statement of responsibilities in respect of the accounts, a statement of going concern and the report of the auditors are set out elsewhere in this document.

By Order of the Board
John Luetchford,
PraxisIFM Fund Services (UK) Limited
Company Secretary
20 April 2017

Directors' Remuneration

James Nelson
Chairman of the Remuneration and Management Engagement Committee

March 2017

The reports below on Remuneration Policy and Remuneration Policy Implementation have been prepared in accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

Ordinary resolutions for the approval of these reports will be put forward at the forthcoming Annual General Meeting. The Remuneration Policy is required to be put before shareholders for approval once every three years (unless changed, in which case the changes must be approved) and shareholder approval is mandatory. At the AGM in 2014 the resolution to approve the Remuneration Policy was passed unanimously by show of hands; the proxy voting on this resolution was 5,775,915 in favour, 15,500 discretionary on the part of the chairman, 170,000 against and 26,440 withheld.

The Remuneration Policy Implementation Report is required to be put before shareholders each year. The shareholders' vote on the Implementation Report is not binding upon the Company, but the Board and the Committee take account of any concerns that are expressed by shareholders. At the AGM in 2016, the resolution to approve the Implementation Report was passed unanimously by show of hands; the proxy voting on this resolution was 4,847,695 in favour, 2,500 discretionary on the part of the Chairman and 2,952 against.

Information not subject to audit

Remuneration Policy

Remuneration Committee

The Company has four wholly independent non-executive directors and a fifth director, Mr Chapple, who is employed by the Investment Manager. The Remuneration Committee comprises the whole Board when considering directors' fees and the remuneration of contracted service suppliers other than the Investment Manager. Mr Chapple stands down when issues related to the Investment Manager's fees are discussed.

Policy on directors' fees

It is the policy of the Board and the Committee that the remuneration of non-executive directors should be fair and should reflect the experience, work involved, responsibilities and potential liabilities of the Board as a whole. The non-executive directors' fees are determined within the maximum limit set out in the Company's Articles of Association, which currently stands at £150,000 per year. They are not eligible for bonuses, pension benefits, share benefits, share options, long-term incentive schemes or other benefits. There are no arrangements in place with respect to compensation for loss of office or recruitment incentive remuneration and directors have no entitlement to any such payments.

The Committee will keep the position under review and will consider an increase in the levels of remuneration if general market rates of remuneration for non-executive directors increase and if the Company's performance warrants it. No change is anticipated for the coming year.

Directors' service contracts

The directors do not have service contracts. The directors have appointment letters which do not state any specific term. However, the Company's Articles require that directors are subject to re-election by shareholders at a maximum interval of three years.

Statement of consideration of conditions elsewhere in the Company

The Company has no employees other than the non-executive directors of the Company. Therefore the process of consulting with employees on the setting of Remuneration Policy does not apply.

Remuneration Policy Implementation Report

The current levels of remuneration are:

Component	Director	Current annual rate	Purpose of reward	Operation
Annual fee	Chairman of the Board	£26,250	For services as Chairman of a plc	Determined by the Board
Annual fee	Other independent directors	£17,500	For services as non-executive directors of a plc	Determined by the Board
Additional fee	Chairman of the Audit Committee	£2,500	For additional responsibility and time commitment	Determined by the Board
Expenses	All directors	Not applicable	Reimbursement of expenses incurred in the performance of duties	Submission of appropriate supporting documentation

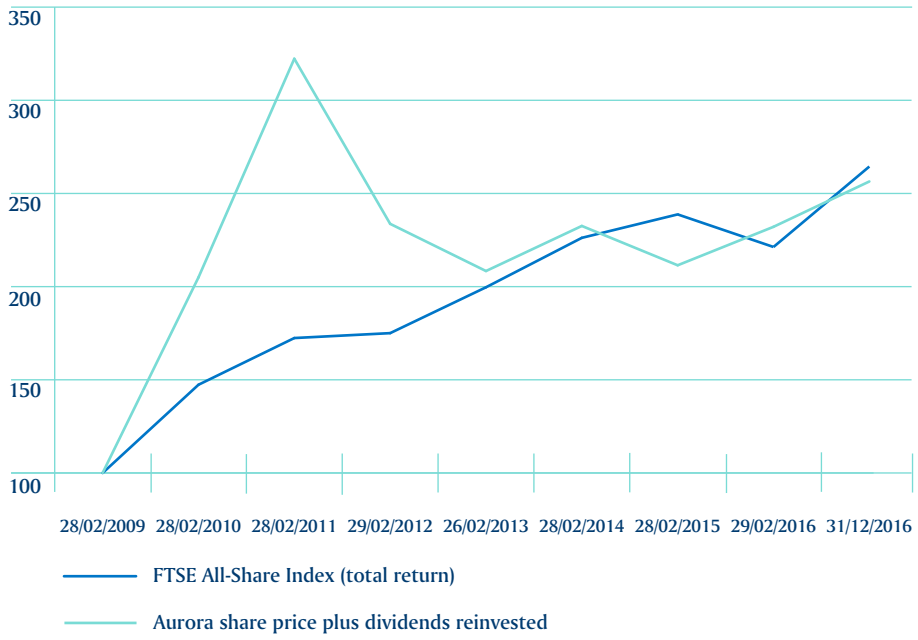
The Remuneration Committee met twice during the period ended 31 December 2016. All members of the Committee attended both meetings. It concluded that the level of fees should remain unchanged, at £26,250 per year for the Chairman, at £17,500 per year for non-executive directors other than the chairman of the Audit Committee and at £20,000 for the chairman of the Audit Committee. These recommendations were accepted by the Board.

Mr Chapple is an employee of Phoenix and it was agreed with Phoenix and Mr Chapple that he would take no remuneration from the Company.

No services have been provided by, or fees paid to, advisers in respect of remuneration policy during the year ended 31 December 2016.

Performance

The performance of the Company's shares, with dividends reinvested, is compared to that of the FTSE All-Share Index (total return) which is the Company's Benchmark.



Relative importance of spend on pay

The table below shows the proportion of the Company's income spent on pay (including NI or VAT where applicable).

	Period 1 March to 31 December 2016 £'000	Year ended 29 February 2016 £'000	Difference £'000
Revenue income receivable	944	671	273
Spend on Directors' fees*	71	84	(13)
Management fees and other expenses	237	407	(170)
Dividends paid to shareholders	187	400	(213)

The information in the table above is required by the regulations with the exception of management fees and other expenses which have been included to show the total operating expenses of the Company.

