Aurora Investment Trust – September 2021

Share Price: £2.12 Net Asset Value: £2.30 Discount: 8.5%

Market Cap: £162m

Data as of 30 September 2021

Holdings >3% on 30 September 2021	(%)
Frasers Group	19.8
easyJet	13.4
Barratt Developments	11.1
Dignity	7.5
Ryanair	7.4
Hornby	5.4
Bellway	5.3
Lloyds Banking Group	5.2
Randall & Quilter	5.2
Phoenix SG Ltd (Stanley Gibbons)	4.6
Vesuvius	3.4
Others <3% (6)	7.2
Cash Position	4.5

In September, the NAV was down 0.9% for the month, versus the FTSE All Share (incl. dividends), which was down 1%.

From an individual share price perspective, Randall & Quilter was the only positive performer of note after rising 10.2% during the month. Fallers of note included Hornby -13.5%, Vesuvius -13.2% and Dignity -11.5%.

Activity

From an activity perspective, we can report that the inflation hedge that we discussed earlier in the year was put into place in early September. Gary Channon recently wrote:

Right now, there is a lot of noise particularly in the UK. Trying to distinguish from the temporary effects of the likes of COVID and Brexit with longer term trends and systemic risks is particularly difficult. The risk that persistent inflation is coming has risen in our opinion as the year has gone on in part because central banks face the same problem in working out what is noise and what may be a worrying signal.

The price pressures coming through in so many places now may be the temporary phenomena that central bank forecasts predict, or they may not. They may also be a sign that all the additional stimulus and the big jump in money supply around the world including the UK, combined with limits on supply finally being hit is turning into inflation as it always has in the past. If employees come to believe it is more than transient, then we may see it feed through into pay demands and settlements which would be the point where central banks will have a problem.

The hedge increased in value in late September as the expectation of rate rises next year has risen and now represents 2.6% of the portfolio (1% at cost).

Other activity during the month centred around the capital raise at easyJet. We took up our rights in full and to assist with that, we reduced our holdings in Bellway, GlaxoSmithKline and Randall & Quilter. Gary Channon commented that we believe the raise to be unnecessarily large and went on to say:

We had anticipated and modelled for a raise but the size and structure of this one diluted value more than we expected and our interactions with management around it revealed their shortcomings as capital allocators. After rejecting a merger approach from Wizz at a premium to the £8 share price, arguing that it undervalued the company, they issued £1.2bn of new equity at £4 per share. When asked what they estimated the value effect would be on those shareholders who could not take up their rights, they were unable to answer. They didn't have the figure, had not calculated it, and asked their advisors to go away and work it out. This is quite extraordinary; the directors who are elected and are expected to act in the interests of their shareholders decided on this rights issue without considering all the consequences for them.

We asked whether, given the size of the issue, they were going to put it to a shareholder vote and they pointed out that they had made a change to their permissions in December at the AGM to allow them to do this without asking. We already knew that because we were one of the few who voted against it. Despite the permission, we asked whether they would put this to shareholders anyway to make sure that it is what they want and they declined, and you can interpret that how you will.

In 2020, the Company engaged shareholders energetically, working their way down the register to even smaller holders to seek their opinion and ask for support. The topic then though was a motion to remove them put forward by their largest shareholder (Stelios Haji-Ioannou). Looking at the two different ways in which they acted, one can't help feeling that they are not motivated by what is best for easyJet's shareholders. Perhaps the effect of diluting their largest and most vocally critical shareholder played some part, even subconsciously, in the capital raise decision.

At the time of the issue, easyJet had access to £2.9bn of unrestricted liquidity versus an operating cash burn of £40m per week. 40% of their planes are owned outright and unencumbered. In our opinion, per share shareholder value would have been better served through a smaller raise and a more gradual balance sheet repair from retained earnings as travel returns.

We didn't disagree on the value calculations or the cost of capital because they simply hadn't done the work, which takes us on to the most poignant aspect of this, which is how did we come to place your capital in the hands of such naïfs.

We backed Carolyn McCall (CEO from Mar 2010 to Jul 2017) and Andrew Findlay (CFO from Oct 2015 to Feb 2021) who did have a robust capital allocation framework. It was their disciplined application of a hurdle-based framework that did so much to raise the underlying return on capital at easyJet as it shifted capital into slot constrained airports where the returns were highest. As each of them left, we assessed their replacements and did form the view that they were weak on capital allocation, but we didn't act, and we should have. We will modify our process for the future and apologise for what was our own highly avoidable error.

In terms of our actions, we have taken up our rights in full because we think that is the most rational thing to do. Our estimate of easyJet's IV has fallen 28% from £18 to £13, at the same time our cost price of our holding has fallen by 21% from taking up the rights shares at £4.10. Our upside on the investment has reduced to 89% from 106%.

Outlook

In his quarterly report to Phoenix investors, Gary Channon made the following observations on the Housebuilding sector and the Portfolio.

Housebuilding

There has been an ongoing spread of the cladding and fire standard issue. We have assumed that costs will be higher than currently estimated and that the Government recovers the costs of its retrospective commitments from larger housebuilders over the next decade through taxation. Mr Gove has been given this issue to resolve and we expect to see some action and announcements in the next few months. Overall, we think our businesses (Barratt Developments and Bellway) are priced extremely attractively even allowing for a pessimistic path for this issue. That said, we keep watching it very closely.

Portfolio

As we have previously written, we believe we have a line-up of businesses well placed to benefit from the return to some form of normality and benefitting from a reduction in competitors. Inflationary pressures are impacting input costs, yet we own companies that have some form of pricing power which protects profits and value. The upside to our estimate of Intrinsic Value is 87%, (90% adjusted for cash). With Castelnau Group in the process of listing, we are well positioned to make the most of what comes next. If inflation is back and rates do need to rise, then expect some volatility.

Stock markets resemble the era in the past known as the Go-Go Years (1960s), where the market came to be led by what was known as the Nifty Fifty. Stocks so good that you would do well whatever price you paid. That era came to an end in 1972 with a crash and those great companies fell c.80%. For those who managed to hold on, they were great companies and still around decades later, but it took 25 years before they gave an acceptable investment return. Great businesses don't necessarily equate to great investments, price matters. The market is dominated by some wonderful companies whose valuations either signal astonishing profits far into the future, or very low investment returns.

If and when this era comes to an end, being invested in the solid and undervalued will afford some relative protection. Our approach to investing at its heart combines a deep assessment of value versus price wrapped in a risk reducing framework. We can create the greatest future returns when price deviates from value. Ultimately, we own businesses that we expect to be around in the long term and, if we are correct in that assessment, and have paid the right price, then the returns will take care of themselves. We remain ready for any and all market conditions.

The factors that brought the Go-Go Years to an end were inflation and higher rates.

**John Brooks wrote the best book on the era - The Go-Go Years: The Drama and Crashing Finale of Wall Street's Bullish 60s, although he finished in 1970 and missed the real finale.*

Castelnau Group

We would like to thank shareholders for their support in the recent vote, which approved the inclusion of Castelnau Group in the portfolio.

As we write, Castelnau Group is in the final stages of listing, and we are therefore unable to say anything new. The Prospectus was published on 23rd September and the listing date is expected to be 18th October. The closing date for subscriptions is 12th October and if you are based in an appropriate jurisdiction, are considering an investment, and haven't done so yet then please let us know if we can help.

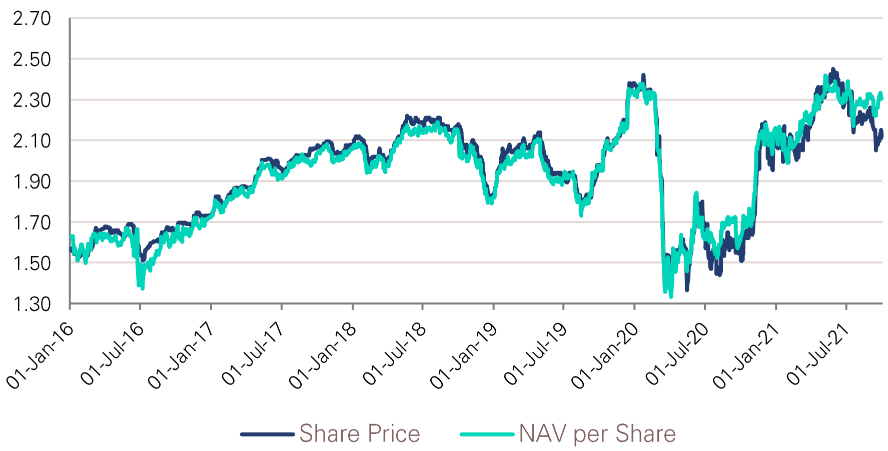
The changes to the portfolio incorporating Castelnau Group will take place on listing and will show in the next report.

