Aurora INVESTMENT TRUST

Aurora Investment Trust – March 2020

Share Price: £1.50 Net Asset Value: £1.43 Premium: 4.9%

Market Cap: £99m

Data as at 31 March 2020

Holdings >3% at 31 March 2020	(%)
easyJet	10.2
Randall & Quilter	9.0
Frasers Group	9.0
Hornby	7.4
Bellway	7.3
Barratt Developments	7.2
Phoenix SG Ltd (Stanley Gibbons)	6.8
Ryanair	6.4
GlaxoSmithKline	6.4
Lloyds Banking Group	6.3
Dignity	4.6
Redrow	4.1
Vesuvius	4.0
Others <3% (3)	5.1
Cash Position	6.0

In a departure from the normal structure of these reports we would like to start by saying we hope that you and your families are well and safe during this unsettling period.

Later in this report we will share some thoughts for Aurora and Phoenix investors from our CIO, Gary Channon, which highlight how we are approaching this crisis. Work is constantly ongoing to assimilate and assess the facts as they emerge, and we adjust our thinking accordingly. We like what we own and, we believe, with patience will be rewarded in time.

In March, the NAV was down 30.6% for the month, versus the FTSE All Share (incl. dividends), which was down 15.1%.

From an individual share price perspective, Dignity, Redrow and Frasers Group were among the worst performers during the month with falls of just over 50%. easyJet, Bellway and Barratt Developments also all suffered significant falls of over 40%. GlaxoSmithKline, Hornby and Randall & Quilter were among the better performers, but all still suffered modest falls.

From an activity perspective, we have been buying Barratt Developments, Ryanair, easyJet and Lloyds during the month. Intrinsic values have been reviewed and impaired for the lockdown followed by a gradual recovery in recessionary type conditions. The intrinsic value of the portfolio is, we estimate, around £3.50 which is 150% above the present NAV and we have additional cash to deploy. This is a level of undervaluation last seen in a portfolio managed by us in 2009. Upside to intrinsic value, as we have said, remains the best predictor of our medium to long term returns.

Gary Channon's thoughts for investors are outlined below:

The view from the depths of the valley is always dark, by their very nature you end up in financial valleys because something bad has happened, prices crash because of bad news and you remain in the valley because the air is thick with gloom and so it is now. The crisis came on very quickly and the impact on share prices was very rapid.

Sharp falls are inevitable because some rush to sell at a time when buyers are thin on the ground and therefore the clearing price for willing buyers and sellers is substantially lower and therein lies the ingredients for an overreaction.

Financial valleys can be depressing places, thick with cortisol and often participants just want to leave. The gloom leads people to make poor decisions. In reality, valleys are where the gold is buried and those with a level head, the correct perspective and a long-term horizon can do wonderful things.

Our strategy for these types of conditions is first to survive and then to thrive. We came into the crisis having assessed that all our businesses would survive the coming lockdowns and that on the other side their competitive positions would either be maintained or strengthened. Now we are in the heart of the lockdowns and have a better idea of government responses, all those assessments still hold true. That is not to say that there isn't a loss of value for businesses who have had to shut down their operations, there is, and those losses will mainly be borne by shareholders. That damage took c.15% off the pre downturn intrinsic value of the portfolio.

Having passed the survival test we now set about sowing the seeds to thrive. We have been deploying cash to invest at around 1/3 of intrinsic value, in other words, with 200% of upside. Those IVs reflect the impact of COVID-19 and our expectations for the recession that will follow.

You might reasonably ask how we can incorporate into our valuations the unwinding of a crisis for which there is no real precedent. Here is our framework, we split every assessment into these two components:

a) what is the value of this business when society returns to normal?

b) what is the value or cost of the period during the lockdowns and gradual unwind and then the final assumption we need is when do we go from a.) to b.)?

Part a.) is the easy bit because we assume that by and large the underlying motivations that drive human behaviours won't change. It's true in most crises there is much talk of how different society will be in the future but that rarely persists for long and people go back to wanting a job, love, family, homes, nice clothing, holidays, etc. We expect the same to be true when this is well and truly behind us. At a government level we do expect there to be post crisis changes so that we don't get a repeat. Just as the financial crisis ended up in measures that have made the banking system so much safer, so we expect the same for pandemic early detection and preparation. Governments will never want to be caught out like this again.

Part b.) involves estimating the epidemic curve and then the likely unwind strategy which is particularly tricky. Coming into the European part of this crisis we had case studies of past epidemic models and lockdown strategies, but they were all for Asian countries with different governance regimes. We applied those models to European countries and expected that it would take 2 weeks from full lockdown to peak new cases. So far that seems to be holding with Italy the clearest case so far, which reached a peak of new cases 13 days after full lockdown. If that model holds, then the peak death rate follows 7 to 10 days later and then after that the load on the health system starts to decline. As we write, that should mean a number of major European countries will be passing their peaks and the UK will by next week.

It's one thing to pass the peak, it's quite another to want to risk lifting restrictions. The burden on health systems will not start to alleviate until later in April, thereby creating some excess capacity. If the model we are using is correct, then by the end of April the number of new cases will have dropped substantially from peak and governments will be able to start to unwind. How they go about it and how quickly we don't know, and so the easiest thing from a modelling perspective is to assume it will be very gradual. We assume May will be lost and that there will be a gradual resumption from June, but that it will be August before we see some sort of normalisation. We have models in Korea and Singapore of how societies can stay open and cope with the virus. Ultimately, the solution is likely to be medical, but that looks some time off. We deal with all of that uncertainty by flexing the model.

