# Aurora Investment Trust – Update 17th November 2023

| Holdings >3% on 16 November 2023 | (%) |
|---|---|
| Frasers Group | 22.0 |
| Castelnau Group Ltd | 14.4 |
| Barratt Developments | 14.3 |
| Hotel Chocolat | 7.3 |
| Ryanair | 7.3 |
| Netflix | 6.5 |
| easyJet | 5.1 |
| Lloyds Banking Group | 4.4 |
| RHI Magnesita | 3.8 |
| Bellway | 3.7 |
| AO World | 3.0 |
| Others <3% | 7.3 |
| Cash & Cash Equivalents | 1.0 |

In March 2023 we introduced the investment premise behind our holding in Hotel Chocolat. That is re-produced below for your review.

In it we outlined a central intrinsic value of £3.50 per share. Yesterday, the company recommended a takeover offer by Mars at £3.75 per share which we supported as it will provide a perfect platform for business growth.

The rise in the Hotel Chocolat share price boosted the NAV return for the year as at November 16th to 23.9%. It is a validation of our approach and an example of the under valuation of companies within the UK market and we remain convinced that in our portfolio, there is more value realisation to come.

## New Holding – Hotel Chocolat

Many of you will be familiar with our newest investment, Hotel Chocolat. You may have sent their boxed chocolates as gifts, or perhaps you have developed a taste for Velvetised hot chocolate. Hotel Chocolat manufactures premium chocolate and cocoa-related products and sells these directly to its customers. The Company sells its products online and through its network of stores, primarily in the UK. Hotel Chocolat also owns a cacao plantation and luxury hotel, restaurant, and spa in St Lucia, called the Rabot Estate.

In 1988, Angus Thirlwell and Peter Harris left the tech company for which they had been working to set up the Mint Marketing Company, selling branded mints as corporate gifts. By 1993, the Mint Marketing Company had evolved to sell boxes of chocolates delivered by post, known as 'chocograms', and the business was rebranded to ChocExpress. In 1998, ChocExpress launched the Chocolate Tasting Club, a subscription service that saw members receive unique selections of chocolate each month. This not only enabled the business to develop new ideas and recipes, but also to build a relationship with their customers and to get an insight into what the British public liked in their chocolate.

In 2003, ChocExpress rebranded as Hotel Chocolat, after customers kept commenting that the chocolates were 'surprisingly' good. Hotel Chocolat better conveyed the idea of escapism through chocolate, juxtaposing the English word 'Hotel' with the more onomatopoeic and luxury-evoking French 'Chocolat'.

The first physical Hotel Chocolat shop opened in Watford in 2004. Today, there are 122 Hotel Chocolat locations across the UK.

Hotel Chocolat listed on the London Stock Exchange in 2016, with both founders retaining a significant stake in the business. As of December 31st, 2022, they each own 27.1% of the Company. We have known both Angus and Peter for a long time and hold them in high regard.

We believe that the key moat for the business is its strong brand and resulting customer loyalty, which it has cultivated through a combination of innovation, creativity, disciplined pricing, and direct distribution. In so doing, it has also avoided the pitfalls that led to the downfall of one of its competitors, Thorntons.

One of the Company's great recent innovations has been the Velvetiser hot chocolate machine, which is increasingly becoming a staple household appliance and has formed the foundations of an effective subscription model. As a product, it creates loyal, repeat-customers who repurchase the chocolate sachets. The repeat purchases and subscription service also provide the Company with a steady revenue stream in an industry where consumer purchases are usually very seasonal (Christmas, Easter and Valentine's Day are the main chocolate-shopping opportunities).

The differentiated taste of Hotel Chocolat's chocolate, stems from its "More Cacao, Less Sugar" mantra. Cacao is around five times more expensive than sugar, but the Company is committed to cacao always being the number-one ingredient in its chocolate, even in milk and white varieties. This differentiates the product from those of many of the Group's competitors, in which sugar is frequently the primary ingredient. The high-cacao content within Hotel Chocolat's chocolate, also enables them to justify a higher price-point and enables them a higher degree of price-elasticity as their consumer is likely to be more driven by quality than price.

The Company navigated the challenges of Covid admirably, succeeding in not only switching from being a primarily store-based to an online business during the lockdowns, but managing to grow sales by 21% between FY20 and FY21.

