
Aurora Investment Trust plc

Annual Report 31 December 2021

Company No. 03300814



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Strategic Report

Financial and Performance Highlights

Objective

To provide Shareholders with long-term returns through capital and income growth by investing predominantly in a portfolio of UK listed companies.

Policy

Phoenix Asset Management Partners Limited (Phoenix) was appointed Investment Manager on 28 January 2016. Phoenix currently seeks to achieve the Objective by investing, primarily, in a portfolio of UK listed equities.

The portfolio will remain relatively concentrated. The exact number of individual holdings will vary over time but typically the portfolio will consist of 15 to 20 holdings.

The Investment Policy of the Company can be found on page 9.

Benchmark

Performance is benchmarked against the FTSE All-Share Index (total return), representing the overall UK market.

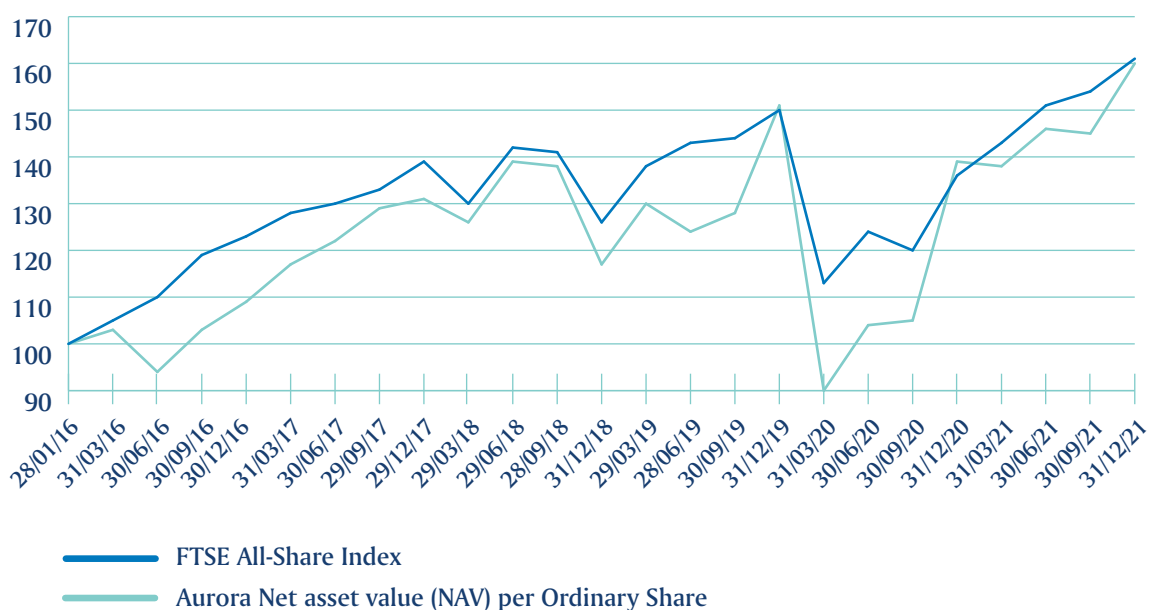
Dividend

The Board proposes to pay a final dividend of 1.84p per Ordinary Share (2020: 0.55p) to be paid on 1 July 2022 to Shareholders who appear on the register as at 10 June 2022, with an ex-dividend date of 9 June 2022.

Annual General Meeting

The AGM of the Company will be held at Chartered Accountants Hall, One Moorgate Place, London EC2R 6EA on 28 June 2022 at 2.00 pm. If you are unable to attend in person you have the option of attending via webinar, where you will have the opportunity to hear a presentation from the Investment Manager and ask Questions. Instructions on how to attend the webinar can be found on the Company's website at <https://www.aurorainvestmenttrust.com/news/regulatory/56/> and in the Notes to the notice of AGM.

Performance



The chart above shows the Company's NAV performance (total return) compared to the FTSE All-Share Index (total return) since Phoenix became the Investment Manager.

Chairman's Statement

Lord Flight
Chairman

April 2022

Performance Review

The Company's daily published unaudited Net Asset Value ('NAV') for the year ended December 2021 rose by 19.1% and the share price rose by 13.5% on a total return basis, versus the benchmark, FTSE All-Share Index (total return) which increased by 18.3%. This was the third year in succession of outperformance versus the market.

- The year was again dominated by COVID-19, and the stop-start nature of the transition back to normality post the pandemic. There are significant elements of the portfolio such as the low-cost airlines, which will benefit from a full return to normality, which Phoenix expects to be a source of positive performance in the fullness of time.
- As announced on 3 September 2021 and as we have previously discussed, Castelnau Group Limited ("Castelnau") was listed on the Specialist Fund segment of the London Stock Exchange in October 2021. As part of the transaction, the Company acquired shares in Castelnau in exchange for a proportion of the Company's holding in Dignity PLC, Hornby PLC and Phoenix SG. Since listing Castelnau has performed well. Further details of Castelnau's performance can be found in Castelnau's fourth quarterly report of 2021 which can be found on their website at: www.castelnau.com/application/files/1416/4382/9198/Castelnau_Group_Ltd_Q4_2021.pdf.
- The major contributor to performance in 2021 was a hedge against rising inflation using options on the short sterling future contract. In early 2021, Phoenix became concerned at the potential impact of rapidly rising interest rates on intrinsic value of the portfolio holdings. The hedge was implemented in the summer, and in the fourth quarter of 2021, as concerns over inflation increased significantly, strong performance was generated from the hedge.
- The outperformance in 2021 ensured that the Company has again added to previous NAV returns in excess of its benchmark. Since Phoenix took over the management of the Company in January 2016, the Company's NAV and share price have grown by 75.9% and 66.1% respectively to 31 December 2021, versus a benchmark rise of 59.2%.
- One of the unique features of the Investment Management Agreement with Phoenix, and one that creates significant shareholder alignment, is that Phoenix earns no management fee other than an annual performance fee, equal to one-third of NAV per share total return in excess of the FTSE All-Share Index (total return).
- In 2021 a performance fee was earned by Phoenix. This fee was received in shares in the Company, which Phoenix cannot sell for three years, and there is a clawback mechanism in place through which, if the outperformance which earned the shares were to disappear on the third anniversary of their award, the shares would either be cancelled or, in limited circumstances and following consultation with Phoenix, the Company would have the discretion to either (i) reduce the number of shares that are clawed back or (ii) extend the lock-in period for up to a further two years.

- The Company's share price rose by 13.5% over the year ended 31 December 2021. In the first half of 2021, NAV and share price traded around parity with share issuance occurring in June, but in the second half of the year the Company's share price fell to a discount to NAV. During the year ended 31 December 2021, the Company's shares traded between a premium of 4.3% and discount of 11.4% to NAV, with an average discount of 3.2%. As at 31 December 2021, the discount to NAV was 7.6%. The Board, along with its advisors and the investment manager, monitor any discount closely. As at the end of March 2022 the Company's shares were trading at a slight premium of 0.15%. The Board will consider buying back shares in the Company if a discount becomes persistent. Phoenix took the opportunity to purchase £5 million of shares in the Company when the NAV traded at a discount and continues to promote the Company proactively together with Liberum, the Company's broker and with Frostrow Capital, its distribution advisor.

The Investment Manager

2021 was the sixth year of Phoenix's management of the Company's portfolio, which began with their appointment as Investment Manager in January 2016, and it is positive that 2021 brought continued outperformance versus the FTSE All-Share index (total return).

Phoenix again employed a focused, patient investment approach during another year of significant market stress. The implementation of the hedge against inflation was effective in preserving value in the underlying equity portfolio.

Growth of the Company

Growing the Company remains a key objective of the Board. Market capitalisation rose from £162 million in January 2021, to finish the year at £179 million. This rise, however, came almost solely from share price appreciation and not from new share issuance.

The Board, along with Phoenix, is committed to broadening the profile of the Company and has agreed a programme of activity with Frostrow Capital and Liberum, the Company's distributor adviser and broker, which will include an increased number of investor meetings, conference presentations and engagement with platform providers.

It remains an objective of both the Board and the Investment Manager to increase the size of Aurora to £250 million over the course of the next two to three years.

Annual General Meeting ("AGM")

The AGM of the Company will be held at Chartered Accountants Hall, One Moorgate Place, London EC2R 6EA on 28 June 2022 at 2.00 pm. If you are unable to attend in person you have the option of attending via webinar, where you will have the opportunity to hear a presentation from the Investment Manager and ask questions. Instructions on how to attend the webinar can be found on the Company's website at <https://www.aurorainvestmenttrust.com/news/regulatory/56/> and in the Notes to the notice of AGM.

Continuation Vote

In accordance with the articles, the Company will hold a continuation vote at the next AGM on 28 June 2022. This provides an opportunity for the Company's shareholders to vote, once every three years, on whether the Company should continue to operate, or otherwise be wound-up and cash returned to shareholders. Taking account of the Company's track record over the past three years the Board strongly recommends that shareholders vote in favour of the Company's continuation.

The Board

After 10 years serving together on the Board of Aurora, James Nelson and I will be retiring at the forthcoming AGM. It has been a great pleasure for me to have served the Company and played a part in its development over these years. On behalf of the Board, I thank James Nelson for his particular support and contribution over these years.

At the AGM, Lucy Walker will be taking over from me as Chair of Aurora. I know the Board will be in capable hands and I wish Lucy every success for the future. I trust she will enjoy the role as much as I have done.

The Board continues its search for additional Board members and will update the market in due course.

Aggregate Directors' Fees

At the forthcoming AGM an ordinary resolution will be put to shareholder vote to increase the maximum aggregate Directors' fees from £200,000 to £250,000. This will allow greater flexibility to retain and attract Board members with suitable skills and experience by offering competitive remuneration.

Dividend

The Board proposes to pay a final dividend of 1.84p (2020: 0.55p) per Ordinary Share, to be paid on 1 July 2022 to Shareholders who appear on the register as at 10 June 2022. The ex-dividend date is 9 June 2022. This dividend will be proposed at the forthcoming AGM to be held on 28 June 2022. The Company's dividend policy, which is to distribute substantially all net revenue proceeds, remains unchanged and can be found on page 9 of this Annual Report.

Outlook and Reflection

Since the year end the world has been shocked by Russia's invasion of Ukraine. This has further exacerbated inflation as utility bills look set to rise even higher than initially expected and concern increases that the conflict will continue. This has impacted stock markets around the world. However, since the year end, the Company's performance has been strong, due to the significant gains achieved from its hedge against rising interest rates discussed above. This hedge has now been fully realised. We continue to believe that the Company will maintain its relative outperformance over the longer term.

As this is the last time I shall be writing to you, I bid you farewell. It has been a privilege to serve as Chairman. In the years that James and I have served the Board we have seen many changes, one of the most significant has been the appointment of Phoenix Asset Management as the Company's Investment Manager in 2016. Since then, the Company has performed well and we both feel we will be leaving the Company in capable hands with Lucy at the helm and Phoenix Asset Management making impressive returns on behalf of the Company's shareholders.

Lord Flight
Chairman
29 April 2022

Investment policy and results

At a General Meeting held on 28 September 2021 the following new investment policy was approved:

The Company seeks to achieve its investment objective by investing predominantly in a portfolio of UK listed companies. The Company may from time to time also invest in companies listed outside the UK and unlisted securities. The investment policy is subject to the following restrictions, all of which are at the time of investment:

- The maximum permitted investment in companies listed outside the UK at cost price is 20% of the Company's gross assets.
- The maximum permitted investment in unlisted securities at cost price is 10% of the Company's gross assets.
- There are no pre-defined maximum or minimum sector exposure levels but these sector exposures are reported to and monitored by the Board in order to ensure that adequate diversification is achieved.
- The Company's policy is not to invest more than 15% of its gross assets in any one underlying issuer (measured at the time of investment) including in respect of any indirect exposure through Castelnau Group Limited.
- The Company may from time to time invest in other UK listed investment companies, but the Company will not invest more than 10% in aggregate of the gross assets of the Company in other listed closed-ended investment funds.
- Save for Castelnau Group Limited, the Company will not invest in any other fund managed by the Investment Manager.

While there is a comparable index for the purposes of measuring performance over material periods, no attention is paid to the composition of this index when constructing the portfolio and the composition of the portfolio is likely to vary substantially from that of the index. The portfolio will be relatively concentrated. The exact number of individual holdings will vary over time but typically the portfolio will consist of holdings in 15 to 20 companies. The Company may use derivatives and similar instruments for the purposes of capital preservation.

The Company does not currently intend to use gearing. However, if the Board did decide to utilise gearing the aggregate borrowings of the company would be restricted to 30% of the aggregate of the paid-up nominal capital plus the capital and revenue reserves.

Any material change to the investment policy of the Company will only be made with the approval of Shareholders at a general meeting. In the event of a breach of the Company's investment policy, the Directors will announce through a Regulatory Information Service the actions which will be taken to rectify the breach.

Dividend Policy

The investment policy does not include any fixed dividend policy. But the Board will distribute substantially all of the net revenue arising from the investment portfolio. Accordingly, the Company is expected to continue to pay an annual dividend, but this could be lower than the level of recent dividends and may vary each year.

Borrowing Policy

The Company is not prohibited from incurring borrowings for working capital purposes, however the Board has no current intention to utilise borrowings. Whilst the use of borrowings should enhance the total return on the Ordinary Shares where the return on the Company's underlying assets is rising and exceeds the cost of borrowing, it will have the opposite effect where the underlying return is falling, further reducing the total return on the Ordinary Shares. As a result, the use of borrowings by the Company may increase the volatility of the NAV per Ordinary Share.

The Company has a policy not to invest more than 10% of its gross assets in other UK listed investment companies. As a consequence of its investments, the Company may therefore itself be indirectly exposed to gearing through the borrowings from time to time of these other investment companies.

Objectives and Key Performance Indicators (KPIs)

The Company's principal investment objective is to achieve capital and income growth. The Board measures the Company's success in attaining its objectives by reference to KPIs as follows:

- a. To make an absolute total return for Shareholders on a long-term basis.
- b. The Company's Benchmark is the FTSE All-Share Index (total return), against which the NAV total return is compared. After achieving the goal of making absolute returns for Shareholders, the next aim is to provide a better return from the portfolio than from the market as measured by the Benchmark.
- c. The Company seeks to ensure that the operating expenses of running the Company as a proportion of NAV (the Ongoing Charges Ratio) are kept to the minimum possible.
- d. The discount/premium to NAV at which the Company's Shares trade is also closely monitored in order to maintain Shareholder value.

The Chairman's Statement on pages 6 to 8 incorporates a review of the highlights during the year.

The Investment Manager's Report on pages 17 to 19 gives details on investments made during the year and how performance has been achieved.

Performance

The Investment Manager, Phoenix Asset Management Partners Limited ('Phoenix'), which is regulated by the FCA. The Chief Investment Officer of Phoenix is Gary Channon. Phoenix reports in detail upon the Company's activities in the Investment Management Report and Outlook on pages 17 to 19.

Under the Investment Management Agreement, no regular management fees are payable. A performance fee is payable to the Investment Manager only if the benchmark is outperformed.

The benchmark is the FTSE All-Share Index (total return). The Company's performance since Phoenix was appointed is shown below:

	Cumulative since 28 January 2016 to 31 December 2021 %	Year to 31 December 2021 %	Year to 31 December 2020 %
NAV per Ordinary Share (total return) ¹	+75.9	+19.1	-5.3
Ordinary Share price (total return) ¹	+66.1	+13.5	-10.0
Benchmark (total return)	+59.2	+18.3	-9.8

The Ongoing Charge Ratio was as follows:

	Year to 31 December 2021 %	Year to 31 December 2020 %
Ongoing Charge Ratio ¹	0.49	0.45

¹ These are Alternative Performance Measures ("APMs").

Revenue Result and Dividend

The Company's revenue profit after tax for the year amounted to £1,413,000 (2020: £599,000). The Board is today proposing the payment of a final dividend of 1.84p per Ordinary Share (2020: 0.55p per Ordinary Share). This dividend will be paid on 1 July 2022 to Shareholders on the register as at 10 June 2022; the Ordinary Shares will be marked ex-dividend on 9 June 2022. In accordance with International Financial Reporting Standards this dividend is not reflected in the financial statements for the year ended 31 December 2021.

Discount to NAV

The discount of the Ordinary Share price to NAV per Ordinary Share is closely monitored by the Board. The Ordinary Share price closed at a 7.6% discount to the NAV per Ordinary Share as at 31 December 2021 (2020: 4.6% discount). During the year ended 31 December 2021, the Company's shares traded at between a premium of 4.3% and discount of 11.4% to NAV, with an average discount of 3.2%.

Control of the level of ongoing charges

The Board monitors the Company's operating costs carefully. Based on the Company's average net assets for the year ended 31 December 2021, the Company's ongoing charges figure calculated in accordance with the Association of Investment Companies (AIC) methodology was 0.49% (2020: 0.45%). As the size of the Company grows, the Board will manage expenses with the intention of keeping costs down and reducing the ongoing charge ratio accordingly.

Five Year Summary

The following data are all expressed as pence per Ordinary Share. NAV figures are all calculated at bid prices.

Year	Published Net Asset Value per Ordinary Share (pence) ¹	Dividend per Ordinary Share in respective year (pence)	Ordinary Share price (mid-market) (pence)
Year ended 31 December 2017	205.72	2.75	208.00
Year ended 31 December 2018	182.24	4.00	183.00
Year ended 31 December 2019	232.07	4.50	237.00
Year ended 31 December 2020	213.39	0.55	207.00
Year ended 31 December 2021	253.49 ¹	1.84	234.50

¹ This is an APM, calculation can be found on page 99.

Top Holdings as at 31 December 2021

Company	Sector	Holding in Company	Valuation	Percentage of net assets	Date of first purchase	Average cost per share*	Share price	Market capitalisation
			£'000	%		£		
Frasers Group plc	Retail	5,114,011	39,429	20.3	Jan-16	3.07	£7.71	£3.9bn
Castelnau Group Limited	Financial#	24,563,184	25,300	13.0	Oct-21	1.00	£1.03	£194m
Barratt Developments plc	Construction	3,242,412	24,253	12.5	Nov-18	5.03	£7.48	£7.6bn
easyJet Plc	Leisure	3,565,368	19,823	10.2	Sep-16	6.90	£5.56	£4.2bn
Options – ICE 3Mth SONIA OPTSep22	Financial	47,000	19,388	10.0	Jul-21	0.03	£0.33	n/a
Ryanair Holdings plc	Leisure	928,600	11,911	6.1	May-19	8.34	€15.25	€17.3bn
Lloyds Banking Group plc	Financial	19,618,000	9,377	4.8	Jan-16	0.62	£0.48	£34.0bn
Randall & Quilter Investment Holdings Limited	Insurance	5,211,225	8,963	4.6	Jan-16	1.08	£1.72	£473m
Bellway plc	Construction	232,440	7,754	4.0	Jan-16	20.39	£33.36	£4.1bn
RHI Magnesita N.V.	Materials	225,320	7,449	3.8	Jan-20	34.65	£33.06	£1.6bn
Other holdings (less than 3%)	n/a	n/a	12,990	6.8	n/a	n/a		
Total holdings			186,637	96.1				
Other current assets and liabilities			7,556	3.9				
Net assets			194,193	100.0				

* Average net cost including sales.

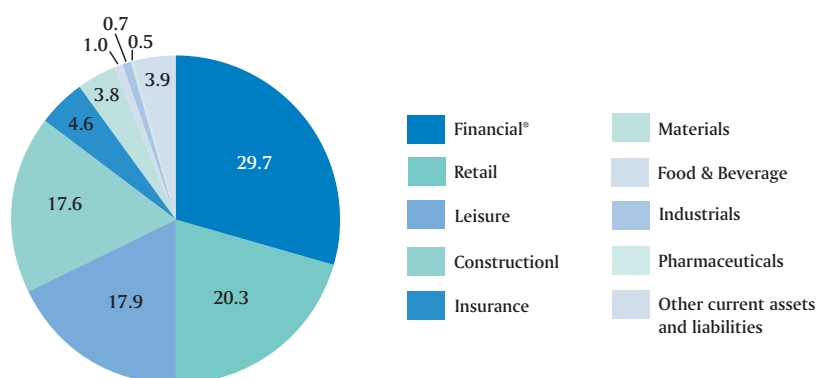
Castelnau is a multi-sector financial holding company.

The Company held over 3% of the issued share capital of the following:

Company	Sector	Holding in Company	Percentage of share capital of Company (%)	
Castelnau Group Limited	Financial	24,563,184	13.4	Castelnau Group Limited is also managed by Phoenix Asset Management. The value of Castelnau Group Limited is excluded from the Company's net assets when calculating performance fees earned by Phoenix Asset Management to avoid double charging.

Portfolio Analysis as at 31 December 2021

Sector	Percentage of net Assets
	%
Financial*	29.7
Retail	20.3
Leisure	17.9
Construction	17.6
Insurance	4.6
Materials	3.8
Food & Beverage	1.0
Industrials	0.7
Pharmaceuticals	0.5
Other current assets and liabilities	3.9
Total	100.0



* Castelnau is included in Financial's classification as it is a multi-sector financial holding company.

Statement from the Chief Investment Officer of the Investment Manager

Gary Channon
Chief Investment Officer Phoenix
Asset Management Partners

April 2022

Dear Shareholder,

Last year was one of gratification postponed for us, as the pandemic carried on and lockdown restrictions further damaged a number of the businesses in the portfolio, which itself remains well positioned for the end of restrictions and a resumption of normal economic life. This was particularly acute for our airline holdings.

The pandemic has proved to be another pullback from which our portfolio recovered its value and set out a new high (NAV wise); this one took 476 calendar days. In the 24 years that Phoenix has been managing money we have experienced 6 significant pullbacks of 24% and more. In all prior occasions, the reversal from old peak to new peak has always been within a year, but this is the first to go over that timescale, albeit by a small number of months. We believe starting out with a portfolio of very undervalued businesses and using the fall in prices to act rationally, combined with an absence of leverage is why this happens.

Apart from the preservation of capital, what matters is the amount of future value we add by acting rationally in those dips to acquire investments whose valuations have overreacted to the negative short term news.

