Aurora
INVESTMENT TRUST

Aurora Primer

A Short Introduction to Aurora & Phoenix

Phoenix Asset Management Partners Ltd. is authorised and regulated by the Financial Conduct Authority (FCA)

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The Aurora Investment Trust

The Aurora Investment Trust ("The Trust") is a closed end fund that is listed and trades on the London Stock Exchange. Closed end means that when you want to invest you have to buy shares in the stock market and when you want your money back you have to sell them in the same way. You don't subscribe and redeem like you would with a fund.

The Trust has a board of directors who in December 2015 appointed Phoenix Asset Management Partners Ltd. ("Phoenix") to manage the assets of the Trust.

Aurora Target Market

The Aurora Investment Trust is a long-term investment vehicle, which is appropriate for those with at least a three-year time horizon when making an investment. It is aimed at investors looking for a predominantly UK equities manager with a business and value orientated approach, achieved through investments in companies demonstrating a high return on capital and control over their profitability through the strength of their business franchise.

Aurora is managed by Phoenix Asset Management Partners which has a unique approach to long-term investing and will appeal to those who appreciate this approach to investing and business.

Aurora’s portfolio is concentrated, and it typically invests 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.

If you are not sure whether an investment trust is the right investment for you, it is recommended that you speak to a financial adviser.

Who we are

Phoenix Asset Management Partners is a specialist fund management company founded in 1998, based in Barnes, London who manage the Phoenix UK Fund (launched in 1998) and other segregated accounts following the same strategy. Gary Channon is the Chief Investment Officer and has been so throughout Phoenix's history. Before founding Phoenix in 1998, he was Co-Head of Equity and Equity Derivatives Trading at Nomura International. Before joining Nomura, he worked at Nikko and Goldman Sachs. Gary is the controlling shareholder of Phoenix. Charlotte Maby and Steve Tatters have worked with Gary for at least 18 years each. In total, there are 25 members of the Phoenix team: twelve on the investment side, four in marketing and investor relations and the remainder in operations and compliance.

Phoenix Asset Management Partner's track record of managing the Phoenix UK Fund has been very strong. Since inception in 1998, after all fees, investors have earned an annualised 8.9% per annum compared to an annualised return of 5.3% per annum for the FTSE All Share Index. Further details of the track record are available at the back of this document.

The following describes the investment philosophy of Phoenix Asset Management Partners as has been applied to the Phoenix UK Fund since 1998 and which has been applied to the Aurora Investment Trust from January 2016.

Why we sometimes call ourselves value investors

In a nutshell, we are focussed stock pickers, inspired by the noble tradition of "value investing". We don't mind that label, although it does beg the question, what other sort of rational investing approach is there?

If, over the years, value investing has become a fairly broad church, we are fundamentalists. Our approach is labour intensive, time consuming and seems eccentric to some people. We spend a lot of our time understanding the nuts and bolts of how businesses make their money. We walk the aisles of supermarkets to understand UK food retail, visit hundreds of building sites to understand housebuilders and attend obscure German conferences about steel production to understand more about engineering. We strive to deliver great long-term investment returns. We are called Phoenix because we buy great businesses when they are cheap, usually because they are having short term issues.

If our research is correct, then they emerge Phoenix-like and deliver high returns. Our key skill is in the identifying, valuing and monitoring of suitable investments whilst resisting the irrational biases of human behaviour.

Our Investment Goals

Capital Preservation

We start out by trying to not lose it. We take a great deal of care to invest in businesses that we understand thoroughly. We only back managements that we trust. Most importantly, we pay a price that has a big margin of safety; in fact, we never pay more than half of what we think a business is worth. We estimate this worth, which we refer to as intrinsic value, by discounting the value future cash flows. We also don't pay more than what we think the business is worth in a downside scenario; in other words, if things go wrong, we want to get our money back.

To Generate Excellent Long-Term Investment Returns

We mean excellent in absolute and relative terms. Firstly, it should be much better than putting your money on deposit and secondly, it should be much better than buying an index fund. You are paying us to manage your money and we do it because we believe we can outperform a passive approach. That has been our record to date. At Aurora, we don't get paid unless we outperform over the long term.

How We Invest

We find great companies. The value of a company is the amount of cash it will generate for its owners over its lifetime. It's hard to work out what that figure is in advance, so we are drawn to companies that have a control over their own profitability, usually because of the strength of their business franchise. We call this pricing power. It can take many forms; strong brands or market position, a unique niche, lowest cost of production, patents, etc.

> Investment is most intelligent when it is most business-like
> Benjamin Graham

We will invest in stocks listed on either the main market or AIM and will consider anything from small cap stocks to FTSE 100 companies. Having an investment universe this wide means we are not unnecessarily constrained by sector or size criteria. The only thing that concerns us is whether we can understand and value the business and buy it cheap enough to make great investment returns.

We also look for a high return on capital, of at least 15% Most of the money generated by a business is re-invested. If we want excellent returns, then that money needs to be reinvested at high rates. An enduring high rate of return is another sign of a great business.

> Confronted with a challenge to distil the secret of sound investment into three words, we venture the motto, Margin of Safety
> Benjamin Graham

Competent and honest managements

We consider that in purchasing stock in a company we are handing our money to a management team. We choose people that we believe possess integrity and will act in the interests of shareholders. Sometimes we may be investing in a business that is cheap, partly due to a perceived loss of integrity. It is important to us that any such loss, perceived or real, is in the past, and that we are backing honest people.

Having found great companies and good managements, we wait for the opportunity to invest at attractive prices. This can take years and may never happen. Great companies rarely trade very cheaply and if they do it is usually because there is some recent bad news about the company, its sector or the economy. We specialise in looking at these situations and determining whether the factors causing the price to fall are temporary or more permanent. Occasionally, the market overreacts to short term negative developments, and we get a great opportunity to invest with a long-term horizon.
We stick to what we know. We have developed a deep expertise in some areas and are conscious not to operate beyond that. Most companies and many sectors do not lend themselves to our approach.

We buy to hold. Although we are buying shares, we consider ourselves as buying a whole business. Ideally, we look for a company whose prospects are so good we can hold them forever.

> Be fearful when others are greedy, and be greedy when others are fearful
> Warren Buffett

We are very patient: if there is nothing to do, we do nothing. We tend to be very busy when the market is depressed because we view market turmoil as an opportunity. When the market has been strong for a while, our cash tends to build. We often go through long periods of inactivity.

We are focused. We hold 12 to 20 stocks in the portfolio, which gives us all the diversification we need, but allows us to concentrate a lot of effort on understanding and monitoring what we own. Companies in which we are invested often tell us that nobody understands them as well as we do, which we think is a reflection of the amount of effort that we put into it.

> Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble
> Warren Buffett

We construct the portfolio giving the biggest weighting to our best investments with the least downside. We pay attention to the correlation of fundamental business risks across our holdings to avoid duplication and doubling up.

The ride can be bumpy. Buying a focused portfolio of stocks that are out of favour can result in a lot of volatility. Unlike most of the financial services industry, we don't consider volatility to be risk.

We define risk as the chance of a permanent loss of capital. The fact that Stock A moves up and down by 1% a day and Stock B moves 2% a day means nothing to us. But if we knew and understood the business of Stock B but not Stock A, that would mean everything to us. We reduce risk through knowledge and focus helps us to do that. So far in our history there were five drawdown periods where we were actively adding value by buying great companies at cheap prices. Those produced our only down years (1999, 2002, 2008, 2018 and 2020) and, in every instance, the falls were reversed the following year. If we get our assessment of companies right, then we have nothing to fear from volatility.

No leverage

We do not use borrowed money, that way we are never forced to do something that would destroy capital, like selling a cheap stock in a downturn to reduce gearing.

Geography

The majority of our investments to date have been in companies listed in the UK. Many of the businesses are global, but we derive a lot of comfort from our knowledge of the UK laws, listing rules and regulations. We have invested in companies listed elsewhere, but we view this as carrying some additional risk.

Fees

We charge no fees except a performance fee. We do not start earning that fee until we have matched the return of the market, defined as the FTSE All Share Index plus Dividends. That fee is one third of returns in excess of the market. Our fee is paid in Aurora shares that are restricted for a further 3 years. The fee is capped at 4% of net assets if they have increased in the period and 2% of net assets if there has been a decline in assets (still with the required outperformance of the market). If during that following 3 years our outperformance has reversed, then the fee is clawed back. If, at the end of the three-year period the outperformance we were initially paid for is no longer there, then we will have lost all of that fee.

We make no other cost recharges or allocations.

This fee structure is unique and, we believe, highly aligned with your interests. For most managers of most funds, it would result in little or no pay.

A Cass Business School Study in 2014 found that in the UK only 1% of active managers outperformed over 10 years and on average they took all that outperformance in fees.

Our fee structure means that we only benefit when you benefit from long term outperformance.

There is also a general clawback provision for the board for up to 3 years to ensure that what we have earned is fair and in the spirit of one third of economic outperformance.

This fee structure is, we believe, unique.

To summarise, we are highly incentivised to deliver outstanding returns and not for mediocrity or asset building.

How We Research

We read, we think and occasionally, we act. Most of our effort is spent monitoring the businesses we own.

We start by understanding the history of the business and the industry we are looking at. That means a lot of background reading; books, annual reports, regulatory reports and anything else useful. We also do fieldwork; visiting companies, their competitors, suppliers, attending trade shows and mystery shopping.

We are trying to understand how a business works. In other words, how it makes a profit and what capital and expertise that requires. We want to understand why its customers use it and pay the prices that they do and what the competitive landscape looks like. We also have to find out whether there is any rational way for us to forecast the future based upon our observation of the past and present.

With management, we are judging their competence in managing the business. We look at their track record including in prior roles. Most importantly we look at their integrity or for signs of its absence.

Our work is very detailed, and it can take us years to get to a point where we are ready to invest. We have developed our own system for evaluating businesses called DREAM (Dynamic Relative Evaluation and Assessment Model), but essentially it breaks all our assessments down into a Business, Management and Price framework.

If a company lines up in all three areas we call it a Triple-A (AAA) but, as price rarely lines up just when we are ready, we are happy to collect Double-A's (AA) i.e. where the business and management fit and we are waiting for the price to reach our level. We have a monitoring programme for every business we own. We look to observe our businesses independently from the reports made by management. This work takes up the majority of our time because our biggest source of risk and opportunity is in our existing portfolio.

A measure of our research effectiveness is something we call our Strike Ratio which is the proportion of profitable investments to losing ones. Since we started in 1998, we have completed 119 investments. 74% by number were profitable and 84% by value were.

How We Think

We believe that our decent long-term track record is down to a combination of the right philosophy applied with the right psychology.

Acquisition of skills requires a regular environment, an adequate opportunity to practice, and rapid and unequivocal feedback about the correctness of thoughts and actions
Daniel Kahneman

An understanding and application of behavioural psychology is at the heart of our approach. Our natural human way of thinking, although well suited to many parts of our lives, lets us down at times when it comes to investing. It is not enough to know this to overcome the biases, it requires processes designed to improve the rationality of our judgements and decision making.

We have a very detailed investment process designed specifically to counter the known negative human biases.

What To Expect From Us

The first thing is honesty. We will tell you what we plan to do, are doing and how we have done. We write a frank report detailing what we have been up to and why. If we get things wrong or make mistakes, we tell you. Please take a look at our past reports which we have been publishing since 1998 if you would like to judge for yourself. Once a year we host a meeting where we report to you and answer all your questions.

We will treat you how we would like to be treated. This is at the heart of how we go about our business at Phoenix, whoever we are dealing with. The name of our company includes the word "Partners" because that is how we think of our investors.

We will treat you fairly and when the issue is grey, we will err on the side of investors over ourselves. For example, other than the performance fee as described, we will earn no other monies out of the Trust or recharge any other expenses. As the performance fee is paid in shares, we will never take a penny out of the Trust.

We eat our own cooking. We have always invested our own money in the Phoenix UK Fund on the same terms as investors. We plan to do the same at Aurora. The amount we invest is significant for us and we don't invest in other funds. In our reports, we tell you about the size of our investment and how it has changed in the period.

We restrict the capital we will manage. Throughout our history we have limited our capacity to our ability to deploy it successfully. We do this because we care about our track record and not asset gathering. We will only take new subscriptions when we know we can manage them without impacting our performance. In making this assessment we have always erred on the side of caution.

Consistency. Gary Channon has managed the Phoenix UK Fund since launch and the core team has been the same for over 15 years. Gary has been investing since he was 12, but it took until he was 27 in 1995 for him to discover Warren Buffett and have his investing epiphany.

Why Does The Approach Work And Why Isn't It Replicated More Often?

Richard Oldfield describes this style of investing as Simple But Not Easy (the title of his book). The approach is simple, but some of the experience that goes with it makes it too hard for most investment managers.

Patience

The approach works because there is at times a divergence between the values of businesses in the real world and the prices they sell for in the stock market. Studies have shown that in the short term there is no correlation between company fundamentals and share prices. Over the long term however, there is a convergence between the cash generation of a business and its stock market value. This can take a long time, perhaps over 3 years, and for many that is too long to wait. Suffering multiple years of under-performance can try the patience of investors resulting in redemptions. We try to make sure we work for investors who buy into our approach.

Independence of thought

Buying unpopular stocks with problems can make you look like a fool for a long time. Behavioural psychologists have observed a condition called "social proof" which is the comfort we derive in acting with the crowd even if we end up being wrong. Making investments that the wider investment community sees as mistakes can be uncomfortable and if you are wrong the censure is greater. We form all our views independently based upon our own research, we know the crowd can be wrong and we try to understand why it might be the case. We are not contrarians, but we are often acting opposite to the prevailing consensus at key moments. For our investments to work, at some point the consensus needs to agree with us.

Working from offices in Barnes, a village in Southwest London, helps us maintain perspective.

Discount Risk

Because Aurora is an investment trust that trades on the stock market, its price on any day reflects the balance of buying and selling interest. Although the NAV (Net Asset Value) will be published every day, there is no mechanism to ensure that the market price and the NAV are the same.

If there is a preponderance of selling interest, then the price could well be a discount to the NAV and vice versa.

We will not operate a mechanical discount control system, but we plan to do a number of things to help the two prices converge. We plan to act on a medium-term basis, not short term. These actions include share buybacks, transparent reporting and the development of long-term regular buying interest.

However, you may find that when you want to sell your shares that they trade at a discount to the NAV. If the market is weak, the discount may be greater. If we find greater value in the market than in buying back Aurora's own shares, then the discount may persist until those opportunities pass.

If you think you may need to sell your Aurora shares without the luxury of waiting for a good time, then you run this risk and should probably not invest in the first place. If there is a long-term persistent discount, we will act; we will not leave those who have chosen to back us trapped in a bad situation.

Dividend Policy

It is a requirement of HMRC that an investment trust distribute at least 85% of its net income and we intend to comply with that minimum. Therefore, the dividend will be a function of the dividends paid by the companies we own and the Trust cost base. We will make no attempt to smooth or flatter the dividend.

Other Considerations for Investors

Are you long term?

As we discussed, there can be a long lag between us making attractive investments and that being reflected in their prices; it can be over three years. Is this your time horizon? Although you have short term access to your funds, if you think your time horizon is less than three years, then this approach is probably not a suitable home for your money. If a sharp market downturn occurred just as you had to sell your investment then you may suffer.

Do you have the stomach for a big drawdown?

Warren Buffett says that "unless you can watch your stock holding decline by 50% without becoming panic-stricken, you should not be in the stock market." This has only happened to the Fund at Phoenix once since 1998, but you should invest anticipating the potential for big future drawdowns. It is important that you hold your nerve at these points otherwise you are likely to suffer a big loss. We try to make it easier for you by showing you what we hold and what we estimate it is worth, but if you think you might be tempted to bail out under those circumstances then it is better not to invest in the first place. During the Credit Crunch of 2008 none of our investors in the Phoenix UK Fund redeemed, despite the sharp falls and pervasive pessimism.

Read the Formal Documents

For a proper account of the Aurora Investment Trust please read the formal documents which are available on the website: www.aurorainvestmenttrust.com

Conclusion

As time goes on, I get more and more convinced that the right method in investment is to put fairly large sums into enterprises which one thinks one knows something about and in the management of which one thoroughly believes
John Maynard Keynes

Our investment philosophy is inspired by the teachings of Warren Buffett and Charlie Munger which builds upon the prior work of Benjamin Graham, Phil Fisher and John Maynard Keynes. Phil Fisher is the inspiration for our monitoring programmes.