We have long admired Hotel Chocolat, so much so that at the time of the IPO we were considering investing in the business. Although this didn't happen because the price was above our limit, we continued to keep a close eye on the Company. Last year, following the announcement of the closure of the Japanese and US businesses, Hotel Chocolat's share price dropped, opening an opportunity for us to invest. This is a company built on experimentation and innovation and it is inevitable that not every experiment will lead to success. However, we believe that the market had over-reacted, that the underlying strength of the UK business remained, and that the doors to overseas expansion had not permanently closed. Indeed, earlier this year Hotel Chocolat announced that it had found a new partner for its Japanese joint venture.

In some ways, the shock of the drop has had a positive cathartic effect, with the business rationalising and cutting back on areas into which it had perhaps strayed too far (such as coffee machines & pods and beauty products). At the same time, we believe they haven't lost the innovative skill upon which their hitherto success has been built, and which will enable it to continue to grow in the future.

We have modelled out a range of potential scenarios to determine Hotel Chocolat's intrinsic value. A central scenario values the UK business alone at £3.50 per share. The bottom of that IV range is around £2.00 a share. We invested at £1.35, which, based on the central case, would result in an upside to IV of c. 160%.

## Aurora Track Record

| Performance | NAV Return % | Share Price Total Return** % | FTSE All-Share Total Return Index %** | Relative NAV to ASX % |
|---|---|---|---|---|
| 2023 (to 16 November) | 23.9 | 17.1 | 2.7 | 21.2 |
| 2022 | -17.4 | -16.3 | 0.3 | -17.7 |
| 2021 | 19.1 | 13.5 | 18.3 | 0.8 |
| 2020 | -5.5 | -10.0 | -9.7 | 4.2 |
| 2019 | 29.7 | 31.9 | 19.1 | 10.6 |
| 2018 | -10.3 | -10.9 | -9.5 | -0.9 |
| Cumulative* | 79.7 | 62.5 | 64.0 | 15.7 |

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

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

## Investment Objective

We seek to achieve long-term returns by investing in UK-listed equities using a value-based philosophy inspired by the teachings of Warren Buffett, Charlie Munger, Benjamin Graham and Phillip Fisher. Our approach, combined with thorough research, invests in high quality businesses run by honest and competent management purchased at prices that, even with low expectations, will deliver excellent returns.

## Target Market

The Aurora Investment Trust is a long-term investment vehicle, appropriate for those making investments with at least a three year time horizon. It is aimed at investors looking for a manager with a business and value orientated approach, achieved through investments in predominantly UK companies demonstrating a high return on capital and control over their profitability through the strength of their business franchise. Aurora's portfolio is typically concentrated in a small number of deeply researched stocks, which can result in above average volatility. An investment in Aurora may be best suited to investors with at least an underlying knowledge of equity investments. The Trust is measured against a benchmark but does not follow the benchmark in its portfolio construction. It is intended for investors looking for capital appreciation rather than income, and while it does distribute a dividend, this is not the strategic aim of its investment approach.

## Contact


Phoenix Asset Management Partners Ltd
64 – 66 Glentham Road London SW13 9JJ
Tel: +44 (0) 208 600 0100

Fund Manager since 28 January 2016

Portfolio Manager: Gary Channon
Listing: London Stock Exchange
Inception Date: 13 March 1997
ISIN: GB0000633262
Bloomberg: ARR

### Fees

Management: None
Performance: One third of returns in excess of the market

## Regulatory Notice:

This advertisement is issued by Phoenix Asset Management Partners Limited (PAMP), registered office 64-66 Glentham Road London SW13 9JJ. PAMP is authorised and regulated in the UK by the Financial Conduct Authority. Aurora Investment Trust Plc ("the Trust") is a UK investment trust listed on the London Stock Exchange. Shares in an investment trust are traded on a stock market and the share price will fluctuate in accordance with supply and demand and may not reflect the underlying net asset value of the shares. An investment trust may not be suitable for retail investors with only basic knowledge of investments. The value of investments and any income from them may go down as well as up and investors may not get back the amount invested. There can be no assurance that the Trust's investment objective will be achieved, and investment results may vary substantially over time. Past performance is not a reliable indicator of future performance. Prospective investors should consult their own advisors prior to making any investment. The Prospectus and other regulatory documents can be found at can be found at: www.aurorainvestmenttrust.com