In the market drop of 2020 we did add considerable value to intrinsic value but that had to be set against the loss in intrinsic value suffered by a number of our businesses from the forced closures and restrictions on economic activity. Considerable value was lost in airlines and hospitality. Putting it together we emerged with more value than we entered with but not with as significant a boost as we would have liked and have achieved in most other major pullbacks.

At the beginning of 2021 we outlined our plan to buy an inexpensive hedge against the risk that the pandemic response would unleash inflation. The hedge was purchased in July/August once conditions permitted. That inflation risk did subsequently manifest itself and the hedge significantly increased in value. This added considerably to the Company performance and value during 2021. We spent 1% of the Company net assets on the hedge and ultimately sold it for around 17 times that. Those proceeds now sit in the Company as cash and UK Treasury Bills, which we will deploy into opportunities that meet our criteria, which is with a minimum of 100% of upside to their intrinsic values. If we do that, we will have turned 1% into at least 34% which should more than compensate for any damage to the overall value of our businesses from the higher rates that inflation brings.

We don't hedge often (twice in 24 years). We only hedge when the following conditions apply; there is a risk that we believe is improbable but could damage the intrinsic value of our portfolio materially and there is insurance available in some form that is very cheap so that we can spend a very modest amount of the portfolio (1% or less) to hedge against it. We don't hedge to smooth out expected swings in the market – that's not our definition of risk. We will never take open ended liability, and the most that could have been lost on this investment was 1%. We will never imperil your capital.

As we write the world is entering another period of bad news politically and economically with the tragedy unfolding in Ukraine. This creates even more complications for central banks trying to work out what to do with interest rates. Inflation is being pushed higher by the impact on energy prices but this is the sort of inflation that ends up in recession as spending is diverted away from other things to cover higher energy prices. Based upon what we can see at this point there is less fundamental damage to the intrinsic value of the portfolio than that caused by the pandemic lockdowns. Furthermore, we enter into this turbulent period with 19% of the Company's total assets in cash and cash equivalents and, as always, a roster of businesses we would like to own should they become available at attractive prices.

An analysis of our past record shows the majority of the value we add through portfolio changes, occur in those infrequent windows where markets are overwhelmed with pessimism. Although as an investor it is never comfortable watching an investment fall in value, please take some comfort that it is in those times we plant the seeds of future growth in your capital.

In 2021 we were able to create and float the Castelnau Group Limited (“Castelnau”) which contains the direct business activity we do at Phoenix. You can read more about that on the Castelnau website, but during the year the Company exchanged holdings it had in the businesses we are directly involved in, i.e. Dignity, Hornby and Stanley Gibbons, for shares in Castelnau when it floated. This holding in Castelnau was capped at 15% at cost. Our goal at Castelnau, as it is in the rest of the portfolio, is to put your capital to work in businesses that generate high returns on it. For a clearer understanding of the philosophy and objectives of Castelnau I would recommend a read of the Castelnau Group fourth quarterly report of 2021 which can be found on their website at www.castelnaugroup.com/application/files/1416/4382/9198/Castelnau_Group_Ltd_Q4_2021.pdf.

Changes we make to the portfolio are the minority and so the main engine of value creation is the returns our underlying businesses make on their capital. We invest in businesses which make at least 15% on capital and so the capital they retain each year is building the long term earnings and therefore value. If we get those assessments right, that return will ultimately be the return we achieve overall at the portfolio level.

We continue to believe our approach will deliver long term results well in excess of market averages, without risking permanent losses of capital.

Gary Channon
CIO Phoenix Asset Management Partners
29 April 2022

Investment Management Review and Outlook

Steve Tatters
Director
Phoenix Asset Management
Partners

April 2022

During the year to 31 December 2021, the NAV per share increased by 19.1%¹ and the share price by 13.5%. The FTSE All-Share Index (total return) rose by 18.3% over the same period. Net assets at year-end were £194m (2020 £163m). This compares well with the Company's prior year performance, when the NAV per share declined by 5.3%, the share price declined by 10.0% and the FTSE All-Share Index (total return) declined by 9.8%. Since Phoenix began managing the Company on 28 January 2016 to 31 December 2021, the NAV has risen 75.9% versus 59.2% for the FTSE All-Share Index (total return).

The outperformance in 2021 has again resulted in a performance fee being earned, 80% of which was paid to us by way of shares in the Company in February 2022, the remaining 20% will become due once the audit has been finalised. In accordance with the Investment Management Agreement we are required to hold those shares for 3 years. If the outperformance versus the index disappears on the third-year anniversary, these shares will be cancelled, and we will receive nothing. This, we believe, is one of the most aligned fee structures in the industry.

2022 started positively as the impact of COVID restrictions related to the Omicron variant were reversed. The inflation hedge also continued to perform strongly, however as we write in April, the portfolio and market have been impacted by the war in Ukraine. Since year end up to 28 February 2022, the NAV has fallen slightly, with the FTSE All-Share Index (total return) falling 0.5% for the same period.

Performance Review

From a performance perspective, 2021 continued to be dominated by COVID but was also impacted by noise around Brexit. Additionally, some of the portfolio's holdings flagged during the year, the risk that persistent inflation would manifest itself became more pertinent. Inflationary pressures were seen in the second half of the year and Central Banks began to react by signalling the likelihood of interest rate rises.

The first half of the year saw a broad market rally which the portfolio participated in. On 30 June 2021, the NAV was up 8.5% versus 11.1% for the Index.

In Q3 the portfolio fell slightly with the market up over 2%. During this period, performance was impacted by, what we considered was an unnecessarily large and deeply discounted rights issue from **easyJet** on which we comment more fully later.

In the fourth quarter the Company posted a good performance. The NAV rose 10% versus 1.8% for the Index, as fears over the impact of rising interest rates resulted in the inflation hedge performing strongly.

From a share price perspective, holdings with the highest price rises were the inflation hedge and **Frasers Group**. The inflation hedge was implemented to protect the portfolio against the impact of inflation, through the purchase of September 2022 put options on the short sterling future contract, the security identifier is **LU2P99**. The options were purchased at £0.03 and were priced at £0.33 on 31 December 2021. They subsequently rallied to over £1 and were sold in stages during the first two months of 2022. The **Frasers Group** share price increased by 71% during the year, as the company demonstrated a strong recovery from the pandemic and highlighted the potential of its elevation strategy in its *Flannels* luxury retail business.

Other share price risers of note were **Lloyds**, which rose 35% during the year, and the housebuilders, **Bellway** and **Barratt Development**, which rose 17% and 16% respectively.

Fallers of note included our low-cost airlines due to the continued impact of the pandemic. **easyJet** fell by 20% with **Ryanair** falling 12%. Prior to the emergence of the Omicron variant both holdings had benefited from travel restrictions being lifted but this was reversed when the scale of disruption around Omicron became clear.

¹ This is an Alternative Performance Measure ('APM') the calculation of which can be found on page 99.

Activity Review

The only activity of note in the first half of the year was the sale of our holding in **Redrow** in February and March. We expected continued changes in environmental and building regulations and the company is in transition following the retirement of its founder. We preferred the way in which **Barratt** and **Bellway** utilised their landbanks (the practice of holding land for future development) which were generally held for short periods and turned around more quickly.

Also, in the first half of the year, we called for a general meeting in **Dignity** to put ourselves forward to replace the executive management after we came to the view that the company was not collaborating as it had originally promised to do. We cannot separately report on **Dignity** given our inside position. We appreciate your patience as we implement a new management framework, but we can say that everything that has happened since we were appointed leads us to believe it was the right thing to do.

In September, as mentioned earlier, **easyJet** instigated a capital raise. We reported in the Aurora September monthly report that 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 revealed their shortcomings as capital allocators. After rejecting a merger approach from Wizz Air 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.

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.

Despite strong reservations around the rights issue, we did participate as it was the economically right thing to do and we remain confident in **easyJet's** ability to benefit from the resumption of travel post the pandemic.

We were also pleased to report in the September factsheet that shareholders had approved the inclusion of the **Castelnau Group** in the Company's portfolio. We have previously written of the rationale behind the new vehicle and for a full progress report please see the Castelnau year end report on its website:

https://www.castelnaugroup.com/application/files/1416/4382/9198/Castelnau_Group_Ltd_Q4_2021.pdf

We reported we are making progress in all the businesses within **Castelnau**. We see significant potential in them, and we believe we know what is required to realise that potential. We are in the process of adding to our resourcing for Castelnau to give us capabilities that we will deploy in Group companies.

Outlook

At the time of writing there is great uncertainty due to the Russian invasion of Ukraine. In the December factsheet, prior to significant concerns over Russian activity in Ukraine, we wrote the following about the uncertainty created by rising inflation and interest rates:

For decades now investing has been done in an environment of low inflation and low interest rates. That era may be drawing to a close. It probably will at some point anyway because the nature of human progress is cyclical oscillations around a trend.

We believe our approach to stock selection is well positioned to cope with a change in those conditions because of these three key attributes of a successful investment in times of inflation and rising rates:

Pricing Power: *This is the ability of a company to have some control over its profitability by passing on changes in its costs to its customers. Persistently low returns on capital aren't the choice of managements; they are imposed upon them by the competitive landscape. Our process seeks out businesses that have some control over their returns and this characteristic is highly valuable in times of inflation.*

Absence of Leverage: *Businesses with highly leveraged balance sheets run the risk of a transfer of value away from equity holders in times of stress and higher rates. We avoid leverage where there is a risk of ruin but there are many balance sheets we see that will struggle with higher rates. Increasing leverage has turbo charged equity returns over the past few decades and this has been something of a comparative headwind for our approach. The benefits of it though will be seen when those forces reverse.*

Margin of Safety: *Probably Ben Graham's most valuable contribution is the use of a margin of safety between when you pay and what you expect value to be. Approach this conservatively again and again and it builds into a cumulative edge that delivers returns in excess of the average. We never pay more than half our estimate of the present value of all its future cash generation. That margin of safety has meant that despite all the errors in those estimations and the unexpected negative events, the Phoenix UK Fund has returned around 6.7% more per year than the market and that builds into a significant difference when compounded through time since our inception in 1998. (1,336.1% versus 232.5%). The Aurora portfolio remains a very close replica of the Phoenix UK Fund.*

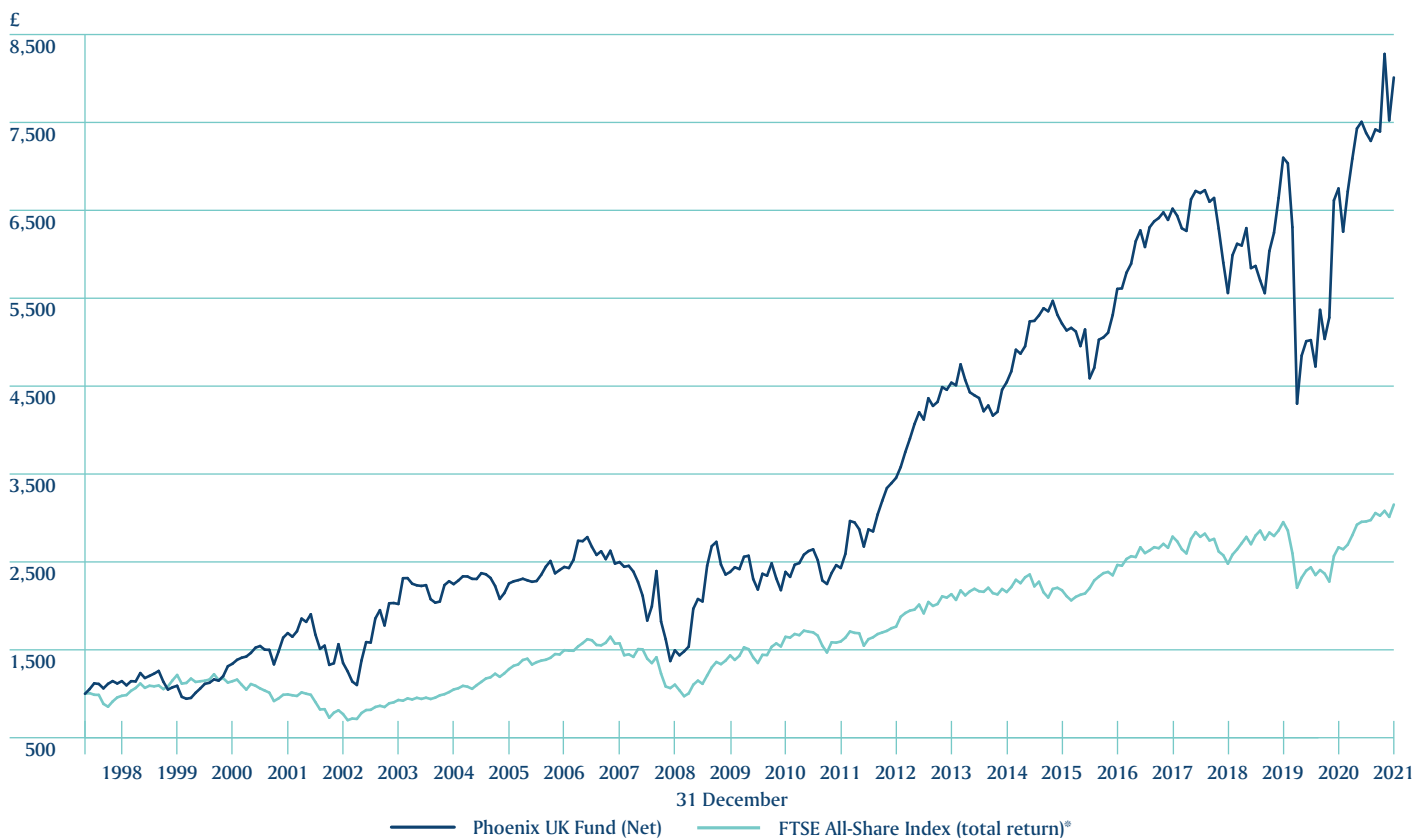
The present uncertainty over Ukraine is significant, but we have a track record in previous crises of adding long-term value. As an organisation we strive to keep learning and improving. The investment horizon looks fraught with danger or opportunity depending on how you look at it; from our perspective it's both. Thorough analysis, patience and a long-term perspective have been and will be the winning ingredients behind our ability to achieve superior returns over time.

Steve Tatters
Director
Phoenix Asset Management Partners
29 April 2022

Value of £1,000 invested in the Phoenix UK Fund at launch to 31 December 2021

Phoenix UK Fund Track Record

The investment strategy followed by the Phoenix UK Fund is the same as that followed by the Company*



Source: Phoenix. All figures shown are net of fees and do not account for an investor's tax position. The FTSE All-Share Index is shown with dividends re-invested. The Fund's inception date is May 1998.

* Whilst the investment strategy is the same in all material respects, the portfolio holdings will not necessarily be the same and investors in the Company will have no exposure to the investment performance of the Phoenix UK Fund. For illustrative purposes only, not a recommendation to buy or sell shares in the Fund. Past performance is not a reliable indicator of future performance.

Phoenix UK Fund Track Record

Year	Investment Return (Gross) %	NAV Return (Net) %	FTSE All-Share Index %	NAV Per Share (A Class) %
1998 (8 mths)	17.6	14.4	-3.3	1,143.71
1999	-1.3	-4.6	24.3	1,090.75
2000	24.7	23.0	-5.8	1,341.46
2001	31.7	26.0	-13.1	1,690.09
2002	-17.8	-20.1	-22.6	1,349.64
2003	51.5	49.8	20.9	2,021.24
2004	14.1	11.2	12.8	2,247.26
2005	1.4	0.3	22.0	2,254.99
2006	9.5	8.3	16.8	2,442.90
2007	3.4	2.3	5.3	2,498.40
2008	-39.5	-40.2	-29.9	1,494.31
2009	62.8	59.7	30.2	2,386.48
2010	1.1	0.0	14.7	2,386.37
2011	3.0	1.9	-3.2	2,430.75
2012	48.3	42.2	12.5	3,456.27
2013	40.5	31.3	20.9	4,539.47
2014	1.9	0.1	1.2	4,544.25
2015	20.1	14.7	0.9	5,211.13
2016	9.1	7.6	16.8	5,605.58
2017	21.5	16.3	13.1	6,518.69
2018	-13.6	-14.7	-9.5	5,558.97
2019	30.3	27.7	19.1	7,098.36
2020	-3.9	-4.9	-9.7	6,748.66
2021	23.4	18.7	18.3	8,011.17
Cumulative	1,336.6	701.1	232.5	n/a
Annualised Returns	11.9	9.2	5.2	n/a

Report under Section 172 of the Companies Act 2006

Directors' duty to promote the success of the Company

The Board seeks to understand the views of the Company's Shareholders and its other key stakeholders as well as how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered. As part of the Board and stakeholder evaluation processes that are undertaken annually, the Board reviews its engagement mechanisms to ensure they remain effective. In fulfilling their duties, the Directors carefully consider the likely consequences of their actions over the long-term and on other key stakeholders.

During the Board's quarterly meetings the Directors consider and are mindful of:

- i. the Company's investment objective and policy;
- ii. the main trends and factors likely to affect the future development, performance and position of the Company's business;
- iii. the Company's key performance indicators;
- iv. the Company's peers;
- v. the Company's overall strategy; and
- vi. the Company's core values which are integrity, accountability, transparency and commitment.

Identifying stakeholders

As an externally managed investment company, the Company's operational activities are all outsourced and therefore it does not have any employees. The Board has identified its key stakeholders which include Shareholders, investee companies, Investment Manager, financial advisers, the Company Secretary, Administrator, Registrar, Lawyers, Depositary and Custodian. The Board is aware of the need to foster the Company's relationships with its key stakeholders through its stakeholder management activities. The Board provides oversight and challenge to the Investment Manager to ensure that the Company meets its requirements to create and preserve Shareholder value.

Shareholders

The Board and Investment Manager are seeking to promote an investor base of long-term investors. The appropriate and regular feedback from its Shareholders is achieved through the mechanisms described in detail in the 'Other Strategic Report Information and Corporate Governance Statement' and through relations with Shareholders and the investee companies with the support of Liberum, the Company's brokers, Frostrow, the Company's distribution advisor, and the Investment Manager.

The Board communicates twice a year via the Annual Report and Half-yearly Report and more frequently via monthly factsheet. Additionally, it releases daily NAV calculations via a regulatory news service. At each of its regular meetings the Board tracks Shareholder changes and monitors the evolving Shareholder profile. Details of Shareholders owning a notifiable interest in the Company can be found on page 37.

All Shareholders have the opportunity to attend the Company's AGM at which the Directors and representatives of the Investment Manager are available in person to meet with Shareholders and to answer their questions. Furthermore, a presentation would normally be given by the Investment Manager to those present at the AGM outlining the Company's performance. Details of the proxy votes received on each resolution are published on the Company's website shortly after the AGM.

Environmental, Social and Governance ('ESG') Matters

The Board expects good standards of business sustainability, especially on ESG (as referred to below) at the companies in which it invests and satisfies itself that the Investment Manager consistently and proactively engages with them on this basis.

All shareholdings are voted at listed company meetings worldwide where practicable in accordance with the Investment Manager's own corporate governance policies.

Further details of the Investment Manager's approach to ESG within its investment framework can be found on its website at www.phoenixassetmanagement.com.

Key Service Providers

The Company relies on service providers to manage its operations. The Investment Manager is the most fundamental service provider to the Company's long-term success. A description of key service providers' role together with the terms of their engagement can be found on pages 35 and 36. Each year and during the current financial year, the Board reviews the performance and terms of engagement of each of its service providers to ensure each remain competitive and to consider the quality of the service they provide.

Monitoring of Key Decisions and the outcome of those decisions

The Board meets at least quarterly and at such other times as deemed appropriate. During these meetings, the Board considers reports from the Investment Manager on the Company's portfolio, its investment activity and sector diversity. In addition, the Investment Manager provides an overview of engagement with the investee companies as well as potential investee companies. The Board debates the Company's portfolio and notable acquisitions or disposals at each of its meetings and challenges stock selection where deemed appropriate. In between meetings, the Investment Manager and Board maintain contact through which they consider investment ideas, further fundraising initiatives and market outlook and strategies to consider adjusting the Company's portfolio in line with the Company's investment policy.

The Board receives reports from Frostrow (the Company's Distribution Advisor) and Liberum (the Company's Stockbroker) on the Company's Shareholder base including any changes; its Secretary on the latest governance issues, legal or market announcements; the Depositary's oversight report and its Administrator on the Company's management accounts. Furthermore, the Board receives reports from Liberum on the performance of the Company's peers and ad hoc reports from its other key stakeholders as deemed appropriate. During the year the Chairman, and Investment Manager met with several of the Company's Shareholders and beneficial owners to gain a greater understanding of their views and opinions and to help promote the Company and support any share issues that were undertaken. These discussions were relayed to the Board who considered these discussions at their quarterly meetings.

The Board was pleased to note from Shareholders that had met with the Chairman and Investment Manager during the year that they remained supportive of the Board and the Company's Investment Manager. During the year, the Board undertook a review of its stakeholders, which included a review of its control report and policies, such as whistleblowing, anti-bribery, anti-money laundering and corruption, cyber security, data protection policies and each entity's business continuity arrangements to ensure they were in place and were adequate. During the current financial year, the Board reviewed the performance and terms of engagement of each of its key service providers to ensure each remained competitive and agreed that it was appropriate that they continue or be changed as disclosed elsewhere in this Report.

In satisfaction of Company's Investment Management Agreement, the Board agreed to issue shares to the Investment Manager in satisfaction of the performance fee which the Investment Manager earned in respect of the year to 31 December 2020.

During the year, having debated the merits and structure of Castelnau, with the Investment Manager and advisers and having considered the long-term interests of the Company's Shareholders, the Board approved the transfer of a portion of the Company's holding in each of Dignity PLC, Hornby PLC and Phoenix SG Limited to Castelnau in exchange for shares in Castelnau. To facilitate the transaction, the Board recommended the following to shareholders at a General Meeting held on 28 September 2021 which were duly approved:

- (i) amend its investment policy to permit investments in Castelnau (as a fund managed by the Investment Manager);
- (ii) transfer to Castelnau certain of the Company's investments in exchange for the issue to the Company of shares in the capital of Castelnau pursuant to the terms of a share purchase agreement between the Company, the Investment Manager and Castelnau (the "**Castelnau Related Party Transaction**");
- (iii) amend the performance fee provisions contained in the investment management agreement between the Company and the Investment Manager to exclude the Company's investment in Castelnau and the fact that Castelnau will pay a performance fee directly to the Investment Manager.

