Aurora Investment Trust – December 2020

Share Price: £2.07 | Net Asset Value: £2.13 | Discount: 2.8%

Market Cap: £155m

Data as of 31 December 2020

Holdings >3% on 31 December 2020	(%)
Frasers Group	14.4
Barratt Developments	10.3
easyJet	10.0
Hornby	9.1
Ryanair	8.5
Dignity	7.8
Randall & Quilter	6.7
Bellway	6.2
Phoenix SG Ltd (Stanley Gibbons)	5.0
Lloyds Banking Group	4.5
Vesuvius	4.1
Redrow	4.0
GlaxoSmithKline	3.5
Others <3% (4)	4.3
Cash Position	1.5

In December, the NAV was up 2.6% for the month, versus the FTSE All Share (incl. dividends), which was up 3.9%. For the year, the NAV is down 5.5% versus the index down 9.7%. The final quarter of the year saw the NAV rise by 31.5% versus a rise of 12.6% for the index.

In the last week of January 2021, it will be five years since the appointment of Phoenix as manager of the Trust. During that time, the NAV has increased by 41.5% versus 28.5% for the index.

Although share price moves in December were volatile, mainly owing to concerns over a no deal Brexit, the holdings in the portfolio were largely unaffected with the only share price moves of note being a 10% rise in Redrow and a 12% fall in Dignity.

On an annual basis, share price moves of note included a rise in Hornby of 68%, along with a resilient Ryanair, which posted a rise of 12.5% against the backdrop of an extremely difficult year. Dignity, Randall & Quilter and Vesuvius were among other holdings which posted smaller positive performances. From a negative perspective, Lloyds and easyJet were the most significant fallers, with share price reductions of 42% and 39% respectively. Bellway, Redrow and GlaxoSmithKline were among other notable fallers.

Thoughts from Phoenix CIO

Today, Gary Channon outlined his thoughts around 2020 for Phoenix and Aurora investors. He characterised the year as not bad considering we went into the pandemic loaded up on airlines, retailers and hospitality businesses, as well as cyclical businesses like housebuilders and a bank. We ended the first quarter down 39% and 14% behind the market. So, after that, finishing the year down c.5%, and 4% ahead of the market, feels like a positive result.

However, it ignores the enormous mistake we made in not placing a market hedge in January for a pandemic, something we have done previously and have spent 10 years preparing for. Why we did not pull the trigger in the end we still can’t sensibly explain. That was an error of Gary’s making. What then followed was the application of the team’s disciplined and detailed research and monitoring which navigated the portfolio through the COVID storm with sound judgments and value assessments. We put a high value on our assessed confidence in predicting the damage and risk of downside scenarios and that caused us to focus our investment activity in the businesses and managements we already know.

We looked at a lot of new investments in 2020 and many offered greater upside potential than our existing holdings, but the probability of error of assessment was higher and that caused us to pass on them versus our existing holdings. We had one new investment narrowly miss on price and in another we were unable to buy many shares before the price moved, but these would not have made a material difference to the year’s performance.

Few have written more eloquently than Howard Marks on the importance of balancing risk and returns. That doesn't mean risk avoidance, because that is likely to lead to poor returns. It is about getting paid properly for the risks being taken and that requires an honest understanding of the limits of one's knowledge. "The road to long-term investment success runs through risk control more than through aggressiveness." (Howard Marks). The biggest risk we face is the permanent loss of capital and we took particular care to avoid that whilst still investing where we saw the opportunity.

Gary also had a personal message for all Phoenix and Aurora investors and some observations on prospects and outlook for the portfolio; both are outlined below.

Personal Message from Gary Channon

At a human level this has been a trying year, but I have been the beneficiary of unflappable professionalism in the team around me who have taken everything in their stride.

I am enormously grateful for the support and encouragement of our investors right through the depths of the drawdown. Whilst around me I've watched many investors perish, or suffer big redemptions, we have not, and we end the year with the assets we started with. We are honoured to work for you, we have attracted a rare breed. In fact, we received subscriptions not redemptions when in the trough this year.

At the end of the year the UK finally exited the EU. However, it did so without a formal agreement on financial services. It is hoped that we will get more clarity and agreement in this area during early 2021. For any of our shareholders based in the EU we will find the appropriate structure to allow us to continue servicing you.

