Aurora Investment Trust – March 2019

Share Price: £2.06 Net Asset Value: £2.03 Premium: 1.5%

Market Cap: £122m

Data as at 31 March 2019

Holdings >3% at 31 March 2019	(%)
Sports Direct	9.8
Dignity	8.6
Lloyds Banking Group	8.4
Bellway	8.3
Tesco	8.2
Randall & Quilter	7.8
GlaxoSmithKline	7.6
Redrow	5.7
Phoenix SG Ltd (Stanley Gibbons)	5.6
easyJet	5.6
Vesuvius	5.6
Hornby	5.3
Morrisons	3.4
JD Wetherspoon	3.0
Others <3% (2)	4.5
Cash Position	2.5

The NAV was up 0.1% with the FTSE All Share (incl. dividends) up 2.7% for the month.

Individual stock movements of note during the month included Hornby rising 12%, Sports Direct rising 8% and GlaxoSmithKline rising 7%. Significant fallers included easyJet which fell 9% and Dignity which fell 7%.

In his Q1 2019 report to investors in the Phoenix UK Fund, Gary Channon made some observations on the threats and opportunities in the changing retail landscape as the internet continues to affect shopping habits. It is reproduced below for your review.

In Game of Thrones, the motto of House Stark is "Winter is Coming", which would make an apt epigram for UK high street retailing. Although there has been much bad news of late, we think that there is much worse to come. This is not because consumers are not shopping, on the contrary, as we have pointed out before, consumer spending is extremely robust, having risen every year that Phoenix has been in existence (in nominal terms).

The problem is caused by how shopping is being done, the internet is changing that rapidly. As sales switch from physical stores to online delivery those stores rapidly lose profitability because the main costs of rent and staff are hard to reduce quickly, most leases have upward only rent reviews. No one has explained this phenomenon and tried to forecast where it leads more coherently than Simon Wolfson of Next plc whose latest Preliminary Results announcement ranks as one of the best we've ever read. He lays out very clearly what the internet has done to Next and builds a stress test for the next 15 years based upon a continuation of these trends. Next is in the more advantaged position of having had a significant direct business for a long time. Even 15 years ago 25% of their sales came from the catalogue and internet, by last year their online sales had overtaken their store sales.

Wolfson shows how hard it is for the economics of stores to adjust. Leases Next renewed last year were on average at 29% lower rents and he shows how rent levels still have a long way to go before alternative uses become more economic. Even with the downward adjustment in lease costs, within 5 years the profits of Next's stores will have been wiped out. In their model they end up with 150 of their current 500 stores still trading, and yet Next still ends up with a very profitable business because those lost sales switch to their internet business.

Their online business is very intertwined with their retail outlets with around half of their online orders picked up in a store and 80% of the returns dropped off there. So important are the stores to the success of the online operation that Next actually plan to keep the store portfolio at 270 outlets to give them national coverage even though this will be at a loss of £25m per annum.

When you take this picture and apply it to the whole high street it has a devasting effect. Next started with higher margins than its average peer, they fell to 11% this year. On average we estimate retail stores will be loss making in 4 years at the current rate of switching to the internet. Some parts of the high street have already been through this, like bookselling where the number of bookshops has declined 75% in 15 years, but has recently stabilised, however, for most sectors of retailing the switch is still underway at a relentless pace.

As the Next numbers and stress test show, for those businesses with a strong online presence to complement their store portfolio there is a way through and ultimately, they will gain at the expense of those that aren't in that position and will close permanently. The types and duration of leases is a big factor in how quickly businesses can adapt to the change and a reason that so many retailers are trying to get out of their obligations through arrangements with landlords like CVAs (Company Voluntary Arrangements).

So that is how we have ended up with Sports Direct as the largest holding in the portfolio after we added to the holding this quarter. Mike Ashley has long been focused on these trends, even renaming the company at the time of the float to be positioned for the internet and right now despite all the garish headlines, he is attempting to capitalise on the opportunities being thrown up by the carnage of what Schumpeter called "creative destruction". We expect Sports Direct and Next for that matter to be both survivors and winners.

One key observation that underpins our thinking is that consumers still like to shop, they still like to visit shops and therefore we expect that although physical stores will evolve to react to their changing role, they will not disappear. Retailers who pay attention to what customers want, who constantly experiment to test those changing wants and who have the products and infrastructure to meet those demands have the basis of a successful business. The highest returns should fall to those who through scale and efficiencies are low costs producers or through intelligent brand building have pricing power, in essence platforms or brands. Sports Direct does have some brands but is much more of a platform and so is Next now that it sells other brands online. Platforms we believe are less exposed to the potential fickleness of consumers as they switch brand preferences.

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.

Not everything will switch to the internet, it will be hard to order a haircut and although coffee is easy to make at home, the experience of visiting a coffee shop fulfils a need not met at home. So, we pay a lot of attention to changing consumer behaviour in order to identify the trends that hurt and help businesses we study. For example, one of the slowest areas to switch online is food retailing where only 7% is done online and half of that is collected in the store. In the past 12 months online food retailing has stopped growing and has moved sideways. This might be a temporary pause caused by more rational pricing of the service by competitors or it might suggest that online food delivery has a lower convenience level than say clothes, certainly home delivery appears not to be as convenient for many customers. Here we own Tesco, by the far the biggest operator in the UK (with over 40% of the online market), and also Morrisons, the only vertically integrated player, allowing it to be the wholesale supplier to the likes of Amazon. They are both incredible platforms, almost impossible to replicate, and although the foods consumers eat and the brands they prefer may change, it is likely that the same platforms will be fulfilling most of those needs either through their stores or delivery.

