



Aurora UK Alpha

Monthly Factsheet

September 2025

Holdings >3% 30 September 2025	%
Frasers Group	16.9
Barratt Redrow	14.3
Lloyds Banking Group	12.5
Castelnau Group	12.2
Ryanair	9.9
Burberry Group	4.2
Nintendo	3.5
Others <3%	24.2
Cash & Cash Equivalents	2.3

Share Price: £2.50

Net Asset Value: £2.82

Discount: 11%

Market Cap: £278m

Data as of 30 September 2025

In August, the NAV was up 3.0% for the month, versus the FTSE All Share (incl. dividends), which was up 1.9%.

Frasers was up 10% for the month, with Barratt Redrow and Lloyds up 8% and 5% respectively. There were falls from Burberry, down 9%, and from Nintendo, which was down 5%.

A final reminder that the Aurora Annual Shareholder Event is taking place at 4pm on Wednesday, 15th October 2025 at One Moorgate Place, London, EC2R 6EA. If you would like to attend please RSVP to: ir@frostrow.com

The following extract is taken from the Q3 2025 letter to shareholders of Phoenix UK Fund ("PUK"), the flagship fund managed by Phoenix. It reflects on a decade of investment performance, examining potential explanations such as style drift, sizing decisions, errors of analysis, and external factors to provide a framework for thinking about the future. The lessons learned, combined with changes already made and a clearer understanding of what worked and what didn't, point to stronger results going forward.

This introspection is directly relevant to Aurora shareholders. Phoenix has managed Aurora since January 2016—nearly ten years—with the same investment team, research platform, and value-based discipline applied consistently across both funds.

Over this period, Aurora's NAV has compounded at approximately 6.9% per annum versus 7.8% for the FTSE All-Share. While Aurora's portfolio closely resembles PUK's, several factors account for their differing trajectories: vehicle structure constraints, the timing of historic investments, and varying money flows. Aurora also operates under a different fee model—no management fee, only a performance fee subject to clawback—and its share price can be influenced by movements in the discount or premium to net asset value.

At the Aurora Annual Shareholder Event on 15th October, the team will present an adapted version of this analysis, tailored specifically to Aurora's history and circumstances, allowing shareholders to engage directly with the findings and their implications.

Beyond the annual meeting, Phoenix is introducing quarterly webcasts to provide ongoing engagement with professional investors. These sessions will follow each quarterly report (excluding the March quarter) and offer an opportunity to discuss the portfolio, investment decisions, and topics covered in the reports.

The format will be conversational rather than a formal presentation—a fireside chat about the businesses and investment approach. To register interest, please email phoenix@pamp.co.uk.

Have we lost our edge?

Sometimes I need to write in the first person, and this is one of those occasions.

Is the past a guide to the future? This is important for investors because the act of investing, choosing an asset class and selecting a manager, is in part a prediction of the future and the decision will probably include some assessment of the past. We know that in financial markets the short term is noisy and so longer periods are needed to make meaningful assessments. We often use 10 years as a reasonable period to assess what we do for the purpose of learning lessons. We did it after the first 10 years, then at 20 and now rather than wait until 2028, we have done it again. We are going to share some of the findings with you to help you make your ongoing assessment of us.

The data is for the 10 years to 31st August 2025. It is not September because we have been analysing it this month, but we don't think that it would make any difference to what follows. I should warn you in advance that 10 years ago was a high point for us after a stellar run of good years, but that doesn't take away from the lessons and insights here.

Let's start with the headlines, our 10-year investment return is 95% or 6.9% per annum, way short of our stated goal of 15% per annum. After fees it is even worse, 63% (5.0% per annum). In the same period the UK market returned (including dividends) 7.6%. So, we can't even blame a weak UK market for our performance. In the language of investment returns, beta is the return of the market and alpha is the return above or below that. Alpha is used as a measure of skill and by that measure we seem to be without skill.