As part of the Board's succession plan, the Board agreed to appoint Trust Associates as search consultants, to search for two additional Board members to replace Lord Howard Flight and the Honourable James Nelson who will be stepping down from the Board at the Company's forthcoming AGM. Trust Associates has no connection to the Company or Board.

Other decisions included the payment of a dividend which was paid to satisfy the Company's dividend policy which states that nearly all the Company's revenue is paid to Shareholders by way of a dividend. It was also paid to satisfy the Company's investment trust status which states that no less than 85% of the Company's qualifying revenue must be distributed to Shareholders.

Boardroom Diversity

The Board currently comprises five non-executive Directors of which two are female and three male. The Board considers its composition, including the balance of skills, knowledge, diversity (including gender and race) and experience, amongst other factors on an annual basis and when appointing new Directors. The Board has considered the recommendations of the Davies and Parker review but does not consider it appropriate to establish targets or quotas in this regard. Summary biographical details of the Directors are set out in the Corporate Governance Statement on page 31.

Stewardship code

The Board and the Investment Manager support and have a strong commitment to the UK Stewardship Code, the latest version of which was issued by FRC, effective from 1 January 2020 and endorsed by the AIC which sets out the principles of effective stewardship by institutional investors. Whilst the Investment Manager is not a formal signatory to the Stewardship Code, it has chosen to adhere to the 12 principles as closely as possible. Further details of the Investment Manager's approach to the Stewardship code can be found on the Investment Manager's website at www.phoenixassetmanagement.com.

Modern slavery disclosure

Due to the nature of the Company's business, being a company that does not have employees and does not offer goods or services to consumers, the Board considers that the Modern Slavery Act 2015 is not applicable to the Company and the Company is not required to issue a slavery and human trafficking statement. The Board considers the Company's supply chains, dealing predominately with professional advisers and service providers in the financial service industry, to be low risk in this matter.

Anti-bribery and corruption

It is the Company's policy to conduct all of its business in an honest and ethical manner. The Company takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates. The Company's policy and the procedures that implement it are designed to support that commitment. The Board has made enquiries of its third-party service providers to ensure their procedures and policies are in place.

Criminal Finances Act 2017

The Company maintains a zero-tolerance policy towards the provision of illegal services, including the facilitation of tax evasion. The Company has received assurances from the Company's main contractors and suppliers that they maintain a zero-tolerance policy towards the provision of illegal services, including the facilitation of tax evasion.

Other Strategic Report Information

Principal Risks, Emerging Risks and Uncertainties

Procedure for Identifying Emerging Risks

The procedures in place to identify emerging or principal risks are described below. The Audit Committee regularly reviews the Company's risk matrix, focusing on ensuring that the appropriate controls are in place to mitigate each risk. A system has been established to identify emerging risks as they occur as detailed below. The experience and knowledge of the Audit Committee and Board is invaluable to these discussions, as is advice received from the Board's service providers, specifically the Investment Manager who is responsible for all portfolio management services.

The following is a description of the role each service provider plays in the identification of emerging risks.

1. *Investment Manager*: the Investment Manager advises the Board at each quarterly meeting on world markets, stock market trends, information on stock specific matters as well as regulatory, political and economic changes likely to impact the Company's portfolio;
2. *Distributor and Broker*: provide advice at each meeting specific to the Board on the Company's share register, sector, competitors and the investment company market;
3. *Company Secretary and Accounting Advisor*: briefs the Board on forthcoming legislation or regulatory changes that might impact the Company;
4. *AIC*: The Company is a member of the AIC, which provides regular technical updates as well as drawing members' attention to forthcoming industry and regulatory issues.

Procedure for oversight of risks

Audit Committee: The risk matrix is reviewed at least twice a year. This includes a review of the risk procedures and controls in place at the key service providers to ensure that emerging (as well as known) risks are adequately identified and – so far as practicable – mitigated. Experienced Non-Executive Directors on the Committee, each bringing external knowledge of the investment trust (and financial services generally) marketplace, trends, threats etc. as well as macro/strategic insight. The principal risks faced by the Company, together with the approach taken by the Board towards them, have been summarised below.

Principal Risks, and Uncertainties considered during the year

Portfolio Risk

Changes in general economic and market conditions including, for example, interest rates, cost increase, rates of inflation, industry conditions, competition, political events and trends, tax laws, national and international conflicts and other factors, particularly noting the ongoing threat posed by COVID-19, the war in Ukraine and the persistent threat of inflation and rising interest rates as discussed below and the impact to the economy, could substantially and adversely affect the Company's prospects. Other portfolio risks are outlined as follows.

- Poor stock selection, resulting in underperformance against the Company's benchmark;
- Poor use of gearing, creating a drag on performance during times of market declines;
- Illiquid stock creating a drag on performance;
- Concentrated portfolio; and
- Reputational damage caused by any of the above risks.

COVID-19

The market and operational risks and financial impact as a result of the COVID-19 pandemic, and measures introduced to combat its spread, were considered by the Board. Each of the Company's key service providers was able to demonstrate operational resilience. In addition, the Investment Manager undertook a thorough review of the impact on the Company's portfolio of investments and was able to provide the Board with assurance that the Company's portfolio of investments had strong businesses with robust balance sheets that could withstand major interruptions to their operations. The Directors and the Investment Manager continue to monitor the situation closely.

Inflation

The Board has noted the sharp rise in inflation, the expectation that inflation would continue to rise and the increasing threat this may pose to the Company. In response to this the Board has agreed, following guidance from the Investment Manager, to take out a put option with the intention of safeguarding the Company's portfolio against the impact of inflation. The Board and Investment Manager continue to monitor the situation. The position was closed post year end, making substantial gains for the Company which is discussed further in the Investment Manager's Report.

Conflict in Ukraine

The Board and Investment Manager are monitoring the war that has erupted in Ukraine and have considered the impact on the Company's portfolio and operations. The Company has a large cash position following the closure of the Company's hedge position which the Investment Manager intends to use strategically when an appropriate opportunity arises.

Continuation Vote

In accordance with the articles, the Company will hold a continuation vote at the next AGM on 28 June 2022. Having consulted with key shareholders and taking account of the Company's track record over the past three years, and the successful broadening of the shareholder base, the Board believes the continuation vote will pass.

Management of risks

The Board undertakes a review of the performance of the Company and scrutinises and challenges notable transactions at each quarterly Board meeting. At least on an annual basis the Management Engagement Committee reviews the engagement of the Investment Manager, including the Investment Manager's achievements with regard to the Company's performance.

Diversification

The Company mainly invests in organisations listed and traded on the London Stock Exchange, and by spreading its investments across a range of such securities. At 31 December 2021, the Company held 21 (2020: 19) stocks, spread across 9 (2020: 8) main sectors. The diversification of the Company's portfolio is considered at each of the quarterly board meetings.

Gearing

The Company has the power under its Articles to borrow money, however does not currently intend to use gearing. If the Board did decide to utilise gearing the aggregate borrowings of the Company would be restricted to 30% of the aggregate of the paid-up nominal capital plus the capital and revenue reserves. The Board will keep under review whether any provision should be made for the use of short-term borrowing for the sole purpose of meeting working capital requirements from time-to-time. Further details concerning currency risks, liquidity risks and interest rate risks are given in Note 17.

Liquidity

The Board undertakes a review of the liquidity of the investments at each quarterly Board meeting and takes appropriate action, where deemed necessary.

Operational Risk

The Company is exposed to the operational and cyber risks of its third-party service providers. The Investment Manager, Registrar, Depositary, Administrator and Company Secretary each have comprehensive business continuity plans which facilitate continued operation of the business in the event of a service disruption or major disruption. The Audit Committee received the internal controls reports of the relevant service providers, where available and was able to satisfy itself that adequate controls and procedures were in place to limit the impact to the Company's operations, particularly with regard to a financial loss.

The performance of service providers is reviewed annually via its Management Engagement Committee. Each service provider's contract defines the duties and responsibilities of each and has safeguards in place including provisions for the termination of each agreement in the event of a breach or under certain circumstances. Each agreement also allows for the Board to terminate subject to a stated notice period. During the year under review the Board undertook a thorough review of each service provider and agreed that their continued appointment remained appropriate and, in the Company's long-term interest.

Regulatory risk

Poor governance, compliance or administration, including particularly the risk of loss of investment trust status and the impact this may have on the Company was considered by the Board. Having been provided with assurance from each of the key service providers, the Board was satisfied that no such breach had occurred.

Viability Statement

In accordance with the articles, the Company will hold a continuation vote at the next AGM on 28 June 2022. Having consulted with the Company's key shareholders, who expressed support for the continuation of the Company, and taking account of the Company's track record over the past three years and the successful broadening of the shareholder base, the Board are confident the continuation vote will pass. The continuation vote will be put to shareholders at every third AGM.

The Directors have considered the viability of the Company over a five-year period to 31 December 2026, which they believe is an appropriate period over which to assess the Company, given the Company's long-term investment strategy and the principal and emerging risks and uncertainties outlined on pages 26 to 28.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence and meet its liabilities as they fall due for at least five years to 31 December 2026. Furthermore, having made enquiries of the Company's largest shareholders, the Board are satisfied that the continuation vote has sufficient support to successfully pass.

In reaching this conclusion, the Directors have considered each of the principal risks and uncertainties set out above, including the ongoing impact of COVID-19 on the Company, inflation and the conflict in Ukraine. As part of this process the Board considered several severe but plausible scenarios, including the impact of significant market movements. The Board has considered the liquidity and solvency of the Company, the level of discount at which its Ordinary Shares trade at the time of assessment, its income and expenditure profile including the absence of monthly management fees and the non-utilisation of gearing as an instrument of normal investment policy. Most of the Company's investments comprise readily realisable securities which could, if necessary, be sold to meet the Company's funding requirements. The Company's plan to expand by the issue of new share capital is kept under close, ongoing review by the Board. Portfolio changes and market developments are also discussed at quarterly Board meetings. The internal control framework of the Company is subject to formal review on at least an annual basis.

The Board has noted the sharp rise in inflation, the expectation that inflation would continue to rise and the increasing threat this may pose to the Company. In response to this the Board has agreed, following guidance from the Investment Manager, to take out a hedge position against inflation. The Board and Investment Manager continue to monitor the situation and have since year end closed the position, making substantial gains on behalf of the Company.

The Board has considered the conflict in Ukraine and in particular the impact this may have on the Company, particularly a severe market downturn. The Board noted that the Company has a large cash and near cash position, due to the disposal of the hedge. These resources will enable the Company to continue in operational existence and for the Investment Manager to take advantage of depressed stock prices in order to benefit the Company.

The Company's income from investments and cash realisable from the sale of investments provide substantial cover to the Company's operating expenses and any other costs likely to be faced by the Company.

Outlook

The outlook for the Company is discussed in the Chairman's Statement on pages 6 to 8, and the Investment Manager's Review on pages 17 to 19.

This Strategic Report was approved by the Board on 29 April 2022.

Lady Rachael Robathan
Chairman

Governance

Directors, Investment Manager and Advisers

Directors

Lord Flight (Chairman)
L Walker (Deputy Chair)
The Honourable J Nelson
Lady R Robathan
D Stevenson

Depository & Custodian

BNP Paribas Securities Services
10 Harewood Avenue
London NW1 6AA

Registrar

Link Group
10th Floor
Central Square
29 Wellington Street
Leeds LS1 4DL

Auditor

Grant Thornton UK LLP
30 Finsbury Square
London EC2A 1AG

Alternative Investment Fund Manager (“AIFM”) and Investment Manager

Phoenix Asset Management Partners
Limited
64-66 Glenthams Road
London SW13 9JJ
Telephone: 0208 600 0100

Secretary, Administrator & Registered Office

Sanne Fund Services (UK) Limited
6th Floor
125 London Wall
London EC2Y 5AS

Stockbroker

Liberum Capital Limited
25 Ropemaker Street
London EC2Y 9LY

Distribution Adviser

Frostrow Capital LLP
25 Southampton Buildings
London WC2A 1AL

Website Address: www.aurorainvestmenttrust.com

Registered Number – 03300814

A MEMBER OF THE ASSOCIATION OF INVESTMENT COMPANIES

Directors' Report

By Order of the Board
Jenny Thompson
PraxisIFM Fund Services (UK) Limited
Company Secretary

April 2022

The Directors present their report and Financial statements for the year ended 31 December 2021.

Strategic Report

The Directors' Report should be read in conjunction with the Strategic Report on pages 4 to 29.

Corporate Governance

The Corporate Governance Statement on pages 40 to 49 forms part of this report.

Legal and Taxation Status

The Company has sought and obtained approval from HM Revenue and Customs of its status as an investment trust under Sections 1158 and 1159 of the Corporation Tax Act 2010. In the opinion of the Directors, the Company has conducted its affairs so as to be able to maintain such status in respect of the year ended 31 December 2021. Under Section 833 of the Companies Act 2006 the Company is an investment company and operates as such.

Future Developments

The Company's future developments are discussed in the Managers' Report and Chairman's Statement on pages 6 to 19.

The Board and Re-Election of Directors

The Directors of the Company holding office during the year are stated below. Except where indicated the Directors held office throughout the year and to the date of this report.

Lord Flight (Chairman)
L Walker (Deputy Chair)
The Honourable J Nelson
Lady R Robathan
D Stevenson

Lord Howard Flight and The Honourable James Nelson, having served in excess of nine years as Directors of the Company have agreed to retire at the forthcoming AGM and will not be putting themselves forward for re-election. Lucy Walker was appointed Deputy Chair on 19 October 2021. Lucy Walker will take over from Lord Flight as Chair of the Company with effect from the date of the AGM and Lady Rachael Robathan will take over from James Nelson as Chairman of the Management Engagement and Nomination & Remuneration Committees with effect from the AGM. All Directors are non-executive. In accordance with the AIC Corporate Governance Code, the entire Board will be subject to annual re-election. Accordingly, resolutions will be put to re-elect Lady Rachael Robathan, Mr David Stevenson and Ms Lucy Walker at the Company's forthcoming AGM.

The report on Corporate Governance below contains a description of the Board's composition, its method of operation, its work during the year and that of its Committees and of how its performance has been evaluated.

Director's Indemnities and Insurance

Subject to the provisions of the Companies Act 2006 and certain provisions contained in the deeds of indemnity issued by the Company, the Company will indemnify each of the Directors against all liabilities which each director may suffer or incur arising out of or in connection with any claim made or proceedings taken against them, or any application made under sections 661(3), 661(4) or 1157 of the Companies Act 2006 by them, on the grounds of their negligence, default, breach of duty or breach of trust, in relation to the Company or any Associated Company. The indemnities would provide financial support from the Company after the level of cover provided by the Company's Directors' and Officer insurance policy has been fully utilised.

A policy of insurance against Directors' and Officers' liabilities is maintained by the Company.

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that Grant Thornton UK LLP be re-appointed as auditors of the Company will be put to shareholders at the forthcoming AGM.

Disclosure of information to auditor

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Continuation of the Company

The Company's policy is to hold continuation votes every three years. A new three-year schedule was established upon the appointment of Phoenix in January 2016. The last time the continuation vote was put to Shareholders was in 2019. Therefore, a resolution to approve the continuation of the Company as an investment trust will be put to Shareholders at the forthcoming AGM to be held on 28 June 2022.

Share Capital

The Company's share capital comprises Ordinary Shares. There are no other class of share and no special restrictions or obligations that apply to any of the Company's shares, other than the restrictions that apply to the shares issued to the Investment Manager, in lieu of the Investment Manager's fees, which are subject to a three-year lock in period during which they cannot sell the shares awarded to them. Shareholders have equal rights with regards to distributions of all kinds in proportion to their shareholdings. Final dividends are payable subject to approval by Shareholders at general meetings or AGMs; interim dividends can be declared by the Directors and do not require Shareholder approval.

Purchases of the Company's own Ordinary Shares may be carried out if the relevant sanction is given by Shareholders. Resolutions at general meetings may be carried by a show of hands. Each Shareholder present in person or by proxy at a Shareholder's meeting has one vote, or by poll, each Shareholder present in person or by proxy has one vote for every Ordinary Share held.

At 31 December 2021, there were 76,519,675 Ordinary Shares in issue. The number of Ordinary Shares with voting rights was also 76,519,675.

In accordance with the Company's Investment Management Agreement with its Investment Manager, 1,061,130 Ordinary Shares were issued to the Company's Investment Manager at a price of 200.43 pence per share on 4 February 2021 and on 23 June 2021 a further 229,802 Ordinary Shares at a price of 230.07 pence per share were issued to the Company's Investment Manager to settle the performance fee (2020: 469,695 Ordinary Shares at price of 231.78 and 60,616 Ordinary Shares at price of 166.17 pence per share), which had been earned in respect of the Company's outperformance against its benchmark in the year to 31 December 2021. These Ordinary Shares were issued pursuant to the Investment Management Agreement dated 28 January 2016 and are subject to a 36-month lock-in following the date of issue of the New Ordinary Shares and a fixed three-year clawback period. Further details on the Investment Manager's performance fees are disclosed in Note 4 on page 87.

Since the year end 69,738 Ordinary Shares were issued to the Investment Manager at a price of 254.37 pence per share on 7 February 2022 in accordance with the Investment Management Agreement to settle 80% of the Company's performance fee which had been earned in respect of the Company's outperformance against its benchmark in the year to 31 December 2021. The remaining 20% owed will become due following the Audit and will be based on the monetary value equivalent of the prevailing Net Asset Value at the time the shares are issued.

The total Ordinary Shares that have been issued to the Company's Investment Manager since their appointment in 2016 to date is 1,890,981.

Discount and Premium Control

The Board is aiming to achieve an Ordinary Share price over the long-term that reflects the level and movement of the Net Asset Value per Ordinary Share. This is intended to be achieved in the following ways:

- (i) The Company will use clear and transparent communication that seeks to attract new and existing investors to invest and keep investing in the Company.
- (ii) Execution of the investment strategy as communicated and the delivery of excellent long-term investment returns in excess of most peers and the benchmark.
- (iii) The Board intends the Company to buy back its Ordinary Shares when the discount to Net Asset Value per Ordinary Share is persistent and a share buyback represents the best use of Shareholders' funds.
- (iv) The Board intends to issue Ordinary Shares when the Company's Ordinary Shares trade at a premium to the then prevailing Net Asset Value per Ordinary Share at a time when, in the opinion of the Board, a further issue of Ordinary Shares is in the best interest of Shareholders.

Holding Shares in Treasury

The Board monitors on an ongoing basis whether Ordinary Shares should be repurchased and, if so, whether they should be held in Treasury or whether they can and should be sold from Treasury. Any sales of Ordinary Shares from Treasury are made at prices not less than the latest available Net Asset Value per Ordinary Share at the time of sale. There were no Ordinary Shares held in Treasury during the year ended 31 December 2021 (2020: nil).

Investment Management Agreement

The Company entered into an Investment Management Agreement with Phoenix on 28 January 2016.

Phoenix does not earn an ongoing annual management fee. It will be paid an annual performance fee equal to one third of the outperformance of the Company's NAV per Ordinary Share total return (including dividends and adjusted for the impact of share buybacks and the issue of new Ordinary Shares) over the FTSE All-Share Index (total return) for each financial year. The Company's NAV per Ordinary Share return is based on the weighted number of the Ordinary Shares in issue and NAV over the relevant period.

The total annual performance fee is capped at 4% per annum of the NAV of the Company at the end of the relevant financial year, in the event that the NAV per Ordinary Share has increased in absolute terms over the period, and 2% in the event that the NAV per Ordinary Share has decreased in absolute terms over the period. Any outperformance that exceeds these caps will be carried forward and only paid if the Company outperforms, and the annual cap is not exceeded, in subsequent years.

The performance fee is subject to a high-water mark so that no performance fee will be payable in any year until all underperformance of the Company's NAV since the last performance fee was payable has been made up. The performance fee will also be subject to a clawback if over a rolling period of three years following the end of the last financial year for which a performance fee was payable the Company underperforms. Specifically, Phoenix must return a number of shares whose value equals the difference between the calculated Performance Fee and the Performance Fee that would have been earned had the relevant performance period included the lock-in period. In accordance with the Investment Management Agreement the Board, following consultation with Phoenix, and in limited circumstances, has discretion to either: (i) reduce the number of shares that are clawed back; or (ii) extend the lock-in period for up to a further two years.

The performance fee will be paid to Phoenix in Ordinary Shares (issued at the NAV per Ordinary Share on the date of issue) and such Ordinary Shares must be retained by Phoenix for a minimum period of three years from the date of issue. The performance fee in the year ended 31 December 2021 was £720,000 (2020: £665,000). Further details on the performance fees are disclosed in Note 4 on page 88.

Investment Management Engagement

The Management Engagement Committee has reviewed the position of the Investment Manager and recommended to the Board that the Phoenix Investment Management Agreement should be continued. The process of evaluation is described in the report on Corporate Governance. Having taken into account the long-term performance of Phoenix, the prospects for the Company and the recommendations of the Management Engagement Committee, the Board has concluded that continuing with the Phoenix Investment Management Agreement is in the best long-term interests of Shareholders.

Alternative Investment Fund Managers' Directive (AIFMD)

The Company is classified as an Alternative Investment Fund under AIFMD and is therefore required to have an Alternative Investment Fund Manager (AIFM). Because of the scale of its overall funds under management, Phoenix is classed as a full-scope AIFM. This brings the Company into the full scope of AIFMD, requiring *inter alia* the appointment of a Depository. The AIFM is required to make certain disclosures on its remuneration in respect of the AIFM's relevant reporting period, which is the year ended 31 December 2021. These disclosures are available on the Company's website, which can be found at www.aurorainvestmenttrust.com or are available on request from the AIFM.

Leverage (under AIFMD)

The AIFM is required to set a limit as a percentage of net assets for the Company utilising methods prescribed under AIFMD. These methods are known as the gross method and the commitment method. Under both methods the AIFM has set a maximum limit of leverage for the Company of 100%. This equates to 150x leverage. As described in the Strategic Report Phoenix implemented an inflation hedge through the purchase of September 2022 put options on the short sterling futures contract. The underlying exposure of these options contributes to the AIFMD leverage calculations. The Company's leverage under each of these methods at its year end is shown below:

	Gross method	Commitment method
Maximum leverage limit	15,000%	15,000%
Actual leverage at 31 December 2021	8,017%	8,021%

Financial instruments

The financial instruments of the Company generate liquidity risk, credit risk and market risk. An explanation of these risks and how they are managed and the policy and practice with regard to financial instruments are contained in note 17 of the financial statements.

Depository and Custodian

Since 28 January 2016 the positions of Depository and Custodian to the Company has been held by BNP Paribas Securities Services.

Retail Distribution of Investment Company Shares

The Company has concluded that the distribution of its Ordinary Shares, being ordinary shares in an investment trust, is not restricted as a result of the FCA rules determining which investment products can be promoted to ordinary retail investors. The Company conducts its affairs so that there is no bar to a financial adviser recommending the Company's Ordinary Shares to ordinary retail investors when the adviser deems it appropriate.

Company Secretary and Administrator

Sanne Fund Services (UK) Limited is responsible for all administrative matters. It is appointed under a contract subject to 180 days' notice. It receives a fee of one-twelfth of £40,000 plus one-twelfth of 0.075% of the Company's net assets at the end of each calendar month on net assets up to £100 million and one-twelfth of 0.025% of net assets thereafter, subject to a minimum fee of £6,500 per month, plus VAT.

Disclosure Required By Listing Rule 9.8.4

The above rule requires listed companies to report certain information in a single identifiable section of their annual financial reports. The Company confirms that, other than the allotment of equity securities for cash (LR 9.8.4(7)) which is detailed on pages 33 and 34. All such reporting applied only to non-applicable events for the year ended 31 December 2021.

Banking

The Company cash balances were held with BNP at 31 December 2021 and 31 December 2020. At 31 December 2021 the gross external borrowings of the Company were £nil (2020: £nil).

Market Information

The Company's shares are listed on the London Stock Exchange. The market price is shown daily in the *Financial Times*. The NAV per Ordinary Share is calculated daily and released daily to the London Stock Exchange and monthly to the AIC. The Company subscribes to the website www.trustnet.com, which compares the Company's performance to that of its peer group

Notifiable Interest in the Company's Voting Rights

As at the year end, the following investors had declared a notifiable interest in the Company's voting rights

	%	Date of Notification
Rothschild and Co. Wealth Management (UK) Limited	14.82	24 June 2020
Brewin Dolphin. Stockbrokers	6.19	5 July 2018
Phoenix Asset Management Partners Limited	5.026	24 January 2022

Settlement of Ordinary Share Transactions

Ordinary Shares in the Company are settled by the CREST share settlement system.

Greenhouse Gas Emissions

As an Investment Company with no physical assets, property, employees or operations of its own, the Company does not provide goods or services in the normal course of its business and nor does it have customers. In consequence, the Company has no direct greenhouse gas emissions to report from its operations, nor does it have responsibility for any other sources of emissions under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 ("SECR"). The Company consumed less than 40,000 kWh of energy during the year and is therefore exempt from having to report against SECR.

Notice of General Meetings

AGMs and general meetings shall be convened by such notice as may be required by law from time-to-time. The notice shall specify the place, day and time of the meeting, the general nature of the business to be transacted, any procedures as to attendance and voting. Notice of every general meeting shall be given to all members, to the Directors and to the Auditors and to any other person who may be entitled to receive it.

Special Business of the AGM

Continuation Vote

The Company's Articles of Association (article 5) require that an ordinary resolution be proposed at every third AGM of the Company that the Company should continue as an investment trust for a further three-year period. Accordingly, resolution 10 proposes the continuation of the Company at the forthcoming AGM. In the event that such a resolution is not passed, the Directors are required to draw up proposals for shareholders' approval for the voluntary liquidation or unitisation or other reorganisation of the Company, which would require a special resolution of shareholders.

Change to Directors' Maximum Aggregate Fee

Ordinary resolution 11 proposes the amendment of the Articles of Association to increase the aggregate fees of the Directors from £200,000 to £250,000. As set out in the Chairman's Statement, the increase is required to allow flexibility whilst the Board executes its succession plan.

Power to Issue Shares

To cater for block listings, Shareholders gave authority at the AGM on 30 June 2021 for the allotment of up to 20% of the Ordinary Shares then in issue on a non-pre-emptive basis. This expires at the AGM to be held on 28 June 2022. The Directors have concluded that the approval of Shareholders should be sought at the forthcoming AGM to put in place a new, similar authority to cover the demand for Ordinary Shares by block listing issues.

The Directors believe that it is in the interests of the Company that they can continue to issue new Ordinary Shares under the block listing facility to meet ordinary market demand from time to time. Ordinary Shares will only be issued at a price representing a premium to the prevailing Net Asset Value per Ordinary Share as at the date of issue. The advantages are to lower the Company's ongoing charges as expenses are diluted and, in the short term, to address volatility in the share price.

The Directors were also empowered to make allotments of Ordinary Shares other than according to the statutory pre-emption rights which otherwise require all new Ordinary Shares to be offered first to all existing Shareholders up to a limit of 20%. This authority will expire at the forthcoming AGM. The Board intends to seek to renew this power.

Authority to Buy Back Shares

The authority for the Company to purchase its own shares as granted at the AGM held on 30 June 2021 will expire at the conclusion of the forthcoming AGM.

Resolution 14 provide the Board with renewed authority to buy back shares in the Company up to a maximum of 14.99% of the issued share capital as at the date the AGM. This authority was not utilised during the year ended 31 December 2021. Ordinary shares purchased in accordance with the authority will either be cancelled or held in Treasury. Shares will be purchased under this authority only at the Board's discretion and when it is deemed to be in the best interests of shareholders as a whole to do so. Shares will only be purchased in accordance with this authority when the shares are trading at a discount to the then prevailing NAV.

Recommendation Regarding Resolutions

The Directors consider that all the resolutions to be considered at the AGM are in the best interests of the Company and its Shareholders as a whole and are likely to promote the long-term success of the Company. The Directors unanimously recommend that Shareholders vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings.

Going Concern

The financial statements have been prepared on the going concern basis. The Directors have a reasonable expectation, after making enquiries, that the Company has adequate resources to continue in existence for at least twelve months from the date of approval of this document. In reaching this conclusion, the Directors have considered the liquidity of the Company's portfolio of investments as well as its cash position, income and expenditure. As at 31 December 2021, the Company held £7,664,000 (2020: £5,055,000) in cash, £183,237,000 (2020: £149,828,000) in quoted investments and £3,400,000 (2020: £8,066,000) in an unquoted investment. This is a conservative approach which does not include the ability to access liquidity through block trades. The total operating expenses for the year ended 31 December 2021 were £862,000 (2020: £597,000).

It is estimated that 60% of the portfolio could be liquidated in a non-market impacting way within 7 days using 15% of average daily volume. Given the level of market volatility experienced during 2020 and 2021, due to the impact of the COVID-19 pandemic, and the volatility experienced as a result of the conflict in the Ukraine, the Investment Manager performed stress tests on the Company's portfolio of investments under certain conditions and the Board remains comfortable with the liquidity of the Company's portfolio.

The Company is subject to a continuation vote at this year's AGM to be held on 28 June 2022. Having regard to the Company's performance and having made enquiries of the Company's major shareholders, the Board are confident that the continuation vote will be passed by shareholders at the forthcoming AGM.

At the date of approval of this document, based on the aggregate of investments and cash held, the Company has substantial operating expenses cover and cash flows are at the discretion of the Board. In light of the recent conflict in Ukraine, the Board has considered the Company's liabilities and noted cash and investments held are well in excess of the level of liabilities. A prolonged and deep market decline could lead to falling values to investments or interruptions to cash flow, however the Company currently has more than sufficient liquidity available to meet any future obligations.

Financial markets have experienced considerable turmoil as a result of the outbreak of COVID-19 and the conflict in Ukraine that has impacted markets throughout the world, including the United Kingdom. The Board is keeping the development of these situations under close scrutiny. The Board does not believe that these will affect the Company's going concern status.

The Board notes the expectation that inflation would continue to rise and the increasing threat this may pose to the Company. During the year under review the Board agreed, following guidance from the Investment Manager, to take out a put option with the intention of safeguarding the Company's portfolio against the impact of inflation. A position which has since been closed. The Board is keeping a watchful eye on inflation and may consider taking out a further position with the intention of safeguarding the Company's portfolio against inflation, should the need arise.

Corporate Governance Statement

The Corporate Governance Statement forms part of the Directors' Report

April 2022

Introduction

The Board is committed to maintaining and demonstrating high standards of corporate governance. The Board has considered the principles and provisions of the Association of Investment Companies of Corporate Governance 2019 (the "AIC Code"); the AIC Code addresses those set out in the UK Corporate Governance Code (the "UK Code") which applies for the year ended 31 December 2021, as well as setting out additional provisions on issues that are of specific relevance to investment companies and the Company.

The Board considers that reporting against the AIC Code, which has been endorsed by the Financial Reporting Council, provides more relevant information to Shareholders. The AIC Code is available on the AIC website (www.theaic.co.uk) and includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

The Company has complied with the AIC Code and the relevant provisions of the UK Code, except as set out below. The Board considers that the following provisions are not relevant to the position of the Company, being an externally managed investment company with no employees. The Company has therefore not reported further in respect of these provisions.

- Senior Independent Director – Being small in number, the Board has decided not to nominate a Senior Independent Director.
- Executive Directors – The UK Code includes provisions relating to the role of the chief executive and executive Directors' remuneration, the Board considers these provisions are not relevant to the Company as it does not have any employees and, as such, it does not have any executive board members.
- Internal Audit function – The UK Code includes provisions for an internal audit function. For reasons set out in the AIC Code, the Board considers these provisions are not relevant to the Company as it is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no internal operations. The Company has therefore not reported further in respect of these provisions.

Board composition

The Board currently consists of the Chairman, Lord Flight, Deputy Chair, Ms Walker, three non-executive Directors (The Honourable James Nelson, Lady Robathan and Mr Stevenson). Lord Flight and James Nelson, having served in excess of nine years as directors to the Company have agreed to step down as Board members at the conclusion of the forthcoming AGM. At that point Lord Flight will be replaced by Lucy Walker as Chairman to the Company.

Biographies

Lord Flight

Lord Flight has worked in the financial services industry for over 40 years. He co-founded Guinness Flight Global Asset Management in 1986. In 1998, upon Guinness Flight's acquisition by Investec, he became Joint Chairman of Investec Asset Management Limited. He was the MP for Arundel and South Downs from 1997 to 2005; was Shadow Chief Secretary to the Treasury between 2000 and 2004 and a member of the Shadow Cabinet. He was appointed to the House of Lords in January 2011. He is Chairman of the EIS Association and of Flight & Partners; he has been a non-executive director of Metro Bank plc and Investec Asset Management Limited and of a number of other companies in the financial services sector. For 12 years he was a Commissioner of the Guernsey Financial Services Commission and a member of the House of Lords EU Finance and Economics Committee from 2010 to 2015.

Lucy Walker

Lucy Walker is founder, chair, board director and advisor in investment management, technology and not-for-profit. She is the founder of AM Insights, a platform that makes fund research fast, intuitive and stress-free, a director of Henderson International Income Trust and the independent member of the audit and risk committee at SportsAid. She is a former fund researcher and fund manager at Sarasin & Partners and HSBC Global Asset Management.

The Honourable James Nelson

The Honourable James Nelson has had a long career in the financial service sector, working in banking with Morgan Guaranty Trust Company of New York (the predecessor to JP Morgan Chase) in investment management with Foreign & Colonial, where he was a director of F & C Management Limited, and in private equity with Graphite Capital Management Limited as a founding partner. He has held many non-executive directorships, more recently with the Henderson Smaller Companies Investment Trust Plc, Syncora Guarantee (UK) Limited and Intermediate Capital Group Plc. He is a past chairman of the British Private Equity & Venture Capital Association and is currently chairman of the McGill University Trust.

Lady Rachael Robathan

Lady Robathan is the Leader of Westminster City Council. She was first elected in 2010 and held the Finance, Property and Housing Cabinet portfolios before becoming Leader. Prior to this, she worked for 20 years in emerging market investment management at Invesco and AIB Govett before joining Pictet as part of the UK based Family Office team. In addition, she has been a Director of the National Lottery Community Fund since June 2015 and is a member of its Remuneration Committee. She is also a Trustee of Westminster Almshouses Foundation, a sheltered housing charity and a Trustee of The Royal Parks.

David Stevenson

David Stevenson is a columnist for the Financial Times, Citywire and Money Week and author of a number of books on investment matters. He was the founding director of Rocket Science Group. Currently he is the chairman of the Secured Income Fund Plc, and a director at Gresham House Energy Storage Fund Plc, AltFi Limited, ETF Stream Limited, Brismo Limited and Castelnaud Group Limited and a strategy consultant to a number of asset management firms and investment banks.

Evaluation of Board performance

The Remuneration and Nomination Committee undertook an open discussion on Board evaluation in respect of the period to 31 December 2021. This included an analysis of the Board's effectiveness as a whole, the effectiveness of individual directors and the effectiveness of each Committee. The evaluation included strategic issues, management of risk, quality of meetings and composition of the Board, in terms of qualification, skills, diversity and experience, relationships, engagement with the Investment Manager, governance matters, the performance of the Chair and the Committees. The Board has reflected on its discussions and the evaluation of prior years' evaluations and considered its priorities for the year ahead. The Board concluded that collectively they remained effective, as does each of the Company's committees and have agreed a number of priorities for the year ahead which include implementing a number of shareholder engagement initiatives.

Re-election or Election at the forthcoming AGM

Lord Flight and James Nelson, having served in excess of nine years as directors to the Company, have agreed to step down as Board members at the conclusion of the forthcoming AGM and will not be put forward for re-election. Having considered the appointment of each Board member individually, the Board regards each to have invaluable experience, knowledge and commitment both within and outside meetings and are strongly recommending that Shareholders vote in favour of each Board member's re-election or election at the forthcoming AGM.

Independence

The Board has noted the inference of the provisions in the AIC Code that Non-Executive Directors who sit on the board of other companies managed by the same manager should be presumed not to be independent. The Board have further noted that, Mr Stevenson, as the Company's nominated representative on the Board of Castelnaud, would fall within this definition. However, it is the Board's assessment that the provisions in place to manage actual or potential situational conflicts of interest are sufficiently robust and always promote the success of the Company. The Board has concluded that Mr Stevenson continues to demonstrate independence of character and judgement. His skills and experience have added significantly to the strength of the Board and his continued service is invaluable to the long-term success of the Company. The Directors have a broad range of relevant experience to meet the Company's requirements and their biographies are shown below. In accordance with the Companies Conflicts of Interest policy (see page 45), Mr Stevenson will recuse himself from any decisions relating to Castelnaud.

The Board believes that during the period ended 31 December 2021 its composition was appropriate for an investment company of the Company's nature and size. All of the Directors are therefore considered independent of the Investment Manager and are able to allocate sufficient time to the Company to discharge their responsibilities effectively.

Balance of Skills

As described above under "Evaluation of Board performance", the Board conducts a review of its strengths and weaknesses, with the aim of ensuring that there is available a good balance of attributes that are useful to the direction of the Company, in addition to the skills and commitment of the Investment Manager. The Chairman has wide and deep experience of the management and governance of investment trust companies through the other relevant directorships that he holds and has held. The Honourable James Nelson, Lady Robathan and Ms Walker have a long track record of success in the fields of investment and asset management. Mr Stevenson has a strong record of independent scrutiny of the markets and commentary upon them. The Board confirms that its members are highly experienced, both generally and in respect of the direction of an investment trust company, and that the backgrounds and seniority of the Directors provide the Board with a high overall level of independence.

Policy with regard to tenure and reappointment

The Directors recognise that independence is not a function of length of service and that experience is an important attribute within the Board. The Board has noted the implication of the provisions in the UK Corporate Governance Code that Non-executive Directors who have served for more than nine years should be presumed not to be independent. The AIC does not believe that this presumption is appropriate for investment companies and therefore does not recommend that long-serving directors be prevented from forming part of the independent majority of an investment trust board. Accordingly, the Directors may decide to recommend a director with more than nine years' service for re-election. In accordance with the 2019 AIC Code of Corporate Governance, Directors stand for re-election annually. The performance of each Director is appraised by the Remuneration and Nomination Committee annually. The Directors have appointment letters which do not state any specific term.

How the Board operates

The Company does not have any employees. The Board has contractually delegated to external agencies, including the Investment Manager, for the management of the Company's investment portfolio, the custodial services (which include the safeguarding of the Company's assets), the registration services and the accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration of the quality and cost of services offered, including the financial control systems in operation in so far as they relate to the affairs of the Company. The Board reviews these contracts annually. The Board does not undertake any executive function but is responsible to Shareholders for the overall strategy and performance of the Company. It reviews and evaluates all aspects of the Company's performance and all functions performed by the service providers.

A formal schedule of matters reserved for the board has been established covering strategy; structure and capital; investment objective, policy and limits; gearing; dividend and corporate governance policy; performance; key contracts; risk; financial reporting and board membership. This is reviewed annually to ensure compliance with latest regulatory requirements and best market practice.

A procedure has been adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

Division of Responsibility

The AIC Corporate Governance Code requires the Board to agree the responsibilities of the chairman, board and committees and to set them out in writing and make them publicly available. The below are the current division of responsibilities agreed by the Board. The Role of the Committees was reviewed during the year and, as a result the Remuneration and Management Engagement Committee is now known as the Management Engagement Committee and the Nomination Committee is now known as the Remuneration and Nomination Committee. The revised role of these committees is set out below.

Role of the Chairman

- To provide leadership to the Board;
- To promote high standards of governance;
- To ensure the Board are provided with sufficient information to enable them to discharge their duties;
- To ensure each Board member's views are considered and appropriate action taken;
- To ensure each Committee has the support required to fulfil their duties;
- To ensure the Board assesses and improves its performance, following the advice of the Nomination Committee;
- To oversee the induction of new Directors and the development of existing Directors;
- To remain independent of the Investment Manager, whilst providing effective support, challenge and advice;
- To support other service providers;
- To ensuring the Board as a whole has a clear understanding of the views of Shareholders;
- To ensure regular engagement with each service provider; and
- To keep up to date with key developments.

Role of Committees***Audit Committee***

- To consider the Company's risk management;
- To consider the internal control reports of each of the Company's key service providers;
- To consider the need for an internal audit;
- To review the Half-yearly and the Annual Report and financial statements and recommend them to the Board for approval;
- To review the Audit Plan and recommend it for approval by the Board;
- To consider the Audit Fee and recommend the fees for approval by the Board;
- To consider the Auditors' appointment/re-appointment and the independence and objectivity of the Independent Auditor; and
- To manage the Audit Tender process.

Management Engagement Committee

- To consider the terms of engagement and continued appointment of the Investment Manager; and
- To consider the terms of appointment of each of the Company's service providers and the continued appointment of each.

Remuneration and Nomination Committee

- To consider succession planning arrangements;
- To oversee the Board's appraisal process;
- To consider the engagement of an external board evaluation agency or recruitment consultant and agree their fees;
- To consider the Board appointment/re-appointment;
- To oversees the recruitment process of additional Board members; and
- To consider the Board's remuneration.

Role of the Board

- To set the parameters for monitoring the investment strategy and investment policy;
- To review the Company's investment performance;
- To consider all strategic policy matters, including share issuance and buy backs, discount/premium management, corporate governance matters, dividends and gearing and oversight of the Company's activities;
- To promote the long-term success of the Company and generate value for Shareholders;
- To establish the Company's purpose, values and strategy, and satisfy itself that these and its culture are aligned;
- To ensure the necessary resources are in place for the Company to meet its objective;
- To establish key performance indicators and to measure performance against them;
- To establish a framework of prudent and effective controls, which enable risk to be assessed and managed; and
- To ensure effective engagement with and encourage participation from Shareholders and stakeholders.

Conflicts of Interest

As required by law, a Director must avoid a situation where they have an interest that conflicts with the Company's interests. The Company's Articles of Association permit the Directors to authorise potential conflicts of interest. The Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate. The procedure observed by the Board in dealing with conflicted matters is as follows:

- Any Board member so conflicted must recuse themselves from the decisions involving the relevant conflict. As stated earlier, Mr Stevenson will recuse himself from decisions concerning Castelnau;
- Only Directors who have no interest in the matter being considered are able to debate the matter and take the relevant decision; and
- In taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's long-term success and is in the best interest of the Company's Shareholders.

The Directors have declared any potential conflicts of interest to the Company. These are entered into the Company's conflicts of interest register, which is reviewed regularly by the Board. The Directors are obliged to advise the Company Secretary as soon as they become aware of any potential conflicts of interest.

Attendance at Board meetings

The Board holds at least four meetings a year. During the year ended 31 December 2021 there were five regular and eight other ad-hoc meetings of the Board. The entire Board attended the quarterly board meetings. Additionally, ad hoc meetings and Audit sub-committee meetings are held as required for administrative purposes.

	Board	Audit Committee	Management Engagement Committee (previously known as Remuneration and Management Engagement Committee)	Remuneration and Nomination Committee (previously known as the Nomination Committee)
Lord Flight	5/5	3/3	1/1	2/2
Lucy Walker	5/5	3/3	1/1	2/2
The Hon. James Nelson	5/5	3/3	1/1	2/2
Lady Rachael Robathan	5/5	3/3	1/1	2/2
David Stevenson	5/5	3/3	1/1	2/2

Board Committees

The Board has formed three committees: the Audit Committee, Management Engagement Committee (previously known as the Remuneration and Management Engagement Committee) and the Remuneration and Nomination Committee (previously known as the Nomination Committee). The role, responsibilities and activities during the year of the Audit Committee are detailed in its report on page 57 and the Management Engagement Committee and the Remuneration and Nomination Committee are shown below.

Since all Directors are independent, non-executive Directors, including the Chairman, the Board considers that all Directors may be members of each Committee. On certain occasions, as described below, it is inappropriate for the representative of the Investment Manager to be involved. The main purpose of the Committees in the context of the Company's structure is that their existence ensures time is set aside on a formal basis to cover certain important issues of governance, without those issues obscuring the flow of general Board business. Each Committee has a separate chairman, as detailed under the separate headings below. The Committees have formal terms of reference, which are available to Shareholders upon request from the Company's registered office and can be viewed via the Company's website at www.aurorainvestmenttrust.com.

Management Engagement Committee

The Board has formed a Management Engagement Committee (previously known as the Remuneration and Management Engagement Committee), which considers issues related to the engagement of the Investment Manager and other service providers, making recommendations as appropriate to the Board. The Committee considers whether amounts paid to service providers are appropriate, with particular reference to those contracted to the Company on a continuing basis, including the Investment Manager, and whether those contracts should be maintained. The Honourable James Nelson is chairman of the Committee. Upon James' retirement at the forthcoming Annual General Meeting, Lady Rachael Robathan will assume the role of Chairman of the Management Engagement Committee.

The criteria which are taken into consideration when reviewing the performance of the Investment Manager are as follows:

- The performance of the Company;
- Quality of team – the skills and particularly the experience of the team involved;
- Commitment to the investment trust business generally and to the Company in particular;
- Investment management skills – experience, track record, use of gearing, knowledge of currency issues and other investment-related considerations;
- General management skills – understanding of administrative and financial issues and working relationship with the Administrator/Company Secretary;
- Shareholder relations – consciousness of and commitment to Shareholders' needs and objectives, share price awareness and discount management;
- Reasonableness of the Investment Management Agreement – fees, notice period and duties.

The Management Engagement Committee is also responsible for reviewing the remuneration and services of the Company's other service providers.

The Committee met once in 2021 and considered the appraisal of the Investment Manager and other key service providers.

The Committee concluded that the continued appointment of each of the service providers, including the Investment Manager, remained in the best interest of Shareholders.

Audit Committee

The Board has formed an Audit Committee comprised of the Non-Executive Directors, all of whom are independent of the Investment Manager. During the year ended 31 December 2021, the Committee comprised Lord Flight, Ms Walker, The Honourable James Nelson, Lady Robathan and Mr Stevenson. Lady Robathan is the chairman of the Committee.

The Audit Committee also reviews any non-audit services provided by the auditor. Under the Revised Ethical Code, it is necessary for the tax compliance function to be separated from the audit role. Ernst & Young has been appointed to provide tax compliance services. The auditor did not perform any non-audit services during the year ended 31 December 2021. All members of the Committee are active in the investment markets and/or the investment trust sector and the Committee considers that all have recent and relevant financial sector experience.

Remuneration and Nomination Committee

A Remuneration and Nomination Committee (previously known as the Nomination Committee) has been established by the Board to identify and interview candidates for vacancies on the Board, to consider the Board's remuneration and to undertake Board appraisals. It is established as a principle that this process should be led by the independent Directors. The Honourable James Nelson is chairman of the Committee. Upon James' retirement at the forthcoming Annual General Meeting, Lady Rachael Robathan will assume the role of Chairman of the Committee. The Committee will meet as and when required. The Remuneration and Nomination Committee met twice during the year ended 31 December 2021.

During the year the Committee considered a number of items of business including:

1. The Board appraisal;
2. Board fees;
3. The Board recruitment process;

4. External Director search consultants – having considered a number of search consultants the Committee recommended to the Board that Trust Associates be engaged to search for two additional Board members to replace Lord Howard Flight and the Honourable James Nelson who will be stepping down from the Board at the Company's forthcoming AGM. Trust Associates has no connection to the Company or Board.

Relations with Shareholders and with Investee Companies

Relations with Shareholders and key stakeholders

The Investment Manager regularly meets the largest Shareholders and reports back to the Board on those meetings. The Company encourages all Shareholders to attend the AGM. The Notice of Meeting sets out the business of the AGM and any item not of an entirely routine nature is explained in the Directors' Report. Separate resolutions are proposed for each substantive issue.

The Chairman, and where relevant, each committee chair, seeks to engage with the Company's Shareholders (and the Company's other key stakeholders) on significant issues raised by them at the AGM or at other times. The Board seeks to understand the views of the Shareholders and the Company's other key stakeholders and how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered and especially in Board discussions and decision-making. The Board keeps engagement mechanisms under review so that they remain effective. In fulfilling their duties, the Directors carefully consider the likely consequences of their actions over the long-term and on other key stakeholders. These include the investors, Investment Manager, Company Secretary, Administrator, Registrar, Lawyers, Auditor, Depositary and Bankers amongst others.

Internal Controls and Risk Management

Review of internal controls

The UK Corporate Governance Code requires the Board to review the effectiveness of the Company's risk management and system of internal controls. The Board recognises its ultimate responsibility for the Company's system of internal controls and for monitoring its effectiveness. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable assurance against material misstatement or loss. The Board has undertaken a review of risk management and internal control and has identified risk management controls in the key areas of business objectives, accounting, compliance, operations and secretarial as being matters of particular importance upon which it requires reports. The Board believes that the existing arrangements, set out below, represent an appropriate framework to meet the internal control requirements. By these procedures the Directors have kept under review the effectiveness of the risk management and internal control system throughout the year and up to the date of this report. The monitoring and review include all material controls, covering financial, operational and compliance. The Board has concluded that the Company's risk management and internal control system are adequate to meet the needs of the Company.

Assessment of service providers by the Board

The Investment Manager and the Administrator are normally invited to attend each full meeting of the Board and have in practice done so. Between these meetings there is further regular contact with the Investment Manager and the Administrator.

The Investment Manager reports in writing to the Board on operational and compliance issues prior to each meeting, and otherwise as necessary. Directors receive and consider regular monthly reports from the Administrator, giving full details of all holdings in the portfolio, including all transactions, and of all aspects of the financial position of the Company. The Administrator reports separately in writing to the Board concerning risks and internal control matters within its purview, including internal financial control procedures, compliance with investment trust rules and secretarial matters, highlighting any changes which have occurred. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Corporate Company Secretary, which is responsible to the Board for ensuring that Board procedures are followed and applicable rules and regulations are complied with.

Contact with the Investment Manager and the Administrator enables the Board to monitor the Company's progress towards its objectives and encompasses an analysis of the risks involved. These matters are assessed on an ongoing basis throughout the year and again, formally, at year end and this process of assessment has continued up to the date of this report.

Financial Aspects of Internal Control

The Directors are responsible for the internal financial control systems of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Company are safeguarded. In accordance with the AIC Code, the Directors are responsible for making a robust assessment of the principal and emerging risks facing the Company including those that would threaten its company's business model, future performance, solvency or liquidity and reputation. As stated above, the Board has contractually delegated to external agencies the services the Company requires, but they are fully informed of the internal control framework established by the Investment Manager and the Administrator to provide reasonable assurance on the effectiveness of internal financial controls.

The key procedures include monthly production of management accounts and daily NAV calculations, monitoring of performance at regular board meetings, supervision by Directors of the valuation of securities, segregation of the administrative function from that of securities and cash custody and of both from investment management, maintenance of appropriate insurance and adherence to physical and computer security procedures.

The Directors' statement of responsibilities in respect of the accounts is on pages 55 and 56, a statement of going concern is on page 39 and the report of the independent auditor is on pages 60 to 71.

Principal and emerging risks

The Directors confirm that they have carried out a robust assessment of the emerging and principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks and how they are being managed is set out in the Strategic Report.

Order of the Board

Jenny Thompson
Sanne Fund Services (UK) Limited
Company Secretary
29 April 2022

Directors' Remuneration Report

James Nelson
Chairman of the Remuneration and
Management Engagement
Committee

April 2022

The report below is the Annual Report on Remuneration which has been prepared in accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulation).

The Remuneration Policy is required to be put before Shareholders for approval once every three years (unless changed, in which case the changes must be approved). The Remuneration Policy is binding on the Company and was last put to Shareholders at the Annual General Meeting ('AGM') held in 2020. At that meeting the resolution to approve the Remuneration Policy was passed unanimously. The proxy voting was 18,058,233 in favour, representing just under 100% of the votes cast, and 5,127 against, representing just over 0% of the votes cast and 4,712 votes withheld.

The Remuneration Report is required to be put before Shareholders each year and will be put forward at the forthcoming AGM. The Shareholders' vote on the Remuneration Policy Implementation Report is not binding upon the Company, but the Board and the Committee take account of any concerns that are expressed by Shareholders. At the AGM in 2021, the resolution to approve the Remuneration Implementation Report was passed unanimously. The proxy voting on this resolution was 28,379,701 votes in favour, representing 99.94% of votes cast, and 17,073 votes against, representing 0.06% of votes cast and 4,281 votes withheld.

Shareholders are encouraged as part of the Company's engagement strategy to have the opportunity to ask questions and to express their views in respect of the Remuneration Policy and Remuneration Implementation report. Since the last AGM, no Shareholders have commented in respect of the Remuneration Policy or Remuneration Implementation Report.

Information not subject to audit

Remuneration Policy

Current and future policy

The Company's remuneration policy is linked to the Company's strategy and promotes the long-term success of the Company in accordance with S172 Companies Act 2006. This provides fees payable to the Directors to reflect the value of the time spent by the Board on the Company's affairs, the duties of the Directors and is sufficient to attract and retain candidates of a high calibre. This is reviewed by the Board annually based upon market rates for non-executive directors commensurate with the growth and size of the Company and reported accordingly in their Remuneration Policy Implementation Report.

Directors are remunerated in the form of fees only, payable quarterly in arrears, paid to the Directors personally. Directors are authorised to claim reasonable expenses in the performance of their duties.

Remuneration and Nomination Committee

The Company has five non-executive Directors. The Remuneration and Nomination Committee (the "Committee") comprises the whole Board.

Policy on Directors' fees

It is the policy of the Board and the Committee that the remuneration of non-executive Directors should be fair and should reflect the experience, work involved, responsibilities and potential liabilities of the Board as a whole and their time commitment. The non-executive Directors' fees are determined within the maximum limit set out in the Company's Articles of Association, which currently stands at £200,000 per year. At the forthcoming AGM the Board are proposing, via an ordinary resolution, an increase to this limit to a maximum of £250,000 per year. The increase is being proposed to enable the Board to attract and retain Board members with suitable skills and experience.

The Directors are not eligible for bonuses, pension benefits, share benefits, share options, long-term incentive schemes or other benefits and fees are not linked to Director's individual or collective performance. There are no arrangements in place with respect to compensation for loss of office (for whatever reason) or recruitment incentive remuneration and Directors have no entitlement to any such payments. No Director has waived or agreed to waive any emoluments from the Company.

Directors' service contracts

The Directors do not have service contracts. The Directors have appointment letters, which do not state any specific term. In accordance with the AIC Corporate Governance Code the Board put themselves forward for annual re-election.

Payments to past Directors

No payments were made during the year to any past Directors.

Remuneration Policy Implementation Report

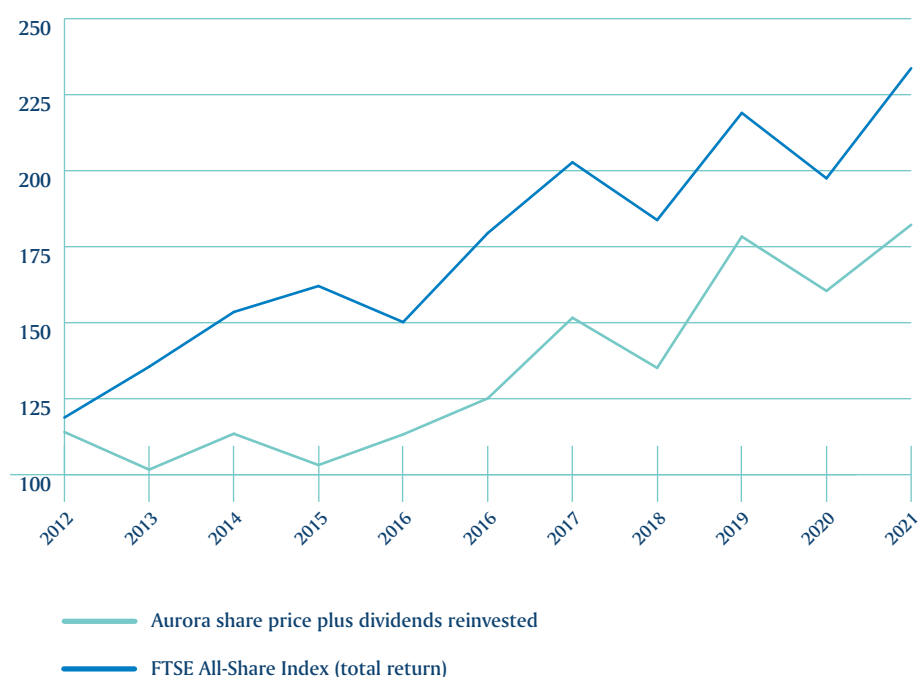
The levels of remuneration in 2021 were:

Component	Director	Current annual rate	Purpose of reward	Operation
Annual fee	Chairman of the Board	£33,800	For services as Chairman of a plc	Determined by the Board
Annual fee	Other independent Directors	£24,500	For services as non-executive Directors of a plc	Determined by the Board
Annual fee	Chairman of the Audit Committee	£28,680	For additional responsibility and time commitment	Determined by the Board
Annual fee	Deputy Chair of the Board	£31,500	For services as Deputy Chair of a plc	Determined by the Board
Expenses	All Directors	–	Reimbursement of expenses incurred in the performance of duties	Submission of appropriate supporting documentation

The Committee met once during the year ended 31 December 2021. All members of the Committee attended the meeting. The Committee, in conjunction with the Chair, is responsible for setting the remuneration levels of the Directors and considering whether to appoint an external remuneration consultant if felt appropriate. In this case it decided not to appoint an external consultant and considered the results of the review of Directors' performance together with an internal survey of board remuneration among a peer group of similar companies. It concluded that the annual increase of the consumer price index applied on 1 January 2021 was acceptable, and no other changes were recommended. These recommendations were accepted and implemented by the Board. No other services were provided by advisers in respect of remuneration policy during the year ended 31 December 2021.

Performance

The performance of the Company's Ordinary Shares, with dividends reinvested, is compared to that of the FTSE All-Share Index (total return) which is the Company's Benchmark. Phoenix took over the investment management on 28 January 2016.



Relative importance of spend on pay

The table below shows the proportion of the Company's income spent on pay.

	Year to 31 December 2021 £'000	Year to 31 December 2020 £'000	Change Favourable/ (unfavourable) £'000
Revenue income	2,305	1,207	1,098
Spend on Directors' fees	137	150	(37)
Other expenses	725	447	278
Dividends paid to Shareholders	420	3,295	(2,875)

The information in the table above is required by the Regulations with the exception of other expenses, which have been included to show the total operating expenses of the Company.

Information subject to audit

Single Total Figure of Remuneration for The Year (Audited)

The fees and expenses paid to the Directors who served during the years ended 31 December 2021 and 31 December 2020 were as follows:

	31 December 2021			31 December 2020		
	Taxable			Taxable		
	Fees	expenses ¹	Total	Fees	expenses ¹	Total
	£	£	£	£	£	£
Lord Flight	33,800	–	33,800	33,500	–	33,500
Lady Rachael Robathan ²	28,700	–	28,700	28,500	–	28,500
The Hon. James Nelson	24,600	–	24,600	24,500	–	24,500
David Stevenson	24,600	–	24,600	24,500	–	24,500
Lucy Walker ³	25,964	–	25,964	24,500	–	24,500
Richard Martin ⁴	–	–	–	14,500	–	14,500
Total	137,664	–	137,664	150,000	–	150,000

¹ Taxable expenses incurred by the Board in carrying out their duties as Directors.

² Appointed as the replacement Audit Chair, following Richard Martin's retirement, on 2 December 2019.

³ Appointed as a non-executive Director on 2 December 2019. On 19 October 2021 Lucy Walker was appointed Deputy Chair of the Board.

⁴ Resigned from the Board on 18 June 2020.

None of the fees referred to above were paid to any third-party in respect of services provided by the Directors.

Annual Percentage Change in Directors' Remuneration (unaudited)

In accordance with The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, these columns have been included to show the annual percentage change over the preceding financial year by comparison to the current financial year in respect of each Director. The Board will publish this annual percentage change cumulatively each year going forward until there is an annual percentage change over the five financial years preceding the relevant financial year in accordance with the new regulation:

	31 December 2021	31 December 2020
Lord Flight	0.9%	1.5%
Lady Rachael Robathan	0.7%	1,138.6% ¹
The Hon. James Nelson	0.4%	2.1%
David Stevenson	0.4%	2.1%
Lucy Walker	6.0% ⁴	1,141.8% ²
Richard Martin ³	n/a	-48% ³

¹ The high annual change increase of Lady Rachael Robathan's fees for the year to 31 December 2020 reflect the fact that Lady Robathan joined the Board and became Audit Chair part way through 2019, on 2 December 2019. Lady Robathan's fee increase would have been 1.79% if she had served as Audit Chair for the whole of the previous year.

² The high annual change in Lucy Walker's fees for the year to 31 December 2020 reflects the fact that Ms Walker became a non-executive Director part way through 2019, on 2 December 2019. Ms Walker's fee increase would have been the same as the other non-executive Directors if she had been a non-executive Director for the whole of the previous year.

³ Richard Martin resigned from the Board on 18 June 2020.

⁴ The high annual change in Lucy Walker's fees for the year to 31 December 2021 reflects the fact that Ms Walker was appointed Deputy Chair of the Board on 19 October 2021 and her fees were increased to reflect her new responsibilities.

Remuneration Consideration (unaudited)

During the year the Committee reviewed the Directors' remuneration and agreed the following increases which was based on the Consumer Price Index for the period to 31 December 2021 of 4.8%:

Role	Current fee from 1 January 2022 £	Fee rate from 1 January 2021 £
Lord Flight	35,400	33,500
Lady Rachael Robathan	30,100	28,500
The Hon. James Nelson	25,800	24,500
David Stevenson	25,800	24,500
Lucy Walker	33,000	24,500 rising to £31,500 on 19 October 2021)

Directors' Shareholdings (audited)

The Directors' shareholdings in the Company were:

Director	At 31 December 2021 and at the date of this report Ordinary Shares	At 31 December 2020 Ordinary Shares
Lord Flight	43,000	43,000
Lady Rachael Robathan	–	–
The Hon. James Nelson	50,117	40,000
David Stevenson	18,266	18,266
Lucy Walker	12,000	12,000

There are no requirements or formal guidelines in effect for Directors holding shares in the Company, although the Board welcomes such holdings. The interests of each director include the interests of connected persons of which the Company is or ought reasonable upon enquiry to become aware. Connected persons are person closely associated as defined in the Market Abuse Regulations.

Annual statement

On behalf of the Board and in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Reports on Remuneration Policy and Remuneration Implementation summarise, as applicable, for the year to 31 December 2021:

- a. the major decisions on Directors' remuneration;
- b. any substantial changes relating to Directors' remuneration made during the year; and
- c. the context in which the changes occurred and decisions have been taken.

James Nelson

Chairman of the Remuneration and Management Engagement Committee
29 April 2022

Statement of Directors' Responsibilities for the Annual Report

Lady Rachael Robathan
Director

April 2022

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with UK-adopted International Accounting Standards and in accordance with those parts of the Companies Act 2006 that apply to those companies reporting under UK-adopted International Accounting Standards.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, a Directors' Report, a Corporate Governance Statement and a Directors' Remuneration Report which comply with that law and those regulations.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors have delegated responsibility to the Investment Manager for the maintenance and integrity of the Company's page of the Investment Manager's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy. Each of the Directors, whose names and functions are listed in the Corporate Governance section confirm that, to the best of their knowledge:

- the Company's financial statements, which have been prepared in accordance with UK-adopted international accounting standards and in accordance with those parts of the Companies Act 2006 that apply to those companies reporting under UK-adopted international accounting standards and give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board

Lady Rachael Robathan

Director

29 April 2022

Audit Committee Report

Lady Rachael Robathan
Chair of the
Audit Committee

April 2022

I am pleased to present the Committee's report to shareholders for the year ended 31 December 2021.

Composition

All of the Directors are members of the Committee.

In accordance with the UK Code, the Chairman of the Board should not be a member. However, the AIC Code permits the Chairman to be a member of, but not chair, the Committee if they were independent on appointment – which the Chairman was and in the Board's view continues to be. In view of the size of the Board, the Directors feel it is appropriate for him to continue as a member, so that the Committee can continue to benefit from his experience and knowledge.

The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee. The Committee as a whole has competence relevant to the sector.

Role and Responsibilities

The main role and responsibilities of the Committee are set out in the Committee's terms of reference. The terms are regularly reviewed and are available on the Company's website or on request from the Company Secretary.

The Committee meets formally at least twice a year for the purpose, amongst other things, of advising the Board on the appointment, effectiveness independence, objectivity and remuneration of the external auditor.

The Committee monitors the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them. The Committee also reviews the Company's risk management, internal financial controls and internal control systems and reviews the Manager's whistleblowing arrangements.

The provision of non-audit services by the auditor are also reviewed.

Meetings

There were five Committee meetings during the year ended 31 December 2021. In addition, the Committee Chair met the audit partner for a private discussion on the audit process and was pleased to conclude that the auditors had nothing significant to bring to her attention.

Committee evaluation

The Committee's activities fell within the scope of the review of Board effectiveness performed during the year. Details can be found on page 41.

Work of the Audit Committee

During the year ended 31 December 2021 the Audit Committee formally met three times. Three additional meetings were held to consider the accounting treatment of the Company's performance fee.

The Committee considered and recommended for Board Approval the interim accounts to 30 June 2021 and Annual Accounts for the year to 31 December 2020 including agreeing on the valuations of the Company's portfolio of investments, the Company's Risk Register, the Company's exposure to illiquid investments, and the internal control report of its service providers.

The Committee considered and reviewed the Audit Plan from Grant Thornton UK LLP (“Grant Thornton”) and the approach to the audit as set out and planned audit procedures. It also considered the appointment of Mazars to provide guidance around the accounting treatment of the performance fee and specifically the accounting treatment of the clawback provisions and to undertake a valuation of the performance fee. Mazars are independent of the Company and the Company’s auditors.

Since 31 December 2021, the Committee has met with a number of representatives of each contender to the audit tender process which remains ongoing. The Company will announce the successful contender in due course. In the meantime, and in order to remain compliant with relevant regulations which require a listed entity to maintain the appointment of an auditor at all times, a resolution will be put to shareholders at the forthcoming AGM to re-appoint Grant Thornton as the Company’s Auditor.