Retail is a scary place to be and the big shifts underway are disrupting and destroying many business models. As a result, the stock market puts a low value on this sector which broadly we agree with. However, amongst all that distress we believe we have identified those who will survive and ultimately thrive, and we have been able to purchase them at attractive prices. Furthermore, Phoenix in the way that we monitor our investments is well placed to watch closely whether our assumptions are correct, and we hope to spot trends both helpful and not, before they are reflected in market values or earnings.

When this period is looked at in 10 or 20-years' time from a business perspective we believe it is much more likely to have been these changing forces of consumption that have had an enduring effect, rather than what ultimately happened to the UK's decision to leave the EU. So, although we pay attention to it, and stress test for it, it is going to *be our judgements about the impact of the internet on the competitive landscape that will have the biggest bearing on our investment success. We like what we own, and we like the values being thrown up by what is going on. If we are broadly right, then we expect great returns to follow over the long term.*

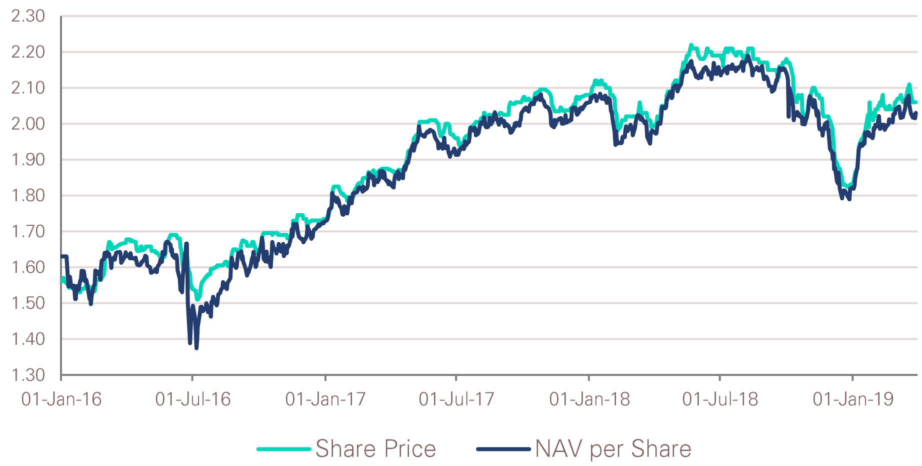
The appointment of Phoenix Asset Management Partners ("PAMP") as Aurora's investment manager came into effect in January 2016.

Aurora Track Record

Performance	NAV Return %	Share Price Total Return** %	All-Share Index %**	Relative NAV to ASX %
2019 (to 31 March)	11.4	12.6	9.4	2.0
2018	-10.3	-10.9	-9.5	-0.9
2017	20.4	21.2	13.1	7.3
2016	6.6	12.0	16.8	-10.1
Cumulative*	33.7	38.7	37.0	-3.3
2015	-2.3	4.3	0.9	-3.2
2014	-11.3	-10.6	1.2	-12.5

* Since 1 January 2016
**Share price return with dividends reinvested; All Share Index returns with dividends reinvested.

Aurora Share Price & NAV per Share – 31 March 2019



Phoenix UK Fund Track Record

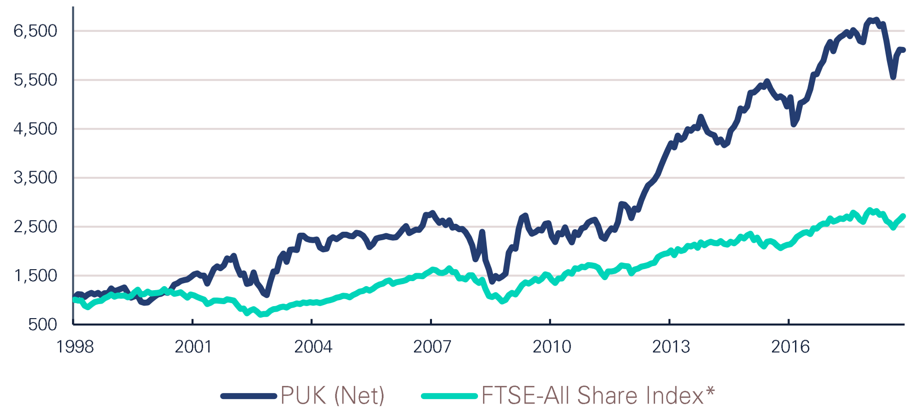
Fund Performance (%)	Gross Return	Net Return	FTSE All-Share Index*	Relative NAV to ASX
Cumulative Since Inception**	923.2	509.8	186.1	323.7
Since Inception Annualised**	11.8	9.0	5.2	3.8

* All-Share Index Returns with dividends reinvested

**From May 1998 to 31 March 2019

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 March 2019



* 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
Tel: +44 (0) 208 600 0100
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.