Aurora Track Record

Performance	NAV Return %	Share Price Total Return** %	All-Share Index %**	Relative NAV to ASX %
2021 (to 30 Sep)	8.3	2.6	13.5	-5.2
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*	53.2	47.1	45.9	7.3

* 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.

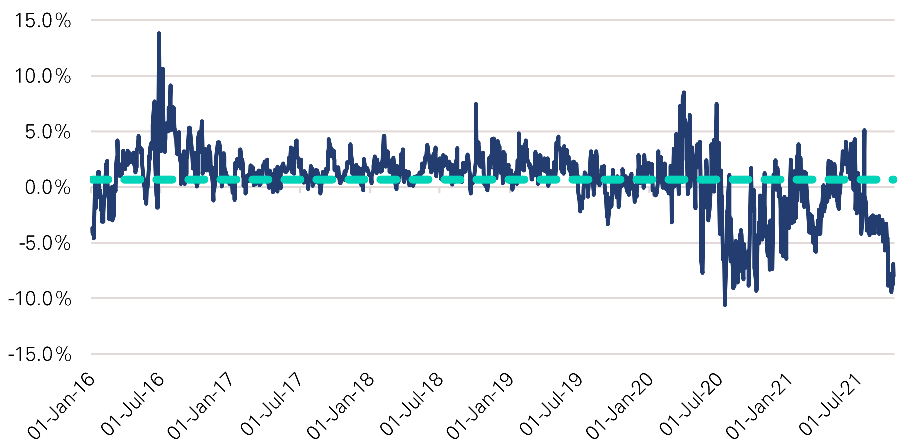
Aurora Share Price & NAV per Share – 30 September 2021



Past performance is not a reliable indicator of future performance.

Aurora shares are eligible to be invested in an ISA or SIPP. 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 or SIPP provider.

Aurora Premium / (Discount) – 30 September 2021

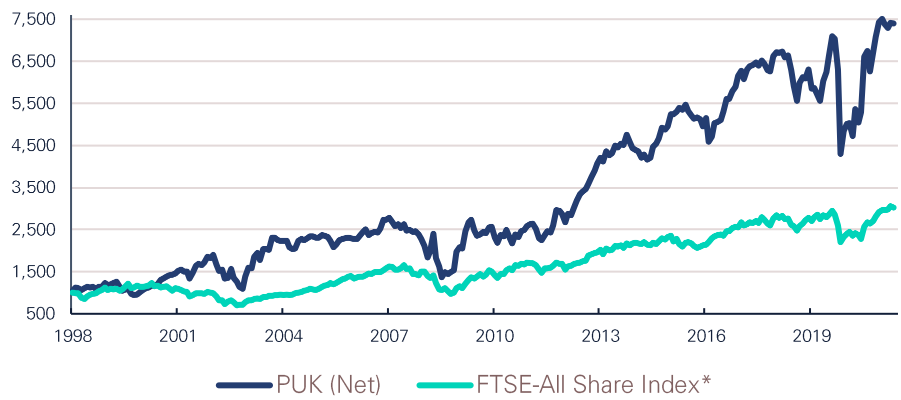


The investment strategy of the Aurora Investment Trust is the same as that of the Phoenix UK Fund.

Phoenix UK Fund Track Record

Fund Performance (%)	Gross Return	Net Return	FTSE All-Share Index*	Relative NAV to ASX
Cumulative Since Inception**	1,196.9	639.7	219.1	420.6
Since Inception Annualised**	11.6	8.9	5.1	3.8

Phoenix UK Fund
Value of £1,000 invested at launch to 30 September 2021



* All-Share Index Returns with dividends reinvested

**From May 1998 to 30 September 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

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: