TEMPLE BAR
Investment Trust Plc

Temple Bar quarterly newsletter

Issue 4: May 2022

Dear fellow shareholder

Welcome to the fourth issue of the Temple Bar quarterly newsletter. In this issue, portfolio manager Ian Lance explores the shortcomings of the asset management industry's focus on short-term performance.

As well as our feature article we also update you on other relevant news items, such as the publication of the Company's annual report for 2021, and a link to a video that Ian Lance recently recorded to update investors on the portfolio's progress. To accompany that, we are also pleased to include some information on the current shape of the portfolio and recent performance.

You are receiving this by post because you have previously indicated that you wish to receive correspondence from Temple Bar in this way. We can, of course, continue to keep you informed by mail, but it would cost less and save paper if we contacted you by email. Do let us know if you would like to switch to email correspondence via one of the options outlined below. We would like to reassure that we will adhere to the requirements of GDPR (general data protection regulation) and will not use your email address for any other purpose.

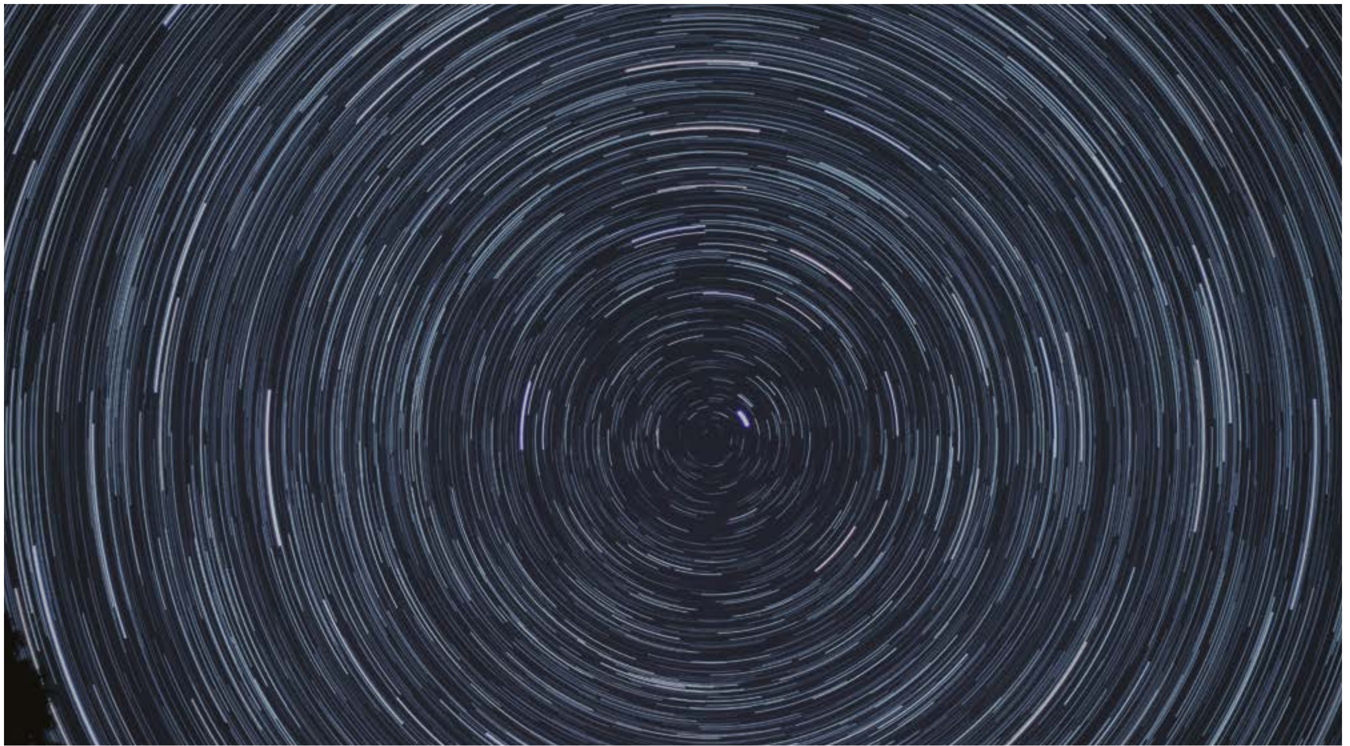
- Direct shareholders – if you have a share certificate and hold your Temple Bar shares directly in your own name (as opposed to through a nominee account), you should contact Equiniti (you may do so either through the Shareview website www.shareview.co.uk or alternatively by writing to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA) to inform them of your preferences

- Platform investors – if you have invested in Temple Bar through a platform or financial intermediary, please visit our website (www.templebarinvestments.co.uk/) and complete the registration form to sign up for the quarterly newsletter

We remain open to your feedback on all matters relating to the trust. Please feel free to email us at TempleBar@Redwheel.com or by any of the other means of contacting us that are detailed on our website.