Thank you for your support, we do not take it for granted.

Outlook

We enter 2021 with a portfolio of undervalued businesses that we believe are well positioned to capitalise on a competitive landscape that has been radically altered in some areas by failure and trend accelerations. Our upside to IV at c.100% does not properly reflect that potential because it is hard to estimate how it will play out, but the important thing is that its additive to value.

For example, Ryanair and easyJet will be serving a demand for personal travel that looks undiminished and even enhanced by pandemic lockdowns and they will be doing it with fewer competitors and reduced capacity than those that are left.

Wetherspoons will be serving a demand that, if anything, seems to have been increased by having it rationed and denied. It did not take much government encouragement in the summer to fill pubs and restaurants with casual diners, even with social distancing.

Surveys have shown that the activities most missed during lockdown after meeting friends and family are going to the pub/restaurant and going on holiday and these two activities score much more highly than anything else.

Retailing has been ravaged not just by the business interruption that has impacted travel and hospitality but because the pandemic has accelerated the trend already underway to a different way of retailing. Whilst many companies in the sector have failed, Mike Ashley and his Frasers Group have been busy seizing the opportunities thrown up and have traded profitably throughout. They look well positioned to benefit from their omnichannel offering across sports and luxury as they relentlessly experiment and adapt to the changing consumer demand.

Our cyclical domestic holdings in housebuilders and Lloyds Bank have hurt the portfolio this year. They have actually been less impacted by the downturn than might have been expected and we think are very well placed for 2021. Again, the pandemic seems to have increased the demand for homes; more specifically there is a growing demand for more space and a move away from city centres of which our businesses are a beneficiary.

The final grouping within the portfolio is those businesses where we are trying to increase their value through our involvement, our control and influence holdings. Hornby benefited from the lockdown whereas the others Dignity and Stanley Gibbons were negatively impacted to varying degrees. Dignity benefited from more funerals but as they were smaller affairs the average revenue and profitability declined. Overall, this group significantly lifted the portfolio return and Hornby was the main driver of that. A year ago, we told you of our plans to put all these holdings into a single company which would be separately listed. We paused that project during the pandemic because we didn't think it was the best use of our time. However, the work is all done and so we have recently resumed that process and will be bringing the new company to market, called The Castelnau Group, in the next few months.

As a reminder of what we are trying to achieve, these are businesses that we believe can create considerably more value if they adopt different approaches. We have pulled together the wisdom and techniques we have learned from studying and closely monitoring some great businesses and businesspeople and we are beginning to apply those to these businesses. It is still early days, but our view of the potential has only grown the more we have done this and that is despite the fact that most of the time things don't seem to go to plan, are harder to implement than we expected, and we are constantly hit by setbacks. It seems that our rate of progress is accelerating at the rate at which things don't go right and we learn from that.

It would have been nice to have launched the company a year ago and started with such a strong year, but it is irrelevant for our investors because you have owned the underlying holdings through the Trust. Separating those businesses where we are trying to add value through involvement will make the effects of that work much easier to measure and evaluate. The company won't just contain the businesses we control and influence but also those businesses we are using to create that value. One is a digital marketing and software development company that Phoenix acquired last year, and the other is a data science company that we are just in the process of setting up. These companies will be able to take the techniques and capabilities they have learned with our businesses and apply them to external companies to create further value for the group. We will elaborate on this when we write to you about it; in short though, we are excited about the potential in this group; if we are right it contains the biggest source of future value for our investors.

You may ask quite reasonably whether it makes sense for us to be doing both this active business building and shaping as well as the passive arm's length investing that we do at Wetherspoons and Frasers. We honestly believe they are highly complementary. We had a much better insight and understanding of managers going through the pandemic because of our direct internal knowledge from our own businesses. We could ask better questions and make better judgements about them than we would have been able to 10 years ago. We also think we can bring a lot that we have learned from our observing of what works and what doesn't to our companies. It is early days, and we are only just beginning to see the value of our involvement, but the more we have done it the more we see the potential. With the new company you will be able to see whether these fine words marry up with the actual results and then judge us accordingly.

A final benefit of putting these holdings and activity in one listed company is that it should increase the liquidity.