Since 1998 we have been applying that philosophy in the Phoenix UK Fund. We have developed an approach that works and rigorous methods and processes to apply it. We continue to learn and evolve. We mine our mistakes for lessons and use continual self-assessment to improve.

The proof of the pudding is in the eating and for Phoenix that means track record. We have delivered long term returns significantly in excess of the market.

We are passionate about what we do and have a sincere respect for our investors. For the future you can expect more of the same.

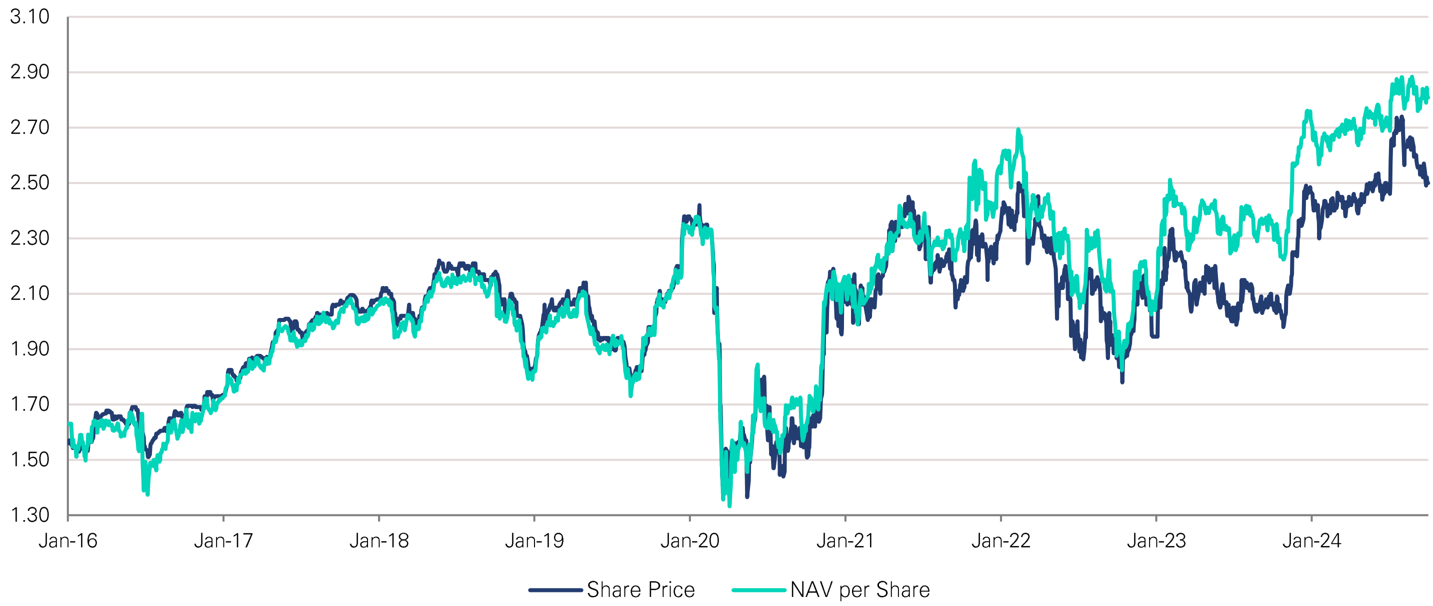
Track Record of the Aurora Investment Trust

The FTSE All Share Index used is with dividends reinvested.

	NAV Return %	Share Price Total Return* %	All Share Index* %	Relative NAV to ASX
2024 (to 30 September)	4.1%	2.6%	9.9%	-5.8%
2023	33.2%	28.8%	7.9%	25.3%
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%
2017	20.4%	21.2%	13.1%	7.3%
2016	6.6%	12.0%	16.8%	-10.1%
Cumulative**	92.9%	79.9%	80.8%	12.1%

*Share price return & All Shares with dividends reinvested.
** Since 1 January 2016
Past performance is not a reliable indicator of future performance.

Share Price & NAV per Share to 30 September 2024



Past performance is not a reliable indicator of future performance.

Further Information

If you would like to learn more about Aurora or Phoenix, then visit the following websites or contact us (see below):

Aurora Website: www.aurorainvestmenttrust.com

Phoenix Website: www.pamp.co.uk

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