**including NI or VAT where applicable*

Information subject to audit

Directors' emoluments for the period

The following emoluments in the form of fees (excluding NI or VAT) were payable to the directors who served during the period:

	10 months to 31 December 2016 £	12 months to 28 February 2016 £
Lord Flight	21,875	26,250
The Hon. James Nelson	14,583	17,500
Richard Martin	16,667	20,000
James Barstow *(retired 28 January 2016)*	–	10,033
Tristan Chapple	–	–
David Stevenson	14,583	1,458
	67,708	75,241

Directors' Shareholdings

The Directors' shareholdings in the Company, all of which were beneficially owned, were:

	At 31 December 2016 and at the date of this report Ordinary shares	At 28 February 2016 Ordinary shares
Lord Flight	43,000	43,000
The Hon. James Nelson	20,000	20,000
R Martin	30,100	30,100
T Chapple	–	–
D Stevenson	9,466	–

During the year, no rights to subscribe for shares in or debentures of the Company or its subsidiary have been granted to, or exercised by, any director or a member of his immediate family. There are no requirements or formal guidelines in effect for directors holding shares in the Company, although the Board welcomes such holdings.

Annual statement

On behalf of the Board and in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Reports on Remuneration Policy and Remuneration Implementation summarise, as applicable, for the period to 31 December 2016:-

a. The major decisions on Directors' remuneration;
b. any substantial changes relating to Directors' remuneration made during the year; and
c. the context in which the changes occurred and decisions have been taken.

James Nelson
Chairman of the Remuneration and Management Engagement Committee
20 April 2017

Statement of Directors' Responsibilities for the Annual Report

Lord Flight
Chairman

April 2017

The directors are responsible for preparing the Strategic Report, the Directors' Report, the Remuneration Reports and the financial statements in accordance with applicable law and regulations.

Company law in the United Kingdom requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Company financial statements under International Financial Reporting Standards as adopted by the European Union. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates which are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the website used by the Company.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement under the Disclosure and Transparency Rules 4.1.12

The directors confirm that to the best of their knowledge and belief;

a. The financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer; and
b. this annual report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Having taken advice from the Audit Committee, the Directors consider that the annual report and financial statements taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

For and on behalf of the Board
Lord Flight
Chairman
20 April 2017

Audit Committee Report

Richard Martin
Chairman of the Audit Committee

April 2017

Work of the Audit Committee

During the period ended 31 December 2016 the Audit Committee met twice. Mr Martin, Mr Stevenson and The Honourable James Nelson attended both meetings. Lord Flight attended one meeting. Since 31 December 2016 the Committee has again met, on one occasion. The auditor attended this meeting, as in the corresponding meeting in the previous year, and the Committee discussed with him in detail the results of the audit of the financial statements.

Financial statements and significant accounting matters

In its meeting since 31 December 2016, the Audit Committee considered the following significant accounting issues in relation to the Company's financial statements for the period ended 31 December 2016:

Valuation of investments

The Company holds virtually all of its assets in quoted investments. The valuation of these investments is the most material matter in the production of the financial statements. The Audit Committee reviewed the procedures in place for ensuring accurate valuation of investments and discussed the valuation of the Company's investments at the year end with the Manager and the Secretary. The results of the audit in this area were discussed with the external auditor and there were no significant issues arising from this.

Financial statement presentation

The Audit Committee obtained assurances from the Manager and the Secretary that the financial statements had been prepared appropriately and questioned the external auditor on this area. There were no unresolved issues.

Going concern

The Audit Committee reviewed the Company's financial resources and concluded that it is appropriate for the Company's financial statements to be prepared on a going concern basis as described in the Directors' Report.

Conclusion with respect to the annual report and financial statements

The Audit Committee has concluded that the annual report for the period ended 31 December 2016, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's business model, strategy, position and performance. The Audit Committee has reported its conclusions to the Board of directors. The Audit Committee reached this conclusion through a process of review of the document and enquiries to the various parties involved in the production of the annual report.

Provision of non-audit services

The Audit Committee reviewed the non-audit work of the auditor and does not consider that this compromises its independence. Non-audit work during the period ended 31 December 2016 consisted of tax compliance services. Such services are considered on a case-by-case basis and may only be provided to the Company if their provision is at a reasonable and competitive cost and does not constitute a conflict of interest or potential conflict of interest which would prevent the auditor from remaining objective and independent. Under the Revised Ethical Code it will be necessary for the tax compliance function to be separated from the audit role. The Company has researched the market for tax compliance services and is about to appoint an alternative provider.

Effectiveness of external audit

The Audit Committee is responsible for reviewing the effectiveness of the external audit process. The Audit Committee received a presentation of the audit plan from the external auditor prior to the commencement of the audit and a presentation of the results of the audit following completion of the main audit testing. The Audit Committee performed a review of the external auditor following the presentation of the results of the audit. The review included a discussion of the audit process and the ability of the external auditor to fulfil its role.

A recent EU Directive requires that a review of the auditor be carried out after 10 years' service. As Grant Thornton UK LLP had served as auditor to the Company and Group for fifteen years, (including the period when its predecessor Robson Rhodes LLP was in office) the Committee decided that the audit should be placed out to tender.

A full review of the audit service on a competitive basis was therefore conducted during the period commenced on 1 March 2016. The Committee considered the proposal put forward for the continuation of the audit function put forward by Grant Thornton by comparison to a proposal offered by a competitor firm. While the alternative proposal was of interest, the Committee concluded that the Grant Thornton proposal was itself satisfactory and there was no advantage to be gained by a change that was sufficient to justify the additional effort involved.

Following the review, the Audit Committee agreed that the re-appointment of Grant Thornton for a further period ending in December 2024, as permitted by the EU Directive, should be recommended to the Board and the shareholders of the Company.

Richard Martin
Chairman of the Audit Committee
20 April 2017

Independent Auditors' Report to the Members of Aurora Investment Trust Plc

Christopher Smith
Senior Statutory Auditor
for and on behalf of
Grant Thornton UK LLP
Statutory Auditor,
Chartered Accountants
London

April 2017

Our opinion on the financial statements is unmodified

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the period from 1 March 2016 to 31 December 2016;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Who we are reporting to

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

What we have audited

Aurora Investment Trust plc's financial statements for the period ended 31 December 2016 comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Overview of our audit approach

- Overall materiality: £514,000, which represents 1% of the Company's net assets before taxation; and
- Key audit risks were identified as existence and valuation of investments and change in accounting system.

Our assessment of risk

In arriving at our opinions set out in this report, we highlight the following risks that, in our judgement, had the greatest effect on our audit:

Audit risk	How we responded to the risk
Existence and valuation of investments The Company's investment objective is to generate long-term shareholders returns, through capital and income growth by investing in UK listed securities. As at the period-end, the Company holds number of quoted investments. There is a risk that the investments valuation recorded in the statement of financial position may be incorrectly valued. There is also a risk that investments shown in the statement of financial position may not exist. Accordingly, we have identified existence and valuation of investments as risks that required particular audit attention.	**Our audit work included, but was not restricted to:** • assessing whether the Company's accounting policy for quoted investments is in accordance with the requirements of IFRS as adopted by the EU and the AIC SORP and testing whether the Company has accounted for such investments in accordance with the policy; • comparing the investments holdings to the independent confirmation from the Company's custodian; and • comparing the valuation to an independent source of market prices. The Company's accounting policy on investments, including their valuation, is shown in Note 1(c) and its disclosures about investment movements are included in Note 10. The Audit Committee identified valuation of investments as a significant accounting issue in its report on page 42 where the Committee also described the action that it has taken to address this issue.
Change in accounting system During the period the Company changed accounting system from previously used ICON to Accufund. Due to this transition, there is a risk that the balances may not have been correctly brought forward during the period from ICON to Accufund and end of the period balances may be materially misstated.	**Our audit work included, but was not restricted to:** • obtaining management's transition working papers in order to understand if there were any exceptions or issues were noted; and • agreeing the account balances from the management transition working papers to the reports generated from ICON and Accufund.

