Aurora Investment Trust plc

Half Yearly Financial Report

For the four months ended 30 June 2016

Aurora
INVESTMENT TRUST

The Company adopted a revised Investment Policy on 28 January 2016, with the appointment of Phoenix Asset Management Partners ("Phoenix") as the Company's new Investment Manager.

Investment Policy

The Company's objective is to provide shareholders with long term returns through capital and income growth by investing in a concentrated portfolio of UK listed equities.

The Company seeks to achieve its investment objective by investing in a portfolio of UK listed equities. The portfolio will be relatively concentrated. The exact number of individual holdings will vary over time but typically the portfolio will consist of 15 to 20 holdings. The Company may use derivatives and similar instruments for the purpose of capital preservation. There are no pre-defined maximum or minimum exposure levels for each individual holding or sector, but these 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 investment.

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 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 total assets of the Company in other listed closed-ended funds other than closed-ended investment funds which themselves have published investment policies to invest no more than 15 per cent of their total assets in other listed closed-ended funds. The Company will not invest in any other fund managed by the Company's investment manager.

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 per cent 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 the Shareholders.

Performance

The returns for the period since 1 March 2016 were:

	At 29/02/16	At 30/06/16	Change	At 30/06/15
Net Asset Value per share	162.30p	147.96p	(8.8%)	173.83p
Share price	158.00p	154.00p	(2.53%)	154.00p
(Discount)/premium	(2.65%)	4.08%	6.73%	(11.41%)
FTSE All-Share Index (total return)	5375.62	5737.45	6.73	5800.24
Gearing (net)*	Nil	Nil	N/A	19.85%

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

INTERIM MANAGEMENT REPORT

Investment Manager's Review

Because the Company's year end has been brought forward to 31 December this report covers the four month period from 1 March to 30 June.

Since the year-end on 29 February, the NAV per share has declined by 8.8% and the share price has declined by 2.5%. The FTSE All Share Index rose by 6.7% over the same period. As at 30 June, the shares were trading at a 6.7% premium to NAV. During the period there was a successful placing and the majority of the shares held in treasury were sold (since 30 June the remainder have been sold).

In the Investment Manager's statement in the 2016 Annual Report, (dated June 15th 2016) we said that "*we shouldn't talk about the risks of a Brexit wobble without touching on what a great opportunity it might present. Stock market fear and negative over-reaction are things we relish because we will get opportunities to make great investments*". Nine days later, on 24 June, we awoke to the news that Britain had voted to leave the EU. The FTSE All Share fell by 7% over the following two days, with the sharpest declines coming in the house building and banking sectors that form a meaningful proportion of the portfolio. The share prices of Barratt Developments, Bellway and Lloyds (which are all Aurora stocks) fell by over 20% the day after the vote (and considerably more, intraday). Clearly, this impacted the NAV, and the negative moves in those three stocks accounted for the vast majority of the decline. We do not think the share price falls were justified, although we can have a quick stab at explaining and understanding the bearish narrative that quickly emerged from City analysts and the media. The uncertainty caused by the Brexit vote, they said, will cause consumer sentiment to dip sharply. They fear this will then lead to falling house prices and, quite possibly, a recession. Housebuilders will suffer because falling house prices will badly hurt near term profits. Banks might suffer damage to their corporate loan books as falling inward investment leads to a downturn in the commercial property market. This fear was stoked by some large, well-publicised redemptions by investors in commercial property funds. Our response at times like this is to ignore the share price moves and the scary stories, and to study the facts and consider the likely potential impact on long term value to us as shareholders.

Firstly, the analysts and media may well be right; in the short term, sentiment does impact house prices and it is well within the bounds of probability that house prices fall. However, when house prices fall, land prices also decline, which is of huge benefit to housebuilders because land is their single biggest cost. In fact, the positive correlation between falling house prices and falling land prices is so great, that to a long term shareholder like us, the benefit of the latter almost entirely compensates for the former. In other words, if I was a house builder, what I lose in profits today from falling house prices, I get back in falling land prices. Why doesn't everyone see it this way? Essentially because the accounting rules that housebuilders are bound by mean that it isn't immediately obvious. It is easy to see the damage caused by falling house prices because profits fall in the current year; a 10% fall in house prices will cause the accounting profits of **Barratt** and **Bellway** to fall by something like 50% in the same accounting year. And when house prices fall 10%, land prices typically fall between

30% – 40%. The knock-on benefit derived from falling land prices takes a few years to show up in the financial accounts because cheap land bought today sits on the balance sheet for about three years before houses can be sold on it. Why does it take this long? Primarily because of the painfully slow planning system that we have in this country. And yet when these new houses, (built on much cheaper land) do get sold, the accounting profits come roaring back.