As the world emerges from the pandemic once the vaccination programme passes its tipping point, we expect a concerted global effort to stimulate economic activity. In the UK we also have the release of the pent-up investment held back by Brexit uncertainty combined with a government determined to give the economy a strong push. We think this makes the near-term fundamental outlook very strong and very positive for the portfolio of businesses in the Trust.

The biggest risks we face are i.) still the internet, ii.) interest rates and iii.) the environment.

We have spoken about the internet risk before and we have spent much of the past two decades trying to avoid the way it has upturned competitive landscapes and only recently have we sought to seek ways of benefiting from the opportunities it brings. If Hornby is ever worth £1bn it will be because of the internet more than anything.

Although the world has been desensitised to it, the current interest rate environment will at some point in the future be looked upon as absurd. Negative interest rates may be here and very real but the idea that someone pays you to borrow money is still ridiculous. No one is quite there yet, not even Denmark, but if we really did extend the idea of negative rates to individuals, they wouldn't quite believe it. Yes, you can have a mortgage and we will pay you for it and the more you borrow the more we will pay you. That would make the bank the payer of the mortgage not the borrower and so you would have no defaults. And if you apply those negative interest payments to repay the loan then the bank would also be the repayor and so the collateral (the house) becomes irrelevant, in which case there is no limit to how much you can borrow. This really is Alice in Wonderland stuff and future generations are going to ask what we were thinking in the days of negative interest rates.

If the risk-free rate really is negative, then the fair value for a holding of all equities is probably infinite. Equities will be cheaper than government bonds no matter what price they reach. That can't be right.

So, one day it will change, and it probably won't be pretty, and we think we have a responsibility to have that known unknown insured against and we are working on that.

The final big risk is the environment and in 2020 we have been working on embedding that in our evaluation process. Consumers and governments are acting on the threat of climate change from human activity and we need to incorporate that in our assessments of intrinsic value. We will continue to approach investment as a financial activity, with the goal of making the best long-term risk adjusted returns we can for you. We don't seek to change the world by how we allocate capital. However, we do think our access to managements does allow us to facilitate potential world improving outcomes and we are doing some of that and will continue to.

"*Several things go together for those who view the world as an uncertain place: healthy respect for risk; awareness that we don't know what the future holds; an understanding that the best we can do is view the future as a probability distribution and invest; accordingly, insistence on defensive investing; and emphasis on avoiding pitfalls. To me that is what thoughtful investing is all about.*" - Howard Marks, The Most Important Thing.

In summary, if we are right then in 2020 our main achievement was the avoidance of major errors and of adding more value through our investment actions than we lost through the impact of the lockdowns on our businesses, leaving us with a portfolio with more intrinsic value than a year ago and spring loaded for what is to come.

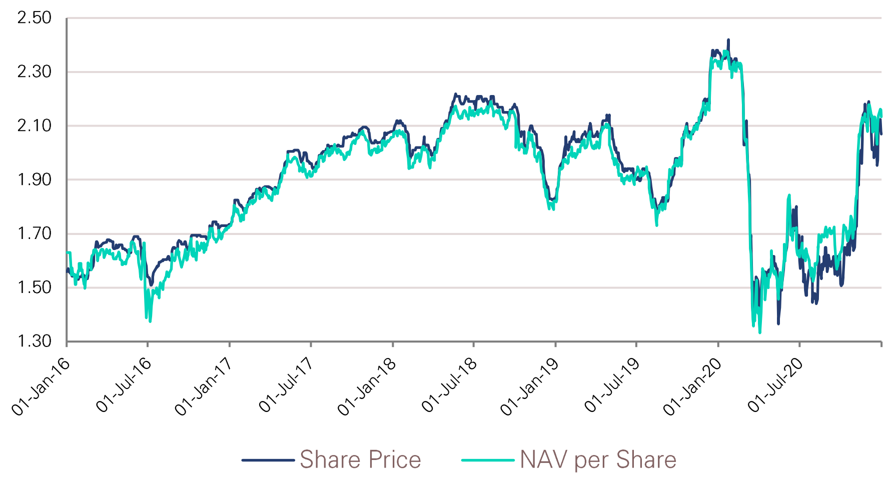
The appointment of Phoenix Asset Management Partners ("PAMP") as Aurora's investment manager came into effect in January 2016.

