



Phoenix Primer

An introduction to Phoenix & what our
investors can expect from us.

The Goal

Our primary objective is to protect and compound the capital trusted to us over the very long term at rates superior to those of a passive strategy. Superior means much higher and at lower risk.



Gary Channon

Founder & Chief
Investment
Officer



About Phoenix

Founded in 1998, Phoenix is a boutique investment management company based in Barnes, Southwest London, with a strong long-term track record of investment outperformance.

We are **value investors** inspired by Warren Buffett, Phil Fisher, Ben Graham and Charlie Munger.

We are **business owners** inspired by Warren Buffett, Henry Singleton and the Rales Brothers.

We are a **continuously improving learning organisation** inspired by W. Edwards Deming and Peter Senge

Our development has been inspired by the companies in Bo Burlingham's **Small Giants**.

Phoenix is employee owned and has a distinctive culture. We strive for excellence in investment management and how we treat investors. We value humility, integrity and fairness. We have consistently applied and followed the same set of company and investment principles throughout our history. We are led by Gary Channon, who was a co-founder and has been the CIO since inception.

What We Do

Phoenix manages the **Phoenix UK Fund** (launched in 1998), the listed **Aurora Investment Trust**, and several segregated **managed accounts** following the same strategy. We also manage the **Huginn Fund**, **Castelnau Group Ltd** and **Iona Star LP**.

Our Goal

Our primary objective is to protect and compound the capital trusted to us over the very long term at rates superior to those of a passive strategy. Superior means much higher and **with the potential for** lower risk.

The Means

We do that by investing in businesses that earn **high and enduring returns** on their capital. The price we pay for those investments is important, but the underlying economics of those businesses is even more important as we look for a very long, and potentially indefinite holding period, which means our long-term returns will tend towards



the internal returns of the businesses we are invested in with the added potential of a valuation uplift when the market recognises the initial undervaluation.

The Why

We believe that **markets occasionally misprice businesses**, usually due to an overweighting of short-term factors in what are very long-term securities, to such an extent that a very attractive investment opportunity occurs offering high risk-adjusted returns. These can only be seized by the prepared mind and so we seek to put ourselves in that position.

Understanding the valuations of businesses across their whole risk horizon, taking account of the long term, is very hard to do and we have developed a narrow and deep expertise for a particular type of business, which we believe gives us an edge.

The How

We have developed a **philosophical and analytical framework** designed to minimise human biases that draws upon the wisdom of others, deep analysis, real world information gathering and clear thinking, and that allows us to assess some businesses and managements to a level where we are able to value them to a degree of confidence that supports an investment decision at a determined price.

We are organised in such a way so as to cultivate that deep business learning, drawing upon many sources of knowledge, information and wisdom. By applying a consistent methodology to the way in which we assess, evaluate and model businesses and a consistent way in which we make investment decisions, combined with a feedback loop, we have been able to develop a learning framework that has improved through time. Phoenix has been built as a **learning organisation** and it permeates our culture.

Risk Management

We invest in businesses whose competitive dynamics we can monitor in action, and we run **rigorous monitoring programmes** for all our businesses so that we can test the assumptions we have made in our original assessments. We devote a considerable amount of our investment team effort to this activity, which we believe deepens our understanding of the industries we operate in and reduces our risk and



probability of error. It also changes the nature of the engagement we have with management teams.

We avoid capital structures and business models that have a risk of ruin. We don't invest at values above the bottom of our intrinsic valuation ranges. We do this so that we do not suffer any permanent losses of capital, which allows us to run a concentrated portfolio where the risk is minimised by the extent of our knowledge and monitoring programmes.

We use sufficiently enough diversification to protect us from our errors but otherwise we focus the portfolio and weight it according to the amount of risk adjusted upside taking account of the range of potential outcomes, the depth and quality of our understanding and the nature of the risk horizon.

The Phoenix Approach

Valuations of businesses based upon long term modelling are highly subjective and prone to error. We have focused on **building the specific expertise** to identify businesses that earn a high and sustainable return on their starting capital and retained capital in a way that is understandable, and which we can observe in our monitoring programmes. These economic moats allow us to build long range models and make valuation assumptions that we have confidence in. We then combine that with a high margin of safety in the price we are willing to pay to take account of the risk of error and the inherent unpredictability of the future. If that price is not reached, we don't act.

A **deep understanding of why a business has a sustainable competitive advantage** and why its customers choose to use it, and will continue to do so, takes a long time to acquire and can require a lot of focused work, including fieldwork and a good understanding of human behaviour and motivation. We look for businesses to collect as future opportunities and not for current investments, which gives us the time to build that knowledge which we will need to call upon should a valuation opportunity suddenly open. That willingness to devote considerable analytical time and resource to businesses that aren't current investment opportunities is unusual, but essential for our approach.

We back **managements with integrity** and pay attention to alignment and competence. We seek out great managers who have built winning cultures.



We have a willingness, even a propensity, to do nothing, letting the internal rates of return in the businesses we hold **create the long-term investment returns** and waiting for opportunities to act whenever they may come. This means we will have years without making investments and our cash position may build. We believe not being compelled to act and a willingness to hold cash in the absence of opportunity gives an edge to outperform a continually fully invested benchmark.

To summarise our philosophy, if you have the expertise to identify some businesses that have high and sustainable returns on their capital that can be owned for the very long term, and you have the patience to wait and only invest in them when they trade so cheaply that it covers your risks of error, and you don't care about what the share price will do in the short and medium term, and you are backed by investors who understand and support that, then you have an advantage over most other investors of all forms. If you **stick to businesses that you know** well and then watch business in action and monitor how the world is unfolding in comparison to the assumptions you have made in your assessments, then you can reduce your risk of error further. If you do everything in a framework that is able to incorporate errors as learnings, then you will improve with time.

The Phoenix Brain

At the **heart of our investment operation is a team** dedicated to the understanding, analysing and monitoring of businesses and industries. We are students of business and investing and because of the unusual structure of the group, we are able to create a fusion of the best ideas and knowledge from the worlds of business, investment, private equity and venture capital.

Part of the team's work and professional development involves operational and analytical work inside companies that we have investments in. This includes the businesses we control and those we have minority holdings in.

The depth and quality of this work gives us a considerable edge. It is **a team of diverse and capable brains** selected, developed and organised in a way to make the most of that collective wisdom.

We also draw up on an **ever-widening network of expertise** from many fields and industries that has developed throughout our history.



Our Investors

Our approach only works if we partner with capital that understands and is comfortable with our approach, including the volatility that comes with concentration, the usual superficial unattractiveness of the things we buy, and the long timeframe over which our approach needs to be judged. At the same time, we are highly transparent in a way that allows investors to look through performance to underlying values and consistency of our approach.

To that end, we would rather put you off before you invest instead of having you find out later that Phoenix perhaps wasn't for you. Our approach delivers bumpy returns. Look at the long-term track record and know that in the depths of all those drawdowns, not only were the returns poor, but what we owned in the portfolio looked ugly, and ask yourself honestly whether you may have been prone to want to sell because if so, then our approach will not work well for you. We have managed to attract investors who are able to ride out the bumpiness and if anything, add to their investments in drawdowns, and this will be an essential ingredient of our long-term success.

If you become an investor, we would **see you as a partner**. That means we'll be **candid and transparent**, treating you as we would want to be treated if our roles were reversed.

Our Investments

We mainly invest in listed equity securities, purchasing minority holdings. We also have a means of investing in whole businesses, where we apply all our learning, expertise and network to improve businesses that we control. That learning flows both ways in that we apply what we learn from our own businesses to our business assessments and judgements.



Our Company

We are employee owned and have a distinctive culture. We are a learning organisation that has continued to evolve as we strive for continuous improvement in all that we do. We value humility, integrity and fairness. We have consistently applied and followed the same set of principles throughout our history. We were founded and are still based in Barnes, a village in Southwest London.



How to Participate

Phoenix manages the following vehicles that can offer participation in the Phoenix approach:



The flagship Phoenix fund, launched in May 1998 with the original strategy that applies the Phoenix Approach to businesses that have a strong UK presence, either purely UK, or as part of a global operation. It is a Cayman mutual fund structure, open to professional investors only, including individuals who can be classified as professional. The Fund is predominantly an equity strategy, and seeks to grow investors' money over the long-term, and has a strong track record of doing so to date. It does that by primarily investing in a concentrated portfolio of businesses that are deeply researched and monitored.



Aurora is an investment trust, listed on the London Stock Exchange. In early 2016, Phoenix took on the management of Aurora and has been applying the same approach as used in the Phoenix UK Fund, thereby giving a wider access for all investors to Phoenix. It is open to professional investors and retail investors but is most suitable to those retail investors with an underlying knowledge of equity investments. A unique fee structure means Phoenix only gets paid for long-term outperformance and receives no management fee thereby creating real alignment.



Huginn is an international equity strategy that applies the Phoenix approach to businesses listed anywhere. Like the Phoenix UK Fund, it is a Cayman domiciled mutual fund structure, and is available to professional investors only, including individuals who can be classified as professional. It is a global, unconstrained strategy, which can include UK equities. The Huginn Fund was launched in 2018 and is managed by James Wilson.



Castelnau Group Ltd is a closed end company, which was launched and listed on the London Stock Exchange in 2021. It is our business improvement vehicle, where we buy, improve and hold private and public businesses. Castelnau Group specialises in building great

companies in certain fields that have similar characteristics. It is Phoenix's dedicated vehicle for enhancing shareholder value by directly owning majority stakes in businesses, both private and public. It is open to professional investors and "High Net Worth" and "sophisticated" retail investors, those considered "advanced".

Segregated / Managed Mandates

For a certain minimum account size, we will run a segregated account with an allocation to the strategies above. We have managed segregated mandates for pension funds, family offices, wealth managers and endowments.

IONA STAR

Launched in 2024, Iona Star LP's purpose is to invest in and develop disruptive, early-stage companies to accelerate technology innovation with artificial intelligence and data. Iona Star LP is a venture capital fund managed by Gerry Buggy and a specialist team, whose first fund, which was not available to external investors, delivered returns of >3x on invested capital. It is open to professional investors only.

Company Principles



Strive for excellence in investment management



Treat investors as partners and strive for excellence in our dealings with them



We invest our own money alongside our investors



Be conscious of and positively contribute to our local community



Operate profitably and be frugal with our costs



Treat success with humility and failings with honesty



Conduct ourselves at all times with integrity and fairness



Investment Principles



Apply an intelligent, valuation-based approach to long-term investing



Strive for excellence in primary research



Focus: we diversify only to the point of necessity to protect us from our mistakes



Avoid permanent losses of capital



Be aware of the extent of our knowledge base and only operate within it



Avoid leverage



Learn from our mistakes



Keep learning from the wisdom of others



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