# Aurora Investment Trust – September 2018

Share Price: £2.17 Net Asset Value: £2.15 Premium: 0.9%

Market Cap: £117m

Data as at 30 September 2018

| Equities >3% at 30 September 2018 | (%) |
|---|---|
| Tesco | 11.0 |
| GlaxoSmithKline | 9.3 |
| Lloyds Banking Group | 9.3 |
| Randall & Quilter | 8.3 |
| Sports Direct | 7.4 |
| Vesuvius | 6.3 |
| Bellway | 5.5 |
| Morrisons | 5.3 |
| Dignity | 5.2 |
| Hornby | 5.2 |
| Redrow | 3.7 |
| JD Wetherspoon | 3.1 |
| Others <3% (3) | 5.9 |
| Phoenix SG Limited (Stanley Gibbons) | 5.9 |
| Cash Position | 8.5 |

The NAV was up 1.4% and the FTSE All Share (incl. dividends) was up 0.7% for the month.

September has been quiet from the perspective of investment activity with the only change in the portfolio being a modest increase in Dignity PLC.

Significant share price moves during the month included a 24% rise in Randall & Quilter (R&Q) after reporting a good first half performance in their Interim results, with pre-tax profits from their continuing operations up 40% to £7.8m. The Company sold their Insurance Services Division in January, thereby completing their strategy to refocus on only legacy (providing solutions to non-life insurance businesses that are discontinued or in run-offs) and program underwriting management (a "fronting" model that provides capital providers, such as reinsurers, with access to niche businesses). With the pipeline strong for both legacy and program management, R&Q's management are confident for the second half of 2018 and beyond, guiding 2018 full year results to be substantially in excess of market expectations.

Another significant riser during the month was Redrow, up 10%, after announcing positive results. easyJet was a 14% faller during the month, whilst Sports Direct fell 11%. Sports Direct issued a statement confirming that the FRC is investigating Grant Thornton over its audit of the Company, and not Sports Direct itself, which was first made public in November 2016. Later in the month, the Company announced a trading update confirming they expect underlying EBITDA to grow between 5 - 15% for the full-year.

In his quarterly report to investors of the Phoenix UK Fund, which follows the same investment strategy as Aurora, Gary Channon, CIO of Phoenix, outlines some thoughts on the UK stock market in relation to Brexit and highlights that it may soon be the time to act. He writes:

*When trying to predict most things there is a greater likelihood of being accurate about the near future than beyond. This makes perfect sense; the future gets more uncertain the further into the distance we try to imagine it. The future is shaped by chance events and the longer you look out the more of them there are. This expanding funnel of uncertainty is also present in most economic forecasts. However, predicting the level* *of share prices or equity values does not seem to fit this model, it turns out to be peculiarly different.*

*Robert Shiller won a Nobel Prize for showing that you can use current valuation levels compared to their long-term history to make some sort of prediction of future equity returns. He showed that when the market was cheaper than it usually is, that future returns are higher than when it is averagely valued or especially from when it is more expensive than usual. His measure of valuation was to compare current prices to an average of the past 10 years earnings, which he called CAPE (the Cyclically Adjusted Price to Earnings ratio). Interestingly, when looking over shorter periods like one year, he found no relationship between how cheap or expensive the market was and how it would do over the coming year.*

*Many studies have replicated this finding and yet forecasters and analysts are generally asked to forecast periods up to a year. Those can all be ignored. The one-year horizon is an unforecastable random walk.*

*However, over longer periods, the relationship between starting value and future returns emerges. So, applying that finding to the UK at the moment we find that as a market it is in the cheaper zone of its long-term history no matter which period you choose. This suggests that over the longer term the performance from UK equities will be better than usual. The UK is also relatively cheaper than most of its peer markets, which should mean that UK equities will outperform other developed markets relatively.*

*The reason the UK has got to this level of relative undervaluation is most likely the upcoming Brexit. It is the question we are most asked and ever since the referendum it has been the reason why many potential investors in Phoenix, especially from overseas, have decided not to invest. And yet the history of "known unknowns" in the stock market would suggest that rather than being a reason to avoid investing, it is more likely a good reason to invest.*

*The last two wars in Iraq are a good case study. Their lead up was characterised by much angst which depressed equity prices, which then turned sharply when the wars started in January 1991 and March 2003. These points marked low points from which markets rallied significantly. The most interesting aspect, as those who experienced them will remember, is that the markets started rising immediately on the first day of the war even before there was any information about how they would turn out.*

*The availability heuristic causes us to put too much weight on the information in front of us and in the case of Brexit that is clearly happening in the UK. There will at some point be some form of a Brexit deal or arrangement and we anticipate that the most likely effect will be a rise in UK equities. It's not something we relish, yes, the fund will go up, but we* *are hunters of value, which at the level we seek is very hard at the best of times and gets harder in rising markets.*

*As we have discussed previously we have a portfolio of businesses that collectively we don't expect to be much impacted by a bad Brexit or the next recession. Their starting undervaluation leads us to expect good long-term returns from them. We also remain vigilant and ready to act should opportunities present themselves, we have for over 20 years now created the most future value in times of turmoil and uncertainty. As both citizens and investors, we find ourselves conflicted in what we wish for, but we will act on what we find and when we find nothing, we do nothing.*

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.