Aurora Track Record

Performance	NAV Return %	Share Price Total Return** %	All-Share Index %**	Relative NAV to ASX %
2020 (to 31 Dec)	-5.5	-10.0	-9.7	4.2
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*	41.5	43.5	28.5	13.0
2015	-2.3	4.3	0.9	-3.2

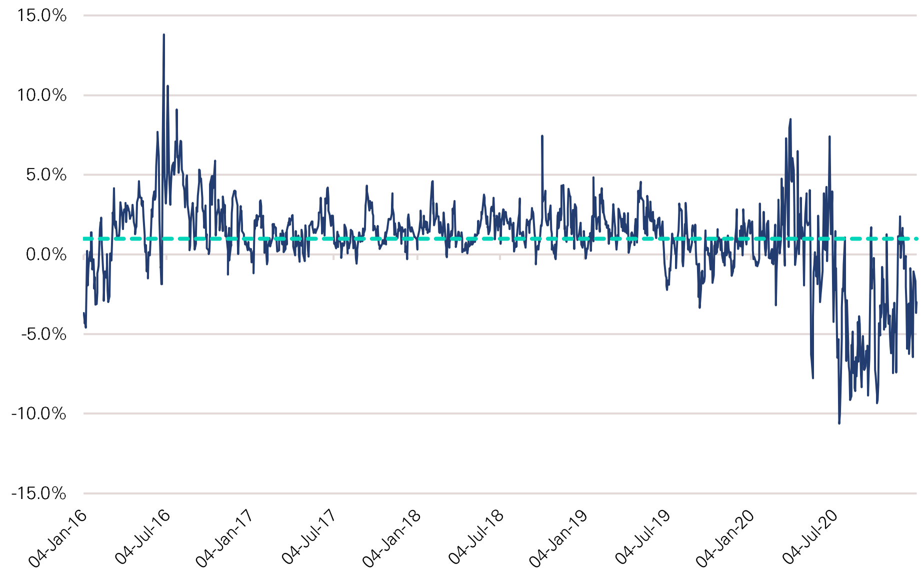
* Since 1 January 2016
**Share price return with dividends reinvested; All Share Index returns with dividends reinvested.
Past performance is not a reliable indicator of future performance.

Aurora Share Price & NAV per Share – 31 December 2020



Past performance is not a reliable indicator of future performance.

Aurora Premium / (Discount) – 31 December 2020



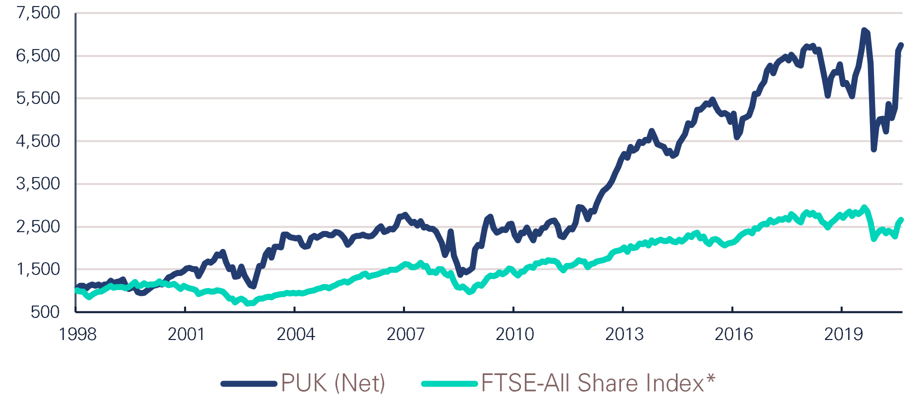
Aurora shares are eligible to be invested in an ISA. Neither the Aurora Investment Trust nor Phoenix Asset Management Partners run such a scheme. You should consult a financial adviser regarding a suitable self-select ISA provider.

Phoenix UK Fund Track Record

Fund Performance (%)	Gross Return	Net Return	FTSE All-Share Index*	Relative NAV to ASX
Cumulative Since Inception**	1,065.0	575.1	181.1	394.0
Since Inception Annualised**	11.4	8.8	4.7	4.1

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 2020



* All-Share Index Returns with dividends reinvested

**From May 1998 to 31 December 2020

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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: