Aurora Investment Trust – March 2021

Share Price: £2.20 | Net Asset Value: £2.20 | Discount/Premium: 0.0%

Market Cap: £168m

Data as of 31 March 2021

Holdings >3% on 31 March 2021	(%)
Frasers Group	14.0
easyJet	11.2
Barratt Developments	11.0
Dignity	7.8
Ryanair	7.8
Bellway	6.8
Randall & Quilter	6.3
Hornby	6.0
Lloyds Banking Group	5.0
Phoenix SG Ltd (Stanley Gibbons)	4.8
Vesuvius	4.0
GlaxoSmithKline	3.8
Others <3% (4)	5.5
Cash Position	6.1

In March, the NAV was up 4.5% for the month, versus the FTSE All Share (incl. dividends), which was up 4.0%.

Individual moves of note during the month included Dignity up 29% and Bellway and Barratt Developments up 21% and 12% respectively.

Activity

From an activity perspective, we sold our entire holding in Redrow in the last two months because of an accumulation of factors. It is a company again in transition following the retirement of its founder, has made some missteps of late and has a landbank with some sites that take a very long time to develop. We expect continued changes in environmental and building regulations in the coming years which will increase the cost of building. Ultimately, that cost will fall on future land sellers but for an existing landbank, it falls on the housebuilder. We prefer the shorter and faster turning landbanks of Barratt and Bellway, which are less exposed to those risks.

In recent weeks, our efforts at Dignity have spilled into the public domain. We promise you a fuller explanation in time when we are permitted, but please rest assured that we have taken this uncomfortable path as we think it is in the best interests of our investors whatever the outcome.

Yesterday, Gary Channon published a report to Phoenix investors, excerpt below:

The UK and much of the rest of the world looks set to emerge in the next quarter from the lockdowns imposed to control the spread of COVID. As vaccination programmes roll out, the threat from contagion declines substantially and so the world looks to be on the cusp of a return to some form of normality. Undoubtedly, there will be further setbacks along the way, but a lot has been learned in the past 12 months; the range of outcomes now seems to favour a strong recovery in the coming quarters as the restrictions on freedom of movement lifts.

This is a truly unusual recovery unlike any we have seen before. Emerging from a typical cyclical decline, consumers are cautious and indebted, as they were for years after 2008. Yet this time we have consumers both flush with savings and with a pent-up desire to do the things they have been deprived of. The closest thing in modern history is what happened after World War Two, especially in the US where the ending of the war combined with years of high savings and rationed supply were followed by a consumer boom. In the UK, the Bank of England is forecasting that households will only gradually spend some of the over £200 billion of savings accumulated in the past year (5% over 3 years). They may be correct but there is a real chance that they are wrong and that the release from lockdown will create a feelgood effect that causes a real boom. For businesses in the UK who have been holding back investment since the time of the referendum in 2016, there is also great pent-up potential and the Chancellor's

accelerated tax relief could spark an investment boom at the same time. The government is also not rushing to close the massive deficit it is running by adding more stimulus.

To assess how our portfolio is positioned coming out of COVID we developed a simple business conditions scorecard of 3 factors judged over the short and long-term, so 6 measurements in all. The three factors are Volume, Desire and Competitive Landscape. Volume is the measure of the impact on volumes from the end of lockdowns. For example, a hairdresser will get an increase in the short run and no change in the long run. Desire is the impact on desire for a product or service from what has happened in the past 12 months. For example, there seems to be a big pent-up desire to eat out and drink out after so long of being deprived of it. These are not catchup meals, because that past appetite was filled on the day of hunger, it's an increase in demand over what might typically have happened if there had been no lock down. However, that probably won't persist over the long term once the novelty has worn off. Finally, Competitive Landscape measures the impact on competition from COVID. Restauranteurs will emerge with fewer competitors which will be a positive for them in the short term but the low barriers to entry will probably redress that situation over the longer term. In our score card long term effects carry much more value than the short-term ones.

Here is an example with our airline holdings:

easyJet & Ryanair	NEGATIVE	NEUTRAL	POSITIVE	
Volume: Short Term: reduced, no change, increased			1	
Volume: Long Term: reduced, no change, increased		0		
Desire: Short Term: reduced, no change, increased			1	
Desire: Long Term: reduced, no change, increased		0		
Short/Medium Term Competition: reduced, no change, increased			1	
Long Term Competition: reduced, no change, increased		0		
	0	0	3	**+3**

In the short run there is a volume benefit from trips that couldn't be taken during lockdown, there is pent-up desire to travel for leisure and the competitive landscape has improved as we have discussed before. All of these factors though are likely to be in the short run and may not persist for the long-term.

When looking at housebuilding through the same scorecard we get:

Barratt Developments & Bellway	NEGATIVE	NEUTRAL	POSITIVE	
Volume: Short Term: reduced, no change, increased			1	
Volume: Long Term: reduced, no change, increased		0		
Desire: Short Term: reduced, no change, increased			1	
Desire: Long Term: reduced, no change, increased			10	
Short/Medium Term Competition: reduced, no change, increased		0		
Long Term Competition: reduced, no change, increased		0		
	0	0	12	**+12**

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The desire for more housing, which is in part due to the increased desire to work from home, may have increased the long-term demand for housing. At the moment there is a strong demand for more space, which is reducing the density of occupation in the existing housing stock and creating strong demand for larger properties, which, in order to be met will require an expansion of new housing. If this is correct, then the pandemic may have caused a secular lift in demand for housing and homewares.

Applying this approach across the portfolio shows that 73.5% is invested in businesses with a positive score and only 12.7% in those with a negative one. Some are neutral and unaffected. That 85:15 ratio to the positive tells you a lot about our portfolio. We are heavily exposed to the positive post-COVID effects. When you combine extra demand with reduced competition then it should make for good profits. Many of these businesses have had their balance sheets damaged by the losses they sustained getting through the pandemic and so much of these coming gains will be used to repair balance sheets. However, for those in a financially strong position there will be great opportunities for growth.

So, we expect great things fundamentally in the next couple of years, from travel, weddings, casual dining and even physical retailing but we expect only a few of those effects will be long term. So, what could spoil the party? One that we fear is that this synchronised boom in demand around the world when combined with continued government stimulus could set off inflation in a persistent way. Central banks are expecting a jump initially and will probably not respond to that but if it turns out to be more than a bump then they will be way behind the curve on controlling it and therefore will have to raise interest rates faster than they currently expect.

In Q2 we expect to finally list the company we have created, The Castelnau Group, to hold those investments where we are working to increase their value by applying a range of techniques. In the Group are also two enabling businesses which provide Digital and Data Science capabilities. We will announce the new Group and the fund raising for it properly at the time and invite you to learn more about what we are doing. Apart from the value-creating opportunities in the Group, we think that the post-COVID world and the end of government support measures will throw up some potential opportunities to add to the Group.

One holding that may or may not end up in the Group is Dignity. In the quarter we made great progress in advancing Dignity's strategy work but bumped up against something that would have required us to compromise our principles to ignore and in essence highlighted that the Executive Chairman was not really collaborating with us. We are therefore engaged in a process now that will tell us by 23rd April where we stand, either back at Dignity with a proper mandate or walking away from our engagement. It is disappointing to see the Company spending considerable amounts of shareholder's money fighting and attacking a shareholder who merely asked for a matter to be put to a democratic vote. We hate seeing our name in the public domain, we apologise for that, much of what is being said about us is either untrue or misleading, the most offensive thing we have done is speak the truth when the truth is uncomfortable. It will soon be over and by the next report we should hopefully be back in our shell.

The Trust has now largely recovered the drawdown of 2020 and is positioned to benefit from the recovery. Despite what we wrote above our intrinsic values, don't assume the boom that we expect because it's very hard to model. We will just adjust as the facts unfold. So, we have a current estimate for an upside to intrinsic value of 86% but as you

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know, we always have a fan of potential IVs and right now it is skewed to the upside at the individual company level notwithstanding the macro backdrop. There are lots of signs of speculative mania all around (although it hasn't touched any of our holdings!) and those bubbles always eventually burst. Yet for all the drama and newsworthiness, they don't usually do much lasting economic damage. The prices of shares, crypto currencies et al can soar and crash and create winners and losers but most people will go about their life in the same way. Our approach, which is to buy value not price, and businesses not shares with cash and not debt will, we believe, stand the test of time and deliver excellent long-term results for our investors.

Interest Rate Hedge

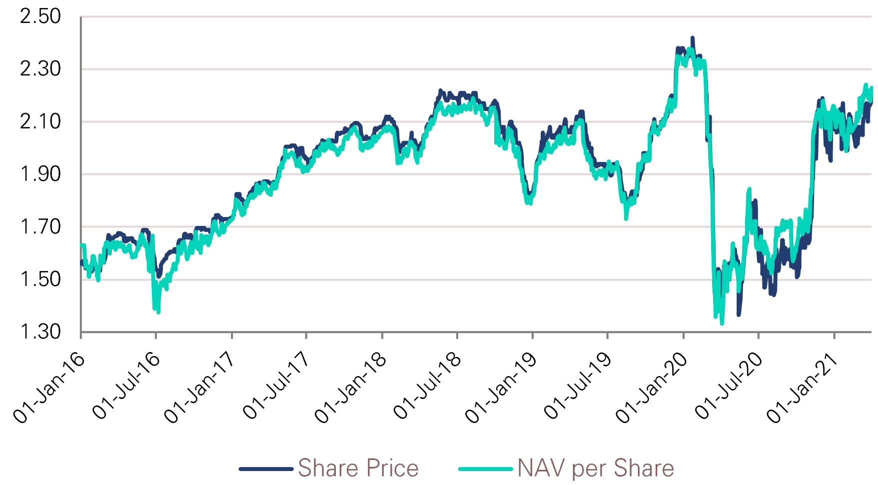
In the excerpt from his report, Gary Channon outlined the risk from higher inflation and a subsequent sharp rise in rates. To combat this, we plan on implementing a hedge which has been put in place in the Phoenix UK Fund. A direct hedge on equities is too expensive, therefore, at the right price, we intend to spend circa 1% of NAV on some listed derivative contracts that will pay out depending on what the 3-month Libor rate is in Sep 2022. At rates of 1% and less, the instruments are worthless. At 2% the options will be worth the equivalent of about one third of the portfolio, which is the scenario we wanted to hedge for. A sharp rise in rates will probably damage the intrinsic values of our holdings, which we estimate at worst could be one third of the current value if it really knocked house prices. In the early part of the year there was little talk of inflation but that has now changed, and it would cost more to place it today. We are being patient to execute the hedge at an appropriate level.

