

Temple Bar Investment Trust PLC – Monthly update 30th September 2013

Trust Facts

Launch date: 1926

Wind-up date: None

Year end:
31st December

Dividends paid:
March & September

AGM:
March

Benchmark:
FTSE All-Share

ISA status:
May be held in an ISA

Capital Structure:

Share class	No. in issue	Sedol
Ordinary	62,363,635	0882532

Debt:

5.50% Debenture Stock 2021	£38m
9.875% Debenture Stock 2017	£25m
4.05% Private Placement Loan 2028	£50m

Charges:

Management fee: 0.35% per annum based on the value of the investments of the Company.

Ongoing charges: 0.47% (June 2013)

Board of Directors:

John Reeve (Chairman)
Arthur Copple
Richard Jewson
June de Moller
Martin Riley
David Webster

Auditors: Ernst & Young LLP

Investment Manager:
Investec Asset Management Ltd

Registrars: Equiniti Ltd

Savings Scheme Administrator:
Equiniti Financial Services Ltd

Secretary:
Investec Asset Management Ltd

Stockbrokers: JPMorgan Cazenove

Bankers & Custodian: HSBC Bank Plc

Solicitors: Eversheds

Trust Objective

To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the constituents of the FTSE 350 Index.

Top ten equity holdings (%) *

GlaxoSmithKline plc	7.4
Vodafone Group Plc	7.0
HSBC Holdings plc	6.9
Royal Dutch Shell Plc Class B	6.4
Signet Jewelers Limited	5.8
Grafton Group Plc	5.6
BT Group plc	4.5
BP p.l.c.	4.0
SIG plc	2.9
Unilever PLC	2.7
	53.2

* % of total assets, including cash

Financial data

Total Assets (£m)	836.54
Share price (p)	1184.00
NAV (p) (ex income, debt at mkt)	1146.47
Premium/(Discount) (%)	3.3
Historic net yield (%)	3.13

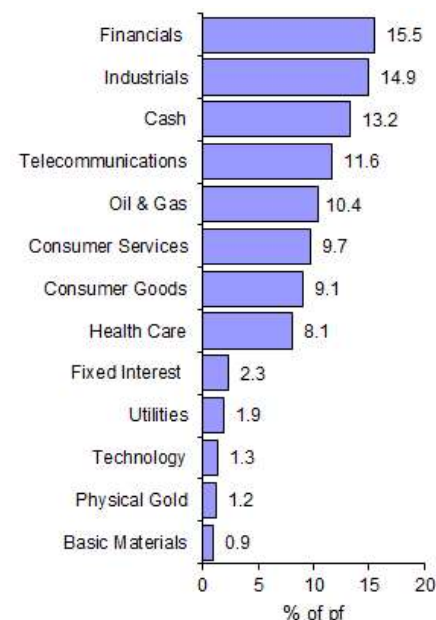
Performance

Share Price % change

	TBIT	All-Share *
1 month	0.6	1.0
3 months	3.7	4.7
1 year	23.8	14.8
3 years	51.0	20.1
5 years	97.3	38.7

* Capital return only

Sector Analysis



NAV total return % change

	TBIT	All-Share *
1 month	2.2	1.1
3 months	5.7	5.6
1 year	28.1	18.9
3 years	61.2	33.4
5 years	134.5	66.2

* Total return

Source: Thomson Datastream, Investec

Dividend History

Type	Amount (p)	Ex date	Pay date
Interim	15.10	11-Sep-13	30-Sep-13
Final	22.00	13-Mar-13	28-Mar-13

Past performance should not be taken as a guide to the future and dividend growth is not guaranteed. The value of your shares in Temple Bar and the income from them can fall as well as rise and you may lose money.

A portion (60%) of the Trust's management and financing expenses are charged to its capital account rather than to its income, which has the effect of increasing the Trust's income (which may be taxable) whilst reducing its capital to an equivalent extent. This could constrain future capital and income growth.

The effect of borrowings to finance the Trust's investments is to magnify the volatility of its price and potential capital gains and losses. We recommend that you seek independent financial advice to ensure this Trust is suitable for your investment needs.