Yours sincerely,

Arthur Copple
Chairman
Temple Bar Investment Trust Plc



The long & the short of it

Ian Lance

The asset management industry can tend to concentrate on short-term performance, with fund managers' returns frequently measured over a month, a week or even a day. Positive short-run returns are often used as evidence that a fund manager is 'skilful' and are extrapolated into the future. The same can be true of poor short-term returns which are attributed to bad judgement rather than bad luck. In this article, we suggest that, at best, short-run returns have very little real meaning, and at worst, they may contribute to the buy high, sell low mentality prevalent in some parts of the investment industry.

Short circuit

When asked whether they want their fund manager to slavishly follow the crowd or to take a contrarian view, I suspect most investors would opt for the latter. They fail to realise, however, that whilst having a portfolio that is different from an index guarantees different results to that index, there is no guarantee that performance will be better over every time period.

A study by the Brandes Institute set out to examine this subject[1]. It identified the top performing decile of US portfolio managers in the period from 1999 to 2009, which gave a group of 64 funds, all of which had beaten the S&P 500 index by at least 4.6% per annum across the full period.

It then looked at the profile of returns of this group of funds within the period. When it studied the worst one-year rolling returns versus the benchmark, it found that the average was -22.4%, with the worst being -40.5%. The average of the worst three-year rolling periods was -8.3%, with the bottom being -17.8%.

These results seem simply staggering – in a world where being a couple of percentage points behind the benchmark is sometimes enough to get a fund manager fired, some of these managers had been 40% behind the index and still went on to be among the best performing funds over ten years!

The Brandes Institute then went on to look at the performance of this top 10% of fund managers relative to their wider peer group over shorter time periods. Again, the results were illuminating. Of the group of 64 best performing fund managers, on a one-year time scale, 61 had been in the 8th decile or lower at some stage in the ten years. On a three-year time scale, 35 of the fund managers (more than half) had been in the 8th decile or below at some point during the period.

Rome wasn't built in a day

% of top 64 funds with at least one appearance at or below…	8th decile	9th decile	10th decile
Based on rolling 1-year performance	95%	81%	61%
Based on rolling 3-year performance	55%	41%	27%

Source: Brandes Institute, 2009

Past performance is not a guide to future results. The prices of investments and income from them may fall as well as rise and an investor's investment is subject to potential loss, in whole or in part. No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment.

The magnificent seven

A similar pattern of performance can be observed by examining the track records of seven fund managers identified by Warren Buffett in his 1984 speech and accompanying article entitled 'The Superinvestors of Graham and Doddsville'. Buffett highlighted the magnificent returns these fund managers had delivered by following the value investing principles of Ben Graham. However, in 1986, Eugene Shahan looked at the shorter-term pattern of returns of these fund managers in a study which demonstrated how all of these superinvestors had periods of short-term performance that were much worse than the market, and yet still went on to produce spectacular long-term returns[2].

Rome wasn't built in a day

	Total return p.a.	Total relative return p.a	Years of underperformance	Underperformance as % of all year	Worst 3-years vs average
Warren Buffett	+23.8%	+16.4%	1	7.7%	-12.3%
Pacific Partners	+23.6%	+15.8%	8	42.1%	-40.1%
Stan Perlmeter	+19.0%	+12.0%	---	---	-9.8%
Sequoia Fund	+18.2%	+8.2%	6	40.0%	-25.2%
Walter Schloss	+16.1%	+7.7%	8	28.3%	-8.2%
Tweedy Browne	+16.0%	+9.0%	5	31.7%	-3.7%
Charles Munger	+13.7%	+8.7%	5	35.7%	-38.1%

Source: The hare and the tortoise revisited, 1986
Past performance is not a guide to future results. The prices of investments and income from them may fall as well as rise and an investor's investment is subject to potential loss, in whole or in part. No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment.

Again, it is worth highlighting the frequency and magnitude of this short-term underperformance. All of the investors other than Buffett had underperformed in 25-45% of the years studied with one investor registering a return 40% behind the index over three years. Despite this, that manager, Pacific Partners, went on to deliver 23% per annum, beating the index by 16% per annum.

If this is not enough to make us question the significance of looking at short-term returns, consider the results below. Which of these managers would you hire, and which would you fire?

Rome wasn't built in a day

	Fund	Annualised total returns S&P 500 index	Period
Fund A	-9.7%	+3.3%	6 years
Fund B	+31.3%	+13.2%	8 years
Fund C	+23.6%	+7.8%	19 years

Source: The hare and the tortoise revisited, 1986
No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment.

My guess is that few people would have patience with Fund A, which had trailed the market by a jaw dropping 13% per annum over six years. Many investors would have fired the manager – probably long before the sixth year – and replaced it with Fund C.

The twist here is that they are all the same fund manager – Pacific Funds – viewed over different time periods. Those who fired Manager A would have missed out on the returns generated in period B (the returns that followed period A) and period C (the returns delivered over the full duration).

Yet again, the conclusion seems to be that short-run performance tells us relatively little about the likelihood of long-term success.

Long hello and short goodbye

Although many investors appear to desire great long-run returns with no volatility, these studies suggest this is an unrealistic ambition. In fact, investors should be surprised if a manager never encountered a period of underperformance, because we know that in the short-term, share price movements are largely driven by sentiment. Thus, for a manager to never encounter short-term underperformance, he/she would need to have the ability to correctly anticipate changes in market sentiment and position his/her portfolio accordingly in advance and without moving share prices. Alternatively, when a contrarian manager buys an out of favour stock, how likely is it that sentiment towards it changes immediately after they buy it?

Unfortunately, this tendency to extrapolate short-term returns into the future is one of investment's most harmful characteristics. Investing relies on a mixture of skill and luck, but the shorter the time frame you examine, the more likely it is that luck rather than skill will have influenced the results.

Meanwhile, fund performance tends to be mean-reverting, which means that by picking a manager with good short-term results, you are increasing your chances of long-run returns being average or worse. In 2005, Professors Goyal and Wahal analysed 3,400 pension plans and endowments over a ten-year period and found that they tended to appoint funds that had performed well in the recent past and fire those with poor short-term performance[3]. When they tracked performance in subsequent years, they found that many of the managers that had been fired went on to beat those that had been hired.

How can investors get around this? Firstly, they must recognise that a greater sample size leads to more meaningful conclusions. In practice, this means looking at the longest periods of performance data possible and paying little regard to short-term noise.

Secondly, investors should focus on process as well as outcome. For example, does a fund manager have an intellectually robust process that he/she has applied in a disciplined fashion over a number of years and that has worked in the long run? If so, it is highly likely that short-term underperformance will improve at some stage in the future.

Until fund management companies and investors stop focusing on short-term results, however, there is a disincentive for most fund managers to take a long-term contrarian view. The career risk involved with doing so is just too high. Yet it is only by acting in this way that they are likely to produce returns that are superior to the index and peer group.

"It is the long-term investor, he who most promotes the public interest, who will in practice come in for the most criticism… For it is the essence of his behaviour that he should be eccentric, unconventional and rash in the eyes of average opinion. If he is successful, that will only confirm the general belief in his rashness; and if in the short run he is unsuccessful, which is very likely, he will not receive much mercy."

John Maynard Keynes

Conclusion

Every time I read a classic investing book like 'The Intelligent Investor' or 'The Margin of Safety' I am struck by the fact that the basis of successful investment is a) simple and b) has not changed for decades. What is staggering is how many investors seem to make life so difficult for themselves by ignoring the investment strategies that have worked for decades. In fact, the opening line of Margin of Safety is as follows:

"Investors adopt many different approaches that offer little or no real prospect of long-term success and considerable chance of substantial economic loss. Many are not coherent investment programs at all but instead resemble speculation or outright gambling."

Seth Klarman

Successful investing is rarely ever about guessing which company might beat the whisper number next quarter or trying to speculate on where the copper price might be in six months. It is simply about buying assets for less than they are worth, holding them for the long term and being rewarded either through the income they generate, the move back towards intrinsic value or both. These are the simple steps which, if followed in a disciplined fashion, significantly tilt the odds in an investor's favour. Indeed, they are the simple steps that we employ on behalf of Temple Bar shareholders.