Aurora Track Record

Performance	NAV Return %	Share Price Total Return** %	All-Share Index %**	Relative NAV to ASX %
2021 (to 31 March)	3.0	6.3	5.2	-2.2
2020	-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*	45.7	52.3	35.1	10.6

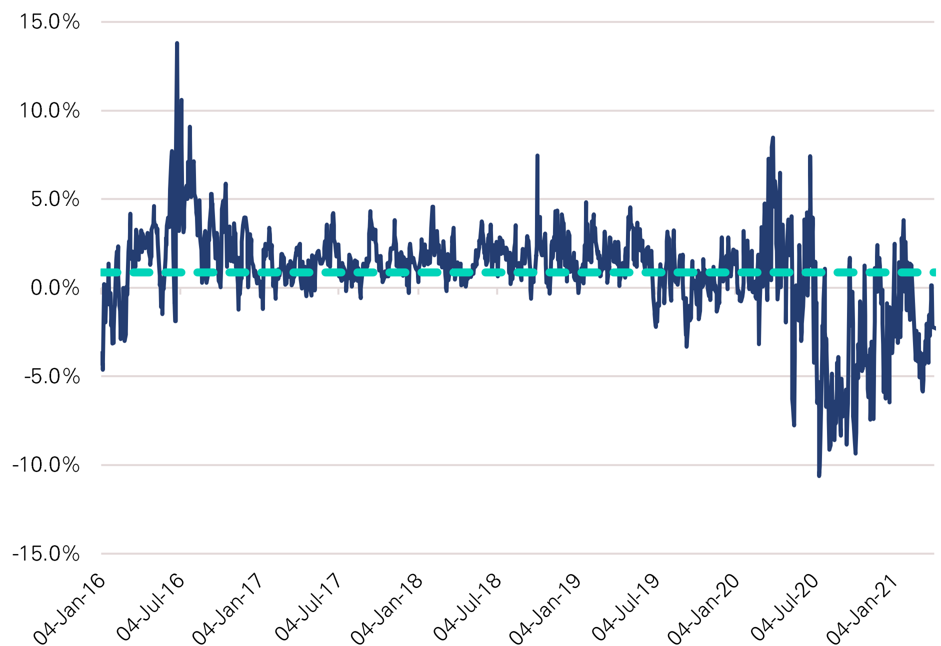
* Since 1 January 2016
**Share price return with dividends reinvested; All Share Index returns with dividends reinvested.
Past performance is not a reliable indicator of future performance.

Aurora Share Price & NAV per Share – 31 March 2021



Past performance is not a reliable indicator of future performance.

Aurora Premium / (Discount) – 31 March 2021



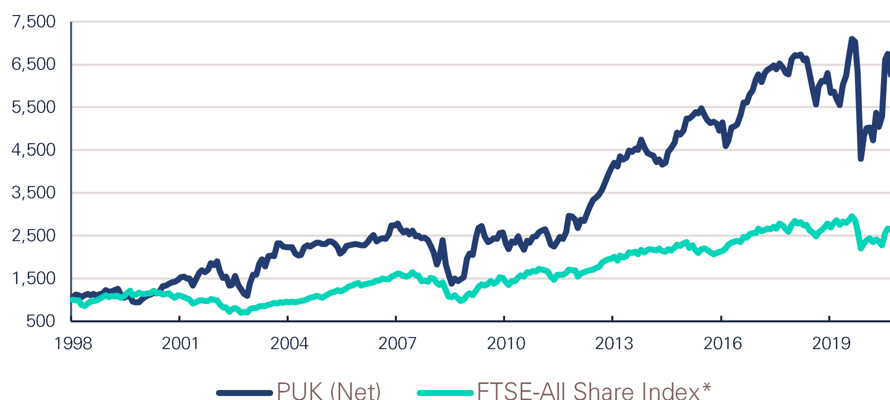
Aurora shares are eligible to be invested in an ISA. Neither the Aurora Investment Trust nor Phoenix Asset Management Partners run such a scheme. You should consult a financial adviser regarding a suitable self-

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**	1,126.3	608.6	195.7	412.9
Since Inception Annualised**	11.6	8.9	4.8	4.1

Phoenix UK Fund
Value of £1,000 invested at launch to 31 March 2021



* All-Share Index Returns with dividends reinvested

**From May 1998 to 31 March 2021

Past performance is not a reliable indicator of future performance.

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:

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