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Manager's Commentary

We are continually asked about our contact or, more accurately, our lack of contact with company management. Although we do sometimes meet chief executives and finance directors, our conversations are typically backward looking and help to better understand the past rather than provide clarity about the future. We believe a fairly accurate impression of management can be made from analysis of its historic behaviour and record.

Let's take JD Wetherspoon as an example. This company was formed in 1979 and now has almost 900 pubs across the United Kingdom. Over the years it has stuck to what it knows: running big pubs in busy places serving good food and beer at great prices. The only area into which it has ventured has been hotels (i.e. rooms in the pubs), but this remains an immaterial part of the business and is not reported as a separate business segment. It has made only one meaningful acquisition – that of Lloyds No. 1 bars in 1999. Acquisitions undoubtedly bring complexity to any business and can suck away management time from the core business. They can also prove expensive if made from a position of ignorance or in an auction. We are therefore typically happy if our investee companies make few acquisitions although we clearly see the benefits of opportunistic pounces.

Since 2003, the company has repurchased approximately 45% of the number of shares in issue. Share buy-backs are not always good – for example, company management can use them as an exercise in financial engineering and consequently create uncomfortable levels of gearing. The decision on share buybacks at JD Wetherspoon is driven by simply comparing the virtues of buybacks and new pub openings. This has created a 'lumpy' buyback record, but

this lumpiness is in our view an indicator of the thought behind the actions as opposed to a mechanistic programme conducted at any price.

Another area in which Wetherspoons breaks convention is in corporate governance. This is an activity which management can conduct in a way to appease shareholders and regulators whilst putting little thought into the process. Following the letter rather than the spirit of the rules is not the desired behaviour in this area. While I am sure all management teams can justify any breaches of guidelines, it is interesting when companies refuse to toe the line. Given they can expect to attract some votes against their actions (with investors automatically voting against if guidelines are breached) it may illustrate the management's confidence that their way is best for the company and the shareholders.

It was therefore interesting to see Tim Martin, Wetherspoon's founder and Chairman recently explain reasons for his company's non-compliance. For example, he believes that the 'discouragement of non-executives who remain at a company longer than nine years may often be counterproductive, since it usually means that directors have not seen the effects of a recession, for example, on the company which they serve'. He also believes bonus awards based on specific targets can be dangerous as the targets, 'can create distortions in the behaviour of executives...which prejudice long-term success for the benefit of relatively short-term gains'. He also clearly explained why he believes it can often be healthy for a chief executive to become chairman, why it is not always sensible for a board to have a majority of non-executive members and why outsourcing board evaluation to a third party can be a 'dangerous step for a board to take'.

It is fascinating that none of the executive members of the JD Wetherspoon board sit on other plc boards. This is perhaps a more eloquent way than any other of illustrating how focused management are on the business.

If the management team has been in place a long time, the company's historic operating performance can demonstrate exactly how successful their stewardship has been. Wetherspoons happily place their 29 year track record at the front of their report and accounts detailing the impressive long-term growth in sales, profit before tax, earnings per share, and free cash flow.

It is also revealing to see how much management teams are paid. Clearly, if a remuneration committee of a company wishes to throw riches at the executive board it would be harsh to expect them to turn the money down. However, if the company exhibits some semblance of remuneration control rather than just creating a list of alleged, and extraordinarily well paid, peers within which to place their own management team's returns, then it gives some degree of comfort to outsiders.

JD Wetherspoon remuneration certainly seems to be in the (sensibly constructed) pack rather than obviously excessive.

Of course, this analysis does not provide any guide as to how the future will unfold, but we believe it is futile to ask a glass half-full management team their views on this subject. It is also clear that even if we are happy with the capital allocation, corporate governance, remuneration and trading history, then even that is not sufficient for us to buy the shares. The company's valuation remains as important as ever.

Telephone calls may be recorded for training and quality assurance purposes.

For further details, call the Investor Services Department on 020 7597 1800, or send an email to investor@investecmail.com. Alternatively, visit the Temple Bar website: www.templebarinvestments.co.uk.

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