Aurora UK Alpha

Monthly Factsheet

June 2025

Holdings >3% 30 June 2025	%
Barratt Redrow	14.9
Frasers Group	14.9
Castelnau Group Ltd	12.6
Lloyds Banking Group	11.0
Ryanair	9.2
Burberry Group	4.1
Nintendo	3.8
Bellway	3.8
Others <3%	23.7
Cash & Cash Equivalents	2.0

Share Price: £2.57

Net Asset Value: £2.86

Discount: 10%

Market Cap: £292m

Data as of 30 June 2025

In June, the NAV was up 0.5% for the month, versus the FTSE All Share (incl. dividends), which was also up 0.5%

Share price moves of note for the month include Nintendo and Burberry, up 18% and 14% respectively, while Frasers Group was down 7%.

Below, Gary Channon, Phoenix Founder and CIO, makes some observations on how performance and value are judged:

We write to you and report on the returns we have made on your money as does everyone in our industry. We tell you it in % terms, everyone understands what it means. The language of returns in investment management is well understood. Annual returns, cumulative returns, track records and relative returns, all expressed as percentages. It makes sense.

We take your money and hand it to managements and you would think we would ask of them the same that you ask of us, i.e. for the returns on the money shareholders have given them, but that doesn't happen. It's a quirky absurdity that would jump out to a visitor from Mars, but we are so used to it that we don't even question it.

The reasons are historic, but the consequences are profound.

In Goethe's Faust he says:

> *"What is the greatest invention of the human mind? The alphabet? No. The printing press? No. The greatest invention of the human mind is double-entry bookkeeping."*

Those who know it well probably agree. I (Gary speaking) discovered it as a 15-year-old boy learning to do the accounts of our family Post Office Stores and once it eventually clicked, I found it beautiful. At its core there is a simple symmetry that builds into unlimited complexities. Every entry on one side of the ledger has an equal and opposite one on the other from which you can derive the Balance Sheet to which the primary tenet of double entry bookkeeping is that Assets = Liabilities + Equity.

All of the Real Accounts form the Balance Sheet, and they are permanent. A Balance Sheet can be derived for any one day but those accounts never close. The Nominal Accounts are the temporary ones (essential income and expenses) which get closed periodically to derive an Income Statement for the period in question at the end of which those accounts are cleared off and the Retained Earnings are transferred to the Balance Sheet.

This system was devised over 500 years ago by commerce and first written down by Luca Pacioli (a Franciscan friar and mathematician) in 1494.

The system provided businesses and those who backed them with a record of their current financial standing and a report of trading and profitability. Everything that has followed is a direct consequence of that system whose essential tenets are the same today.

It wasn't designed to report on performance. The Balance Sheet is for a single date at the end of the period and the Income Statement is usually for a whole year. All the layers of complexity since have allowed businesses to share more information like the movement of cash but at no point have accounting regulators asked businesses to report their performance the way fund managers do. There have been some consultations on it in the past but they never came to anything because it's not straightforward and there are different approaches but that is true of many areas of accounting and those are included.

Managements often report their performance in share price terms, especially when the numbers are good yet share prices are an external measure of how the business is valued and not down to the work of management although unfortunately some managements spend too much time on it. We like the ones who focus on the things they do have some control over, i.e. the performance of the business.

The use of the Income Statement and the Balance Sheet to report on business means that the heuristic yardsticks that investors use to judge whether businesses are cheap or expensive come from them. The P/E (Price/Earnings) ratio relates the share price to the Income Statement and the P/B (Price to Book Ratio) relates to the Balance Sheet.

Humans use narratives to understand the world; it is how we are wired and there is plenty of evidence to back that up. That is how investors generally approach stocks, as stories. The yardsticks are used as measures of value, so for a good story you would pay a higher multiple of earnings. Cheapness is expressed in low multiples to earnings or discounts to book value.

No one seems to have noticed the disconnect. Investors give their savings to professional investment managers who report back how much they make on that money in a way that is understood, and yet they invest that money in businesses and accept reporting that doesn't do the same.

A lot of work goes on at Phoenix to figure out what those returns actually are. We have shared previously the detailed work done to show the high cash return on core capital (CROCC - a Phoenix-invented metric) which Frasers Group has generated over the past 10 years. It is not straightforward to figure out using the financial reporting, but it is possible. Once done in Frasers it reveals an operation that consistently delivers high teens returns. If they were a fund or reported like a fund, in our view they would be highly regarded and attract lots of investors.

Looked at through the narrative lens and the traditional financial reporting metrics Frasers has not always fared so well and that provides those who do the detailed work and analysis with an opportunity because traditional heuristics of value derived from what is in this case a misleading starting point will end up with potentially big disparities in market and intrinsic values.

Your portfolio is invested this way, not using the financial reporting as the basis but as the source of information to figure what returns are really being made. We then try to figure why high returns are persistently earned and then, the hardest part of it is to figure whether they are sustainable into the future and why. If we get that right, most of the time, and we are long-term holders, then we will produce returns for you that approximate the underlying returns of those businesses. Our hurdle rates are around 5% higher than the average long-term return on capital and so again through time this should show up as alpha (outperformance over the index of all companies), and it has.

We consider narrative as well and the language of business is largely narrative. But over 90% of the narrative coverage and developments is just noise. We focus on placing your money in financial machines that will safely grow it.

Amidst all the current global turmoil, much of which is emanating from the White House, we have detected a small and early sign of some interest and inflows into the UK; it's a trickle not a stream, let alone a river, but it is real. The takeover of Spectris by the likes of KKR, which has such high hurdles itself, at twice the price it was trading at before the first approach again highlights, we believe, the extreme cheapness of the UK.

Aurora Track Record

	NAV Return %	Share Price Total Return %**	FTSE All-Share Total Return Index %**	Relative NAV to ASX %
2025 (to 30 June)	11.2	13.2	9.0	2.2
2024	-3.6	-5.7	9.5	-13.1
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
Cumulative*	98.6	87.3	96.5	2.1

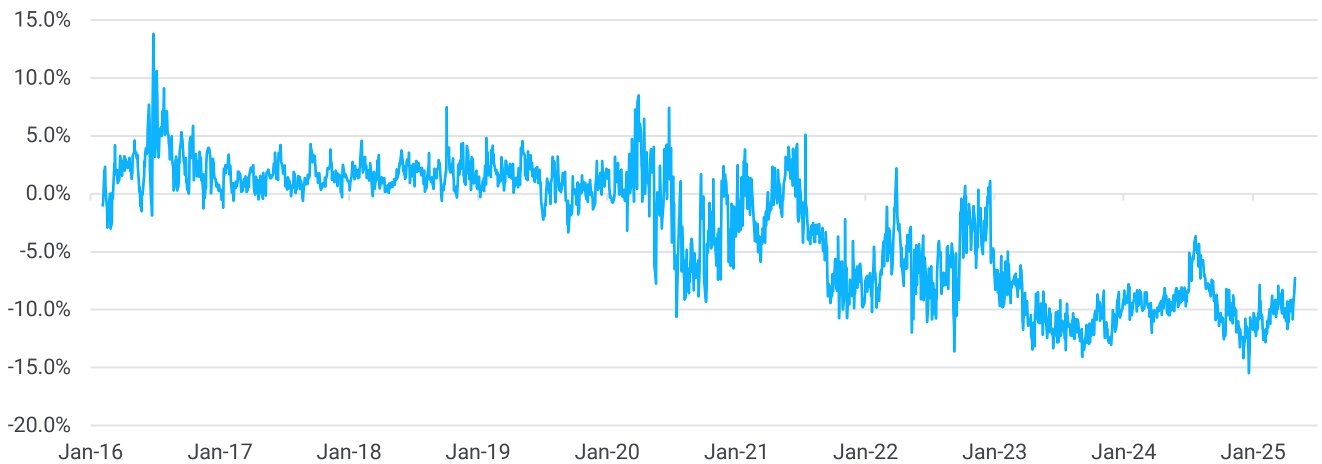
* Since 1 January 2016
**Share price return with dividends reinvested; FTSE All Share Total Return Index with dividends reinvested.
Past performance is not a reliable indicator of future performance.

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

Aurora Share Price & NAV per Share – 30 June 2025

Past performance is not a reliable indicator of future performance.

Aurora Premium / (Discount) – 30 June 2025



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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

Aurora UK Alpha 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.

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Listing: London Stock Exchange
Inception Date: 13 March 1997
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Bloomberg: ARR

Fees

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