[1] 'Death, taxes and short-term underperformance', Brandes Institute, 2009
[2] 'Are short-term performance and value investing mutually exclusive? The hare and the tortoise revisited', Eugene Shahan, 1986
[3] 'The selection and termination of investment managers by plan sponsors', Goyal and Wahal, 2005

Other news

Annual report 2021

Temple Bar's annual report and financial statements for the year ended 31 December 2021 were published on 24 March 2022. Most shareholders will already have been notified of this, but you can download a copy of the annual report from our website (www.templebarinvestments.co.uk) or request a copy by emailing us at TempleBar@Redwheel.com.

Annual General Meeting

Temple Bar's Annual General Meeting will this year be held at Verde 8th Floor, 10 Bressenden Place, London SW1E 5DH on Tuesday, 10 May 2022 at 12.30pm.

Unlike last year, shareholders are welcome to attend in person where you will be able to hear a presentation from the Portfolio Managers Nick Purves and Ian Lance. We realise that the arrival of this newsletter won't leave you much time to prepare to attend the AGM, so we will be providing a write-up of proceedings on our website soon after.

Appointment of new director

We are pleased to welcome Charles Cade as a new non-executive Director with effect from 24 March 2022. With more than 25 years' experience in the Investment Companies sector, Charles brings a wealth of experience and expertise.

Charles was ranked among the leading analysts throughout his career at Numis Securities, Winterflood Securities, HSBC and Merrill Lynch. He joined the City following an MBA, having previously worked for a consultancy firm and as an economist in the UK government. He currently sits on the Investment Committee of the Rank Foundation charity and is an independent member of the Investment Research Monitoring Group for interactive investor, the retail platform.

Share split

We have been advised that a share split may help liquidity in the market and be helpful to shareholders who invest on a regular basis or who re-invest their dividends. Accordingly, we are recommending a five for one division. This means that, following the share split, shareholders will hold five new ordinary shares for each existing share they held immediately prior to the split.

This will increase the number of shares in issue by a factor of five and investors should expect the price and net asset value per share to become one-fifth of their prior values. Overall, therefore, the share split will not affect the value of your holding.

The share split requires approval and shareholders will have the opportunity to vote on it (resolution 10) at the Annual General Meeting.

Investor update

Portfolio manager Ian Lance recently recorded an update video for the Doceo investment trust platform, which you can find on our website at the link below. You will also find eight charts explaining the ongoing UK value investment opportunity that the Temple Bar portfolio is aiming to capture, on the same web page at templebarinvestments.co.uk/investor-update/

Phone
+44 (0)371 384 2432
Broker helpline
+44 (0)906 559 6025
templebar@redwheel.com
templebarinvestments.co.uk