## Aurora Track Record

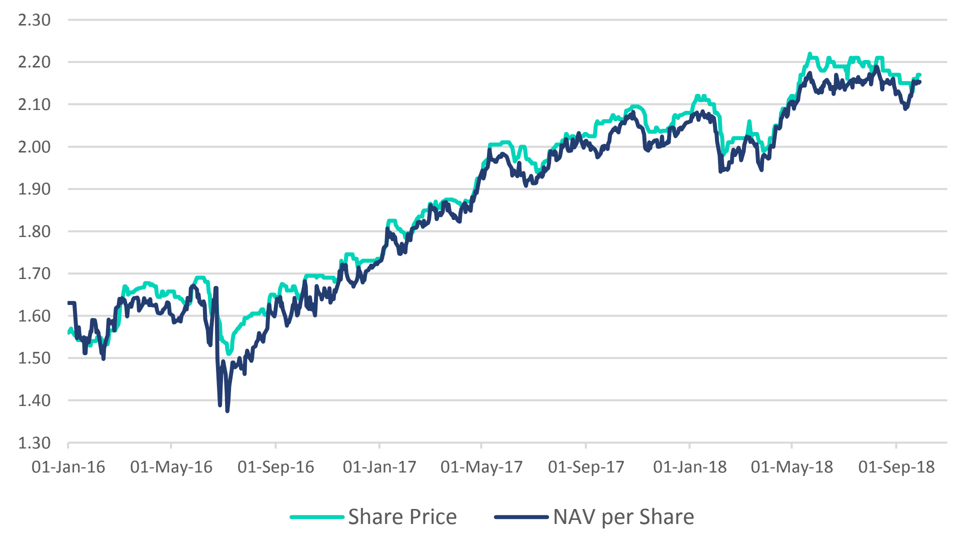
| Performance | NAV Return % | Share Price Total Return** % | All-Share Index %** | Relative NAV to ASX % |
|---|---|---|---|---|
| 2018 (to 30 September) | 5.9 | 5.7 | 0.8 | 5.1 |
| 2017 | 20.4* | 21.2* | 13.1 | 7.3 |
| 2016 | 6.6* | 12.0 | 16.8 | -10.1 |
| 2015 | -2.3 | 4.3 | 0.9 | -3.2 |
| 2014 | -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.

## Trust Performance

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

## Aurora Share Price & NAV per Share – 30 September 2018



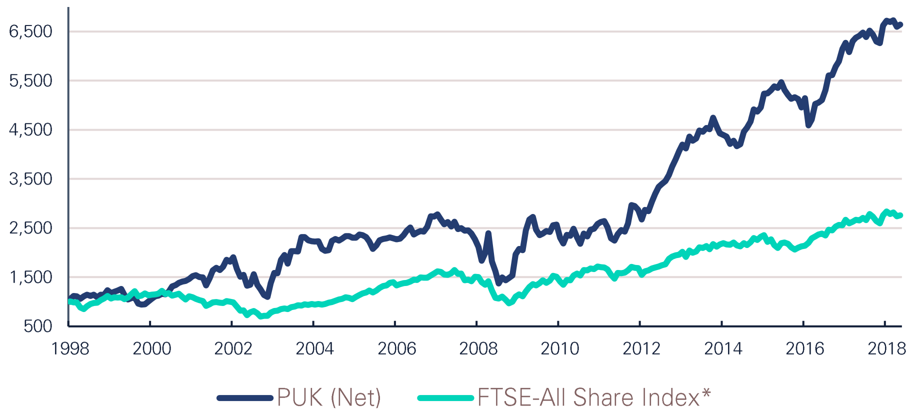
## Phoenix UK Fund Track Record

| Fund Performance (%) | Gross Return | Net Return | FTSE All-Share Index* | Relative NAV to ASX |
|---|---|---|---|---|
| Cumulative Since Inception* | 1008.6 | 564.1 | 189.4 | 370.3 |
| Since Inception Annualised* | 12.5 | 9.7 | 5.3 | 4.4 |

*Since May 1998 to 30 September 2018.

## Phoenix UK Fund
## Value of £1,000 invested at launch to 30 September 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

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