Our application of materiality and an overview of the scope of our audit

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the financial statements as a whole to be £514,000, which is 1% of the Company's net assets. This benchmark is considered the most appropriate because net assets, which are primarily composed of the Company's investment portfolio, is considered to be the key driver of the Company's total return performance.

Materiality for the current period is higher than the level that we determined for the year ended 29 February 2016 to reflect increase in the balance of net assets from £18.4 million as at 29 February 2016 to £51.4 million as at 31 December 2016.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality. We also determine a lower level of specific materiality for certain areas such as investment income, directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the audit committee to be £25,000. In addition, we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Overview of the scope of our audit

A description of the generic scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

We conducted our audit in accordance with International Standards on Auditing (ISAs) (UK and Ireland). Our responsibilities under those standards are further described in the 'Responsibilities for the financial statements and the audit' section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with the Auditing Practices Board's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with those Ethical Standards.

Our audit approach was based on a thorough understanding of the Company's business and is risk based, and in particular included:

- Obtaining an understanding of and evaluating internal controls at the Company, the Alternative Investment Fund Manager (AIFM) and other third party service providers; and
- Undertaking substantive testing on significant transactions, account balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the use of service organisations, the design effectiveness of controls over individual systems and the management of specific risks.

Other reporting required by regulations

Our opinions on other matters prescribed by the Companies Act 2006 are unmodified

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;

- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the Strategic Report or the Directors' Report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the Company.

Under the Listing Rules, we are required to review:

- the directors' statements in relation to going concern and longer-term viability set out on page 17 and 27 respectively; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to report to you if:

- we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable; or
- the annual report does not appropriately disclose those matters that were communicated to the audit committee which we consider should have been disclosed.

We have nothing to report in respect of any of the above matters.

We also confirm that we do not have anything material to add or to draw attention to in relation to:

- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the financial statements about whether they have considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Responsibilities for the financial statements and the audit

What the directors are responsible for:

As explained more fully in the Statement of Directors' Responsibilities set out on page 40, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

What we are responsible for:

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
20 April 2017

Finance

Statement of Comprehensive Income

For the period ended 31 December 2016

		Period from 1 March 2016 to 31 December 2016			Year ended 29 February 2016		
		Revenue	Capital	Total	Revenue	Capital	Total
Notes		£'000	£'000	£'000	£'000	£'000	£'000
14	Profits/(losses) on investments designated at fair value through profit or loss	–	2,144	2,144	–	(826)	(826)
2	Investment income	944	–	944	671	–	671
	Total income	944	2,144	3,088	671	(826)	(155)
3	Investment management fees	–	125	125	(66)	(191)	(257)
3	Other expenses	(308)	–	(308)	(341)	-	(341)
	Profit/(loss) before finance costs and tax	636	2,269	2,905	264	(1,017)	(753)
6	Finance costs	–	–	–	(57)	(57)	(114)
	Provision for gains/(losses) on investment in subsidiary	–	–	–	–	380	380
	Profit/(loss) before tax	636	2,269	2,905	207	(694)	(487)
7	Tax	–	–	–	(3)	–	(3)
	Profit/(loss) and total comprehensive income for the period	636	2,269	2,905	204	(694)	(490)
9	Earnings per share	3.00p	10.72p	13.72p	1.95p	(6.66p)	(4.71p)

The revenue and capital columns, including the revenue and capital earnings per share data, are supplementary information prepared under guidance published by the AIC.

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the period. All revenue is attributable to the equity holders of the Company.

The comparative period is not directly comparable to the period ended 31 December 2016, being of twelve months as compared to ten months.

The Board has declared an interim dividend of 2.00p per share (see note 8).

The notes on pages 55 to 67 form part of these accounts.

Balance Sheet

At 31 December 2016

Approved by the Board of Directors on 20 April 2017 and signed on their behalf by:
Lord Flight
Richard Martin
Company no. 03300814

Notes		31 December 2016 £'000	29 February 2016 £'000
	NON-CURRENT ASSETS		
10	Investments designated at fair value through profit or loss	49,849	14,445
		49,849	14,445
	CURRENT ASSETS		
	Other receivables	251	51
	Cash and cash equivalents	1,403	4,145
		1,654	4,196
	TOTAL ASSETS	51,503	18,641
	CURRENT LIABILITIES:		
	Other payables	65	201
		65	201
	TOTAL ASSETS LESS CURRENT LIABILITIES	51,438	18,440
	EQUITY		
12	Called up share capital	7,448	3,598
	Capital redemption reserve	179	179
	Share premium account	32,557	10,997
14	Investment holding gains/(losses)	2,111	(4,371)
14	Other capital reserves	8,208	7,551
	Revenue reserve	935	486
	TOTAL EQUITY	51,438	18,440
15	Net assets per ordinary share	172.66p	162.30p

In the balance sheet as at 29 February 2016 an amount of £1,513,000 arising from the sale of treasury shares has been reclassified from share premium account to other capital reserves.

The notes on pages 55 to 67 form part of these accounts.

Statement of Changes in Equity

Period to 31 December 2016

Notes		Share capital	Capital redemption reserve	Share premium account	Investment holding losses	Other capital reserves	Revenue reserve	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Opening equity	3,598	179	10,997	(4,371)	7,551	486	18,440
	Total comprehensive income/(loss) for the year	–	–	–	6,482	(4,213)	636	2,905
	Sale of shares from treasury	–	–	–	–	4,870	–	4,870
	Issue of new shares	3,850	–	21,861	–	–	–	25,711
	Share issue costs	–	–	(301)	–	–	–	(301)
8	Dividends paid	–	–	–	–	–	(187)	(187)
	Closing equity	7,448	179	32,557	2,111	8,208	935	51,438

The notes on pages 55 to 67 form part of these accounts.

Statement of Changes in Equity continued

Year to 29 February 2016

Notes		Share capital	Capital redemption reserve	Share premium account	Investment holding losses	Other capital reserves	Revenue reserve	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Opening equity	3,598	179	10,997	(8,505)	10,866	682	17,817
	Total comprehensive income/(loss) for the year	–	–	–	2,363	(3,057)	204	(490)
11	Provision for losses on investment in subsidiary	–	–	–	1,771	(1,771)	–	–
	Sale of shares from treasury	–	–	–	–	1,513	–	1,513
8	Dividends paid	–	–	–	–	–	(400)	(400)
	Closing equity	3,598	179	10,997	(4,371)	7,551	486	18,440

In the statement of changes in equity for the year ended 29 February 2016 an amount of £1,513,000 arising from the sale of treasury shares has been reclassified from share premium account to other capital reserves.

The notes on pages 55 to 67 form part of these accounts.

Cash Flow Statement

For the period ended 31 December 2016

	Period from 1 March 2016 to 31 December 2016	Year to 29 February 2016
	£'000	£'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		
Cash inflow from investment income and interest	747	660
Cash outflow from management expenses	(322)	(400)
Payments to acquire non-current asset investments	(36,198)	(14,162)
Receipts on disposal of non-current asset investments	2,938	20,133
Foreign exchange difference received	–	1
Tax paid	–	(3)
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(32,835)	6,229
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease/(increase) in loans advanced to subsidiary	–	771
CASH FLOWS FROM FINANCING ACTIVITIES		
Issues of new shares	25,410	–
Sale of treasury shares	4,870	1,513
Dividends paid	(187)	(400)
Decrease in bank borrowings	–	(4,000)
Finance charges and interest paid	–	(113)
NET CASH FLOW FROM FINANCING ACTIVITIES	30,093	(3,000)
(DECREASE)/INCREASE IN CASH	(2,742)	4,000
Cash and cash equivalents at beginning of year	4,145	145
(Decrease)/increase in cash	(2,742)	4,000
Cash and cash equivalents at end of year	1,403	4,145

The comparative period is not directly comparable to the period ended 31 December 2016, being of twelve months as compared to ten months.

The notes on pages 55 to 67 form part of these accounts.

Notes to the Financial Statements

1. Accounting Policies

Basis of Accounting

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect, and to the extent that they have been adopted by the European Union.

Under IFRS, the AIC Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in November 2014 and updated in January 2017 has no formal status, but the Company adheres to the guidance of the SORP.

The accounting policies are unchanged from those used in the last annual financial statements except where otherwise stated. The particular accounting policies adopted are described below:

a. Accounting Convention

The accounts are prepared under the historical cost basis, except for the measurement of fair value of investments.

b. Subsidiary

The accounts are of the Company and do not consolidate its former subsidiary AIT Trading Limited ("AIT"). AIT became inactive during the year ended 29 February 2016 and has now been dissolved. There were no assets as at 29 February 2016.

c. Investments

As the Company's business is investing in financial assets with a view to profiting from their total return in the form of increases in fair value, investments are designated as fair value through profit or loss on initial recognition in accordance with IAS 39. At this time, fair value is the consideration given, excluding material transaction or other dealing costs associated with the investment.

After initial recognition such investments are valued at fair value. For quoted investments this is established by reference to bid, or last, market prices depending on the convention of the exchange on which the investment is quoted. Gains or losses are recognised in the capital column of the Statement of Comprehensive Income. All purchases and sales of investments are accounted for on a trade date basis.

d. Income from Investments

Investment income from ordinary shares is accounted for on the basis of ex-dividend dates. Income from fixed interest shares and securities is accounted for on an accruals basis using the effective interest method. Special Dividends are assessed on their individual merits and are credited to the capital column of the Statement of Comprehensive Income if the substance of the payment is a return of capital; with this exception all investment income is taken to the revenue column of the Statement of Comprehensive Income. Income from gilts and bank interest receivable is accounted for on an accruals basis using the effective yield.

e. Capital Reserves

The Company is not precluded by its Articles from making any distribution of capital profits by way of dividend, but the Directors have no current plans to do so. Profits and losses on disposals of investments are taken to the other capital (gains on disposal) reserve. Revaluation movements are taken to the investment holding reserve via the capital column of the Statement of Comprehensive Income.

1. Accounting Policies continued

f. Investment Management Fees, Finance Costs and Other Costs

Performance-related fees are charged to other capital reserves (gains on disposal) via the capital column of the Statement of Comprehensive Income. Other costs are normally charged to revenue, unless there is a compelling reason to charge to capital. Tax relief in respect of costs allocated to capital is credited to capital via the capital column of the Statement of Comprehensive Income on the marginal basis.

g. Taxation

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. In addition, tax losses available to be carried forward as well as other income tax credits are assessed for recognition as deferred tax assets.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply at their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity.

h. Foreign currency

The currency of the primary economic environment in which the Company operates (the functional currency) is pounds sterling ("Sterling"), which is also the presentational currency of the Company. Transactions involving currencies other than Sterling are recorded at the exchange rate ruling on the transaction date. At each balance sheet date, monetary items and non-monetary assets and liabilities, which are fair valued and which are denominated in foreign currencies, are retranslated at the closing rates of exchange. Such exchange differences are included in the Statement of Comprehensive Income and allocated to capital if of a capital nature or to revenue if of a revenue nature. Exchange differences allocated to capital are taken to gains on disposal or investment holding losses, as appropriate.

i. Cash and cash equivalents

Cash and Cash Equivalents in the Cash Flow Statement comprise cash held at bank.

j. Dividends payable to equity shareholders

Dividends payable to equity shareholders are recognised in the Statement of Changes in Equity when they are paid, or have been approved by shareholders in the case of a final dividend.

k. Judgements and estimations

The directors have reviewed matters requiring estimation and/or judgement. The preparation of the financial statements requires management to make judgements, estimations and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the year. However, the nature of the estimation means that actual outcomes could differ from those estimates. There are no judgements or estimates that have had a significant effect on amounts recognised in the financial statements.

2. Income

	Period from 1 March to 31 December 2016	Year to 29 February 2016
	£'000	£'000
Income from investments:		
Franked dividends from listed or quoted investments	795	368
Unfranked income from overseas dividends	149	209
Income from listed fixed interest securities	–	209
Interest income from subsidiary company	–	55
	944	671
Other income:		
Bank interest receivable	–	–
	944	671

3. Investment Management Fees and Other Expenses

	Period from 1 March to 31 December 2016			Year to 29 February 2016		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fees						
– monthly	–	–	–	66	66	132
– performance	–	(125)	–	–	125	125
	–	(125)	–	66	191	257
Administration fees	79	–	79	76	–	76
Depository/custodian fees	60	–	60	–	–	–
Registrar's fees	22	–	22	20	–	20
Directors' fees	71	–	71	83	–	83
Auditors' fees – audit of the Company	29	–	29	33	–	33
– audit of the subsidiary	–	–	–	2	–	2
– audit-related assurance services	–	–	–	9	–	9
Write off of investment income from subsidiary company	–	–	–	39	–	39
Miscellaneous expenses	47	–	47	79	–	79
Total other expenses	308	–	308	341	–	341

All expenses include any relevant irrecoverable VAT. The amounts excluding VAT paid or accrued for the audit of the Company are £24,500 (2015: £27,000). The Company formerly paid for the audit of the subsidiary, for which £2,000 was accrued in the Company's accounts at 29 February 2016.

4. Directors' Fees

The fees paid or accrued were £67,708 *(year to 29 February 2016: £75,241)*. There were no other emoluments. The gross figures shown for directors' fees in note 3 above include employers' National Insurance charges or VAT, as appropriate. Full details of the fees of each director are given in the Directors' Remuneration Report.

5. Transaction Charges

	Period to 31 December 2016	Year to 29 February 2016
	£'000	£'000
Transaction costs on purchases of investments	196	96
Transaction costs on sales of investments	4	46
Total transaction costs included in gains or losses on investments at fair value through profit or loss	200	142

6. Finance Costs

	Period to 31 December 2016			Year to 29 February 2016		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Interest payable	–	–	–	30	30	60
Facility and arrangement fees and other charges	–	–	–	27	27	54
	–	–	–	57	57	114

7. Taxation

	Period to 31 December 2016			Year tod 29 February 2016		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Corporation tax	–	–	–	–	–	–
Overseas tax	–	–	–	3	–	3
Tax charge in respect of the current year	–	–	–	3	–	3

Current taxation

The taxation charge for the year is different from the standard rate of corporation tax in the UK (20%). The differences are explained below:

7. Taxation continued

	Period to 31 December 2016	Year to 29 February 2016
	£'000	£'000
Total profit/(loss) before tax	2,905	(487)
Theoretical tax at UK corporation tax rate of 20.00% (20.09%)	581	(98)
Effects of:		
Capital gains or losses that are not taxable	(479)	140
UK dividends which are not taxable	(159)	(74)
Overseas dividends that are not taxable	(30)	(42)
Increase in excess tax losses	62	124
Expenses charged to capital account for which a deduction is claimed	25	(50)
Overseas tax written off/(recovered)	–	3
Actual current tax	–	3

The Company is an investment trust and therefore is not charged to tax on capital gains.

Factors that may affect future tax charges

The Company has tax losses of £8,805,985 *(£8,623,228)* in respect of management expenses and of £1,490,706 *(£1,490,706)* in respect of loan interest. These amounts are available to offset future taxable revenue. A deferred tax asset has not been recognised in respect of those expenses and will be recoverable only to the extent that the Company has sufficient future taxable revenue.

8. Ordinary Dividends

	Period to 31 December 2016	Year to 29 February 2016
	£'000	£'000
Dividends reflected in the financial statements:		
Final dividend paid for the year 2016 at 1.00p per share (2015: 3.85p)	187	400
Dividends not reflected in the financial statements:		
Final dividend for the year 2016 of 1.00p per share	–	187
Interim dividend for the year 2017 at 2.00p per share	615	–

The Company will file Interim Accounts at Companies House prior to making payment of the interim dividend.

9. Earnings per Share

Earnings per share are based on the profit of £2,905,495 *(loss £490,295)* attributable to the weighted average of 21,166,160 *(10,411,919)* ordinary shares of 25p in issue during the year, excluding shares held in Treasury.

Supplementary information is provided as follows: revenue earnings per share are based on the revenue profit of £636,037 *(profit £203,622)*; capital earnings per share are based on the net capital profit of £2,269,458 *(loss £693,917)*, attributable to 21,166,160 *(10,411,919)* ordinary voting shares of 25p.

10. Investments Designated at Fair Value Through Profit or Loss

	31 December 2016	29 February 2016
	£'000	£'000
UK listed securities	49,206	14,445
Securities traded on AIM	643	–
Total non-current investments designated at fair value through profit or loss	49,849	14,445
Movements during the year:		
Opening balance of investments, at cost	18,816	29,942
Additions, at cost	36,198	14,160
Disposals – proceeds received or receivable	(2,938)	(20,124)
– add realised losses/less realised profits	(4,338)	(3,196)
– at cost	(7,276)	(23,320)
Investment in subsidiary	–	(1,966)
Cost of investments designated at fair value through profit or loss at 31 December/29 February	47,738	18,816
Revaluation of investments to market value:		
Opening balance	(4,371)	(8,505)
Increase/(decrease) in unrealised appreciation debited to investment holding reserve	6,482	2,363
Provision for write-off of investment in subsidiary	–	1,771
Balance at 29 February	2,111	(4,371)
Market value of non-current investments designated at fair value through profit or loss at 29 February	49,849	14,445

11. Subsidiary

The Company formerly had an investment in AIT Trading Limited (AIT), which was a wholly owned subsidiary registered in England and Wales. The investment comprised two ordinary shares of £1 each. AIT undertook purchases of investments for re-sale in the shorter term, with the objective of achieving a trading profit.

AIT ceased trading during the year ended 29 February 2016. The Company wrote off its investment in AIT and AIT has now been dissolved. The inclusion of AIT in the Company's accounts would not be material for the purpose of giving a true and fair view.

The profit before tax of AIT for the year ended 29 February 2016 was £341,213. The net deficit of AIT written off during the year ended 29 February 2016 was £1,430,702 and at 29 February 2016 the net assets of AIT were Nil. No dividend was paid from AIT to the Company.

	Year ended 29 February 2016
	£'000
Loan to AIT	1,196
Loan written off	(1,196)
Net Investment in subsidiary	–
Other receivables:	
Loan interest	235
Interest written off	(235)
Other receivables	–
Provision for gains/(losses) on investment in subsidiary:	
Provision brought forward	(1,772)
Movement in provision – capital	380
– revenue	(39)
Provision written off	(1,431)

12. Share Capital

		At 31 December 2016	At 29 February 2016
Allotted, called up and fully paid	Number	29,792,305	14,391,389
Ordinary shares of 25p	£'000	7,448	3,598

The Company did not purchase any of its own shares during the period ended 31 December 2016 or the year ended 29 February 2016. No shares were cancelled during either year.

During the period ended 31 December 2016 3,029,520 shares were sold from Treasury for a gross amount of £4,882,617 *(year ended 29 February 2016 964,810 sold from Treasury)*. No shares were held in Treasury at 31 December 2016 *(29 February 2016 3,029,520 held in Treasury)*.

12. Share Capital continued

The Company issued a prospectus dated 22 March 2016. This provided for a Placing on 29 March 2016 and an ongoing Placing Programme, under which up to 55 million further shares could be issued from time to time during the period from 30 March 2016 to 21 March 2017. The price at which shares may be issued under this Programme is the NAV per share at the time of issue plus a premium to cover the expenses of the issue as determined by the Board at the time of each issue.

In the Placing dated 29 March 2016 the Company raised a gross amount of £8,098,079 for the issue of 4,858,750 new shares. Two further Placings were carried out during the period ended 31 December 2016: on 1 September 2016 5,965,750 new shares were issued for a gross amount of £9,774,881 and on 22 December a gross amount of £7,217,269 was raised for 4,200,727 new shares.

