

# AURORA INVESTMENT TRUST plc

## HALF YEARLY FINANCIAL REPORT

For the six months ended

31 August 2015

### **Investment Policy**

The policy of the Company is to achieve capital appreciation through investments listed mainly on the London Stock Exchange, primarily comprising equities but with some exposure also to fixed interest. The portfolio comprises a mix of large, mid and smaller capitalised stocks. A distinctive feature is an emphasis on investments in companies with exposure to economies growing at a faster rate than the UK.



# CHAIRMAN'S STATEMENT

## The half year returns were:

	At 28/02/15	At 31/08/15	Change	At 31/08/14
Net Asset Value per share	171.37p	161.64p	(5.7%)	186.98p
Share price	147.50p	151.50p	2.7%	164.25p
Discount	13.9%	6.3%	7.6%	12.2%
Gearing (net)*	19.2%	6.01%	(13.2%)	18.8%

*\*Borrowings less net current assets (excluding short term borrowings) as a percentage of Net Asset Value*

## Review of the period

The six months to end August have been a difficult time for global stock markets. Investors have been stalked by a series of worries ranging from the unsustainability of the levels of Greek indebtedness, to the timing of the expected US interest rate increase and growing confirmation of a slow-down in the Chinese economy. The ramifications for the global economy, particularly that part represented by emerging economies, have caused many investors to raise cash and await developments from the sidelines. The FTSE All-Share Index declined by 8.3%, whereas the FTSE 100 Index, on account of its high exposure to oils and commodities, fell by 10.0%. In comparison the Net Asset Value of the portfolio reduced by 5.7% representing some welcome outperformance.

In the USA the rate of unemployment has continued to reduce reaching its current level of 5.1%, close to the level which is viewed as potentially inflationary. Despite this apparent good news about the strength of the US economy, the Federal Reserve Board has been cautious about raising rates, fearing the impact of a stronger US\$ abroad and on export industries.

Conversely, in China a period of tighter monetary policy and reduced money supply earlier in the year brought the significant bull market to an end in June with sharp retrenchment thereafter. The devaluation of the Renminbi by 3% in August added to bearish sentiment. The authorities have responded with a fourth interest rate reduction this year and a relaxation of Reserve ratio requirements to boost money supply. In consequence, the latest evidence is demonstrating that house prices in Tier 1 and 2 cities are rising rapidly once more. Although many recently published economic statistics have proved disappointing, the likelihood is that the economy may have already bottomed and that future reports will be more positive.

In the UK, post the unexpected overall victory by the Conservative Party in May, the economy has remained robust, led by the services industries. The confidence of a further five years of domestic political certainty has resulted in a spurt of increased levels of investment by the private sector. Meanwhile in continental Europe, despite the adverse effects of economic sanctions against Russia, there has been definite evidence of improvement in certain economies, notably Germany, Spain and Ireland, resulting from the belated introduction of QE, together with the dramatic falls in commodity prices in general.

# CHAIRMAN'S STATEMENT

continued

Against such a global background of inflation remaining very low in most territories and the possibility of further stimulation of the Chinese economy, investor sentiment could improve rapidly. With deployment by both institutions and corporates of the high current levels of liquidity a sharp bounce in equity valuations would be a logical result.

## **Investment Policy**

There has been no overall change in the Investment Policy. The Manager has continued in the belief that Asian economies will grow more strongly than the economies of developed nations in the West. This major weighting in the portfolio is represented both by smaller Chinese companies listed on the AIM market in London as well as by a variety of larger UK quoted companies oriented to energy and metals. Although these investments should benefit from the recovery in the world economy they have performed poorly during the period largely due to the unexpected weakness in all commodity markets.

By contrast, the section of the portfolio represented by housebuilders (Berkeley Group, Persimmon and Barratt Developments) has continued to perform well at a time when UK consumer confidence is returning in the UK on account of falling unemployment and reduced oil prices. The Manager has reduced the level of gearing in the portfolio.

## **Change of Management contract**

As I announced at last year's AGM on 18 July 2014, the Manager indicated an intention to retire within the next three years, as a result of which no further Continuation Votes would be sought in the future. Since then, the Board has been in contact with a number of other Investment Trusts to discuss possible merger options, with the intent of selecting and putting a proposal to shareholders next year.

In the meantime, the Phoenix Asset Management Partners ("Phoenix") approached the Board with a proposal to take on the management of Aurora.

An announcement was made by the Board to the London Stock Exchange advising that it had agreed in principle to proposals which it believes will achieve the Board's objective of offering an attractive continuing vehicle and cash exit for shareholders. The proposal is for the Company's existing Manager to be acquired by Phoenix. It is then intended that the Company's investment policy and strategy will reflect the successful investment style adopted by Phoenix since its establishment in 1998.

Since its founding in 1998, the Phoenix UK Fund has risen by 435.1% compared to 110.6% for the FTSE All-Share Index, including dividends.

# CHAIRMAN'S STATEMENT

continued

It is intended that a new Investment Management Agreement will be entered into, under which Phoenix will receive no base management fee but will be entitled to a performance fee based on annual outperformance of the FTSE All-Share Total Return Index.

The Board also intends to implement a tender offer for all shareholders at a 2% discount to the NAV per share, less the direct costs of the tender offer, provided the tender offer offers shareholders a lower discount to NAV than can be achieved through the market.

The proposals are subject to the approval in a General Meeting of the Company's shareholders.

Lord Flight  
Chairman  
30 October 2015

# INTERIM MANAGEMENT REPORT

## MANAGER'S REVIEW

The half year just ended started on a promising note with the London stock-market continuing to make gains until the end of April; thereafter it started to retrench. It then enjoyed a sudden spurt as a result of the surprise victory by the Conservatives in the General Election in May; this boosted both investor and consumer confidence for a brief period. With the onset of the summer months global events, particularly the unexpected devaluation of the Chinese currency (albeit by only 3%) undermined the rosy domestic picture, resulting in steadily falling markets ever since.

Despite such a difficult background, the Fund managed to outperform the benchmark, the FT All-Share Index by 2.6%.

The investment policy has remained broadly unchanged during the period with the exception of the level of gearing which has been halved.

Despite the poor performance of commodity producers and small Chinese oriented companies, as well as by the large holding in Aberdeen Asset Management, the Fund has outperformed during the six months. The stocks which performed notably well were the housebuilders, Persimmon and Berkeley Group, as a result of both increasing margins and volumes against a background of political pressure encouraging the industry to raise production. This sector remains a long standing favourite of the Manager. It is, during this disinflationary era in which we live, one of the very few sectors with high relative pricing power caused by the shortage of new supply in relation to rapid household formation and the influx of foreign buyers, combined with substantial inward migration.

The surprise takeover, which came out of the blue, of Amlin by Mitsui towards the end of the period also boosted the performance.

Ashtead meanwhile continues to produce one set of excellent results after another, far in excess of its peers. Sadly, these are currently not reflected in the share price, probably in view of misconstrued worries over its exposure, which is minimal, to slow-down in the oil and gas industry.

At a time when the majority of Developed Economies appear to be strengthening and when the prospects for interest rates to remain low are set fair, the level of investor sentiment is unduly negative against a background of high institutional liquidity. Accordingly, a sudden rebound in equity markets could easily occur in the near term, with a likely catalyst being the faintest glimpse of improved economic statistics emanating from China, where some are already of the firm opinion that the leading indicators have turned upwards.

MJ Barstow  
Mars Asset Management Ltd  
30 October 2015

# INTERIM MANAGEMENT REPORT

CONTINUED

## ANALYSIS OF NET ASSET VALUE RETURNS

	Movement in net assets £'000	Attribution of change to NAV pence per share
Revenue income	483	4.65p
Trading gains	326	3.13p
Expenses, costs and tax	(310)	(2.98p)
Dividend paid	(400)	(3.85p)
Capital losses	(1,110)	(10.68p)
<i>Of which:</i>		
<i>Change in market</i>	<i>(1,756)</i>	<i>(16.89p)</i>
<i>Net gearing</i>	<i>(1,999)</i>	<i>(19.23p)</i>
<i>Stock selection</i>	<i>2,645</i>	<i>25.44p</i>
Total movement in NAV	<u>(1,011)</u>	<u>(9.73p)</u>

# INTERIM MANAGEMENT REPORT

CONTINUED

## SECTOR BREAKDOWN

As at 31 August 2015

SECTOR	AURORA %
Oil & Gas	7.2
Construction & Materials	27.4
Consumer Services	17.1
Financials	18.2
Information Technology	8.4
Resources (Mining)	5.1
Support Services	7.9
Consumer Goods	3.6
Industrials	0.6
Alternative Energy	1.8
	<b>97.3</b>
Fixed Interest Securities	2.7
	<b>100.0</b>

## TOP TEN HOLDINGS

Consolidated portfolio

As at 31 August 2015

Stock	Description	Valuation £'000	% of Portfolio
<i>All holdings shown are of ordinary shares, unless shown otherwise</i>			
Berkeley Group	Housebuilding	1,853	10.4
BTG	Health Care	1,830	10.3
Persimmon	Housebuilding	1,682	9.4
Ashtead Group	Support Services	1,418	8.0
West China Cement	Building Materials	1,224	6.9
Gresham Computing	Software	1,089	6.1
Royal Dutch Petroleum 'B'	Oil Integrated	1,024	5.7
Aberdeen Asset Management	Investment	957	5.4
Amlin	Insurance	773	4.3
Jupiter Fund	Investment	668	3.8
Total top ten holdings		12,518	70.3
Other investments		5,298	29.7
		<b>17,816</b>	<b>100.0</b>



# INTERIM MANAGEMENT REPORT

CONTINUED

## **FORMAL DECLARATIONS**

The Chairman's Statement on pages 1 to 3 and the Manager's Review on page 4 provide details on the performance of the Company. Those reports also include an indication of the important events that have occurred during the first six months of the financial year ending 28 February 2016 and the impact of those events on the condensed set of financial statements included in this half yearly financial report.

Details of the largest ten investments held at the period end and the structure of the portfolio at the period end are provided on page 6.

## **Principal Risks and Uncertainties**

The Board considers that the main risks and uncertainties faced by the Company fall into the categories of (i) Market risks and (ii) Corporate governance and internal control risks. A detailed explanation of these risks and uncertainties can be found in the Company's most recent Annual Report for the year ended 28 February 2015. Except as disclosed in the Chairman's Statement and Manager's Review, the principal risks and uncertainties facing the Company remain unchanged from those disclosed in the Annual Report.

## **Related Party Transactions**

Details of the investment management arrangements were provided in the Annual Report. There have been no material changes to the related party transactions described in the Annual Report that could have an effect on the financial position or performance of the Company. Amounts payable to the investment manager in the period are detailed in the Income Statement on page 9.

Board of Directors  
30 October 2015

# DIRECTORS STATEMENT OF RESPONSIBILITY FOR THE HALF YEARLY REPORT

The Directors confirm to the best of their knowledge that:

- The condensed set of financial statements contained within the half yearly financial report has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”; and
- The interim management report includes a fair review of the information required by 4.2.7R and 4.2.8R of the FSA’s Disclosure and Transparency Rules.

The half yearly financial report was approved by the Board on 30 October 2015 and the above responsibility statement was signed on its behalf by:

Lord Flight  
Chairman  
30 October 2015

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	6 months to 31 August 2015 (unaudited)			6 months to 31 August 2014 (unaudited)		
		Revenue	Capital	Total	Revenue	Capital	Total
		£'000	£'000	£'000	£'000	£'000	£'000
(Losses)/gains on investments designated at fair value through profit or loss		326*	(1,110)	(784)	(17)*	(303)	(320)
<b>Income</b>							
Investment income		483	–	483	536	–	536
		483	–	483	536	–	536
<b>Expenses</b>							
Investment management fees		(37)	(37)	(74)	(45)	(45)	(90)
Other expenses		(150)	–	(150)	(126)	–	(126)
		(187)	(37)	(224)	(171)	(45)	(216)
<b>Profit/(loss) before finance costs and tax</b>		<b>622</b>	<b>(1,147)</b>	<b>(525)</b>	<b>348</b>	<b>(348)</b>	<b>–</b>
Finance costs		(42)	(42)	(84)	(52)	(52)	(104)
<b>Profit/(loss) before tax</b>		<b>580</b>	<b>(1,189)</b>	<b>(609)</b>	<b>296</b>	<b>(400)</b>	<b>(104)</b>
Tax		(2)	–	(2)	–	–	–
<b>Profit/(loss) and total comprehensive income for the period</b>		<b>578</b>	<b>(1,189)</b>	<b>(611)</b>	<b>296</b>	<b>(400)</b>	<b>(104)</b>
Earnings per share	4	5.56p	(11.44p)	(5.88p)	2.85p	(3.85p)	(1.00p)

The total column of this statement represents the Group's Income Statement, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations. All income is attributable to the equity holders of the parent company. There are no minority interests.

\*Trading subsidiary (losses) and gains.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Six months ended 31 August 2015 (unaudited) £'000	<i>Six months ended 31 August 2014 (unaudited) £'000</i>	<i>Year ended 28 February 2015 (audited) £'000</i>
Opening equity		17,817	19,939	19,939
Total comprehensive income for the financial period/year		(611)	<i>(104)</i>	<i>(1,727)</i>
Dividends paid	5	(400)	<i>(395)</i>	<i>(395)</i>
Closing equity		<u>16,806</u>	<u><i>19,440</i></u>	<u><i>17,817</i></u>

# CONSOLIDATED BALANCE SHEET

	At 31 August 2015 (unaudited) £'000	At 31 August 2014 (unaudited) £'000	At 28 February 2015 (audited) £'000
<b>Non-current assets</b>			
Investments – designated at fair value through profit or loss	17,816	23,104	21,243
<b>Current assets</b>			
Investments held for trading	736	143	385
Other receivables	160	134	112
Cash and cash equivalents	149	171	150
	1,045	448	647
<b>Total assets</b>	<b>18,861</b>	<b>23,552</b>	<b>21,890</b>
<b>Current liabilities</b>			
Bank loan/overdraft	(2,000)	(4,047)	(4,000)
Other payables	(55)	(65)	(73)
	(2,055)	(4,112)	(4,073)
<b>Total assets less current liabilities</b>	<b>16,806</b>	<b>19,440</b>	<b>17,817</b>
<b>Equity</b>			
Called up share capital	3,598	3,598	3,598
Share premium account	10,997	10,997	10,997
Capital reserves	3,121	5,718	4,312
Revenue reserve	(910)	(873)	(1,090)
	<b>16,806</b>	<b>19,440</b>	<b>17,817</b>
Net asset value per ordinary share (excluding shares held in Treasury)	161.64p	186.98p	171.37p
No. of ordinary shares in issue (excluding shares held in Treasury)	10,397,059	10,397,059	10,397,059
No. of ordinary shares held in Treasury	3,994,330	3,994,330	3,994,330

# CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 August 2015

	2015 (unaudited) £'000	2014 (unaudited) £'000
<b>Cash flows from operating activities</b>		
Cash inflow from disposal of non-current operating assets	3,302	5,488
Cash outflow from purchase of non-current operating assets	(986)	(4,823)
Cash inflow from revenue income	437	462
Cash (inflow)/outflow from trading current asset investments	(25)	10
Cash outflow from expenses	(243)	(202)
Tax paid	(2)	–
<b>Net cash flow from operating activities</b>	<b>2,483</b>	<b>935</b>
<b>Financing</b>		
Equity dividends paid	(400)	(395)
Interest and finance charges paid	(84)	(103)
Decrease in bank borrowings	(2,000)	(406)
<b>Net cash flow from financing activities</b>	<b>(2,484)</b>	<b>(904)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(1)</b>	<b>31</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>150</b>	<b>140</b>
(Decrease)/increase in cash	(1)	31
<b>Cash and cash equivalents at end of period</b>	<b>149</b>	<b>171</b>

# NOTES

## 1. STATUS OF THE FINANCIAL STATEMENTS

These financial statements are not the Group's statutory accounts as defined in section 434 of the Companies Act 2006. The financial information for the half years ended 31 August 2015 and 31 August 2014 has not been audited.

The information for the year ended 28 February 2015 has been extracted from the latest published audited financial statements. The audited financial statements for the year ended 28 February 2015 have been filed with the Registrar of Companies. The report of the auditors on those accounts contained no qualification or statement under section 498(2) or (3) of the Companies Act 2006.

The directors approved the half-yearly report on 30 October 2015. This report is being sent to shareholders and copies will be made available to the public at the registered office of the Group. The report will be available in electronic format on the Manager's website [www.marsassetmanagement.co.uk](http://www.marsassetmanagement.co.uk)

## 2. ACCOUNTING POLICIES

The half yearly financial information has been prepared in accordance with IAS34 *Interim Financial Reporting*. The accounting policies are unchanged from those used in the last annual financial statements except where otherwise stated.

## 3. PURCHASE OF OWN SHARES

The Company did not purchase any of its own shares during the half year ended 31 August 2015. A total of 3,994,330 shares are being held in Treasury and are available for re-sale.

## 4. EARNINGS PER SHARE

Returns for the period ended on 31 August 2015 are stated by reference to the weighted average of 10,397,059 shares in issue during the period, excluding shares held in Treasury (2014: 10,397,059 shares in issue, excluding shares held in Treasury).

## 5. DIVIDENDS

In accordance with the stated policy of the Group, the directors do not recommend an interim dividend.

The final dividend of 3.85p per share in respect of the year ended on 28 February 2015 was declared by the Annual General Meeting on 16 July 2015 and was paid on 27 July 2015. This dividend was not reflected in the financial statements for the year ended 28 February 2015, but is reflected in the financial statements for the half year ended 31 August 2015.

## NOTES

CONTINUED

6. RELATED PARTY TRANSACTIONS

Fees payable to the Manager are shown in the Consolidated Income Statement. £36,000 (incl. VAT) was payable to the Administrator in respect of the period. Fees were accrued of £10,758 to the Manager and £6,000 (incl. VAT) to the Administrator at 31 August 2015; these fees were paid following the period end.



## DIRECTORS AND ADVISERS

### DIRECTORS

Lord Flight (Chairman)  
MJ Barstow FCA  
The Honourable James Nelson  
RM Martin

### BANKERS

Coutts & Co  
440 Strand  
London WC2R 0QS

### CUSTODIAN

The Northern Trust Company  
50 Bank Street  
London E14 5NT

### REGISTRARS

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield HD8 0LA

### LAWYERS

Dickson Minto W.S.  
Broadgate Tower  
20 Primrose Street  
London EC2A 2EW

### INVESTMENT MANAGER

Mars Asset Management Limited  
10-11 Charterhouse Square  
London EC1M 6LQ  
*Tel: 0207 490 4440*

### SECRETARY & REGISTERED OFFICE

Cavendish Administration Limited  
145-157 St John Street  
London EC1V 4RU  
*Tel: 0207 490 4355*

### ADMINISTRATOR

Cavendish Administration Limited  
145-157 St John Street  
London EC1V 4RU

### AUDITORS

Grant Thornton UK LLP  
30 Finsbury Square  
London EC2P 2YU





