



Aurora UK Alpha

Monthly Factsheet

September 2026

Holdings >3%	%
30 September 2026	
Fraser's Group	19.2
Barratt Redrow	17.7
Castelnau Group Ltd	15.4
Ryanair	10.9
Lloyds Banking Group	7.8
Nintendo	3.0
Others <3%	23.8
Cash & Cash Equivalents	2.2

Share Price: £2.53

Net Asset Value: £2.85

Discount: 11%

Market Cap: £266m

Data as of 30 September 2026

In September, the NAV was down 1.2% for the month, while the FTSE All-Share (including dividends) was down 1.9%.

The only material price move for the month was a 10% fall for Nintendo.

A final reminder that Aurora will hold its **Annual Investor Event** on Wednesday, 14th October 2026 at One Moorgate Place, London, EC2R 6EA. Hosted by the Aurora Board, the event is designed for both existing and prospective Aurora investors. Gary Channon, Kartik Kumar and the team will be reflecting on performance and updates on the holdings across the portfolio. For further information and to confirm your attendance, please email: ir@frostrow.com

Below is the quarterly commentary from Phoenix CIO, Gary Channon, in which he discusses the View from the Value Valley:

The View from the Value Valley

Value investors are used to spending much more of their time in the valleys than the mountains but in those epochal periods that come around every few decades the going can get particularly tough. But if you stand back far enough and get the right perspective, value investors should be happy and excited right now, because "bubbles" are good for society and for value investors. Not the frothy speculative type but the ones that build the future. These are based on something fundamentally positive and value creating but require huge amounts of capital and an optimistic belief in the future. These kinds of investment bubbles allocate the capital to build new transformative technologies, and society is the long-term beneficiary. History is full of examples of this, from the railroads to the internet.

The negative side is that those who collectively fund that build out, especially those who buy the shares but usually even those who supply the debt, don't do so well. The long-term returns on capital don't justify the collective investment but the chance to pick a winner is what attracts the capital. (Every year in the UK over 10 million people bet on the Grand National horse race, however, only about 60% of the money wagered gets paid out in winnings, but it remains a national, collectively joyful occasion.)

One problem with this bubble, and by that we are referring to the AI bubble and all the capital expenditure associated with building the infrastructure, is that there are going to be some innocent victims and they are being let down by those who are supposed to be protecting them. These are passive investors, owners of index funds and index related products. This is largely a US issue but impacts anyone with globally invested money, which includes savers and pensioners all over the world.

Our analysis leads us to think that the current bubble has almost run its course and so our warning to passive investors is, *"it has been a great ride, but the building is on fire, save yourselves!"* The place to go - not just as a safe harbour, like cash, but where your capital is likely to do well in this next phase - is of course a value fund. Now that sounds

eye-rollingly self-serving coming from a value manager, but you don't need to choose Phoenix, there are other highly capable and trustworthy firms.

To show the scale of the issue, the S&P 500 has a c.45% weight in companies that are categorised as AI platforms and infrastructure. If you add in software, devices and robotics you get to c.59% and if you include a wider net of businesses currently benefitting from the boom like US energy suppliers then it gets to 68%. Because of how much the US now represents of the developed world indices, at a global level those numbers, to the above definitions, are 36%, 48% and 57%.

The principle of fund regulation in which Phoenix has grown up is that concentrated active investing is considered more risky and so investors who are deemed to be needing the protection of lower risk are encouraged into index funds. Diversification is seen as the protector because volatility combined with human psychology does create a risk (i.e. that people sell and buy at the wrong time). Most of the time index funds are the best way to achieve that but occasionally they are not and right now, as the numbers show, they are not and any intelligent advisor who applies the basic principles of the regulations will be able to see that and yet there continues to be a relentless flow of money into passive funds and out of active funds, in the UK, US and elsewhere.

Keynes said, *"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. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done."* This is where we are now.

When interns finish their placement period with us, we give them a talk about the industry and careers within it. Whilst unable to justify the huge rake the financial services industry takes for doing its job, we do explain it is supposed to allocate the capital of savers and institutions to the users of that capital. In times like these the job is ill-done. That distortion is showing up all over the credit markets, governments are paying more to fund their deficits, as are all companies who use the debt markets, because of the enormous amounts of borrowing by the businesses building the AI infrastructure.