Before this period, we seemed to have skill, we delivered 13.0% per annum for over 17 years (1st May 1998 to 31st Aug 2015) which was 8.5% per annum in excess of the market. (732% vs 116%)

Did we have skill and then lose it? I started the assessment with that assumption and tried to figure out what went wrong. Some investment managers do lose their skill and edge through time for various reasons and so we went in search of those:

1. Style Drift

Style Drift is often seen as a cause. Although our core approach stayed the same, we got involved directly in companies. 10 years ago was when I first purchased the wedding gift list business that became Cambium. From there we went on to get control of Hornby, Stanley Gibbons and ultimately Dignity. We formed and listed Castelnau Group to hold this activity. When we look at the impact of this it has been a very negative drag on our returns, it works out at 2.5% per annum over 10 years, that's the difference between an investment return of 95% and 146%, enough to boost us back into positive alpha territory but still leaving us very short of 15%.

$(6.9\% \text{ ACTUAL}) + (2.5\% * \text{CONTROL POSITION IMPACT}) = 9.4\% \text{ per annum}$

*The figures used in this analysis are our own estimates calculated in the best way for each factor that we could find.

When using this to assess the future the important consideration is that, as we have shared previously, we have realised that we have not been able to build a sustainable capability to turn around and improve businesses and do it in a way where we can continuously improve at it. There are several causes of this, but the important point here is that it won't be repeated; we are in the process of dealing with it. If it was "style drift" then the drifting is over.

An important comfort for investors is that failure with a margin of safety means that we still expect to make very good returns out of this mistake. The actual net asset value of Castelnu Group is above where it started, it has made a positive return on the capital invested. The drag on performance is due to the discount that its price has moved to in relation to net assets. Furthermore, the intrinsic value is very materially above the current value.

The biggest asset, Dignity, is expected to be worth multiples of what we paid for it. It has also become more like the other holdings in our core portfolio in that it runs itself, needs no help or capital from us but is receptive to assistance where it adds value. (I will mention one later). From my own perspective it now takes up no more of my time than our investments in Frasers or Barratt.

2. Errors of Analysis and Forecasting

Our past analysis of our track record showed it came from the excellent research and analytical valuation work by the investment team, handicapped by my investment decisions. Although I have remained the singular decision maker for the portfolio, the investment team has grown and sometimes when this happens an institutionalisation creeps in which can lower the quality of the assessments. So, we looked at the quality of the valuation work.

One way we studied this was looking at the development of our intrinsic values from 10 years ago and all the assumptions in them and comparing them to what a perfect hindsight number would have been. In general, we found a high level of accuracy especially in those holdings we believe we know best like Frasers and Barratt. In Lloyds we made a big error in our estimation of the likely cost of remediating their PPI claims, we were short by over £20bn. Had we got that estimate right and a few other things we got wrong like how long it would take margins to recover, in part because of how long rates stayed near zero, and the additional bank tax, then our intrinsic value 10 years ago would have been 44% lower. It would still have been high enough that we would have made the investment, although the weight would have been lower.

The impact of underassessing the IV of Lloyds reduced returns by 0.6% per annum.

$$(6.9\% \text{ ACT}) + (2.5\% \text{ CP}) + (0.6\% \text{ LLOYDS}) = 10.0\% \text{ per annum}$$

There were no other material contributors, but it is not to say that we haven't derived some important lessons from those that deviated. In terms of the Lloyds mistake, it was hard to have anticipated in advance and hard therefore to derive a simple lesson to improve our approach. However, one insight we have had is that some industries, and banking is the worst, have a heavy bias towards negative surprises no matter how we define it. This we will be able to incorporate into our investment framework.

Other lessons and improvements are still being discussed and will be incorporated in time including things like peer reviewing of IV models and more data, records and rigour around our range of IVs not just the central one.

But the answers for our poor performance were not in the work of the investment team.

3. Errors in Portfolio Construction

There is an observed effect in fund managers known as career risk which causes them to lose some of their nerve as they develop good records and careers and the fear of losing their jobs weighs more heavily because it has greater life consequences. I have the privileged position, as the majority shareholder in Phoenix, of not having an impatient boss judging me. We do have investors though and I can be sacked in bits if they withdraw their investment and new ones don't replace them. If I need to be sacked, I would like to be the one to do it, then I can call it retired.

When we look at the effects of portfolio construction decisions one error stands out for its effect which is the selling of Games Workshop in March 2017. The impact of that decision alone equates to a drag of 2.4% per annum over the last 10 years. The company didn't do anything wrong; it had a long runway in front of it and was earning high returns on its capital all of which it was handing back to shareholders. Management was good and its culture deeply ingrained. It was an unforced error mainly caused by the high share price. It is not that the management of Games Workshop knew how good the future would be or that we could foresee it either, but opportunities of the quality of this come around very rarely in an investment career and when you own them you just need to leave them alone.

$(6.9\% \text{ ACT}) + (2.5\% \text{ CP}) + (0.6\% \text{ LLOY}) + (2.4\% \text{ Games Workshop}) = 12.4\% \text{ per annum}$

This is not an isolated incident, there remains a weakness in how well we run winners and act on losers. Value investors have an aversion to being in a crowd, being agreed with and being associated with good news.

One glaring insight we got from this analysis is that while we have a large team-based framework around buying decisions we do not have anything like it for selling decisions. Without those same assessment tools and a checklist, we lose the ability to embed lessons and continuously improve. Daniel Kahneman talks about how teams structured in the right way, outperform individuals in decision making who then outperform teams structured in the wrong way. The key is to collectively use the power of independent judgements whilst harnessing the bias reduction that comes from a team structure. We go to great lengths here to achieve that and will now harness it for selling decisions. (I know you are asking yourselves why it took me 27 years to figure that out, I am doing the same).

Skill in new investment identification and investment

Another way to test the capability of the investment team over the past 10 years is to look at the performance of all the new investments that have been through our framework and ended up in the Fund. This proved to be very interesting.

Taking all the new investments in the past 10 years (13 in total) from their time and price of first purchase into the fund until now (31st Aug), or when they were sold or

taken over (Hotel Chocolat & Hargreaves Lansdowne), showed they had an annualised return of 23.9%. Matching their returns to the market return either from time of purchase to now or until they were sold or taken over gives us a measure of alpha which was 13.4%! More than we have achieved over any other 10-year period.

What this means is that while I may have been distracted by our control positions and creating Castelnau Group, the core effort of the investment team (of which I am a member) and our continuously improving framework has been doing exactly that, continuously improving. When one looks to the future then this stands out, we do have skill in stock picking, and it seems to be growing.

External Explanations for our Performance Shortfall

Turning back to explaining why we haven't earned 15% per annum in the past 10 Years there are some external explanations.

4. Covid

The first is Covid which impacted the value of many of our businesses and caused some of them to raise capital through dilutive rights issues (easyJet and Wetherspoons). The impact of this over 10 years was 0.9% per annum.

$$(6.9\% \text{ ACT}) + (2.5\% \text{ CP}) + (0.6\% \text{ LLOY}) + (2.4\% \text{ GW}) + (0.9\% \text{ Covid}) = 13.3\% \text{ per annum}$$

Although external, as we have mentioned before, a pandemic was a risk we anticipated and prepared to put a hedge on for, but I failed to pull the trigger. That hedge would have negated this loss.

Note: We did hedge for a return of inflation and that effect is in starting returns and the hedge compensated for the negative impact the surge inflation had on the portfolio, like for example in the housebuilding sector. If you isolated the effect of that hedge on its own, it added 2.6% per annum.

