Aurora Investment Trust – December 2017

Share Price: £2.08 Net Asset Value: £2.06 Premium: 1%

Data as at 31 December 2017

Equities >3% at 31 December 2017	(%)
Lloyds Banking Group	10.8
Tesco	10.1
Bellway	10.0
Sports Direct	8.6
GlaxoSmithKline	8.1
Randall & Quilter	7.1
Redrow	6.6
Vesuvius	6.0
Hornby	5.5
Morrisons	4.8
JD Wetherspoon	4.0
easyJet	3.3
Cash Position	5.5

The NAV was up 2.7% and the market was up 4.8%.

This longer-than-usual monthly factsheet is in two parts: First, a brief summary of Aurora's investment performance during 2017; a more comprehensive review will follow in the annual report. Second, a fascinating (we think) opinion piece, **"A Note on UK Productivity"** by Gary Channon, Chief Investment Officer of Phoenix Asset Management. This piece recently appeared in the Q4 report to investors in the Phoenix UK Fund. Gary suggests that using the UK's relatively poor productivity as a measure of the country's economic health is misleading because of distorting temporary factors. If you are pushed for time and can only read one part of this factsheet, we suggest you jump ahead and read that.

For the sake of brevity, we will leave the explanation of two recent trades to next month; the increased portfolio weight of both GSK and Hornby.

The investment performance of Aurora during 2017 was good, although we suggest that you judge the Phoenix track record over a much longer period than that. Phoenix became investment manager to Aurora in January 2016, a year in which we underperformed the FTSE All Share index by 5%. This means that since we took over as investment manager, we have not, cumulatively, beaten the market. However, there is very good reason to suggest that this has more to do with the timing of the start of our tenure than with our ability to beat the stock market over the medium to long-term. Indeed, the Phoenix UK Fund, which has the same investment strategy as Aurora, has given investors an annualised investment return over nearly 20 years, after all fees and expenses have been paid, of 10%. Over the same period, the FTSE All Share has returned an annualised 5.5%; The Phoenix strategy has outperformed the stock market by an annualised 4.5% over nearly 20 years.

During 2017 the NAV of Aurora was up nearly 19.6% versus a 13.1% rise in the FTSE All Share, resulting in an outperformance of 6.5%. The positive performance was quite broad based. Our housebuilding stocks, Bellway and Redrow, were up 49% and 57% respectively. Both experienced very positive trading during the year as the UK's housing shortfall persisted against a political backdrop that strongly favours more housebuilding. Furthermore, there are plenty of mortgages available from a range of providers, on attractive terms. Vesuvius, (which supplies components and services to the steel industry) was up 52% as it benefited from "self-help" measures in a relatively difficult market. JD Wetherspoon was up 43%; the Company reported relatively good trading during the year. Sports Direct was up 35%; the Business remained the bête noir of certain parts of the Press although we are satisfied with the trading performance and continue to be impressed with the management. easyjet was up 54% during a year of considerable upheaval in the European airline industry. The excellent Carolyn McCall resigned from her position as CEO and we will keep close tabs on the business during 2018 to ensure it adheres to the excellent, rational capital allocation policy of recent years. The only notable share price decline amongst our declared holdings (those with a portfolio weight above 3%) was GSK, which was down 11%, of which more next month.

We are excited about the prospects for the Aurora portfolio over the coming years; the stocks we own are cheap, the underlying businesses are generally doing well and we can monitor their progress regularly.

A Note on UK Productivity
By Gary Channon, CIO of Phoenix Asset Management Partners

The UK looks a sorry place to be investing in these days. The dark cloud of what Brexit is going to look like overshadows everything. On top of that the common narrative to describe the UK laments a productivity gap with the rest of the world as a sign the country is losing the economic race and slipping down the world order.

The data on which this narrative relies is correct in that it shows the UK's productivity as measured by output per worker has been slipping behind its peers (the world's major developed economies). However, we think there is an alternative explanation that paints a different picture.

The UK, more than any other major economy in the world, has seen a big shift of retailing from physical stores to the internet. By November 2017, 20% of UK retail sales were online. E-commerce has been a boon for consumers, but it is having a huge impact on the economics and productivity of retailing.

When customers visit shops, it doesn't count as employment but when someone else delivers goods to your door they have been employed to do so. In the past, retailers could efficiently supply goods to stores and leave it to customers to deal with the messy part of taking it home. That has now changed and as far as productivity is concerned, having loads of people arranging individual orders in warehouses and stores and armies of drivers dropping off items to individual's homes is incredibly inefficient.

Despite 20% of retail sales having moved online, employee headcount in retail is still around the same level as it was before the rise of e-commerce. If headcount reflected the switch in activity from stores to online, then around 1 million jobs should have gone. And yet the jobs haven't gone, partly because it is hard to downsize staff for a gradually reducing footfall but also because customer service expectations have gone up, which requires more staff.

On top of that there has been a strong growth in the number of people employed in the distribution business, adding around 300,000 jobs in the past 10 years. Home fulfilment has not added to output; they are simply sales that have switched from shops to online, although it has boosted headcount and thus reduced reported productivity (i.e. output per worker per hour).

A similar effect has been going on in casual dining where UK consumers have been treated to an increase in venues beyond the level of demand. There has also been the emergence of a plethora of new services offering instant home deliver, none of them covering their costs; great for customers but terrible for productivity.

One other major drag on UK productivity has been the Financial Services sector which, since the Credit Crunch 10 years ago, has been reined in from the excesses of where it had reached. Output is below where it stood then and as a proportion of the economy it has shrunk from over 9% to 7%. At the same time headcount has not reduced. Jobs in trading may have declined but they have been replaced by jobs in regulation and compliance. The overall effect is a big drop in productivity but in this case, a welcome and deliberate one.