The Company also put in place a block listing facility for up to 3,850,028 new shares, to meet market demand arising from time to time. Under this facility a total of 375,689 new shares were issued in the period ended 31 December 2016, for a gross consideration of £620,560.

At 31 December 2016, the Company had 29,792,305 *(29 February 2016 14,391,389)* shares in issue. The number of voting shares at 31 December was 29,792,305 *(29 February 2016 11,361,869)*.

13. Total Equity

Total Equity includes, in addition to Share Capital, the following reserves:

Capital Redemption Reserve. When any shares are redeemed or cancelled, a transfer of realised profit must be made to this reserve in order to maintain the level of capital that is not distributable.

Share Premium Account. When shares are issued at a premium to their nominal value, the "capital profit" arising on their allotment must be held in a Share Premium Account, which is not distributable in the ordinary course and may be utilised only in certain limited circumstances.

Capital profits arising from the Company's investment transactions are held as Capital Reserves, subdivided between Gains on Disposal for profits arising upon sales of investments and Investment Holding gains/losses for portfolio revaluations. The movements on this account are analysed in note 14 below.

The Company's Revenue Reserves are the net profits that have arisen from the Company's revenue income in the form of dividends and interest, less operating expenses and dividends paid out to the Company's shareholders.

14. Capital Reserves

	31 December 2016	29 February 2016
	£'000	£'000
Investment holding gains/(losses)		
Opening balance	(4,371)	(8,505)
Revaluation of investments – listed	6,482	2,362
Exchange differences	–	1
Provision for impairment of holding in subsidiary	–	1,771
Balance of investment holding gains/(losses) account at 31 December (29 February)	2,111	(4,371)
Other capital reserves		
Opening balance	7,551	10,866
Net gains and losses on realisation of investments	(4,370)	(3,189)
Capital distributions received	32	–
Provision for gains and losses on subsidiary	–	380
Expenses of capital management: management fees	125	(191)
Finance costs	–	(57)
Total of realised gains and losses reflected in the Statement of Comprehensive Income	(4,213)	(3,057)
Write-off of holding in subsidiary	–	(1,771)
Sale of treasury shares	4,870	1,513
Total gains and losses of other capital reserves	657	(3,315)
Balance of other capital reserves	8,208	7,551
Total capital reserves	10,319	3,180

15. Net Assets per Ordinary Share

The figure for net assets per ordinary share is based on £51,438,261 *(29 February 2016: £18,440,457)* divided by 29,792,305 *(29 February 2016: 11,361,869)* voting ordinary shares in issue at 31 December 2016.

16. Reconciliation of Profit before Finance Costs and Tax to Net Inflow from Operating Activites

	Period to 31 December 2016	Year to 29 February 2016
	£'000	£'000
Profit/(loss) before finance costs and tax	2,905	(753)
(Increase)/decrease in non-current investments	(35,404)	6,798
Decrease/(increase) in other receivables	(200)	60
(Decrease)/increase in other payables	(136)	127
Taxation (paid)/recovered	–	(3)
Net cash inflow from operating activities	(32,835)	6,229

17. Related Party Transactions

Details of transactions with AIT Trading Limited are set out in note 11.

Details of the management, administration and secretarial contracts can be found in the Directors' Report. Mr Chapple is a director of the company and an employee of Phoenix. Fees payable to Phoenix and, prior to 28 January 2016, to Mars are shown in note 3.

Other payables include accruals of administration fees of £8,056 *(At 29 February 2016 £15,842 for two months)*.

No provision has been made for a performance fee at 31 December 2016 *(At 29 February £124,821)*. Any performance fee would be payable in shares after the end of the performance fee period, but the amount that would have be payable is provided in the accounts as an equivalent value of money. All figures include any appropriate VAT.

18. Financial Assets/Liabilities

Investments are carried in the balance sheet at fair value. For other financial assets and financial liabilities, the balance sheet value is considered to be a reasonable approximation of fair value.

Financial assets

The Company's financial assets may include equity investments, fixed interest securities, short-term receivables and cash balances. The currency and cash-flow profile of those financial assets was:

	31 December 2016			29 February 2016		
	Interest bearing	Non-interest bearing	Total	Interest bearing	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Non-current investments at fair value through profit or loss:						60
£ sterling equities	–	49,849	49,849	–	14,445	14,445
	–	49,849	49,849	–	14,445	14,445
Cash at bank:						
Floating rate – £ sterling	–	1,403	1,403	–	4,145	4,145
	–	1,403	1,403	–	4,145	4,145

Cash at bank includes £1,393,316 *(29 February 2016: £4,090,097)* held by the Group's Depository, BNP Paribas.

18. Financial Assets/Liabilities continued

Financial liabilities

The Company finances its investment activities through its ordinary share capital and reserves. It has discontinued the use of borrowing for such purposes. The Company's financial liabilities comprise short-term trade payables. Foreign currency balances are stated in the accounts in sterling at the exchange rate as at the Balance Sheet date.

The Company no longer uses borrowing for investment management purposes. Its facility from Coutts & Co was cancelled by mutual agreement on 2 November 2015.

The currency and cash-flow profile of the financial liabilities of the Company was:

	31 December 2016	29 February 2016
	£'000	£'000
Non interest bearing:		
Short term trade payables	–	–
	–	–

19. Financial Instruments – Risk Analysis

The general risk analysis undertaken by the Board and its overall policy approach to risk management are set out in the Strategic Report. Issues associated with portfolio distribution and concentration risk are discussed in the Investment Policy section of the Strategic Report. This note, which is incorporated in accordance with accounting standard IFRS7, examines in greater detail the identification, measurement and management of risks potentially affecting the value of financial instruments and how those risks potentially affect the performance and financial position of the Company.

The risks concerned are categorised as follows:

a. Potential Market Risks, which are principally
   i. Currency Risk
   ii. Interest Rate Risk and
   iii. Other Price Risk.
b. Liquidity Risk
c. Credit Risk

Each is considered in turn below:

A (i) Currency Risk

The portfolio as at 31 December 2016 was invested entirely in sterling securities and there was no currency risk arising from the possibility of a fall in the value of sterling impacting upon the value of investments or income.

The Company had no foreign currency borrowings at 31 December 2016 or 29 February 2016 and no sensitivity analysis is presented for this risk.

A (ii) Interest Rate Risk

The Company did not hold fixed interest securities at 31 December 2016 or 29 February 2016.

With the exception of cash, no interest rate risks arise in respect of any current asset. All cash held as a current asset is sterling denominated, earning interest at the bank's or custodian's variable interest rates.

The Company had no borrowing at 31 December 2016 or 29 February 2016.

