Aurora Investment Trust – June 2018

Share Price: £2.19 Net Asset Value: £2.16 Premium: 1.4%

Market Cap: £106m

Data as at 30 June 2018

Equities >3% at 30 June 2018	(%)
Tesco	12.0
Lloyds Banking Group	9.9
GlaxoSmithKline	9.4
Sports Direct	8.9
Randall & Quilter	7.5
Vesuvius	5.9
Hornby	5.9
Bellway	5.6
Morrisons	5.3
easyJet	3.6
Redrow	3.4
Dignity	3.4
JD Wetherspoon	3.3
Others <3% (2)	3.6
Phoenix SG Limited	6.2
Cash Position	6.1

The NAV was up 1.2% and the market was down 0.2% for the month.

The Trust launched an intermediary offer and placing in mid-June. The Board announced on 29th June that approximately £9.3 million of gross proceeds had been raised, well in excess of the £2 million minimum target.

We have a new investment in a company called Phoenix SG Ltd. This is a private company, which we incorporated to hold the assets which comprise our investments in **Stanley Gibbons,** the world's leading stamp and coin dealing business. The investment takes an unusual form structured to protect our downside. The design makes this a far superior investment to one we could have made by just buying equity.

We purchased four things: an equity stake, a loan owed to the bank, a portfolio of stamps and a receivable from the administration of the Guernsey entity. We expect the loan will be repaid in the next 5 years. Over that same period, we expect sales of the stamps we have purchased and a distribution from the receivable. In total we expect to earn from those 3 items around the same amount as our total investment leaving us with the Stanley Gibbons equity at no cost. Whilst we are owed money, we have a first charge over all the assets of the company.

The group has been through a disastrous period of mismanagement, which saw it make overpriced acquisitions and distort its core business to serve an investment business which is now in administration. The current Board have in the past two years unwound and disposed of those acquisitions, including an antiques business. They also closed the investment business. What we inherit is a company ready to recover based upon its core business in the world of stamp and coin collecting.

The group has 3 well-known brands: Stanley Gibbons and Murray Payne in stamps, and Baldwins in coins. Stanley Gibbons was founded in 1856 and from 1899 has been located on The Strand in London. Since 1914, the company has held a Royal Warrant for supplying the Royal Household. In the philatelic world, Stanley Gibbons has the pre-eminent reputation and for that stamp buyers are willing to pay a premium because of the lifetime guarantee of authenticity. Stanley Gibbons publishes catalogues that list prices for stamps in the areas in which it specialises, and these are used by the rest of the trade as their reference point.

Our vision is that the company can now rebuild and update its business from a single destination location and reach a worldwide audience through an effective digital strategy. The desire to collect and have hobbies, the wherewithal to fund these pursuits, leisure time and good health are all boosted by the prevailing demographic trends. However, to achieve their potential and attract and delight new customers it is essential to modernise and make the most of new technologies and insights.

The internet, rather than hurting a business-like Stanley Gibbons, in fact does the opposite. It allows a unique single iconic location in London to reach a worldwide audience inexpensively, and for a business so rich in intellectual property and knowledge, to offer an engaging and immersive experience tailored to the interest of the customer.

The building blocks for a great business are there in terms of the brand, heritage, reputation and capability. We look forward to updating you in the coming years on their progress.

The following is taken from Gary Channon's latest Q2 report to investors in the Phoenix UK Fund:

We invest by making business and stock specific decisions, one by one, whilst paying attention to the overall risk profile of the portfolio. Some think this means that our decisions therefore contain no macro-economic element, however this is not possible. All our businesses operate within the overall economy The expected future cashflows of a business will exist in a macro-economic context and we recognise that when we build models and derive valuations.

When estimating businesses in the UK at the moment, we assume a recession starting next year. This is not a forecast, just the most likely outcome based upon the data, and it affects some businesses more than others. Since 1945, we have had 6 completed business cycles in which the upswing lasted for an average of just over 9 years. The current upswing is just passing that point now. If we'd asked ourselves in 2009 what was the probability of a recession by 2019, then we would have put it at greater than 50%, based upon the historical data.

Another way to consider this is to study those past cycles where the upswing had lasted this long. There have been 4 since 1945, and they ended after 0,1,3 and 6 years. Again, suggesting a high probability of a downturn in the next few years.

This way of estimating hits the valuation of cyclical stocks the most and so we tend to end up with a portfolio with less of them. Our biggest exposure is to Food Retailing (Tesco and Morrisons) which is very resilient in a downturn. Where we are exposed to cyclical sectors we are in the discount and budget end, which do better in a recession (Sports Direct, JD Wetherspoons and easyJet). It doesn't mean that we won't own cyclical businesses, it is just that the valuation needs to be compelling enough to cope with an initial downturn and that the capital structure of the business is not imperilled by a recession. We happily own Lloyds Banking, Bellway and Redrow on that basis.

Some of our businesses are in fields not impacted by the economic cycle like Glaxo, Randall & Quilter, CPP and our latest investment in Dignity, which is *impacted on an annual basis by the death rate, that doesn't seem to be affected by the economy but it is by the weather.*

Vesuvius is impacted by the steel cycle which has its own dynamics, driven more by oversupply from China and trade wars. However, the strength of their franchise was shown by the resilience of their profits in the recent steel downturn. When you have pricing power, cycles impact volumes, but not necessarily margins.

Finally, the value of our hobby businesses, Hornby and Stanley Gibbons, will be a product of whether they build successful businesses delighting their customers. Hobby spend itself is very resilient to cyclical forces.

This is an interesting market to be investing in. Whatever the overall level, it contains pockets of significant potential value particularly in companies that are having problems. We will do our best to make the most of it.