Let's use an extreme example to illustrate the point. The part a.) value of Barratt Developments is, we think, around £12 a share normally, but let's assume it's a depressed market of lower prices and volumes and cut that to £10. Until they reach the point when things get back to normal, they have virtually no staff, houses are built by contractors. But let's assume they burn through £100m a year waiting and let's assume an extreme of 18 months. We don't know the current status of all the current completions, so let's take a pessimistic view of that, we still estimate they have cash resources of £500m, so they can comfortably sit it out.

In the market today you pay £4 for that business. £4bn for that cash and that future value of c.£10bn whenever that comes. The only assumptions you need to make are that one day the lockdowns will be over, and that people will still wish to reside in houses either owned or rented. We like those odds and so we have been buying Barratt. Inverting the equation, we cannot come up with the scenario where £4 is the right price, it's an enormous margin of safety.

This is the way we are approaching all our assessments. We are making investments that are in the first instance safe and that offer very substantial future returns. We expect to come out of this crisis with more value than we went in it with, thereby setting ourselves up for the next upswing when those values start to be reflected in the market. We don't enjoy reporting poor numbers, it's always incredibly painful. What makes it worse is the mistakes we make on the way down. In 2008 we were early, and we invested in HBOS, this time we decided not to deploy a virus hedge or lighten up on our airlines, both turned out to be mistakes. We accept making mistakes is an inevitable consequence of trying to do what we do, but it never stops them hurting and we apologise for them. That said, for all the errors we make in downturns we do on balance make more good judgements that more than compensate. We have never had a drawdown that we haven't come out of in a stronger position in which we went in, and where we haven't added considerable future value. That is our focus now. Maximising the opportunity, first deploying the cash we still have and after that switching within the portfolio to create the most future value. As always, we never know when prices will start rising to reflect that value, but we have every confidence that at some point they will. The irony as always is that we look dumb when we are doing our best work and we look smart later when we aren't doing anything.

This crisis might look strange, and it is in that sense unique, but the opportunity it presents is quite classic, an overreaction to the short-term creating extreme undervaluation over the long-term. We believe the crisis will pass, and value will prevail.

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

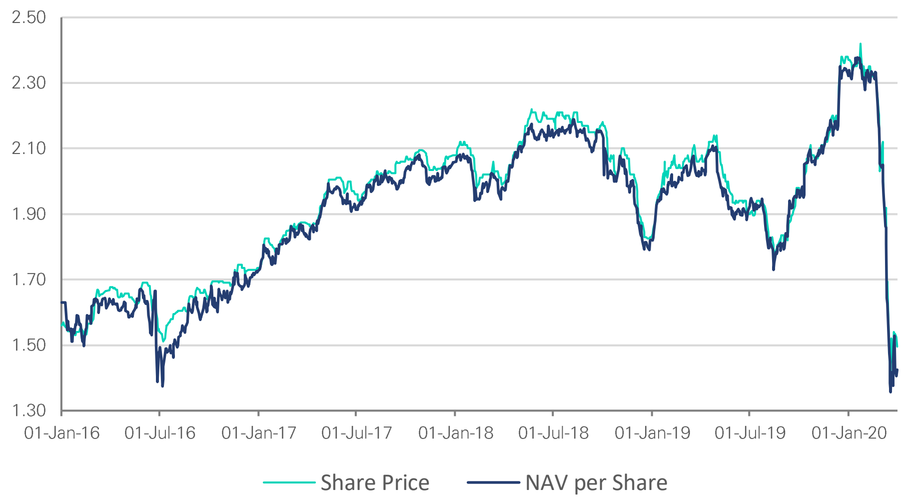
Aurora Track Record

Performance	NAV Return %	Share Price Total Return** %	All-Share Index %**	Relative NAV to ASX %
2020 (to 31 March)	-38.6	-36.9	-25.1	-13.5
2019	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*	-8.1	0.6	6.6	-14.7
2015	-2.3	4.3	0.9	-3.2

* 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 2020



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.

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

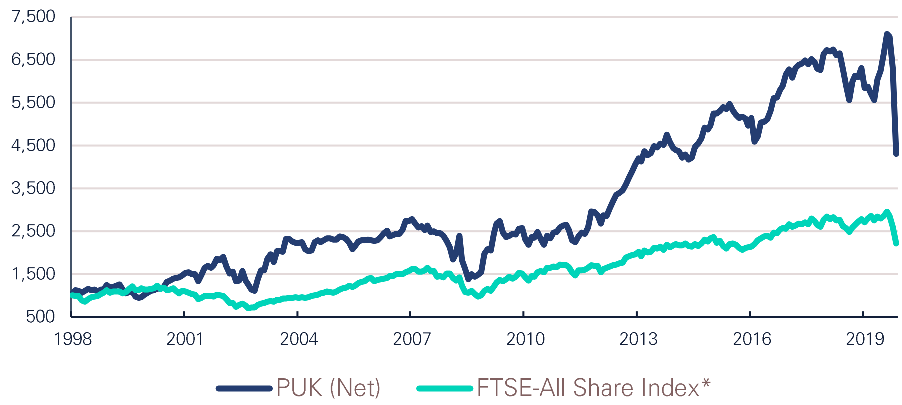
Phoenix UK Fund Track Record

Fund Performance (%)	Gross Return	Net Return	FTSE All-Share Index*	Relative NAV to ASX
Cumulative Since Inception**	636.2	330.3	133.2	197.1
Since Inception Annualised**	9.5	6.9	3.9	3.0

* All-Share Index Returns with dividends reinvested

**From May 1998 to 31 March 2020

Phoenix UK Fund
Value of £1,000 invested at launch to 31 March 2020



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.