A (iii) Other Price Risk

The principal price risk for the Company is the price volatility of shares that are owned by the Company. As described in the Investment Manager's Review, the Company spreads its investments across different sectors and geographies, but, as shown by the Portfolio Analysis in the Business Review, the Company may maintain relatively strong concentrations in particular sectors selected by the Investment Manager.

19. Financial Instruments – Risk Analysis continued

B Liquidity Risk

Liquidity Risk is considered to be small, because the portfolio is invested in readily realisable securities. As a consequence, cash flow risks are also considered to be small. The Manager estimates that, under normal market conditions and without causing excessive disturbance to the prices of the securities concerned, the majority of the portfolio could be realised within 7 days.

C Credit Risk

The Company invests in quoted equities and fixed interest securities. The Company's investments are held by BNP ("the Depository"), which is a large international bank with a high reputation. The Company's normal practice is to remain fully invested at most times and not to hold very large quantities of cash. At 31 December 2016, cash at bank comprised £1,393,316 *(29 February 2016: £4,090,097)* held by the Depository and £10,078 held by Coutts & Co *(29 February 2016: £54,557)*, also part of a large international bank with a very high credit rating.

Credit Risk arising on transactions with brokers relates to transactions awaiting settlement. This risk is considered to be very low because transactions are almost always undertaken on a delivery versus payment basis with member firms of the London Stock Exchange.

D Capital management policies and procedures

The Company's capital management objectives are:

- to ensure the Company's ability to continue as a going concern; and
- to provide an adequate return to shareholders

by pursuing investment policies commensurately with the level of risk.

The Company monitors capital on the basis of the carrying amount of equity, less cash and cash equivalents as presented on the face of the statement of financial position.

The Company sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders (within the statutory limits applying to investment trusts), return capital to shareholders, issue new shares, or sell assets.

20. Fair Value Hierarchy

Under IFRS13 investment companies are required to disclose the fair value hierarchy that classifies financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair values.

Classification	Input
Level 1	Valued using quoted prices in active markets for identical assets
Level 2	Valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1
Level 3	Valued by reference to valuation techniques using inputs that are not based on observable market data

19. Financial Instruments – Risk Analysis continued

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

	31 December 2016	29 February 2016
Level 1	49,849	14,445
Level 2	–	–
Level 3	–	–

21. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

The Company intends to adopt these standards (where applicable) when they become effective.

- IFRS 9 Financial Instruments – classification and measurement of financial assets and financial liabilities as defined in IAS39 (IASB effective date 1 January 2018).

It is not expected that the adoption of IFRS 9 will have any significant effect upon the Company.

22. Post Balance Sheet Date Events

Since 31 December 2016 the Company has made further issues from its block listing facility of 1,134,000 new shares.

The Company has effected on 15 March 2017 a further Placing of 2,352,913 new shares.

As at 20 April 2017 the Company has 33,279,218 shares in issue and the number of voting shares is 33,279,218.

Notice of Meeting

By Order of the Board
PraxisIFM Fund Services (UK) Limited
Company Secretary

Registered Office:
Mermaid House
2 Puddle Dock
London EC4V 3DB

20 April 2017

Notice is hereby given that the Annual General Meeting of Aurora Investment Trust plc will be held at 30 Finsbury Square, London EC2P 2YU on 8 June 2017, at 12.00 noon, for the following purposes:

To consider, and if thought fit pass, the following resolutions, of which resolutions 1 to 9 and 11 will be proposed as ordinary resolutions and resolutions 10 and 12 will be proposed as special resolutions.

1. To receive and adopt the financial statements for the period ended 31 December 2016, with the reports of the directors and auditors thereon.
2. To re-elect Lord Flight as a director of the Company.
3. To re-elect The Honourable James Nelson as a director of the Company.
4. To re-elect Mr Martin as a director of the Company.
5. To re-elect Mr Chapple as a director of the Company.
6. To re-elect Mr Stevenson as a director of the Company.
7. To re-appoint Grant Thornton UK LLP as auditors to the Company and to authorise the directors to fix their remuneration.
8. To approve the Directors' Remuneration Policy.
9. To approve the Directors' Remuneration Implementation Report.
10. THAT the Company be and is hereby generally authorised in accordance with section 701 of the Companies Act 2006 ("the Act") to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares of 25p each in the capital of the Company ("Ordinary Shares") provided that:

a. the maximum number of Ordinary Shares hereby authorised to be purchased shall be 14.99% of the issued share capital of the Company at the date of passing this resolution;
b. the minimum price which may be paid for an Ordinary Share is 25p;
c. the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotations for an Ordinary Share taken from the Daily Official List of the UK Listing Authority for the 5 business days immediately preceding the day on which the Ordinary Share is purchased;
d. the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2018 or, if earlier, on the expiry of 12 months from the passing of this resolution, unless such authority is varied, revoked or renewed prior to such time; save that the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

11. THAT the directors be and are hereby generally and unconditionally authorised, pursuant to and in accordance with section 551 of the Act, to exercise all powers of the Company to allot shares in the Company up to an aggregate nominal amount of £585,085 PROVIDED THAT this authority shall expire (unless previously varied, revoked or renewed by the Company in general meeting) 15 months after the date of the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, whichever should first occur, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.
12. THAT, subject to the passing of resolution 11, the directors be and are hereby empowered, pursuant to section 570 of the Act, to allot equity securities (as defined in section 560 of the Act) for cash either pursuant to the authority conferred by resolution 11 or by way of a sale of treasury shares, as if Section 561 of the Act did not apply to any such allotment or sale, provided that this power:

a. shall expire (unless previously varied, revoked or renewed by the Company in general meeting) 15 months from the passing of this resolution, or at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, whichever is earlier, save that the Company may before such expiry make an or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot equity securities (including by way of sale of treasury shares) as if such expiry had not occurred; and
b. shall be limited to the allotment of equity securities up to an aggregate nominal value of £585,085.

Notes

1. Proxies

A member is entitled to appoint another person as his proxy to exercise all or any of his rights to attend to speak and to vote at the meeting. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company. Forms of proxy need to be deposited with the Company's registrar, Capita Registrars at 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 48 hours before the time of the meeting. Completion of a form of proxy will not preclude a member from attending and voting in person at the meeting. CREST members may utilise the CREST proxy appointment service by following the directions set out in the form of proxy enclosed with this document.

2. Right to attend and vote

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that in order to have the right to attend and vote at the meeting (and also for the purpose of determining how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the Company at 6.00 p.m. on 6 June 2017 or, in the event of any adjournment, at 6.00 p.m. on the date which is two days before the day of the adjourned meeting. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

3. Corporate members

In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – http://www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

4. Nominated persons

Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may have a right, under an agreement between him/her and the member by whom he/she was nominated, to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right, under such an agreement, to give instructions to the member as to the exercise of voting rights.

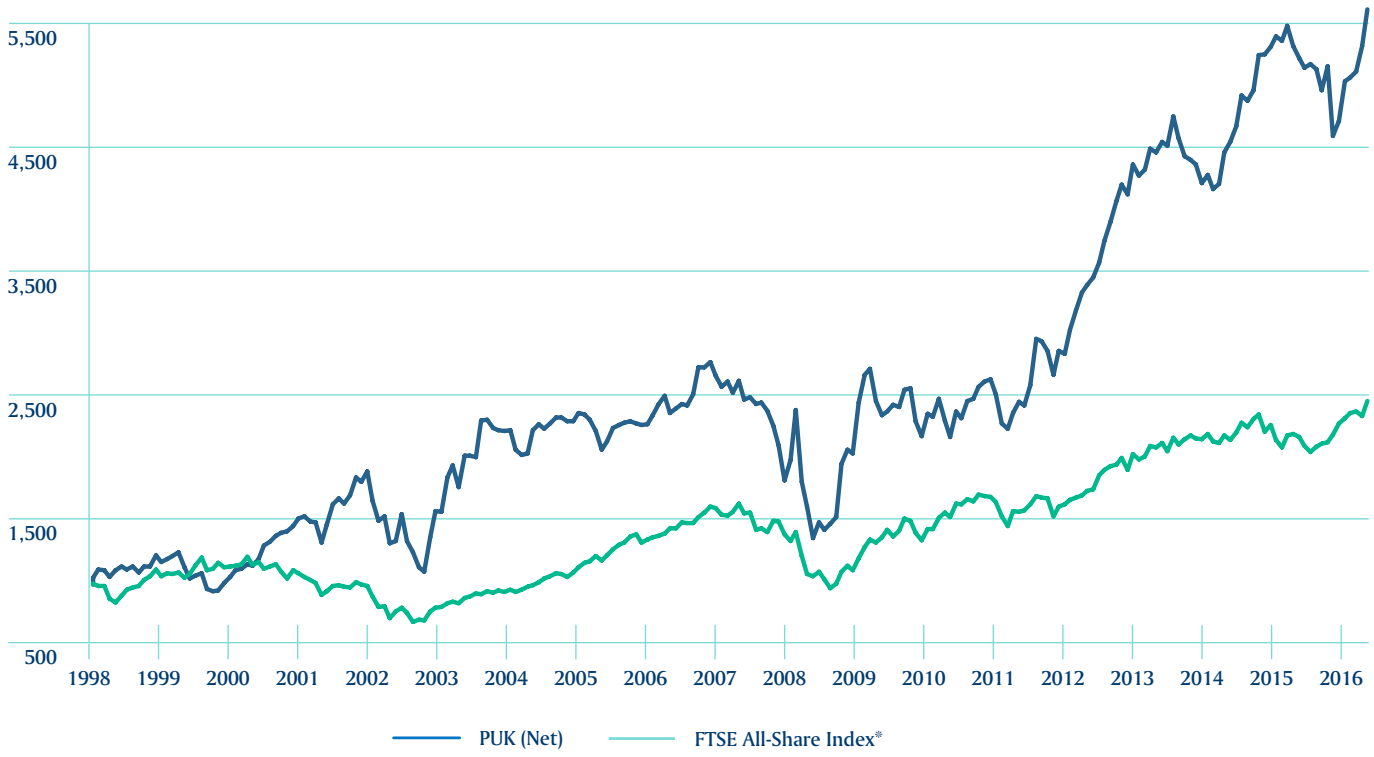
The statement of the above rights of the members in relation to the appointment of proxies does not apply to Nominated Persons. Those rights can only be exercised by shareholders of the Company.

5. Total number of shares and voting rights

As at 20 April 2017 (being the last practicable business day prior to the publication of this notice) the Company's issued share capital consists of 33,279,218 Ordinary Shares, carrying one vote each. No shares were held in treasury. The total available voting rights in the Company as at that date are 33,279,218.

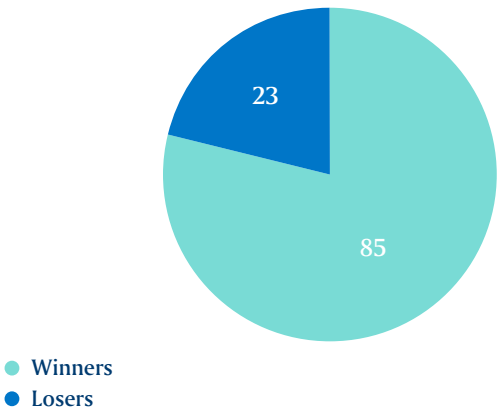
Value of £1,000 invested at Launch to 31 December 2016

Phoenix UK Fund Track Record

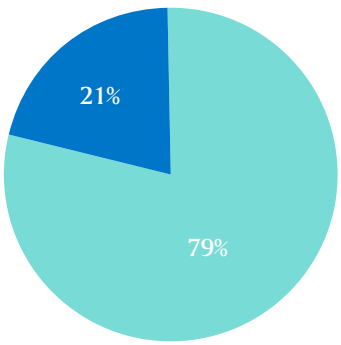


The chart shows the performance of the Phoenix UK Fund, after all fees, versus the FTSE All Share index

Winners & losers by numbers since 1998



Winners & losers by value since 1998



Phoenix have made a total of 108 investments since they were founded in May 1998. The chart on the left shows how many of those ideas made a positive return ("winners") versus how many made a negative return ("losers").

The chart on the right refers to the same 108 investments, but is weighted by the value of the amount invested in the ideas. The percentage of "winners" is higher in this area because more money has been invested in the best performing ideas.

Further Information

If you would like tolearn more about Aurora or Phoenix then visit the following websites or contact us (see below):

Aurora Website

www.aurorainvestmenttrust.com

Phoenix Website

www.pamp.co.uk

Contact Details

Manager

Phoenix Asset Management Partners Ltd.
64–66 Glentham Road, London SW13 9JJ

Telephone: 0208 600 0100
Fax: 0208 600 0101
Investor Relations email: phoenix@pamp.co.uk
Website: www.pamp.co.uk

Disclaimer

Aurora Investment Trust Plc ("the Trust") is a UK investment trust listed on the London Stock Exchange. Past performance is no guarantee of future performance. The value of investments and any income from them may go down as well as up and investors may not get back the amount invested. There can be assurance that the Company's investment objective will be achieved and investment results may vary substantially over time. This document is for information purposes only and does not constitute an offer or invitation to purchase shares in the Trust. Shares in an investment trust are traded on a stock market and the share price will fluctuate in accordance with supply and demand and may not reflect the underlying net asset value of the shares. Where the share price is less than the underlying value of the assets, the difference is known as the 'discount'. Other risk factors such as political and economic conditions should also be considered. Where a fund holds a limited number of investments and one or more of those investments declines or is otherwise adversely affected, it may have a more pronounced effect on the fund's value than if a larger number of investments were held.

This document is issued and approved by the Phoenix Asset Management Partners Limited which is authorised and regulated by the Financial Conduct Authority.