Financial statements and significant accounting matters

In its meetings during the year ended 31 December 2021, the Audit Committee in performing its role and meeting its objectives, considered the following significant accounting issues in relation to the Company’s financial statements for the year ended 31 December 2021:

Performance Fee and clawback provisions

The Company awarded shares to the Investment Manager in settlement of a performance fee during the years ended 31 December 2019, 31 December 2020 and 31 December 2021. The shares are subject to a clawback at the end of a 36-month period following the date the shares were awarded. The valuation of the clawback provisions and the accounting treatment of those provisions was considered by the Audit Committee. The Board agreed to appoint Mazars to provide a valuation in accordance with the Company’s Investment Management Agreement. The Audit Committee reviewed the results of the valuation and concluded that the valuation was reliable.

Valuation of investments

The Company holds most of its assets in quoted investments. The valuation of these investments is the most material matter in the production of the financial statements. The Audit Committee reviewed the procedures in place for ensuring accurate valuation of investments and discussed the valuation of the Company’s investments at the year end with the Investment Manager and the Administrator. The results of the audit in this area were discussed with the external auditor and there were no significant issues arising from this.

The Company holds a small proportion of the portfolio in an unquoted company, Phoenix SG. The valuation of this investment is based on a proportionate share of the investment’s NAV. The Investment Manager provided valuation recommendations for the investment in the unquoted company held at the year end and it was discussed and approved by the Audit Committee. The Company’s unquoted investment in Phoenix SG Limited is valued by Duff & Phelps.

Financial statement presentation

The Audit Committee obtained assurances from the Investment Manager, the Administrator and Secretary that the financial statements had been prepared appropriately and questioned the external auditor on this area. There were no unresolved issues.

Going concern

The Audit Committee reviewed the Company's financial resources and concluded that it is appropriate for the Company's financial statements to be prepared on a going concern basis as described in the Directors' Report.

Conclusion with respect to the Annual Report and financial statements

The Audit Committee has concluded that the Annual Report for the year ended 31 December 2021, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position, business model, strategy and performance. The Audit Committee has reported its conclusions to the Board of Directors. The Audit Committee reached this conclusion through a process of review of the document and enquiries to the various parties involved in the production of the annual report.

Provision of non-audit services

The Audit Committee has put in place a non-audit service policy to ensure that the auditor's independence and objectivity are not impaired. The Company has appointed Ernst & Young to provide tax compliance services and Mazars to value the clawback provisions included in the Company's Annual Accounts. No non-audit work was performed for the Company by the auditor during the year ended 31 December 2021 and the Committee has no current plans to seek any non-audit services from the auditor.

Effectiveness of external audit

The Audit Committee is responsible for reviewing the effectiveness of the external audit process. The Audit Committee received a presentation of the audit plan from the external auditor prior to the commencement of the audit and a presentation of the results of the audit following completion of the main audit testing. In accordance with the EU Directive that a review of the auditor be carried out after 10 years' service, a full review of the audit service on a competitive basis was conducted during 2016. The Committee gave careful consideration to proposals put forward by Grant Thornton and by a competitor firm. After discussion, it concluded that the appointment of Grant Thornton should be continued, subject to approval by the Board and the Shareholders of the Company.

The renewed appointment of Grant Thornton is potentially for a further period up to 31 December 2023, the maximum permitted by the EU Directive, but always subject to annual confirmation. The Audit Committee performed a further review of the external auditor following the presentation of the results of the latest audit. The review included a discussion of the audit process and the ability of the external auditor to fulfil its role. The Committee subsequently confirmed to the Board it was satisfied on the basis that the independence criterion was still met, that a resolution be put to Shareholders at the AGM in 2022 for the re-appointment of Grant Thornton.

As mentioned earlier, the audit tender process is ongoing. The successful contender will be announced to the market in due course.

Lady Rachael Robathan
Chair of the Audit Committee
29 April 2022

Independent Auditor's Report to the Members of Aurora Investment Trust Plc

William Pointon
Senior Statutory Auditor
for and on behalf of
Grant Thornton UK LLP
Statutory Auditor,
Chartered Accountants
London

April 2022

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Aurora Investment Trust plc (the 'Company') for the year ended 31 December 2021, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease or continue as a going concern.

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's assessment of the Company's ability to continue as a going concern which covered a period of at least 12 months from when the financial statements are authorised for issue. The assessment included forecasts on future performance and the net assets position. We assessed how the forecasts were compiled and their accuracy by examining the appropriateness of underlying assumptions such as dividend expectations, ongoing expenses and portfolio size;
- Critically evaluating the revenue and cost projections underlying the model with reference to market information, past performance of the Company as well as any known post balance sheet events;
- Performing analysis on the forecasts prepared by management, including evaluation of the likelihood of the reverse stress test scenario; and
- Assessing the adequacy of the going concern disclosures included within the financial statements.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the Company's business model including affects arising from macro-economic uncertainties such as Brexit and Covid-19. We assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

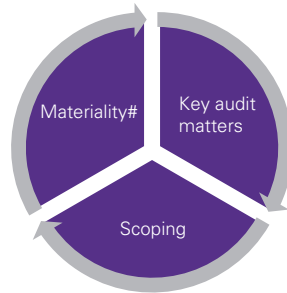
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.



Our approach to the audit



Overview of our audit approach

Overall materiality: £1.9m, which represents approximately 1% of the Company's net assets.

Key audit matters were identified as:

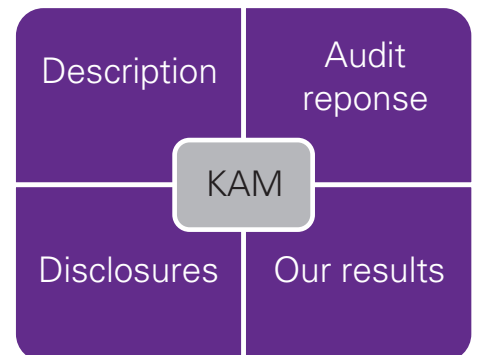
- Completeness and occurrence of investment income (same as previous year); and
- Valuation and existence of investments measured at fair value through profit or loss (same as previous year).

Our auditor's report for the year ended 31 December 2020 included accuracy, occurrence, valuation and presentation of performance fee as a key audit matter, which has not been reported as a key audit matter in our current year's report. This is due to the performance fee no longer being material in the current year, and the lack of complexity in arriving at the performance fee valuation this year as compared to the prior year. The valuation method and accounting for performance fee was established in the previous year and has been applied in the current financial year consistently with prior year.

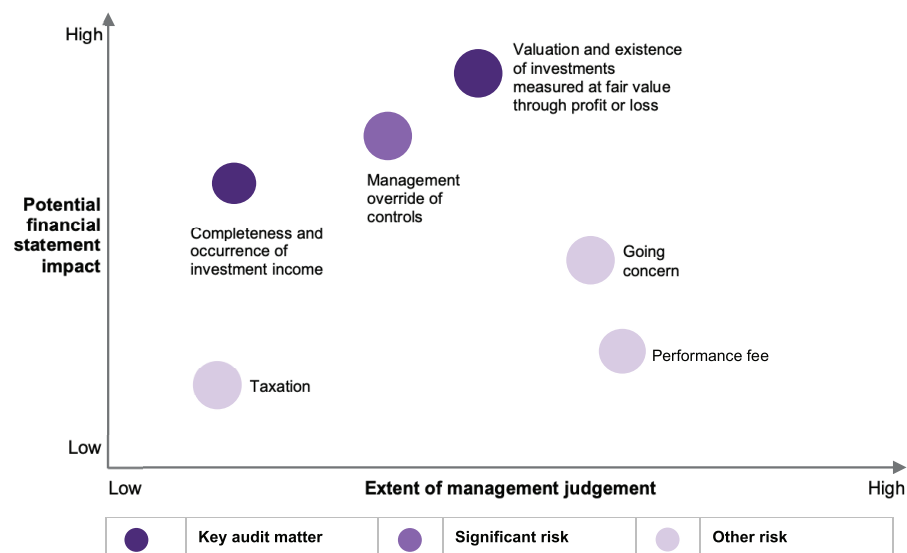
Our audit approach was a risk-based substantive audit focused on the valuation and existence of investments at year end and completeness and occurrence of investment income recognised during the year. Other than exclusion of the performance fee as a key audit matter, there was no significant change in our approach from the prior year.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



Key Audit Matter

Completeness and occurrence of investment income

We identified the completeness and occurrence of investment income from the investment portfolio as a significant risk, which was one of the most significant assessed risks of material misstatement due to fraud and error.

This is as under ISA (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumption that there are risks of fraud in revenue recognition. Investment income recognised during the year was £2,305,000 (2020: £1,207,000).

The Company's investment objective is to provide shareholders with long term returns through capital and income growth. Investment income is the Company's major source of revenue and is a material balance in the Statement of Comprehensive Income.

How our scope addressed the matter

In responding to the key audit matter, we performed the following audit procedures:

- assessed whether the Company's accounting policy for revenue recognition is in accordance with International Financial Reporting Standard (IFRS) 9 'Financial Instruments' and the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the Association of Investment Companies ('AIC');
- substantively evaluated all income transactions, as described below, to assess if they were recognised in accordance with the accounting policy;
- for investments held during the year, obtained the ex-dividend dates and rates for dividends declared during the year from an independent source and agreed the expected dividend entitlements to those recognised in the Statement of Comprehensive Income; and
 - agreed dividend income recognised by the Company to an independent source; and
 - agreed dividend income recognised to the bank statements.
- performed an evaluation of special dividends to determine the appropriateness of the accounting treatment and classification as either revenue or capital.

Relevant disclosures in the Annual Report 2021

- Financial statements: accounting policy note 1(d), 'Income from investments'; and note 3, 'Income'.

Our results

Our audit testing did not identify any material misstatements in the completeness and occurrence of investment income.

Key Audit Matter	How our scope addressed the matter
<p>Valuation and existence of investments measured at fair value through profit or loss</p> <p>We identified the valuation and existence of investments measured at fair value through profit or loss as a significant risk, which was one of the most significant assessed risks of material misstatement due to error.</p> <p>The Company's principal investment objective is to provide shareholders with long term returns through capital and income growth by investing in a concentrated portfolio of UK equities.</p> <p>The investment portfolio, at £186,637,000 (2020: £157,894,000), is the largest balance on the statement of financial position at the year end and the main driver of the Company's performance. Included within this is the Company's investment in Phoenix SG Limited amounting to £3,400,000 (2020: £8,066,000). This is a level 3 investment and its valuation is based on unobservable inputs and is carried out by a third party valuer.</p> <p>Incorrect asset pricing or failure to maintain proper legal title of the investments held by the Company could have an impact on the portfolio valuation and therefore, the return generated for Shareholders.</p>	<p>In responding to the key audit matter, we performed the following audit procedures:</p> <ul style="list-style-type: none"> assessed whether the Company's accounting policy for investments is in accordance with relevant accounting standards and the AIC SORP, and tested whether management have valued the investments in accordance with that policy; confirmed the existence and ownership of all investments by agreeing the holdings listed in the portfolio at year end to an independent confirmation we received directly from the Company's custodian; examined the independent service auditor's assurance report on the custodian's controls over assets under its custody; independently priced 100% of the quoted equity portfolio by obtaining the bid prices from independent market sources and calculating the total valuation based on Company investment holdings, which was agreed to the financial statements; assessed the valuation of the Company's unquoted investment in Phoenix SG Limited by examining the valuation report prepared by management's expert as at 26 January 2022 and examining management's assessment of its valuation at 31 December 2021. This included engaging our valuation specialists to evaluate the adequacy of assumptions made by management's expert and enabled us to challenge the assumptions made by management. We also obtained Phoenix SG Limited's audited financial statements for the year ended 31 December 2021 and recomputed the Company's proportionate share of the net assets; agreed the Company's holding in Phoenix SG Limited at the year end to a confirmation from the Company's custodian; substantively agreed a sample of additions and disposals of investments during the year by agreeing to trade confirmations, agreements and bank statements, as applicable; and examined the book cost reconciliation prepared by management for accuracy and consistency with the results of other substantive audit procedures performed on investments.
<p>Relevant disclosures in the Annual Report 2021</p> <ul style="list-style-type: none"> Financial statements: accounting policy, note 1c 'Investments'; and note 2 'Investments held at fair value through profit or loss'; and Audit Committee Report: 'Valuation of investments', page 58. 	<p>Our results</p> <p>Our audit testing did not identify any material misstatements in the valuation of the Company's investment portfolio as at the year-end or any material misstatements with regards to the existence of the underlying investments at the year-end.</p>

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

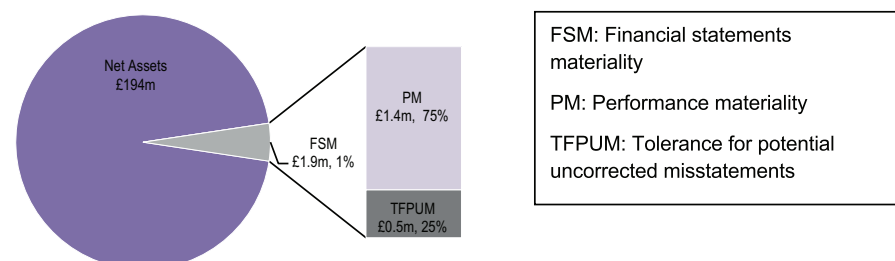
Materiality measure	Company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
Materiality threshold	£1.9m, which comprises approximately 1% of the Company's net assets.
Significant judgements made by auditor in determining the materiality	<p>In determining materiality, we made the following significant judgements:</p> <ul style="list-style-type: none"> • Net assets, which primarily comprise the Company's investment portfolio, are considered to be the key driver of the Company's total return performance and form a part of the net asset value calculation. • The performance of the business is assessed based on the value of the investments and the net asset value (NAV) of the Company. We note that valuation of investments is a key concern for stakeholders and users of the financial statements, and is the key driver of performance as opposed to profit. This is based on our general sector understanding and more specifically based on reading of the strategic report, where the Company's performance is measured in terms of its NAV and NAV increase relative to the FTSE All-Share (Total Returns) Index. • As the Company invests predominantly in liquid investments, and by benchmarking against other entities in the same industry, we consider a measurement percentage of 1% to be appropriate.

Materiality for the current year is higher than the level that we determined for the year ended 31 December 2020 to reflect the increase in the Company's net assets in the year from £163m to £194m.

Materiality measure	Company
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
Performance materiality threshold	£1.4m, which is 75% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	<p>In determining performance materiality at 75% of financial statement materiality (as in the previous year), we made the following significant judgements:</p> <ul style="list-style-type: none"> • our risk assessment procedures - there have been no changes to business activities, systems and controls nor an increase in fraud risk indicators during the year; and • the strength of the control environment and our experience auditing the financial statements of the Company, including the effect of misstatements identified in previous audits.
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Specific materiality	<p>We determined a lower level of specific materiality for the following areas:</p> <ul style="list-style-type: none"> • investment income; • related party transactions; and • directors' remuneration.
Communication of misstatements to the Audit Committee	We determine a threshold for reporting unadjusted differences to the Audit Committee.
Threshold for communication	£97,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality



An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Company's business and in particular matters related to:

Understanding the Company and its environment, including controls

- We obtained an understanding of the Company and its environment, including the design and implementation of controls around areas of significant risks to the audit, and assessed the risks of material misstatement;
- We obtained an understanding of, and evaluated, the relevant internal controls at the Company's third-party service providers. This included obtaining and reading internal controls reports prepared by the third-party service providers on the description, design, and operating effectiveness of the internal controls at the custodian and administrator and performing procedures to get assurance over the design and implementation of controls at the investment manager; and
- We confirmed our understanding of the Company's business and the investment trust companies' sector. Based on this, we identified valuation and existence of investments at the year end and completeness and occurrence of investment income as key areas of audit focus.

Work to be performed on financial information of the Company (including how it addressed the key audit matters)

- Our audit approach was a risk-based substantive audit focused on the valuation and existence of investments at year end and the completeness and occurrence of investment income recognised during the year, both of which we determined to be key audit matters.

Performance of our audit

- We performed substantive testing by obtaining direct confirmations on the existence of quoted investments, validating valuation of quoted investments by agreeing it to an independent source of valuation, agreeing the investment income to an independent source and examining the supporting evidence and bank statements in support of investment income recognised during the year; and
- We performed substantive testing of the Company's unquoted investment in Phoenix SG Limited by agreeing the holding to direct confirmation from the custodian, obtained the year end net asset value from CIBC (administrator and custodian of Phoenix SG Limited) and engaged our valuation specialists to evaluate the valuation methodology and input assumptions used by management.

Changes in approach from previous year

- Other than exclusion of the performance fee as a key audit matter, there was no significant change in our approach from the prior year. This change was based on our understanding of the likely amount of the performance fee this year and on our agreement with the valuation model and accounting approach used by the Company in the prior year.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinions on other matters prescribed by the Companies Act 2006 are unmodified

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions;
- the directors' statement that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal and emerging risks facing the Company, including the impact of Brexit and Covid-19, and the disclosures in the annual report that describe the principal risks, procedures to identify emerging risks and an explanation of how they are being managed or mitigated, including the impact of Brexit and Covid-19;
- the section of the annual report that describes the review of the effectiveness of the Company's risk management and internal control systems, covering all material controls, including financial, operational and compliance controls; and
- the section of the annual report describing the work of the audit committee, including significant issues that the audit committee considered relating to the financial statements and how these issues were addressed.

Responsibilities of directors for the financial statements

As explained more fully in the statement of directors' responsibilities for the annual report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company and the industry in which it operates. We determined that the following laws and regulations were most significant: UK-adopted international accounting standards, the Companies Act 2006, the AIC SORP, the AIC Code of Corporate Governance, and sections 1158 and 1159 of the Corporation Tax Act 2010. We enquired of management whether there were any instances of non-compliance with laws and regulations and whether they had any knowledge of actual or suspected fraud. We corroborated the results of our enquiries through our review of board minutes and papers provided to the Audit Committee.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Company's operations, including the nature of its revenue sources, and of its objective and strategy to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement; and
 - the Company's control environment, including the policies and procedures implemented to comply with annual and financial reporting requirements.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
 - determining completeness of journal entries and identifying and testing journal entries, in particular manual journal entries processed at the year-end for financial statements preparation; and
 - in respect of investment income, we maintained the presumed fraudulent revenue recognition risk arising from ISA (UK) 240 because it is a significant class of transactions in the financial statements. Details of the audit work performed are described in the investment income key audit matter included in the key audit matters section of our report.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with, audit engagements of a similar nature and complexity, through appropriate training and participation; and
 - knowledge of the industry in which the Company operates.
- Relevant laws and regulations and potential fraud risks were communicated to all engagement team members, including internal specialists. We remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Other matters which we are required to address

We were appointed by the members on 1 January 2000 to audit the financial statements for the year ended 29 February 2000 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 21 years, covering the years ended 29 February 2000 to 31 December 2021.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

William Pointon
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
29 April 2022

Finance

Statement of Comprehensive Income

Notes	Year ended 31 December 2021			Year ended 31 December 2020			
	Revenue	Capital	Total	Revenue	Capital	Total	
	£'000	£'000	£'000	£'000	£'000	£'000	
2	Gains/(losses) on investments	–	30,038	30,038	–	(2,123)	(2,123)
	Losses on currency	–	(3)	(3)	–	(20)	(20)
3	Income	2,305	–	2,305	1,207	–	1,207
	Total income	2,305	30,035	32,340	1,207	(2,143)	(936)
4	Investment management fees	–	(720)	(720)	–	(665)	(665)
4	Other expenses	(862)	–	(862)	(597)	–	(597)
	Profit/(loss) before tax	1,443	29,315	30,758	610	(2,808)	(2,198)
7	Tax	(30)	–	(30)	(11)	–	(11)
	Profit/(loss) and total comprehensive income for the year	1,413	29,315	30,728	599	(2,808)	(2,209)
9	Earnings per share – Basic and diluted	1.85p	38.44p	40.29p	0.83p	(3.87p)	(3.04p)

The total column represents the statement of comprehensive income of the Company.

The revenue and capital columns, including the revenue and capital earnings per Ordinary Share data, are supplementary information prepared under guidance published by the AIC.

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the period. All revenue is attributable to the equity holders of the Company.

The Company does not have any other comprehensive income. Therefore, no separate Statement of Comprehensive Income has been presented.

The notes on pages 78 to 98 form part of these accounts.

Statement of Financial Position

Approved by the Board of Directors on 29 April 2022 and signed on its behalf by:
Lady Rachael Robathan
Company no. 03300814

	31 December 2021	31 December 2020	
Notes	£'000	£'000	
NON-CURRENT ASSETS			
2	Investments held at fair value through profit or loss	186,637	157,894
CURRENT ASSETS			
	Trade and other receivables	222	258
	Cash and cash equivalents	7,664	5,055
		7,886	5,313
	TOTAL ASSETS	194,523	163,207
CURRENT LIABILITIES:			
	Investment management fees payable	(174)	(171)
	Other operating expenses payable	(156)	(115)
		(330)	(286)
	NET ASSETS	194,193	162,921
EQUITY			
10	Called up share capital	19,130	18,776
	Capital redemption reserve	179	179
	Share premium account	110,984	108,438
	Other reserve	(1,271)	665
12	Investment holding gains	48,641	20,621
12	Other capital reserve	14,514	13,219
	Revenue reserve	2,016	1,023
	TOTAL EQUITY	194,193	162,921
10	Number of Ordinary Shares in issue	76,519,675	75,103,743
13	NAV per Ordinary Share	253.78	216.93p

The notes on pages 78 to 98 form part of these accounts.

Statement of Changes in Equity

Year to 31 December 2021

	Called up share capital	Capital redemption reserve	Share premium account	Other reserve	Investment holding gains	Other capital reserve	Revenue reserve	Total
Notes	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Opening equity	18,776	179	108,438	665	20,621	13,219	1,023	162,921
Profit for the year	–	–	–	–	28,020	1,295	1,413	30,728
5 Performance fee charge for the year	–	–	–	720	–	–	–	720
8 Dividends paid	–	–	–	–	–	–	(420)	(420)
10 Issue of new Ordinary Shares	354	–	2,599	(2,656)	–	–	–	297
Ordinary Share issue costs	–	–	(53)	–	–	–	–	(53)
Closing equity	19,130	179	110,984	(1,271)	48,641	14,514	2,016	194,193

The notes on pages 78 to 98 form part of these accounts.