When confronted with this situation (much lower share prices of house building stocks and a good reason to think the falls are an over-reaction) we decided to substantially increase the investments in both Barratt and Bellway. Following the additional investment, the combined weight of both stocks was over 22% of the portfolio at 30 June. Our investment approach means that we never try to predict how share prices will move. We think that if we do good research, buy cheap stocks and are patient, then good things will eventually happen. Suffice to say that housebuilders were cheap before Brexit and are even cheaper today, and we are greatly encouraged by that.

We also used the sharp, post-vote, share price decline in **Lloyds** to add modestly to the holding, ending June with a 13% weight. Our view of Lloyds has not been altered by the prospect of leaving the EU: it remains a conservatively run, UK domestic bank with strong market shares and a very solid balance sheet. Again, the share price decline appears to have been an over-reaction and we are pleased to have been able to take advantage of that.

Lastly, so far as significant portfolio changes go, we had been steadily adding to the investment in **Sports Direct**, which accelerated in the wake of the Brexit vote. The generally bearish market sentiment seemed to blow some wind into the sails of the many Sports Direct bears who currently abound, culminating in some relatively high profile downgrades from City analysts. As we said in the 2016 annual report, Sports Direct is a very well run business that currently suffers from something of a perception problem. Some of this is their own doing – they might have dealt with some of the bad PR slightly better – but ultimately we don't care about perception. Substance is what matters, and we think that they have plenty of it. We ended June with just under 10% of the portfolio invested in the Company.

In the 2016 annual report balance sheet, dated 29 February, we declared a cash weighting in the portfolio of 21.7%. At the end of June, the cash weighting had declined to 15.2%, with most of that cash invested after the Brexit vote.

We have an internal measure of portfolio "cheapness" that we use at Phoenix, which we call "upside to intrinsic value (IV)". This uses our valuation estimates for each investment in the portfolio to arrive at a fair value. For the avoidance of doubt, there is no guarantee that this intrinsic value will ever be realised.

We think that the NAV of the Trust at 30 June 2016 had upside of 111% (including the cash weighting at that time.) To give this number context, at the end of March 2016, the upside using the same methodology was 76%, indicating that (along with a decline in the NAV) substantial value had been added over the three months, mostly following the Brexit vote.

A note on research

Our investment approach involves lots of primary research. We want to understand what is happening to businesses on their frontline. This means different things with

different investments; we carry out mystery shopping at Sports Direct because that tells us a great deal about the business. Vesuvius is a much slower moving business and one where mystery shopping is close to impossible (we can't think of any plausible reasons why a small investment firm in South West London might need to buy components used in steel production, although if you have any ideas, please let us know). In this case we get our information and insight from industry data and by attending trade conferences. Importantly, we always adjust our research according to the risk exposures in the portfolio. So, along with increased investments in housebuilders comes greater exposure and risk, therefore we are spending more time visiting building sites up and down the country, putting ourselves in customer's shoes and striving to understand the threats and opportunities being faced by those businesses. This type of research gives us a deeper and more meaningful understanding of our investee companies, which in turn enables us to have a much more interesting dialogue with the senior management when we meet them.

Outlook

The stock market volatility we have seen recently is a happy hunting ground for long term value investors. In the weeks since 30 June we have continued to find opportunities to deploy more of the portfolio's cash. As at 2 August, the cash weight is 9%.

We can't predict what will happen in the coming months and years, from the impact of Brexit or anything else. We think that owning a concentrated portfolio of cheap stocks and monitoring them closely is the best way to achieve excellent long term investment returns. It is what we have done at Phoenix for the last 18 years and what we will continue to do as Investment Managers of Aurora.

T Chapple
Phoenix Asset Management Partners Ltd
18 August 2016

Sector Breakdown

As at 30 June 2016

SECTOR	AURORA %
Consumer Services	6.22
Financials	14.10
Pharmaceuticals	7.24
Fast Moving Consumer Goods	6.98
Consumer Goods	33.75
Construction	31.71
	100.00
Fixed Interest Securities	0.00
	100.00

Holdings

As at 30 June 2016

All holdings shown are of ordinary shares, unless shown otherwise		£'000	Portfolio %
Barratt	Housebuilding	3,337	11.9
Bellway	Housebuilding	2,915	10.4
Diageo	Fast Moving Consumer Goods	834	3.0
Glaxosmithkline	Pharmaceuticals	1,721	6.1
Lloyds Bank	Banking	2,990	10.7
Morrisons	Retail	1,768	6.3
Randall & Quilter	Financial	360	1.3
Sports Direct	Retail	2,732	9.7
Tesco	Retail	3,517	12.6
Unilever	Fast Moving Consumer Goods	826	2.9
Vesuvius	Materials	1,280	4.6
Wetherspoon	Consumer	1,477	5.3
Total holdings		23,757	84.8
Cash		4,249	15.2
Total portfolio including cash		28,006	100.0

Formal Declarations

The Manager's Review on pages 3 and 4 provides details on the performance of the Company. This report also includes an indication of the important events that have occurred during the first four months of the financial period ending 31 December 2016 and the impact of those events on the condensed set of financial statements included in this half-yearly financial report.

Details of the investments held at the period end and the structure of the portfolio at the period end are provided on page 5.

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 29 February 2016. Except as disclosed in the 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 8.

Board of Directors
18 August 2016

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 18 August 2016 and the above responsibility statement was signed on its behalf by:

Lord Flight
Chairman
18 August 2016

STATEMENT OF COMPREHENSIVE INCOME

		4 months to 30 June 2016 (unaudited)			4 months to 30 June 2015 (unaudited)		
		Revenue	Capital	Total	Revenue	Capital	Total
Notes		£'000	£'000	£'000	£'000	£'000	£'000
	(Losses)/gains on investments designated at fair value through profit or loss	–	(2,934)	(2,934)	–	244	244
	Income						
	Investment income	278	–	278	377	–	377
	Total income	278	(2,934)	(2,656)	377	244	621
	Expenses						
	Investment management fees	–	–	–	(25)	(25)	(50)
	Performance fees	–	125	125	–	–	–
	Other expenses	(98)	–	(98)	(101)	–	(101)
		(98)	125	27	(126)	(25)	(151)
	Profit/(loss) before finance costs and tax	180	(2,809)	(2,629)	251	219	470
	Finance costs	–	–	–	(29)	(29)	(58)
	Provision for gains/losses on investment in subsidiary	–	–	–	–	245	245
	Profit/(loss) before tax	180	(2,809)	(2,629)	222	435	657
	Tax	–	–	–	(1)	–	(1)
	Profit/(loss) and total comprehensive income for the period	180	(2,809)	(2,629)	221	435	656
	Earnings per share	1.06p	(16.59p)	(15.53p)	2.13p	4.18p	6.31p

The total column of this statement represents the Company'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. There are no minority interests.

STATEMENT OF CHANGES IN EQUITY

Notes		Four months ended 30 June 2016 (unaudited) £'000	Four months ended 30 June 2015 (unaudited) £'000	Year ended 29 February 2016 (audited) £'000
	Opening equity	18,440	17,817	17,817
	Total comprehensive income for the financial period/year	(2,629)	656	(490)
	Issue of new shares, net of expenses	7,977	–	–
	Sale of shares from treasury	4,288	–	1,513
	Dividends paid or accrued	(189)	(400)	(400)
	Closing equity	27,887	18,073	18,440

BALANCE SHEET

	At 30 June 2016 (unaudited)	At 30 June 2015 (unaudited)	At 29 February 2016 (audited)
	£'000	£'000	£'000
Non-current assets			
Investments – designated at fair value through profit or loss	23,757	21,131	14,445
Investment in subsidiary	–	530	–
	23,757	21,661	14,445
Current assets			
Other receivables	140	293	51
Cash and cash equivalents	4,249	851	4,145
	4,389	1,144	4,196
Total assets	28,146	22,805	18,641
Current liabilities			
Bank loan/overdraft	–	(4,272)	–
Dividend payable	(189)	(400)	–
Other payables	(70)	(60)	(201)
	(259)	(4,732)	(201)
Total assets less current liabilities	27,887	18,073	18,440
Equity			
Called up share capital	4,813	3,598	3,598
Capital redemption reserve	179	179	179
Share premium account	23,559	10,997	12,510
Investment holding losses	(3,195)	(8,129)	(4,371)
Other capital reserves	2,052	10,925	6,038
Revenue reserve	479	503	486
	27,887	18,073	18,440
Net asset value per ordinary share (excluding shares held in Treasury)	147.96p	173.83p	162.30p
No. of ordinary shares in issue (excluding shares held in Treasury)	18,847,913	10,397,059	11,361,869
No. of ordinary shares held in Treasury	402,226	3,994,330	3,029,520

CASH FLOW STATEMENT

For the four months ended 30 June 2016

	2016 (unaudited)	2015 (unaudited)
	£'000	£'000
Cash flows from operating activities		
Cash inflow from disposal of non-current operating assets	1,075	357
Cash outflow from purchase of non-current operating assets	(13,321)	–
Cash inflow from revenue income	272	378
Cash outflow from expenses	(187)	(152)
Tax paid	–	(1)
Net cash flow from operating activities	(12,161)	582
Cash flows from investing activities		
Increase in loans advanced to subsidiary	–	(91)
Cash flows from financing		
Issue of new shares	7,977	–
Sale of treasury shares	4,288	–
Interest and finance charges paid	–	(57)
Increase in bank borrowings	–	272
Net cash flow from financing activities	12,265	215
Net increase in cash and cash equivalents	104	706
Cash and cash equivalents at beginning of period	4,145	145
Increase in cash	104	706
Cash and cash equivalents at end of period	4,249	851

NOTES

1. Status of the financial statements

These financial statements are not the Company's statutory accounts as defined in section 434 of the Companies Act 2006. The financial information for the four month periods ended 30 June 2016 and 30 June 2015 has not been audited.

The information for the year ended 29 February 2016 has been extracted from the latest published audited financial statements. The audited financial statements for the year ended 29 February 2016 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 18 August 2016. This report is being sent to shareholders and copies will be made available to the public at the registered office of the Company. The report will be available in electronic format on the website *www.aurorainvestmenttrust.com*

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. Issue of new shares

On 29 March 2016 the Company issued 4,858,750 new ordinary shares, in pursuance of a prospectus dated 22 March 2016. The prospectus also provided for an ongoing Placing Programme, under which up to 55 million further shares may be issued from time to time during the period from 30 March 2016 to 21 March 2017. The price at which shares may be issued under this Programme is the NAV per share at the time of issue plus a premium to cover the expenses of the issue as determined by the Board at the time of each issue. As at the date of this report no additional shares have been issued under the terms of the Programme.

4. Sales of shares from Treasury

As at 1 March 2016 the Company held 3,029,520 shares in treasury. 2,627,294 were sold during the period ended 30 June 2016. At 30 June 2016 the Company held 402,226 shares in treasury. All remaining shares in treasury have been sold subsequent to 30 June 2016.

5. Purchase of own shares

The Company did not purchase any of its own shares during the period ended 30 June 2016.

6. Earnings per share

Returns for the period ended on 30 June 2016 are stated by reference to the weighted average of 16,926,333 shares in issue during the period, excluding shares held in Treasury (*2015: 10,397,059 shares in issue, excluding shares held in Treasury*).

7. Dividends

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

The final dividend of 1.00p per share in respect of the year ended on 29 February 2016 went ex-dividend on 23 June 2016. It was declared by the Annual General Meeting on 13 July 2016 and was paid on 22 July 2016. This dividend was not reflected in the financial statements for the year ended 29 February 2016, but is reflected in the financial statements for the period ended 30 June 2016.

8. Investment Manager

The Company entered into a new Investment Management contract with Phoenix Asset Management Partners ("Phoenix") on 28 January 2016. Under the terms of this contract Phoenix does not earn an ongoing annual management fee, but will be paid an annual performance fee equal to one third of any outperformance of Company's net asset value total return (including dividends and adjusted for the impact of share buy-backs and the issue of new shares) over the FTSE All-Share Total Return for each financial year.

9. Depository

From 28 January 2016 the positions of Depository and Custodian to the Company have been taken up by BNP Securities Services.

10. Secretary and Administrator

Cavendish Administration Limited ("Cavendish") was acquired by PraxisIFM Fund Services (UK) Limited ("Praxis") on 24 November 2015. Cavendish continued to serve as Secretary and Administrator through the period ended 30 June 2016. The agreement with Cavendish was novated to Praxis on 1 July 2016.

11. Related party transactions

Fees payable to the Manager are shown in the Consolidated Income Statement. No performance fee was accrued as at 30 June 2016.

£31,200 (incl. VAT) was payable to the Administrator in respect of the period. Fees were accrued of £15,600 (incl. VAT) to the Administrator at 30 June 2016; these fees were paid following the period end.

DIRECTORS AND ADVISERS

DIRECTORS	INVESTMENT MANAGER
Lord Flight (chairman) The Honourable James Nelson RM Martin T Chapple D Stevenson	Phoenix Asset Management Partners Limited 64-66 Glentham Road London SW13 9JJ Tel: 0208 600 0100

BANKERS	SECRETARY & REGISTERED OFFICE
Coutts & Co 440 Strand London WC2R 0QS	PraxisIFM Fund Services (UK) Limited Mermaid House 2 Puddle Dock London EC4V 3DB Tel: 0207 653 9690

DEPOSITORY	ADMINISTRATOR
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REGISTRARS	AUDITORS
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