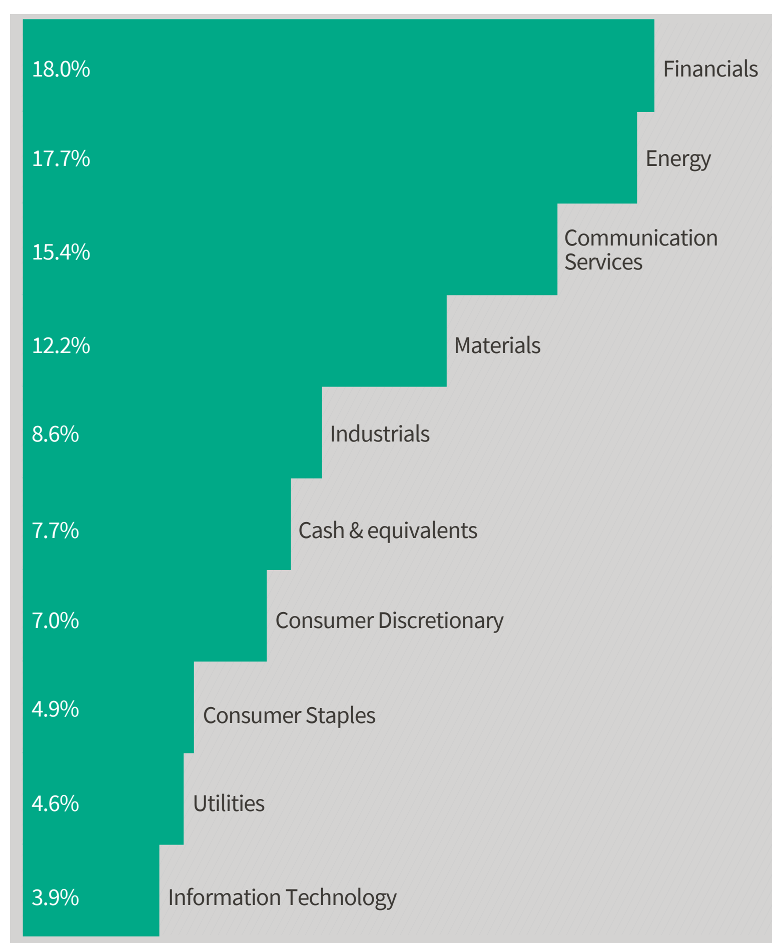
The Temple Bar portfolio

Data as at 31 March 2022

Top 10 equity holdings (%)

Shell PLC	6.92
BP p.l.c.	6.44
Anglo American plc	6.19
Marks and Spencer Group plc	4.92
Royal Mail plc	4.86
Centrica plc	4.61
NatWest Group Plc	4.57
TotalEnergies SE	4.38
Standard Chartered PLC	4.30
Aviva plc	4.26
Total	**51.4**

Sector analysis



Financial data

Total Assets (£m)	858.37
Share price (p)	1156.0
NAV (p) (ex income, debt at mkt)	1178.8
Premium/(Discount), Ex income (%)	-1.97
NAV (p) (cum income, debt at mkt)	1188.9
Premium/(Discount), Cum income (%)	-2.85
Historic net yield (%)	3.42

Dividend history

Type	Amount (p)	XD date	Pay date
4th interim	10.25	11.03.22	31.03.22
3rd interim	9.75	10.12.21	31.12.21
2nd interim	9.75	09.09.21	30.09.21
1st interim	9.75	05.06.21	30.06.21

Performance (total return)

Cumulative returns (%)

	Share price	NAV	FTSE All-Share
1 month	-3.5	-1.9	1.3
3 month	5.3	-0.2	0.5
1 year	5.0	6.3	13.0
3 year	0.3	0.2	16.8
5 year	14.5	9.6	25.8
10 year	81.2	88.3	99.5

Rolling 12 month returns (%)

	Share price	NAV	FTSE All-Share
31.03.21 - 31.03.22	5.0	6.3	13.0
31.03.20 - 31.03.21	56.7	59.8	26.7
31.03.19 - 31.03.20	-39.0	-41.0	-18.5
31.03.18 - 31.03.19	11.6	9.3	6.4
31.03.17 - 31.03.18	2.2	0.1	1.2

Disclaimers

Past performance is not a guide to the future. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested. Forecasts and estimates are based upon subjective assumptions about circumstances and events that may not yet have taken place and may never do so.

No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment. Nothing in this document should be construed as advice and is therefore not a recommendation to buy or sell shares. Information contained in this document should not be viewed as indicative of future results. The value of investments can go down as well as up.

This document is issued by RWC Asset Management LLP (RWC), in its capacity as the appointed portfolio manager to the Temple Bar Investment Trust Plc. RWC, is authorised and regulated by the UK Financial Conduct Authority and the US Securities and Exchange Commission.

RWC may act as investment manager or adviser, or otherwise provide services, to more than one product pursuing a similar investment strategy or focus to the product detailed in this document. RWC seeks to minimise any conflicts of interest, and endeavours to act at all times in accordance with its legal and regulatory obligations as well as its own policies and codes of conduct.

This document is directed only at professional, institutional, wholesale or qualified investors. The services provided by RWC are available only to such persons. It is not intended for distribution to and should not be relied on by any person who would qualify as a retail or individual investor in any jurisdiction or for distribution to, or use by, any person or entity in any jurisdiction where such distribution or use would be contrary to local law or regulation.

The information contained herein does not constitute: (i) a binding legal agreement; (ii) legal, regulatory, tax, accounting or other advice; (iii) an offer, recommendation or solicitation to buy or sell shares in any fund, security, commodity, financial instrument or derivative linked to, or otherwise included in a portfolio managed or advised by RWC; or (iv) an offer to enter into any other transaction whatsoever (each a Transaction). No representations and/or warranties are made that the information contained herein is either up to date and/or accurate and is not intended to be used or relied upon by any counterparty, investor or any other third party. RWC bears no responsibility for your investment research and/or investment decisions and you should consult your own lawyer, accountant, tax adviser or other professional adviser before entering into any Transaction.