Trust Performance

The appointment of Phoenix Asset Management Partners ("PAMP") as Aurora's investment manager came into effect in January 2016.

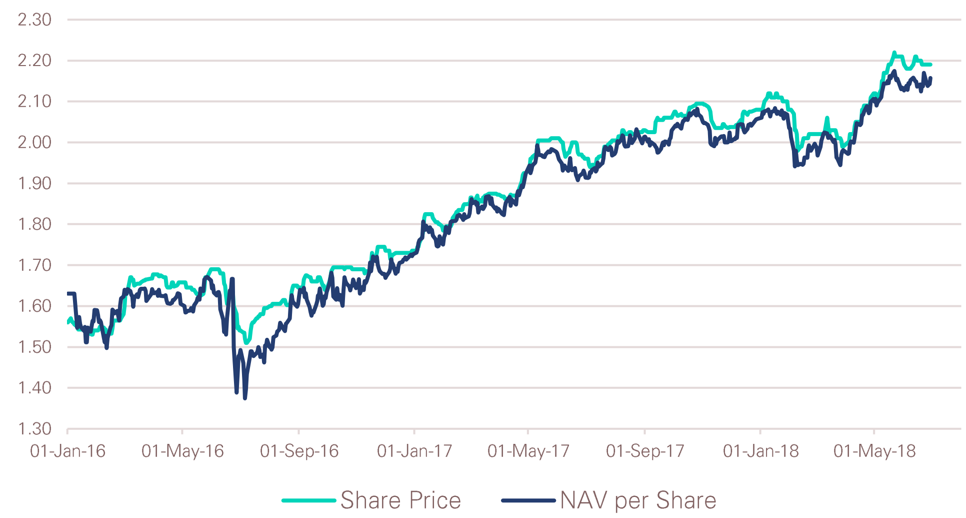
Aurora Track Record

Performance	NAV Return %	Share Price Total Return** %	All-Share Index %**	Relative NAV to ASX %
2018 (YTD - 30 June)	6.2	6.6	1.7	4.5
2017	20.4*	21.2*	13.1	7.3
2016	6.6*	12.0	16.8	-10.1
2015	-2.3	4.3	0.9	-3.2
2014	-11.3	-10.6	1.2	-12.5
2013	3.6	14.2	20.8	-17.2

*Following an internal review these figures were amended in June 2018.

** Share price return with dividends reinvested; All Share Index returns with dividends reinvested.

Aurora Share Price & NAV per Share – 30 June 2018*



*From 1st January 2016 to 30th June 2018

Aurora shares are eligible to be invested in an ISA. Neither the Aurora Investment Trust nor Phoenix Asset Management Partners run such a scheme. You should consult a financial adviser regarding a suitable self-select ISA provider.

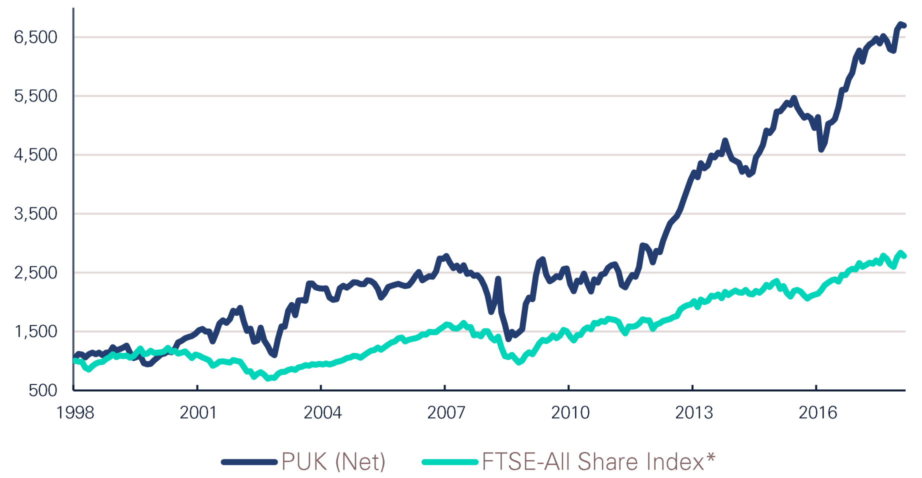
Phoenix UK Fund Track Record

Fund Performance (%)	Gross Return	Net Return	FTSE All-Share Index*	Relative NAV to ASX
Cumulative Since Inception*	1012.7	569.6	193.8	375.8
Since Inception Annualised*	12.7	9.9	5.5	4.4

*Since 30th April 1998 to 30th June 2018.

Phoenix UK Fund Value of £1,000 invested at launch to 30 June 2018

The investment strategy of the Aurora Investment Trust is the same as that of the Phoenix UK Fund.



* Data from 30th April 1998, All-Share Index Returns with dividends reinvested

Investment Objective

We seek to achieve long-term returns by investing in UK-listed equities using a value-based philosophy inspired by the teachings of Warren Buffett, Charlie Munger, Benjamin Graham and Phillip Fisher. Our approach, combined with thorough research, invests in high quality businesses run by honest and competent management purchased at prices that, even with low expectations, will deliver excellent returns.

Contact

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Fund Manager since 28 January 2016

Portfolio Manager: Gary Channon
Listing: London Stock Exchange
Inception Date: 13 March 1997
ISIN: GB0000633262
Bloomberg: ARR

Fees

Management: None
Performance: One third of returns in excess of the market

Regulatory Notice:

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 no 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. This document is issued and approved by Phoenix Asset Management Partners Limited which is authorised and regulated by the Financial Conduct Authority.