So, we don't see these developments as a sign of malaise in the UK; in fact, the opposite. Being the quickest to adopt and adapt to e-commerce is a sign of sophistication. E-Commerce penetration in the UK is more than double that of our major economic rivals. It is a boom that has dragged in lots of low paid workers who might otherwise have been unemployed, but is that such a bad thing? The UK's boom in this type of low paid work (in warehouses, distribution, retail and hospitality) has pushed employment to record levels and drawn in large amounts of immigration. Whilst the UK looks enviously at the productivity levels of some of our European rivals, they look enviously back at our employment numbers.

This e-commerce boom does initially lower productivity, but it is raising the standard of living. In time, many of these jobs may be replaced by robots in warehouses and self-driving vehicles, in which case productivity will rise but so might unemployment.

Leaving the EU will, we believe, disrupt and negatively impact the UK economy, although its dynamism, flexibility and openness to new investment and new technologies leaves us well positioned to bounce back.

A positive side effect of all this negativity is that it has left UK equities relatively unloved and out-of-favour. There are pockets of great value including the ones we own. So, despite the recent strong performance we are left with a portfolio of businesses that are still inexpensive and from which we expect great long-term investment returns from here.

The longer and further markets rise, the more probable it is that at some point they will fall. This is not a forecast, just an obvious change in the balance of probabilities. As we have demonstrated in the past, weak markets are an easier place to find great value, deploy capital and enhance future returns. Whatever happens, we will continue to hunt for value in all market conditions because individual share prices can be much more volatile than the index. Whether the next 5 years is a bull or a bear market, there will be businesses that get wiped out and there will be others whose share price rises by multiples; our job is to avoid the former and find some more of the latter.

Trust Performance

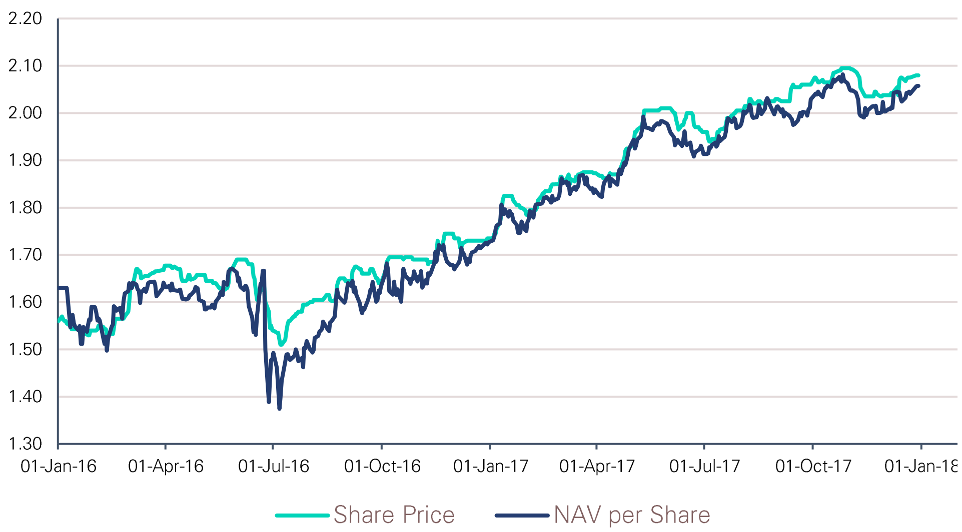
The appointment of Phoenix Asset Management Partners ("PAMP") as Aurora's investment manager came into effect in January 2016.

Aurora Track Record

Performance	NAV Return %	Share Price Return % **	All-Share Index % **	Relative NAV to ASX %
2017	20.4*	21.2*	13.1	6.5
2016	6.6*	12.0	16.8	-5.2
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
2012	-3.8	-3.9	12.5	-16.3

*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 – 31 December 2017



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.

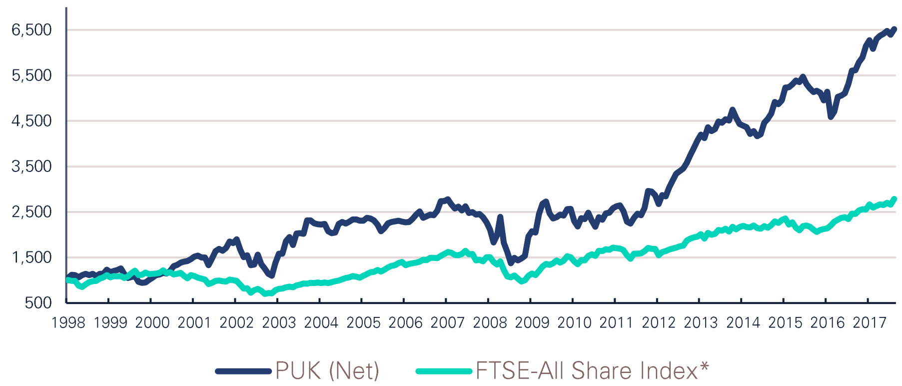
Phoenix UK Fund Track Record

Fund Performance (%)	Gross Return	Net Return	FTSE All-Share Index*	Relative NAV to ASX
Cumulative Since Inception*	976.9	551.9	189.0	362.9
Since Inception Annualised*	12.8	10.0	5.5	4.5

*Since May 1998

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

Phoenix UK Fund Value of £1,000 invested at launch to 31 December 2017



* Data from 30 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: