Aurora Investment Trust – December 2019

Share Price: £2.37 Net Asset Value: £2.32 Premium: 2.1%

Market Cap: £155m

Data as at 31 December 2019

Holdings >3% at 31 December 2019	(%)
Frasers Group (Sports Direct)	14.5
easyJet	13.1
Bellway	8.3
Lloyds Banking Group	6.7
Randall & Quilter	6.6
Dignity	6.3
Phoenix SG Ltd (Stanley Gibbons)	5.5
Redrow	5.4
GlaxoSmithKline	4.8
Ryanair	4.4
Hornby	4.2
Vesuvius	4.0
JD Wetherspoon	3.0
Others <3% (2)	3.1
Cash Position	10.1

In December, the NAV was up 6.7% versus the FTSE All Share (incl. dividends) which was up 3.3%. The most significant share price move during the month was a 37% rise in Frasers Group (formerly Sports Direct) having reported their interim results in early December. Our housebuilders all rose in excess of 10% following the general election and other Brexit sensitive holdings such as easyJet and Ryanair also posted good gains. Vesuvius rose by 10% as it continued its recovery from a share price fall in the Autumn after it had indicated a slowdown.

The Year - 2019

For the year, the NAV return was 29.7% versus a market return of 19.1%. This performance has ensured that, since Phoenix took over management of the Trust, the return is in excess of the index, which has resulted in a performance fee being earned as at 31 December 2019.

In share price terms the most significant risers of note were: Frasers Group +93%, Barratt Developments +74%, Bellway +59%, Redrow +59%, JD Wetherspoons +51%, easyJet +35%, Tesco +32%. Lloyds +28% and Glaxo +25%. Dignity was down 14%.

Frasers and easyJet, as well as rising strongly at times during the year, dipped temporarily, allowing us to add more to our holdings before they rebounded, so their contribution was greater than just the share price returns on the year.

Activity & Intrinsic Value

One significant piece of activity in recent months was to sell our holdings in Tesco and Morrisons. Gary Channon reported on this in his recent report to Phoenix UK Fund investors on January 3rd:

Both companies have managed to fulfil one part of our investment premise that broken grocers in the UK are fixable once they pay attention to their customers because the market is not properly competitive, that the shopping choice is mainly geographic and that the planning system creates huge barriers to entry. The rise of the German discounters and of online shopping has not really changed that. Both companies have been able to repair their damaged position with customers and restore their businesses to growth and improved profitability.

However, there is a change underway in consumption habits that does concern us and, in the end, has undermined our confidence in our ability to estimate the long-term economics of these businesses. The change is the rise of home delivered food, which we believe, has changed from being the move online of what was already the traditional restaurant takeaway business into a substitute for what would have been a food shop at the grocers. The industry is still in its infancy, but already it is having profound impacts on shopping habits. What is currently mainly a delivery of a meal is also becoming the delivery of groceries at very short notice.

One of the biggest long-term trends in the UK grocery market has been the shift towards convenience shopping and more frequent smaller shops. The offering of this service now by Deliveroo, Amazon and others is likely to take business away from the main grocers and at a minimum change the economics of the industry. Tesco and Morrisons are both very well managed businesses and have to work extremely hard to deliver just modest growth, but this we fear has the potential to reverse that.

That change in our assessment of the way the UK grocery market will evolve along with a loss of confidence in our ability to forecast it has rendered both businesses not an "A" in our DREAM evaluation framework and so they were both sold in their entirety.

Selling holdings trading below our estimate of intrinsic value to hold cash has lowered our estimated IV. The rise in the Trust in recent months has reduced the upside to IV to 81%, if we deploy the cash at our usual levels, then that will rise to 90%.

Outlook

In the same report, Gary Channon went on to outline some thoughts on the market environment post the general election:

The quarter finally saw the end of the political stalemate that has done so much damage in the UK over the past 3 years. The beauty of the UK electoral system is that even with 43% of the vote the winners, the Conservative party, gained 56% of the seats, which is strong enough to govern effectively and not need to pander to minorities which is what has caused so much trouble in the past few years.

Brexit has dominated UK politics since the referendum in 2016 and the uncertainty around the ultimate outcome has caused many businesses and individuals to postpone significant investment decisions. In 2020 we are likely to see a bounce in activity just from the unwinding of that effect. There has been a palpable rise in confidence and the passing of a fear of an economically illiterate and dangerous Labour government. We observed in our monitoring that activity in the housing market was picking up even before the final result, when the polls were indicating a Conservative majority. The same was true of the stock market where our Brexit sensitive holdings started to recover from September onwards.

We have used the past three and half years since the referendum to make some very attractive investments in businesses that were held back especially in valuation terms by Brexit. The recent performance has only modestly reversed that undervaluation as the upside to intrinsic value measure shows. Although we generally assume in our assessments that the UK, and the developed western economies, are due a recession, we do think that there will be a UK specific bounce back from the recent subdued performance. It will not reverse the business cycle, but it might prolong it.

As we've said before the economic cycle is not in itself a risk to an investment if it isn't combined with unsafe levels of debt. The biggest risk factor we have faced and *continue to face is the disruption from technology which is changing commerce in material ways. Our thinking in this area started with the risk which we have sought to avoid or monitor closely, but through time, we have also looked at it as an opportunity which it is for some businesses.*

Our own direct experience with WLS showed us the transformative effect that digital communication has in building a business even in a mature market. In the course of 5 years we have gone from a niche player to a point where the combined brands of WLS will probably serve more couples this year than current market leader John Lewis, along the way all the other department store competitors have disappeared. This would not have been possible without the ability to find and directly communicate with potential customers in the way that current digital technology allows, Facebook, Google, Instagram, etc

Lloyds Bank is an interesting case in point. We have diligently focused on the risk that technology would allow the emergence of a successful new competitor with a disruptive business model, like no branches, and yet so far none has emerged. That may change, but if new technology does mean the end of branch-based banking then Lloyds may well be the biggest beneficiary. Its real edge is the ability it has to lend successfully, it has decades, even centuries, of industrial knowledge built up on how to do this and it is lending that has been the main undoing of the challengers so far. Anyone can take deposits but lending them successfully at an attractive margin and in particular knowing how to deal with delinquencies is a skill where Lloyds excels and where new banks have failed. So, in 20 years the UK's biggest domestic retail bank might be someone like Apple but right now Lloyds is the best positioned and what we might witness is a big improvement in the profitability and returns from that business because of the impact of technology. The stock is very cheap even without this happening.

One of our most successful past investments was in Reuters who went through a transformative period as well where the business model changed from one where they supplied a physical terminal with all the capital investment that needed in hardware and support to one where for the same money all you really got was the login to a browser based product. The economics of that business improved massively; Lloyds has the potential for something similar albeit spread over a longer period.

We will expand on our thinking in this area at the Annual Investors Meeting, but in summary we are as interested in identifying traditional businesses that benefit from technology as we are in avoiding those that are damaged by it and in the case of our control and influence positions we are engaging to help them make the most of the opportunities that new technologies and approaches bring.

From a Phoenix perspective Brexit has been the gift that kept giving but those days might be behind us. A rising market is definitely a harder place in which to find bargains but there are always companies and sectors that are going through their own problems, as Dignity is now, that will give us opportunities to act and invest no matter what the market backdrop is. We are well positioned with a strong line up of businesses that overall are performing strongly and are still modestly valued, we continue to expect to be able to deliver great long term returns from here.

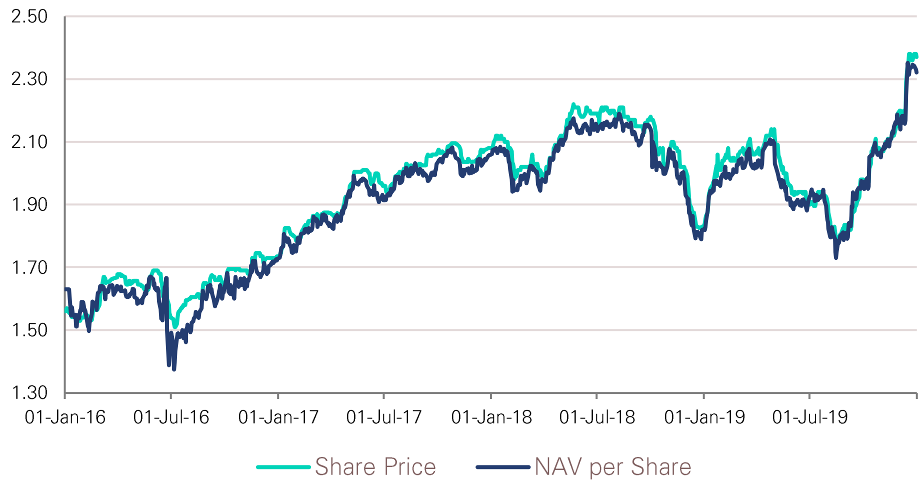
The appointment of Phoenix Asset Management Partners ("PAMP") as Aurora's investment manager came into effect in January 2016.

Aurora Track Record

Performance	NAV Return %	Share Price Total Return** %	All-Share Index %**	Relative NAV to ASX %
2019 (to 31 December)	29.7	31.9	19.1	10.6
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*	49.7	59.5	42.4	7.3
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 December 2019



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.

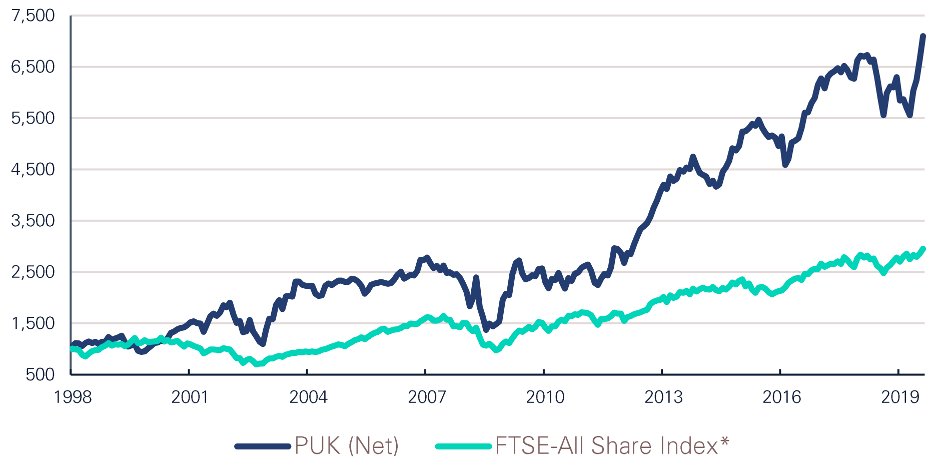
Phoenix UK Fund Track Record

Fund Performance (%)	Gross Return	Net Return	FTSE All-Share Index*	Relative NAV to ASX
Cumulative Since Inception**	1112.5	609.9	211.4	398.5
Since Inception Annualised**	12.2	9.5	5.4	4.1

* All-Share Index Returns with dividends reinvested

**From May 1998 to 31 December 2019

Phoenix UK Fund
Value of £1,000 invested at launch to 31 December 2019



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

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.