Statement of Changes in Equity

Year to 31 December 2020

	Called up share capital	Capital redemption reserve	Share premium account	Other reserve	Investment holding gains	Other capital reserve	Revenue reserve	Total
Notes	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Opening equity	16,628	179	97,186	–	23,231	13,417	3,719	154,360
(Loss)/profit for the year	–	–	–	–	(2,610)	(198)	599	(2,209)
5 Performance fee charge for the year	–	–	–	665	–	–	–	665
8 Dividends paid	–	–	–	–	–	–	(3,295)	(3,295)
10 Issue of new Ordinary Shares	2,148	–	11,408	–	–	–	–	13,556
Ordinary Share issue costs	–	–	(156)	–	–	–	–	(156)
Closing equity	18,776	179	108,438	665	20,621	13,219	1,023	162,921

The notes on pages 78 to 98 form part of these accounts.

Cash Flow Statement

	Year to 31 December 2021	Year to 31 December 2020
	£'000	£'000
NET OPERATING ACTIVITIES CASH FLOW		
Cash inflow from investment income and interest	2,318	1,358
Cash outflow for expenses	(825)	(597)
Payments to acquire non-current asset investments*	(45,092)	(33,756)
Receipts on disposal of non-current asset investments*	46,458	12,316
Transaction costs on Investments	(71)	–
Capital distributions received	–	236
NET OPERATING ACTIVITIES CASH FLOW	2,788	(20,443)
FINANCING ACTIVITIES CASH FLOW		
Proceeds from issues of new Ordinary Shares	297	12,367
Ordinary Share issue costs	(53)	(156)
Dividends paid	(420)	(3,295)
NET FINANCING ACTIVITIES CASH FLOW	(176)	8,916
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,612	(11,547)
Cash and cash equivalents at beginning of year	5,055	16,602
Losses on currency	(3)	(20)
Increase/(decrease) in cash and cash equivalents	2,612	(11,547)
CASH AND CASH EQUIVALENTS AT END OF YEAR	7,664	5,055

* Payments to acquire investments and receipts from the disposal of investments have been classified as components of cash flow from operating activities because they form part of the Company's operating activities.

The notes on pages 78 to 98 form part of these accounts.

Notes to the Financial Statements

1. Reporting entity

Aurora Investment Trust plc is a closed-ended investment company, registered in England and Wales on 10 January 1997 with Company number 03300814. The Company's registered office is 1st Floor, Senator House, 85 Queen Victoria Street, London, EC4V 4AB. Business operations commenced on 13 March 1997 when the Company's Ordinary Shares were admitted to trading on the London Stock Exchange.

The Company invests predominantly in a portfolio of UK listed companies and may from time to time also invest in companies listed outside the UK and unlisted securities, with the objective of providing Shareholders with long-term returns through capital and income growth. The Investment Policy limits the Company's exposure to unlisted investments at cost price to 10% of the Company's gross assets.

Details of the Directors, Investment Manager and Advisers can be found on page 31.

The financial statements of the Company are presented for the year ended 31 December 2021 and were authorised for issue by the Board on 29 April 2022.

Basis of Accounting

The financial statements have been prepared in accordance with UK-adopted international accounting standards and the applicable legal requirements of the Companies Act 2006. On 31 December 2020, International Financial Reporting Standards ("IFRS") as adopted by the European Union at that date were brought into UK law and became UK-adopted international accounting standards, with future changes being subject to endorsement by the UK Endorsement Board. The Company transitioned to UK-adopted international accounting standards in its financial statements on 1 January 2021. There was no impact or change in accounting policies from the transition.

Under UK-adopted IFRS, the AIC Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("SORP") issued in April 2021 has no formal status, but the Company adheres to the guidance of the SORP.

Going concern

The financial statements have been prepared on a going concern basis. In forming this opinion, the directors have considered the continuation vote and any potential impact of the war in Ukraine on the going concern and viability of the Company. In making their assessment, the Directors have reviewed income and expense projections and the liquidity of the investment portfolio, and considered the mitigation measures which key service providers, including the Manager, have in place to maintain operational resilience.

The Directors have a reasonable expectation that the Company has adequate operational resources to continue in operational existence for at least twelve months from the date of approval of these financial statements. Further information on the Company's going concern can be found on page 39.

Significant accounting policies

The accounting policies adopted are described below:

a. Accounting Convention

The accounts are prepared under the historical cost basis, except for the measurement of fair value of investments and measurement of performance fee award.

b. Adoption of new IFRS standards

New standards, interpretations and amendments adopted from 1 January 2022

A number of new standards, amendments to standards are effective for the annual periods beginning after 1 January 2022. None of these are expected to have a significant effect on the measurement of the amounts recognised in the financial statements of the Company.

New standards and amendments issued but not yet effective

The relevant new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. These standards are not expected to have a material impact on the entity in future reporting periods and on foreseeable future transactions.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to *IFRS 3 Business Combinations - Reference to the Conceptual Framework*. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and *IFRS Practice Statement 2 Making Materiality Judgements*. The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023.

1. Reporting entity continued

c. Investments

Investments held at fair value through profit or loss are initially recognised at fair value, being the consideration given and excluding transaction or other dealing costs associated with the investment. After initial recognition, investments are measured at fair value through profit or loss. Gains or losses on investments measured at fair value through profit or loss are included in Statement of Comprehensive Income as a capital item and transaction costs on acquisition or disposal of investments are also included in the capital column of the Statement of Comprehensive Income. For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the year-end date. All purchases and sales of investments are recognised on the trade date, i.e. the date that the Company commits to purchase or sell an asset. Investments held at fair value through profit or loss are initially recognised at fair value, being the consideration given and excluding transaction or other dealing costs associated with the investment.

Unquoted investments are measured at fair value, which is determined by the Directors in accordance with the International Private Equity and Venture Capital valuation guidelines and IFRS 9. The fair value of the Company's investments in Phoenix SG is based on the reported NAV as at the reporting date. Valuation reports provided by the Investment Manager of the unquoted investments are used to calculate the fair value where there is evidence that the valuation is derived using fair value principles that are consistent with the Company's accounting policies and valuation methods. Such valuation reports may be adjusted to take account of changes or events to the reporting date, or other facts and circumstances which might impact the underlying value.

Upon the sale of Phoenix SG in part or wholly, the fair value would be the expected sale price where this is known or can be reliably estimated.

d. Income from Investments

Investment income from the Company's investment portfolio is accounted for on the basis of ex-dividend dates. Income from fixed interest shares and securities is accounted for on an accruals basis using the effective interest method. Special Dividends are assessed on their individual merits and are credited to the capital column of the Statement of Comprehensive Income if the substance of the payment is a return of capital; with this exception all investment income is taken to the revenue column of the Statement of Comprehensive Income. Income from gilts receivable is accounted for on an accrual basis using the effective yield.

e. Capital Reserves

The Company is not precluded by its Articles from making any distribution of capital profits by way of dividend, but the Directors have no current plans to do so. Profits and losses on disposals of investments are taken to the other capital (gains on disposal) reserve. Revaluation movements are taken to the investment holding reserve via the capital column of the Statement of Comprehensive Income.

f. Investment Management Fees and Other expenses

The performance fee, which is equity settled, has been recognised and measured in accordance with IFRS 2. The performance fee is recognised as an expense in the capital column of profit and loss with a corresponding entry to equity over the period which the Investment Manager is required to perform services to the Company in order to be entitled to receive unrestricted Ordinary Shares in the Company.

The amount recognised as an expense is adjusted to reflect the number of Ordinary Shares for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of Ordinary Shares retained that meet the related service and non-market performance conditions at the vesting date at the end of the four year service period.

Restricted Ordinary Shares are issued to the Investment Manager at the end of the first year of service.

Further details on the judgements that the Board has made on the recognition and measurement of the performance fee can be found in Note 1(k) on page 82, and further details on the performance fees can be found in Note 4 on pages 87 and 88.

g. Taxation

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the year end date.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. In addition, tax losses available to be carried forward as well as other income tax credits are assessed for recognition as deferred tax assets. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply at their respective period of realisation, provided they are enacted or substantively enacted at the year end date. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the Statement of Comprehensive Income, except where they relate to items that are charged or credited directly to equity.

h. Foreign currency

The currency of the primary economic environment in which the Company operates (the functional currency) is pounds sterling ("sterling"), which is also the presentational currency of the Company. Transactions involving currencies other than sterling are recorded at the exchange rate ruling on the transaction date. At each year end date, monetary items and non-monetary assets and liabilities, which are fair valued, and which are denominated in foreign currencies, are retranslated at the closing rates of exchange. Such exchange differences are included in the Statement of Comprehensive Income and allocated to capital if of a capital nature or to revenue if of a revenue nature. Exchange differences allocated to capital are taken to gains on disposal or investment holding losses, as appropriate.

1. Reporting entity continued

i. Cash and cash equivalents

Cash and Cash Equivalents in the Cash Flow Statement comprise cash held at bank.

j. Dividends payable to equity Shareholders

Dividends payable to equity Shareholders are recognised in the Statement of Changes in Equity when they are paid or have been approved by Shareholders in the case of a final dividend. Interim dividends payable are recognised in the period in which they are paid.

k. Judgements, estimations or assumptions

The Directors have reviewed matters requiring judgements, estimations or assumptions. The preparation of the financial statements requires management to make judgements, estimations or assumptions that affect the amounts reported for assets and liabilities as at the year end date and the amounts reported for revenue and expenses during the year. However, the nature of the estimation means that actual outcomes could differ from those estimates.

Performance fees

The performance fee earned by the Investment Manager is calculated on Company's NAV outperformance against its benchmark. In the current financial year, this resulted in the issue of 1,290,932 (2020: 530,311) Ordinary Shares during the year. Since the year end the Company issued 69,638 Ordinary Shares on 7 February 2022. These issued Ordinary Shares are subject to a fixed three-year clawback period. If the outperformance versus the index reverses on the third-year anniversary, subject to the Board's discretion, the shares will be returned, and the Investment Manager will receive nothing.

The Board has considered that the settlement of the performance fee in the Ordinary Shares of the Company is in the scope of IFRS 2 '*Share-based Payment*'. Further, due to the nature of the service being provided, the Board considers that measuring the performance fee indirectly with reference to the fair value of the Ordinary Shares is more appropriate as it is not possible to reliably measure the fair value of the services received.

In measuring the performance fee, the Board has made further judgements in relation to the service period, which it considers to be four years (being the current year of service plus the further three year period which is the clawback period). The Board has made the judgement that the performance fee contains a non-market based performance condition as the hurdle is based on the outperformance of the Company's NAV against its benchmark.

However, as the performance fee calculates a fixed fee which is settled in a variable number of shares, the cumulative charge over the four year period will equate to either the amount calculated at the end of the first year where the performance of the Investment Manager remains on target, or lower where it is considered that the clawback will take effect. This is as a result of the performance fee charge being adjusted during the service period, which is a requirement of IFRS 2 where there is a non-market based performance condition.

The performance fee is recognised on a straight line basis in the statement of comprehensive income and is based on the outcome of the performance fee calculation as stated in the Investment Management Agreement. This amount excludes the projection of whether the clawback may occur at the end of the performance period, and only takes account of the clawback when, and if, it occurs. Management have verified that the amount recognised is materially accurate by analysing what the performance fee may be using a Monte Carlo model which projects possible movements in the share price of the Company and the return of the benchmark index. The difference between the straight line basis and the Monte Carlo valuation method is not considered material to the financial statements.

The Board has considered it necessary to make certain judgements in relation to the recognition and measurement of the performance fee, which it considers are reasonable and supportable, because of the lack of specific guidance in IFRS 2 in this area. However, it is acknowledged that if alternative judgements were made, for accounting purposes, the measurement of the performance fee charge to the income statement may be significantly different in timing within the four-year service period.

Investment valuation

The critical judgement, estimate or assumption that may have a significant risk of causing a material adjustment to the Company's NAV relates to the valuation of the Company's unquoted (Level 3) investment in Phoenix SG, which is approximately 1.8% (2020: 5.0%) of the Company's NAV.

The Level 3 holding is valued in line with accounting policy as disclosed in Note 1(c). Under the accounting policy, the reported NAV methodology has been adopted in valuing the Level 3 investment. As the Company has judged that it is appropriate to use the reported NAV in valuing the unquoted investment, the Company does not have any other key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period, which may have a significant risk of causing a material adjustment to the Company's NAV within the next financial year.

Whilst the Board considers the methodologies and assumptions adopted in the valuation of unquoted investments are reasonable and robust, because of the inherent uncertainty of the valuation, the values used may differ significantly from the values that would have been used had a ready market for the investment existed and the differences could be significant. These values may need to be revised as circumstances change and material adjustments may still arise as a result of revaluation of the unquoted investments fair value within the next year.

If the fair value of the Level 3 investment changed by 10% the impact on the Company's NAV would be £340,000 (2020: £806,600), representing 0.2% (2020: 0.5%) of NAV.

2. Investments held at Fair Value Through Profit or Loss

	Year to 31 December 2021	Year to 31 December 2020
	£'000	£'000
UK listed securities	150,063	133,858
Other listed securities	19,388	–
Securities traded on AIM	13,786	15,970
Unquoted securities	3,400	8,066
Total non-current investments held at fair value through profit or loss	186,637	157,894
Movements during the year:		
Opening balance of investments, at cost	137,273	115,582
Additions, at cost	45,092	33,756
Disposals – proceeds received or receivable*	(46,458)	(12,316)
– realised profits	2,089	251
– at cost	(44,369)	(12,066)
Cost of investments held at fair value through profit or loss at 31 December	137,996	137,273
Revaluation of investments to market value:		
Opening balance	20,621	23,231
Increase/(decrease) in unrealised appreciation Credited/(debited) to investment holding gains	28,020	(2,610)
Balance at 31 December	48,641	20,621
Market value of non-current investments held at fair value through profit or loss at 31 December	186,637	157,894

* These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

Gains/(losses) on investments

	Year to 31 December 2021	Year to 31 December 2020
	£'000	£'000
Realised gains on disposal of investments	2,089	251
Movement in unrealised gains/(losses) on investments held	28,020	(2,610)
Other charges to capital	(71)	–
Capital distributions received	–	236
Total gains/(losses) on investments	30,038	(2,123)

Transaction costs on investment purchases and sales for the year ended 31 December 2021 are disclosed as shown in the following table. These transaction costs are calculated in accordance with the AIC SORP.

Transaction costs

	Year to 31 December 2021	Year to 31 December 2020
	£'000	£'000
Transaction costs on purchases of investments	123	15
Transaction costs on sales of investments	21	1
Total transaction costs included in gains or losses on investments at fair value through profit or loss	144	16

Fair Value Hierarchy

Under IFRS13 investment companies are required to disclose the fair value hierarchy that classifies financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair values.

Classification	Input
Level 1	Valued using quoted prices in active markets for identical assets
Level 2	Valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1
Level 3	Valued by reference to valuation techniques using inputs that are not based on observable market data

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

Classification	Year to 31 December 2021	Year to 31 December 2020
Level 1	183,237	149,828
Level 2	–	–
Level 3	3,400	8,066
Total non-current investments held at 'FVTPL'	186,637	157,894

There were no transfers between levels during the year.

2. Investments held at Fair Value Through Profit or Loss continued

The movement on the Level 3 unquoted investments during the year is shown below:

	Year to 31 December 2021	Year to 31 December 2020
Opening balance	8,066	8,487
Disposals during the year	(4,523)	–
Unrealised gains/(losses) at year end	143	(421)
Closing balance	3,400	8,066

The Company's unquoted investment represents investment in Phoenix SG Limited (Phoenix SG). The fair value of the investment in Phoenix SG includes its shares in Stanley Gibbons Group Plc (Stanley Gibbons) and some other assets related to Stanley Gibbons.

Phoenix SG direct investments in Stanley Gibbons Group Plc include the following: Quoted equity shares in Stanley Gibbons, trading on the Alternative Investment Market branch of the London Stock Exchange (the "Equity Investment"). Phoenix SG holds 58% in the total equity of Stanley Gibbons.

During the year, the Company transferred 1,852 Ordinary shares of its holding in Phoenix SG and its holding in Hornby and Dignity to Castelnau in exchange for 24,563,184 Ordinary shares in Castelnau.

The total fair value attributable to the Company's investment in Phoenix SG as of 31 December 2021 is £3.4 million (2020: £8.5 million). The Company held 10.3% of the share capital of Phoenix SG and 13.35% of the share capital of Castelnau.

3. Income

	Year to 31 December 2021	Year to 31 December 2020
	£'000	£'000
Income from investments:		
Dividends from listed or quoted investments	2,196	1,164
Unfranked income from overseas dividends	109	39
Other income:		
Deposit interest	–	4
Total income	2,305	1,207

4. Investment Management Fees and Other Expenses

	Year ended 31 December 2021			Year ended 31 December 2020		
	Revenue*	Capital	Total	Revenue*	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Performance fees monthly	–	–	–	–	–	–
Investment management fees	–	720	720	–	665	665
Administration fees	161	–	161	153	–	153
Depositary and Custody fees	64	–	64	65	–	65
Registrar's fees	49	–	49	40	–	40
Directors' fees	137	–	137	150	–	150
Auditors' fees*	109	–	109	49	–	49
Printing	30	–	30	18	–	18
Broker's fees	48	–	48	48	–	48
Professional fees	39	–	39	27	–	27
Public relation fees	90	–	90	13	–	13
Consultancy fees	82	–	82	–	–	–
Miscellaneous expenses	53	–	53	34	–	34
Total other expenses	862	–	862	597	–	597

* All expenses include any relevant irrecoverable VAT. The amounts excluding VAT paid or accrued for the audit of the Company are £ 65,000 (2020: £41,200). The year ended 31 December 2021 charge includes prior year's overrun costs of £25,000 excluding VAT.

The Company has an agreement with its Investment Manager. Under the terms of this agreement, the Investment Manager does not earn an ongoing annual management fee, but will be paid an annual performance fee equal to one third of any outperformance of the Company's NAV per Ordinary Share total return (including dividends and adjusted for the impact of share buybacks and the issue of new shares) over the FTSE All-Share Index (total return) for each financial year.

The total annual performance fee is capped at 4% per annum of the NAV of the Company at the end of the relevant financial year, in the event that the NAV per Ordinary Share has increased in absolute terms over the period, and 2% in the event that the NAV per Ordinary Share has decreased in absolute terms over the period. Any outperformance that exceeds these caps will be carried forward and only paid if the Company outperforms, and the annual cap is not exceeded, in subsequent years.

The performance fee is subject to a high-water mark so that no fee will be payable in any following year until all underperformance of the Company's NAV since the last performance fee was paid has been made up.

Performance fees are settled by issuance of the Company's Ordinary Shares. Such Ordinary Shares are issued at the NAV per Ordinary Share on the date of issue, so that the then current value of the Ordinary Shares equates in terms of NAV to the performance fees calculated at the end of the first relevant financial period.

Any part of the performance fee that relates to the performance of Phoenix SG will be accrued but will not be paid until such time as the Company's investment in Phoenix SG has been realised or is capable of realisation. The position will be reviewed at that time by reference to the realised proceeds of sale or the fully realisable value of Phoenix SG as compared to the original cost of acquisition.

4. Investment Management Fees and Other Expenses continued

All other performance fees are subject to a review and claw-back procedure if the Company has underperformed its benchmark during a period of three years following the end of the financial year in respect of which the relevant fee was paid. Ordinary Shares received by the Investment Manager under this arrangement must be retained by the Investment Manager throughout the three-year period to which the claw-back procedure applies.

As a result of the above reviewed procedures all or any part of the performance fees might become recoverable, the Company reflects this in the charge recognised in subsequent accounting periods within the service period of the Investment Manager through the periodic adjustment to accruals mechanism in IFRS 2.

The proportion of performance fee for the year ended 31 December 2021 was £720,000 (2020: £665,000). During the current year, based on the outcome of the Investment Manager's performance, the Company granted, and the Investment Manager became entitled to £222,000 (£2,659,000) worth of restricted Ordinary Shares in the Company. On 7 February 2022, a total of 69,738 Ordinary Shares were issued to the Investment Manager, representing 80% of restricted Ordinary Shares. The restricted Ordinary Shares were issued at the latest prevailing NAV as at 28 January 2022 of 254.37 pence per Ordinary Share. The Share based payment expense in relation to Phoenix SG in accordance with the clawback period is £1,000 (£3,000) will be retained in the Company's Statement of Financial Position. The remaining £44,300 will be paid by issuing restricted Ordinary Shares once the Final Results are released.

5. Share-based Payment arrangements

The Company settles its performance fee to its Investment Manager in Ordinary Shares. Further description of the arrangement is included in Note 4 on pages 87 and 88.

Restricted Ordinary Shares are awarded to the Investment Manager conditional upon the following non-market performance and service conditions:

- Outperformance of the Company's NAV per Ordinary Share total return (including dividends and adjusted for the impact of share buybacks and the issue of new shares) over the FTSE All-Share Index (total return) over a one-year service period.

Restricted Ordinary Shares become unrestricted upon completion of the following non-market performance and service conditions:

- Outperformance of the Company's NAV per Ordinary Share total return (including dividends and adjusted for the impact of share buybacks and the issue of new shares) over the FTSE All-Share Index (total return) over a service period of four years.

Restricted Ordinary Shares provide the Investment Manager with rights to dividends and voting rights, however they are not entitled to sell, pledge, transfer or otherwise dispose of the shares until they become unrestricted.

During the current year, based on the outcome of the Investment Manager's performance, the Company granted, and the Investment Manager became entitled to £222,000 (2020: £2,659,000) worth of restricted Ordinary Shares in the Company. No unrestricted Ordinary Shares were due to the Investment Manager in the current year as the outstanding service period of three years still needed to be served on Ordinary Shares held by the Investment Manager. At 31 December 2021, the Board expects that all restricted Ordinary Shares issued will ultimately vest in unrestricted Ordinary Shares.

The exercise price attached to these Ordinary Shares awards is nil. The remaining vesting period at 31 December 2021 is three years in respect of the 2020 performance fee and the Ordinary Shares will vest immediately with the Investment Manager at the end of the vesting period, subject to meeting the performance conditions attached to the share awards.