5. Cheapening

The portfolio we had 10 years ago had an upside to IV of 73%. Our investment performance in the previous 4-year period was 182%! So, this 10-year period started after a strong run up in the Fund which was reflected in what for us is a low upside to Intrinsic Value. That is no longer the case and based upon where it was at the end of August the impact of the cheapening of the portfolio over the past 10 years has reduced returns by 3.6% per annum. Making it the biggest contributor to our performance shortfall.

$$(6.9\% \text{ ACT}) + (2.5\% \text{ CP}) + (0.6\% \text{ LLOY}) + (2.4\% \text{ GW}) + (0.9\% \text{ COV}) + (3.6\% \text{ Cheapening}) = 16.9\% \text{ per annum}$$

Putting this all together and using it to guide the future

The starting point for any type of analysis like this is important. After a strong run of results to a level of higher valuations some lowering of future expectations is reasonable. However, our portfolio is not fixed and if you were considering investing with us in August 2015 then it would have been a reasonable assumption that we should have been able to deliver you positive alpha over a 10-year period, and we didn't.

The deconstruction above shows that it was possible for us to have achieved our 15% goal (before fees) even with the impact of Covid.

The future:

1. Control Positions. Not being repeated, and considerable upside to come from Dignity.
2. Lloyds. A repeatable error although we will tread more cautiously in areas skewed to negative surprises.
3. Games Workshop. Applying a team-based framework to selling will, we expect, reduce these kinds of errors.
4. Covid. Black swan events will always happen, if we handle them well, we should be able to add value from opportunity better than we did with covid but not always.
5. Cheapening. When we look at the long-term ebb and flow of our returns the thing that stands out is how well relative cheapness correlates to future returns. What should have made us apprehensive 10 years ago should now make us enthusiastic.

In summary, the biggest factors (1&5) are likely to reverse their effect in the coming years. Lessons have been learned that should ameliorate the potential for more 2 & 3's. That leaves the core engine which has been continuously improving to work its magic.

AI is boosting the productivity of the team in a way that means more time is spent on thinking and discussing, more ideas are being assessed, and the diligence and monitoring is deeper and quicker. Every member of the team has become, as I said at the annual meeting, a "centaur" (part human/part machine) augmented by the new tools available and the ones we have been building.

Taken all together this makes me very optimistic about what we will do in the next 10 years.

Risk

This is all about performance, but we spend the biggest part of our pre-investment time on considering risk and downside, we prioritise capital preservation and our monitoring programmes are a further way in which we try to reduce risk. Most of the time, especially when markets and economies are rising and growing this doesn't matter but every so often it matters a lot and makes the difference between a multi-decade record of alpha and one without.

I think we are in a period where downside risk is going to matter a lot. Stock markets are distorting the economic world in a way we haven't seen since the TMT bubble 25 years ago.

As Keynes put it so brilliantly, "Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation". We are in one of those.

The value of businesses can be reduced to a few core elements; enduring pricing power, demand and the amount of capital a business activity needs. Very high values

are rightly put on businesses with enduring pricing power (i.e. that is the ability to control their own profit margins), who serve large and growing markets and that require modest amounts of capital to grow. Many great businesses have emerged like that in the field of technology in the past 20 years and their valuations have risen to reflect that. However, their businesses are changing into capital-intensive ones with the emergence of AI which at the same time is so competitive that pricing power is being eroded. That combination is likely to be calamitous to future returns.

As it did 25 years ago, society will likely benefit enormously from all the capital investment into AI infrastructure that this bubble is funding. The TMT bubble paid for enough internet infrastructure to cover the next 10 years of demand which gave rise to new uses like social media. In the UK in early 2000 Vodafone became over 15% of the index after merging with Mannesmann. At the time there were optimistic predictions that one day people would carry smartphones (which hadn't arrived yet) and people would use these smart phones to access the internet, buy things and watch things. In fact, the reality turned out to be even better than those optimistic forecasts and yet Vodafone which was over 400p a share in those days' trades for less than 100p these days. Building out the infrastructure for mobile internet has taken a lot of capital and without the pricing power the returns for investors have not been good.

The proportion of global GDP being invested in AI infrastructure has now surpassed the peak it reached for telecoms infrastructure in 2000. What Keynes warned about is upon us. Like 25 years ago huge amounts of capital are being diverted into a competitive race for a product and service without a clear understanding of who is going to pay and how it is going to be paid for, based upon an escalating demand by users currently paying nothing or very little.

This could just play out as a decade of low returns, but stock markets don't tend to adjust like that. The top 10 holdings of the S&P500 account for c.40% of its value and the US market accounts for over 70% of the MSCI World Index, this is all an accident waiting to happen. We have no way of predicting when but what we do know is that our portfolio will be a safe harbour if that dam breaks. (And coming back to Dignity - the prior switch of the funeral plan trusts to global equities has generated over £400m of surplus including what we have released to pay down debt, we have been a beneficiary of this market run up, but that is now being reversed back into bonds, this is an example of where we think we can add value).

The thing that most jumps out about this long-term analysis is that the very best guide to what is going to happen in the future is values. Vodafone was expensive as today's AI stocks are expensive. Our own portfolio was relatively expensive by our measures 10 years ago having had its run up but today it is extremely inexpensive. Analysing what we have done in detail has given me a lot of confidence that if we remain focused on doing what we are good at and have a genuine edge in, then we will produce excellent returns for our investors. The next 10 years look considerably better than the last 10.

Conclusion

The first draft of this report was titled "Should I be sacked?"; wiser heads prevailed but that is the question I asked myself when I embarked on the work, and then used a Charlie Munger tool of inversion to say let's assume we have lost our edge, how did it

happen? The insights from the analysis were even more powerful than I expected, rather than losing our edge, I think we are getting better at what we do best.

So, for now, I don't think I should be sacked, I think I have learned more in the past 10 years than in the rest of my time in the investment business. By far the most profound insight was the enormous importance of people in business and investment outcomes, and our approach has evolved to incorporate that. I have learned a lot about what I am not good at and the areas in which I do have strengths and capability, and I have come to appreciate how extraordinary the team and capability we have at Phoenix is. If the first 27 years have been a journey of learning and discovery through exploration I intend for the next 27 to be ones of applying those learnings in a focused striving for excellence. I honestly don't think there has been a better time to back us.

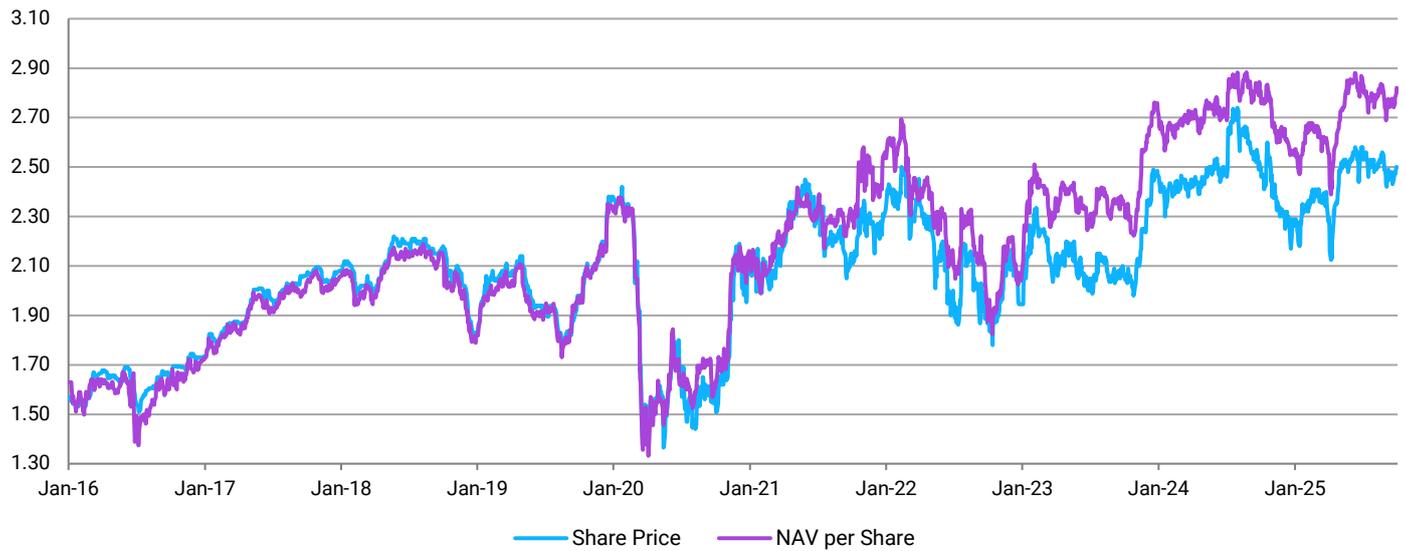
Aurora Track Record

	NAV Return %	Share Price Total Return %**	FTSE All-Share Total Return Index %**	Relative NAV to ASX %
2025 (to 30 September)	9.7	10.1	16.5	-6.8
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*	96.0	82.2	110.0	-14.0

* Since 1 January 2016

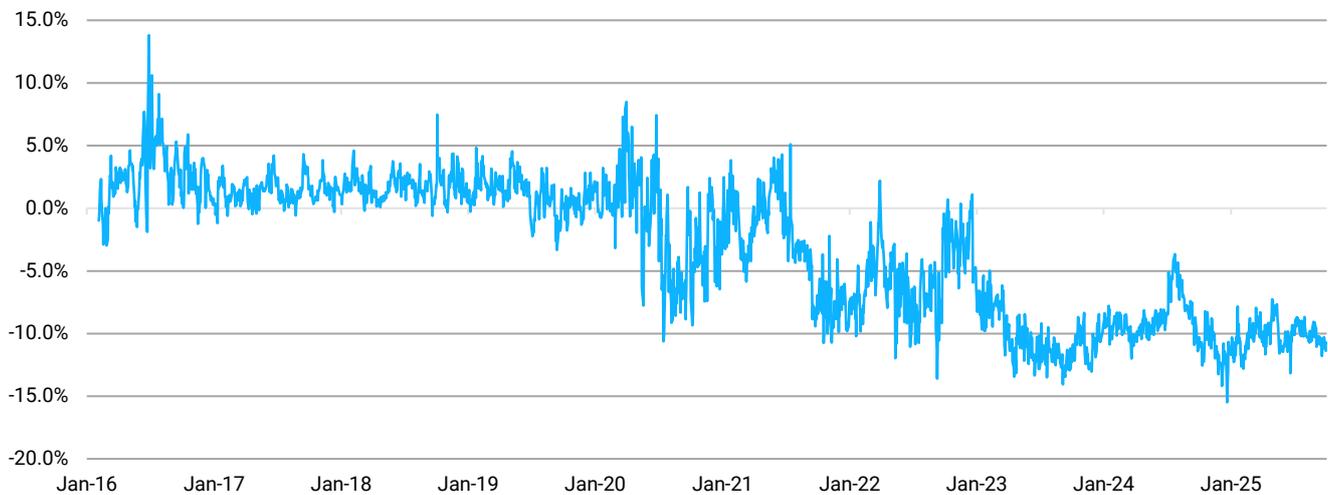
**Share price return with dividends reinvested; FTSE All Share Total Return Index with dividends reinvested. Past performance is not a reliable indicator of future performance. [Click here](#) for Aurora's full performance track record.

Aurora Share Price & NAV per Share – 30 September 2025



Past performance is not a reliable indicator of future performance.

Aurora Premium / (Discount) – 30 September 2025



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.

Investment Objective

We seek to achieve long-term returns by investing in predominantly 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, aim to 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.

Regulatory Notice:

This advertisement is issued by Phoenix Asset Management Partners Limited (PAMP), registered office 80-82 Glenthams Road London SW13 9JJ. PAMP is authorised and regulated in the UK by the Financial Conduct Authority. Aurora UK Alpha 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.auroraukalpha.com

Contact

Phoenix Asset Management Partners Ltd
80-82 Glenthams 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