Bubbles burst when the money to sustain them falls short of what is needed. We have reached a stage where the spending far exceeds the profits of those businesses that have them, like Google, and far exceeds the revenues of those that don't, like OpenAI and Anthropic. The high valuations and the need for capital is bringing them to the equity market, like SpaceX but the equity issuance is far short of the need and so most of the borrowing is in the debt markets where there are lots of signs of indigestion. The capital commitments are there, and the spending is real, but it depends not just on forecasts of revenue but also expectations of more capital, and when that slows the whole edifice of compounded assumptions will fall in upon itself. (Calls by AI leaders to slow the innovation race may be more motivated by concerns about cashflow than humanity.)

Some of the money in the past 12 months has come from increased inflows into index funds (nearly \$1 trillion) and margin debt which in the US increased by \$500 billion (a 50% rise) in the 12 months to June but has since stopped rising and is now \$50 billion lower. When we look at all the flows of money and conditions in the credit markets in a

way that we couldn't do before AI, we are seeing signs of cracks in the edifice which is what has led us to buy some protection for the fund that will pay out if the US market does fall sharply in the way they usually do when bubbles burst. As with the previous two occasions in the past 28 years when we have bought some form of insurance, we have capped the spend at 1% of assets and with no open liability.

You don't need a sophisticated understanding of Artificial Intelligence to work out why this won't end well for investors. Nearly 30 years of looking at businesses from many fields has taught us that sustained high returns on capital are only earned in rare circumstances and it is down to competition, not at the company level but in the minds of consumers, those paying the price for the product or service.

In a commercial sense the internet has been transformative and those companies who have built out the infrastructure have done society a great service. Just taking the US alone, the total capex in the 30 years since 1997 is about \$3.3 trillion dollars in today's money and it generates Free Cashflow of c. \$80bn to \$100bn a year after a spend of about \$100bn on ongoing maintenance and upgrading. In the same period the cost of 1MB of usage has dropped 95% to 99% depending how you measure it but the usage in monetary terms is up 18-fold. The reason why the providers of this successful, valued and effective service aren't doing better than a c.3% annual return on their investment is competition. If they were a monopoly they would charge more but customers given choice will switch because of the way customers think about the service. There are many providers of handbags and customers of Hermes could switch and save money, but they don't think of that purchase in the way they think about internet access. Business customers are even less subjective than consumers and they procure as cost effectively as they can.

Taking this framework to AI, we can see that there is plenty of competition within the US and globally. There are bottlenecks in the infrastructure layer especially microchips, but customers don't buy chips, they buy the output and there are plenty of competitors in semiconductors and so when supply catches up their pricing power will go because the ultimate payer doesn't care about which company's chip is being used.

The internet did give rise to some great businesses where they built monopolies like Google in search and Meta in social media. They are great, commercially, because of the competitive landscape not the internet, and when the dust settles on the other side of the crash, we will be looking for those.

Back now in Value Valley, we look up and see a juggernaut that seems to have gone over the cliff but is still defying gravity, and we know when things this big reverse there is damage everywhere. A recession in the US could well cause a recession in the UK and as the new UK government tries to build credibility in the bond market there are risks of being caught up in a global selloff.

The real oasis of safety though is the portfolio itself, and we have a lot of confidence and conviction in the businesses that we own and their prospects. The government has finally introduced a demand stimulus for first time buyers, which we had anticipated, but it took a change of PM and Chancellor to get it there. This is likely to be very material for housebuilders. What is not appreciated was how much the predictability of demand drove housebuilders to increase output during the Help To Buy era. Launching a building site in an area requires confidence that the output will sell, and for the past 5

years after rates rose rapidly that confidence has been lacking and it shows in the slowdown in housing starts. We expect that to change and for housebuilders now to start growing output. We won't bore you with the overall thesis, you've heard it plenty before, we have moved on to trying to spread the word more widely!

We have had a very constructive engagement with Barratt Redrow since our call for buybacks and appreciate that they have not treated us as an activist but as the long-term shareholders that we are. The new CEO and CFO have just started, and we look forward to working with them. We are also grateful to fellow Barratt Redrow shareholders, we have never experienced such an aligned shareholder group although the Chair has asked Gary to attend the AGM to explain to some retail investors why buybacks are much better than dividends for a UK taxpayer.

As always, we hold up the intrinsic value as a guide to cheapness (£7.35 per share giving upside from NAV of 158%), but that doesn't capture the confidence and depth built into those numbers, nor the true value scenario horizon that shows the limited downside and the skewed upside in our expected returns. The all-time low for our flagship Fund (Phoenix UK Fund) in the last bubble of this type was February 2000 on the day the Vodafone weight doubled in the index. As the TMT bubble burst those that needed to stay invested in equities fled to value and we had an extraordinary two years that more than reversed the misery before! Value investors who survive bubbles develop fond memories of them.

Aurora Track Record

	NAV Return %	Share Price Total Return %**	FTSE All-Share Total Return Index %**	Relative NAV to ASX %
2016 – 2019*	55.9	62.6	49.1	6.8
2020	-5.5	-10.0	-9.7	4.2
2021	19.1	13.5	18.3	0.8
2022	-17.4	-16.3	0.3	-17.7
2023	33.2	28.8	7.9	25.3
2024	-3.6	-5.7	9.5	-13.1
2025	16.5	19.8	23.9	-7.4
2026 (to 30 September)	-3.2	-5.2	9.8	-13.0
Cumulative*	110.0	91.6	157.0	-47.0

* Data from 27 January 2016, Phoenix's official appointment date as Investment Manager. Phoenix assumed responsibility for the portfolio in late 2015, when the discount stood at 15%.

**Share price return with dividends reinvested; FTSE All Share Total Return Index with dividends reinvested.

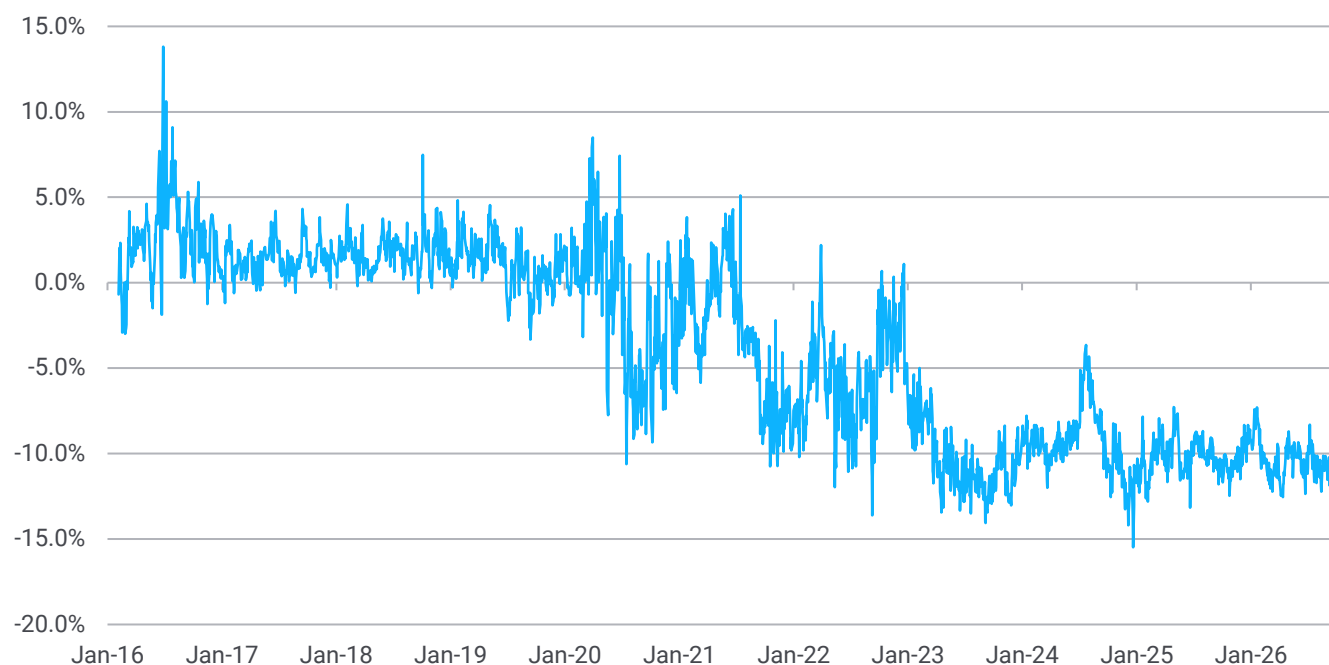
Past performance is not a reliable indicator of future performance. [Click here](#) for Aurora's full performance track record.

Aurora Share Price & NAV per Share – 30 September 2026



Past performance is not a reliable indicator of future performance.

Aurora Premium / (Discount) – 30 September 2026



Past performance is not a reliable indicator of future performance.

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

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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