The fair value of the equity instruments granted was based on the outcome of the performance fee calculation (based on the non-market performance set out above), which determined a fixed monetary amount expected to be due to the Investment Manager which is settled in a variable number of Ordinary Shares based on the prevailing NAV per share at the date on which the restricted Ordinary Shares vest with the Investment Manager.

The total expense recognised in the current year was £720,000 (2020: £665,000).

Valuation inputs and assumptions

Valuation is based on Monte Carlo simulation techniques to project changes in the NAV and the Index over a three-year period from 31 December 2021. Monte Carlo modelling was based on the inputs and assumptions such as NAV Volatility of 19.9% (2020: 19.8%) and FTSE All-Share Index (Total Return) volatility of 16.2% (2020: 17.0%).

It is possible for the Company to elect (at its own discretion) not to claw back any of the performance fee already paid or to extend the period of the claw back measurement by a further two years. These events are within the control of management and are not factored into the Monte Carlo model. As such, the result does not take into account the probability that the Company would choose not to claw back any of the performance fee even where it had rights to do so. On that basis, the adjustment derived from the expected performance fee could be regarded as the maximum possible adjustment as at 31 December 2021.

Performance fee Sensitivities

A 10% movement to the NAV volatility and FTSE All-Share Index (total return) volatility would result in the performance fee valuation as set out below:

	Performance fee Valuation 2021	Performance fee Valuation 2020
NAV and FTSE All-Share Index volatility increase by 10%	£1.8 million	£1.6 million
NAV volatility increase by 10% and FTSE-All Share Index volatility decrease by 10%	£1.8 million	£1.4 million
NAV volatility decrease by 10% and FTSE-All Share Index volatility increase by 10%	£1.9 million	£2.3 million
NAV and FTSE-All Share Index volatility decrease by 10%	£1.8 million	£1.8 million

6. Directors' Fees

The fees paid or accrued for the year to 31 December 2021 were £137,000 (2020: £150,000). There were no other emoluments. The gross figures shown for Directors' fees in note 4 above does not include employers' National Insurance charges or VAT, as appropriate. Full details of the fees of each director are given in the Directors' Remuneration Report. The Company has paid National Insurance contributions of £13,000 (2020: £11,800) in respect of the Directors remuneration.

7. Taxation

	Year to 31 December 2021			Year to 31 December 2020		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Corporation tax	-	-	-	-	-	-
Overseas withholding tax	30	-	30	11	-	11
Tax charge in respect of the current year	30	-	30	11	-	11

Current taxation

The taxation charge for the year is different from the standard rate of corporation tax in the UK (19%). The differences are explained below:

	Year to 31 December 2021	Year to 31 December 2020
	£'000	£'000
Total (loss)/profit before tax	30,758	(2,198)
Theoretical tax at UK corporation tax rate of 19.0% (2020: 19.0%)	5,844	(418)
Effects of:		
Capital (profits)/losses that are not taxable	(5,707)	408
UK dividends which are not taxable	(417)	(221)
Overseas withholding tax	30	11
Overseas dividends that are not taxable	(21)	(7)
Movement in unutilised management expenses	301	238
Tax charge in respect of the current year	30	11

Due to the Company's status as an investment trust and its intention to continue meeting the conditions required to maintain its status in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

Deferred Tax

The Company has £12,350,000 (2020: £12,795,000) in respect of excess unutilised management expenses, equivalent to a potential tax saving of £3,088,000 (2020: £2,175,000) at the prospective tax rate of 25% (2020: 17%) and £1,491,000 (2020: £1,491,000) in respect of loan interest, equivalent to a potential tax saving of £373,000 (2020: £253,000) at the prospective tax rate of 25% (2020: 17%). The March 2021 Budget announced an increase to the main rate of corporation tax to 25% from 1st April 2023. This increase in the standard rate of corporation tax was substantively enacted on 24th May 2021 and became effective from 2nd June 2021.

These amounts are available to offset future taxable revenue. A deferred tax asset has not been recognised in respect of these expenses and will be recoverable only to the extent that the Company has sufficient future taxable revenue.

8. Ordinary Dividends

	Year to 31 December 2021	Year to 31 December 2020
	£'000	£'000
Dividends reflected in the financial statements:		
Final dividend paid for the year ended 31 December 2020 at 0.55p per share (2019: 4.50p)	420	3,295
Dividends not reflected in the financial statements:		
Final dividend accrued for the year ended 31 December 2021 at 1.84p per share (2020: 0.55p)	1,409	413

9. Earnings Per Share

Earnings per share are based on the profit of £30,728,000 (2020: loss of £2,209,000) attributable to the weighted average of 76,253,921 (2020: 72,555,357) ordinary shares of 25p in issue during the year.

Supplementary information is provided as follows: revenue earnings per share are based on the revenue profit of £1,413,000 (2020: profit of £599,000); capital earnings per share are based on the net capital profit of £29,315,000 (2020: loss of £2,808,000), attributable to the weighted average of 76,253,921 (2020: 72,555,357) ordinary voting shares of 25p. There is no difference between the weighted average Ordinary diluted and undiluted number of Shares. There is no difference between basic and diluted earnings per share as there are no dilutive instruments.

10. Share Capital

	At 31 December 2021	At 31 December 2020
<i>Allotted, called up and fully paid (Number)</i>	76,519,675	75,103,743
Ordinary Shares of 25p (£'000)	19,130	18,776

The Company did not purchase any of its own shares during the year ended 31 December 2021 or 31 December 2020. No shares were cancelled during either years.

No shares were held in Treasury or sold from Treasury during the year ended 31 December 2021 or 31 December 2020.

Placings

There were no placings during the year ended 31 December 2021.

Block listings

The Company had established on 11 June 2019 a block listing facility for up to 12,194,444 new shares to meet market demand arising from time to time. A total of 125,000 (excluding 1,290,932 issued to the Investment Manager to settle the performance fee) new Ordinary Shares were issued during the year 1 January 2021 to 31 December 2021, raising gross proceeds of £0.3 million.

A new block listing facility for up to 14,450,605 new Ordinary Shares was established on 17 April 2020.

10. Share Capital continued

At 31 December 2021, the Company had 76,519,675 (2020: 75,103,743) Ordinary Shares in issue. The number of voting shares at 31 December 2021 was 76,519,675 (2020: 75,103,743).

On 3 February 2022, a total of 69,738 Ordinary Shares were issued to the Investment Manager, representing 80% of the total fee due. The Ordinary Shares were issued at the latest prevailing NAV as at 28 January 2021 of 254.37 pence per Ordinary Share. As at the date of this report the Company had 76,589,413 Ordinary shares in issue.

11. Total Equity

Total Equity includes, in addition to Share Capital, the following reserves: Capital Redemption Reserve. When any shares are redeemed or cancelled, a transfer of realised profit must be made to this reserve in order to maintain the level of capital that is not distributable.

Share Premium Account. When shares are issued at a premium to their nominal value, the "capital profit" arising on their allotment must be held in a Share Premium Account, which is not distributable in the ordinary course and may be utilised only in certain limited circumstances.

Capital profits arising from the Company's investment transactions are held as Capital Reserves, subdivided between Gains on Disposal for profits arising upon sales of investments and Investment Holding gains/losses for portfolio revaluations. The movements on this account are analysed in Note 12.

The Company's Revenue Reserves are the net profits that have arisen from the Company's revenue income in the form of dividends and interest, less operating expenses and dividends paid out to the Company's shareholders.

The Company's Other Reserve represents the share-based payment expense in relation to the performance fee payable to the Investment Manager.

12. Capital Reserves

	31 December 2021	31 December 2020
	£'000	£'000
<i>Investment holding gains/(losses)</i>		
Opening balance	20,621	23,231
Revaluation of investments – listed	28,020	(2,610)
Balance of investment holding gains/(losses) at 31 December	48,641	20,621
<i>Other capital reserves</i>		
Opening balance	13,219	13,417
Net gains on realisation of investments	2,018	251
Capital distributions received	–	236
Losses on currency	(3)	(20)
Investment management fees	(720)	(665)
Total of realised gains and losses reflected in the Statement of Comprehensive Income	1,295	(198)
Balance of other capital reserves at 31 December	14,514	13,219
Total capital reserve at 31 December	60,499	33,840

13. Net Assets Per Ordinary Share

The figure for net assets per Ordinary Share is based on £194,193,000 (2020: £162,921,000) divided by 76,519,675 (2020: 75,103,743) voting Ordinary Shares in issue at 31 December 2021.

The table below is a reconciliation between the NAV per Ordinary share announced on the London Stock Exchange and the NAV per Ordinary share disclosed in these financial statements. The difference is as a result of amortising the performance fees over the vesting period in accordance with IFRS 2 - Share based payment, in these financial statements, whereas the NAV as 31 December 2021, published on 4 January 2022 treated the performance fees as earned on the 31 December 2021, in accordance with the IMA.

	Net assets (£'000)	NAV per Ordinary share (p)
NAV as published on 4 January 2022	193,971.3	253.49
Performance fees earned as at year end	221.7	0.29
NAV as disclosed in these financial statements	194,193.0	253.78

14. Reconciliation of Profit after Finance Costs and Tax to Net Operating Activities Cash flow

	Year to 31 December 2021	Year to 31 December 2020
	£'000	£'000
Profit/(loss) after finance costs and tax	30,728	(2,209)
Increase in non-current investments	(28,743)	(19,082)
Decrease in other receivables	36	164
Increase/(decrease) in other payables	41	(1)
Investment management fees	723	665
Net cash outflow from/(used in) operating activities	2,785	(20,463)

15. Related Party Transactions

Castelnau Group Limited are also managed by Phoenix Asset Management. Further details can be found in the Investment Manager's report on pages 17 to 19, portfolio holdings on page 13 and the "Castelnau Related Party Transaction" on page 24.

Details of the management, administration and secretarial contracts can be found in the Directors' Report. There were no transactions with directors other than disclosed in the Directors' Remuneration Report. Fees payable to Phoenix are shown in note 4.

A £720,000 charge has been recognised as performance fee for the performance period ended 31 December 2021 (2020: £665,000). Any performance fee would be payable in Ordinary Shares at the prevailing NAV on the issue date. In accordance with the Management Agreement, 69,738 of the Company's New Ordinary Shares were allotted, representing 80% of the £ 222,000 provision. Further details on the issuance of the remaining 20% can be found in Note 10 on pages 91 and 92. Other than the performance related fees, the Investment Manager does not receive any financial benefits derived from its relationship with the Company. There are measures in place to avoid the double charging of fees and expenses as a result of the Company's holdings in Phoenix SG, which also have Phoenix as its Investment Advisor.

Other payables include accruals of administration fees of £14,000 (2020: £13,000). All figures include any applicable VAT.

16. Financial Assets/Liabilities

Investments are carried in the balance sheet at fair value. For other financial assets and financial liabilities, the balance sheet value is considered to be a reasonable approximation of fair value.

Financial assets

The Company's financial assets may include equity investments, fixed interest securities, short-term receivables and cash balances. The currency and cash-flow profile of those financial assets was:

	2021			2020		
	Interest bearing	Non-interest bearing	Total	Interest bearing	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Non-current investments at fair value through profit or loss:						
£ sterling denominated security holdings						
	–	174,726	174,726	–	144,231	144,231
€ euro denominated security holdings						
	–	11,911	11,911	–	13,663	13,663
	–	186,637	186,637	–	157,894	157,894
Cash at bank:						
Floating rate – £ sterling						
	–	7,561	7,561	–	5,027	5,027
Floating rate – € euro						
	–	103	103	–	28	28
	–	7,664	7,664	–	5,055	5,055
Current assets:						
Receivables						
	–	222	222	–	258	258
	–	194,523	194,523	–	163,207	163,207

Cash at bank includes £7,663,798 (2020: £5,055,374) held by the Company's Depository, BNP Paribas.

Financial liabilities

The Company finances its investment activities through its ordinary share capital and reserves. It has discontinued the use of borrowing for such purposes. The Company's financial liabilities comprise short-term trade payables. Foreign currency balances are stated in the accounts in sterling at the exchange rate as at the Balance Sheet date.

There were no short-term trade payables (other than accrued expenses).

17. Financial Instruments – Risk Analysis

The general risk analysis undertaken by the Board and its overall policy approach to risk management are set out in the Strategic Report. Issues associated with portfolio distribution and concentration risk are discussed in the Investment Policy section of the Strategic Report. This note, which is incorporated in accordance with accounting standard IFRS7, examines in greater detail the identification, measurement and management of risks potentially affecting the value of financial instruments and how those risks potentially affect the performance and financial position of the Company. The risks concerned are categorised as follows:

- a. Potential Market Risks, which are principally:
 - i. Currency Risk
 - ii. Interest Rate Risk and
 - iii. Other Price Risk.
- b. Liquidity Risk
- c. Credit Risk

Each is considered in turn below:

A (i) Currency Risk

The portfolio as at 31 December 2021 was invested predominantly in sterling securities and there was no significant currency risk arising from the possibility of a fall in the value of sterling impacting upon the value of investments or income.

The Company had no foreign currency borrowings at 31 December 2021 or 31 December 2020 and no sensitivity analysis is presented for this risk.

Currency sensitivity

The following table shows the strengthening/(weakening) of sterling against the local currencies over the financial year for the Company's financial assets and liabilities held at 31 December 2021.

	2021	2020
	% Change ¹	% Change ¹
Euro	+6.1	-5.5

¹ Percentage change of sterling against local currency from 1 January to 31 December of relevant year.

Based on the financial assets and liabilities at 31 December 2021 and all other things being equal, if sterling had strengthened by 10%, the profit after taxation for the year ended 31 December 2021 and the Company's net assets at 31 December 2021 would have decreased by the amounts shown in the table below. If sterling had weakened by 10% this would have had the opposite effect.

	2021	2020
	£'000	£'000
Euro	1,201	1,369

A (ii) Interest Rate Risk

The Company did not hold fixed interest securities at 31 December 2021 or 31 December 2020.

With the exception of cash, no interest rate risks arise in respect of any current asset. All cash held as a current asset is sterling denominated, earning interest at the bank's or custodian's variable interest rates.

The Company had no borrowings at 31 December 2021 or 31 December 2020.

A (iii) Other Price Risk

The principal price risk for the Company is the price volatility of shares that are owned by the Company. As described in the Investment Manager's Review, the Company spreads its investments across different sectors and geographies, but as shown by the Portfolio Analysis in the Business Review, the Company may maintain relatively strong concentrations in particular sectors selected by the Investment Manager.

The effect on the portfolio of a 10.0% increase or decrease in market prices would have resulted in an increase or decrease of £18,664,000 (2020: £17,789,000) in the investments held at fair value through profit or loss at the period end, which is equivalent to 9.6% (2020: 9.7%) in the net assets attributable to equity holders. This analysis assumes that all other variables remain constant.

B Liquidity Risk

Liquidity Risk is considered to be small, because most of the portfolio is invested in readily realisable securities. As a consequence, cash flow risks are also considered to be immaterial. The Investment Manager estimates that, under normal market conditions and without causing excessive disturbance to the prices of the securities concerned, 65% of the portfolio could be liquidated in a non-market impacting way within 7 days, based on 15% of average daily volume. This is conservative as it does not include the ability to access liquidity through block trades.

C Credit Risk

The Company invests in quoted equities and fixed interest securities. The Company's investments are held by BNP ("the Depository"), which is a large international bank with a high reputation. The Company's normal practice is to remain fully invested at most times and not to hold very large quantities of cash. At 31 December 2021, cash at bank comprised £7,664,000 (2020: £5,055,000) held by the Depository.

Credit Risk arising on transactions with brokers relates to transactions awaiting settlement. This risk is considered to be very low because transactions are almost always undertaken on a delivery versus payment basis with member firms of the London Stock Exchange.

D Capital management policies and procedures

The Company's capital management objectives are:

- to ensure the Company's ability to continue as a going concern; and
- to provide an adequate return to shareholders

by pursuing investment policies commensurately with the level of risk.

The Company monitors capital on the basis of the carrying amount of equity, less cash and cash equivalents as presented on the face of the statement of financial position.

The Company sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders (within the statutory limits applying to investment trusts), return capital to shareholders, issue new shares, or sell assets.

18. Post Year End Events

On 7 February 2022, 69,738 Ordinary shares were issued to the Investment Manager, representing 80% of the total fee due. The Ordinary shares were issued at the latest prevailing NAV as at 28 January 2022 of 254.37 pence per Ordinary share.

Since the year end, equity markets have been impacted by a number of events, particularly the conflict in Ukraine, the prospects of a rise in inflation, two increases to interest rates and the concern that more will follow and the impact this may have on the economy and the rising number of COVID-19 cases and concern that numbers will continue to rise.

Alternative Performance Measures ('APMs')

An APM is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. Definitions of these APMs together with how these measures have been calculated as follows:

Discount

The amount, expressed as a percentage, by which the share price is less than the NAV per Ordinary Share.

		Page	As at 31 December 2021	As at 31 December 2020
NAV per Ordinary Share	a	74	253.78	216.93
Share price	b	12	234.50	207.00
Discount	(b÷a)-1	11	7.60%	4.58%

Gearing

A way to magnify income and capital returns, but which can also magnify losses. A bank loan is a common method of gearing.

		Page	As at 31 December 2021	As at 31 December 2020
			£'000	£'000
Total assets	a	74	194,523	163,207
Cash and cash equivalents	b	74	7,664	5,055
Total assets less cash and cash equivalents	c=a-b		186,859	158,152
Loan	d	n/a	–	–
Gearing	d÷c	28	Nil	Nil

NAV per Ordinary Share

The Company's assets less its liabilities, as adjusted for total performance fees earned in the corresponding performance period, divided by the Company's number of Ordinary Shares in issue (excluding any shares held in treasury).

		Page	As at 31 December 2021	As at 31 December 2020
			£'000	£'000
Total assets (excluding performance fees)	a	74	194,523	163,207
Less liabilities (excluding performance fees)	b	74	(330)	(286)
Performance fees earned for the year	c		(222)	(2,659)
Net assets (a+b+c)	d	n/a	193,971	160,262
Number of Ordinary shares in issue	e	91	76,519,675	75,103,743
NAV per Ordinary Share published	d÷e	93	253.49p	213.39p
NAV per Ordinary Share per financial statements	(d-c) ÷ e	93	253.78p	216.93p

Ongoing charges

A measure of the regular, recurring annual costs of running an investment company, expressed as a percentage of average net assets. The measure is calculated by expressing the regular expenses of the year as a percentage of the average net assets during the year.

		Page	As at 31 December 2021	As at 31 December 2020
			£'000	£'000
Average NAV	a	n/a	175,216	131,925
Annualised expenses	b	n/a	862	597
Ongoing charges figure	b÷a	11	0.49%	0.45%

Total return

A measure of performance that includes both income and capital returns. This takes into account capital gains and reinvestment of dividends paid out by the Company into its Ordinary Shares on the ex-dividend date.

			31 December 2021		31 December 2020	
		Page	NAV	Share price	NAV	Share price
Year ended 31 December						
Opening at 1 January	a	74	216.93	207.00	232.07	237.00
Closing at 31 December	b	74	253.78	234.50	216.93	207.00
Price movement (b÷a)-1	c	n/a	17.0%	13.3%	(6.5)%	(12.7)%
Dividend reinvestment	d	n/a	0.1%	0.2%	13.9%	2.7%
Total return	(c+d)		17.1%	13.5%	7.4%	10.0%

Glossary

AIC	Association of Investment Companies.
Alternative Investment Fund or "AIF"	An investment vehicle under AIFMD. Under AIFMD (see below) the Company is classified as an AIF.
Alternative Investment Fund Managers Directive or "AIFMD"	A European Union directive which came into force on 22 July 2013 and has been implemented in the UK.
Annual General Meeting or AGM	A meeting held once a year which shareholders can attend and where they can vote on resolutions to be put forward at the meeting and ask directors questions about the company in which they are invested.
Alternative Performance Measures ('APMs')	See definitions on pages 99 and 100.
Articles	The Company's Articles of Association adopted on 10 June 2019.
Custodian	An entity that is appointed to safeguard a company's assets.
Discount	The amount, expressed as a percentage, by which the share price is less than the net asset value per share.
Depository	Certain AIFs must appoint depositaries under the requirements of AIFMD. A depository's duties include, <i>inter alia</i> , safekeeping of the Company's assets and cash monitoring. Under AIFMD the depository is appointed under a strict liability regime.
Dividend	Income receivable from an investment in shares.
Ex-dividend date	The date from which you are not entitled to receive a dividend which has been declared and is due to be paid to shareholders.
Financial Conduct Authority or "FCA"	The independent body that regulates the financial services industry in the UK.
Index	A basket of stocks which is considered to replicate a particular stock market or sector.
Investment company	A company formed to invest in a diversified portfolio of assets.
Investment Manager or Phoenix	Phoenix Asset Management Partners Limited.
Investment Trust	An investment company which is based in the UK and which meets certain tax conditions which enables it to be exempt from UK corporation tax on its capital gains. The Company is an investment trust.

Leverage	An alternative word for “Gearing”. Under AIFMD, leverage is any method by which the exposure of an AIF is increased through borrowing of cash or securities or leverage embedded in derivative positions. Under AIFMD, leverage is broadly similar to gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowing). Under the gross method, exposure represents the sum of the Company’s positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.
Liquidity	The extent to which investments can be sold at short notice.
Net assets	An investment company’s assets less its liabilities.
Net asset value per Ordinary Share (NAV)	The Company’s daily published unaudited net assets divided by the number of Ordinary Shares in issue (excluding any shares held in treasury). This takes into account any accrued performance fees assuming no claw back at the end of the performance fee period.
Ordinary Shares	The Company’s ordinary shares in issue.
Portfolio	A collection of different investments held in order to deliver returns to shareholders and to spread risk.
Secretary or Administrator	Sanne Fund Services (UK) Limited.
Share buyback	A purchase of a company’s own shares. Shares can either be bought back for cancellation or held in treasury.
Share price	The price of a share as determined by a relevant stock market.
Tracking error	A measure, expressed as a percentage, of how closely a portfolio follows an index over a period of time.
Treasury shares	A company’s own shares which are available to be sold by a company to raise funds.
Value at Risk	A statistical technique used to measure and quantify the level of financial risk within a portfolio over a specific time frame.
Volatility	A measure of how much a share moves up and down in price over a period of time.