Temple Bar quarterly newsletter

Issue 5: August 2022

Dear fellow shareholder,

Welcome to the fifth issue of Temple Bar's quarterly newsletter. The first half of 2022 has been a tough period across asset classes, and we acknowledge that these are uncomfortable times for investors. In this issue's feature article, co-portfolio manager Ian Lance explores the reasons why positive returns have been hard to come by so far this year and finds considerable cause for optimism going forward.

Alongside our feature article, we also provide you with an update from the Company's Annual General Meeting, held in May, and provide some highlights from recent media coverage. We are also pleased to include some information on the current shape of the portfolio and its 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 (https://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

Annus horribilis for investors?

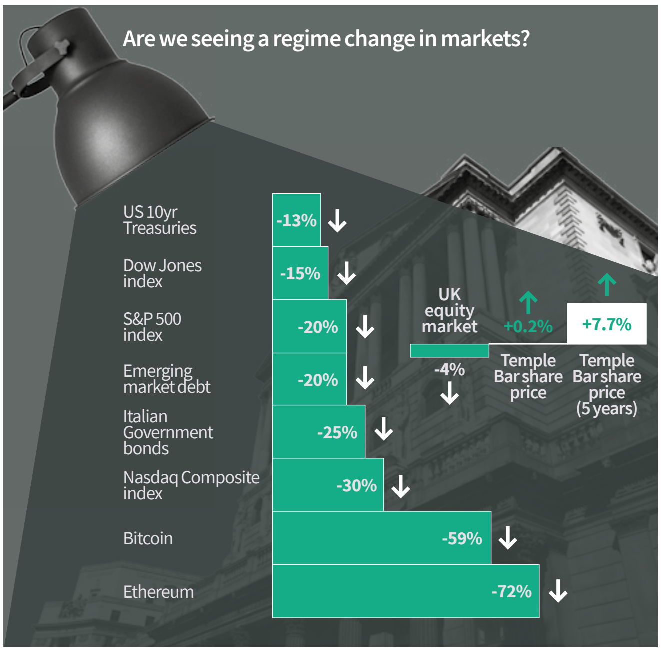
It is an understatement to say that the first half of 2022 was a torrid time for most investors. The first half of 2022 has been the worst period for stock markets in more than 50 years and fears over rising interest rates and the potential recessions they will bring, have seen many other investment assets suffer so far this year.

The S&P 500 fell just over 20% in the first six months of 2022[1], its worst half-year performance since 1970. The Dow Jones is down 15%, while the technology heavy Nasdaq index performed even worse, losing just over 30%, its biggest half-year loss ever.

At the same time, 10-year US Treasury bonds – the benchmark of global borrowing markets and traditional go-to asset in troubled times – have had their worst first half since 1788. Treasuries have lost more than 13%, the most since the U.S. constitution was ratified, according to Deutsche Bank; Italy's bonds have haemorrhaged 25% in preparation for the European Central Bank's first interest rate hike in over a decade; and emerging market debt is down nearly 20%.

Cryptocurrencies, which were previously lauded as being non-correlated to equities, were terrible in the main as Bitcoin fell 59% in the first half of the year – that is the worst start to a year ever for the cryptocurrency (worse even than the 58% drop in 2017). Ethereum was worse, falling 72% YTD.

Amongst this carnage, the UK equity market fared much better and although the total return was negative at -4%, this was relatively good when compared to the asset classes highlighted above. It is pleasing to report that the Temple Bar share price was significantly more defensive in the first half, producing a modestly positive total return of 0.2%.



Source: Bloomberg over 6 months to 30 June 2022 in local currency. Past performance is not a guide to the future. No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment.

What is going on?

The simple truth is that the extreme monetary and fiscal stimulus applied by central banks and governments during the pandemic created one of the greatest bubbles in asset prices ever witnessed. The 1,200% rise in the price of Tesla and Bitcoin in the twelve months between March 2020 and March 2021 were just two of numerous examples of the speculative fervour which gripped investors during this period and pushed prices of many assets far above their fundamental value. In a recent white paper[2] from Jeremy Grantham, one of the founders of US asset manager GMO, he states "for the first time in the US we have simultaneous bubbles across all major asset classes". This presents an enormous challenge for many investors who have become accustomed to diversifying into bonds as protection against a deflating bubble in equities. That option is not available in the current context, because bonds are in what Grantham describes as a 'superbubble' defined as any asset class which has moved three standard deviations above its long-term trend.

These policies have also contributed to a rise in the rate of inflation and, having spent the last year claiming that this was only transitory, central banks have finally acknowledged that this is clearly not the case. Policymakers are now urgently reversing the stimulus in order to try to cool the inflationary pressures. US interest rates are currently set for a range of 1.5% – 1.75% and will almost certainly be at 2% in the coming months given inflation is currently above 9%. Both the increase in inflation and the accompanying increase in interest rates are bad news for asset prices because such conditions typically cause equities to de-rate and bond yields to rise.

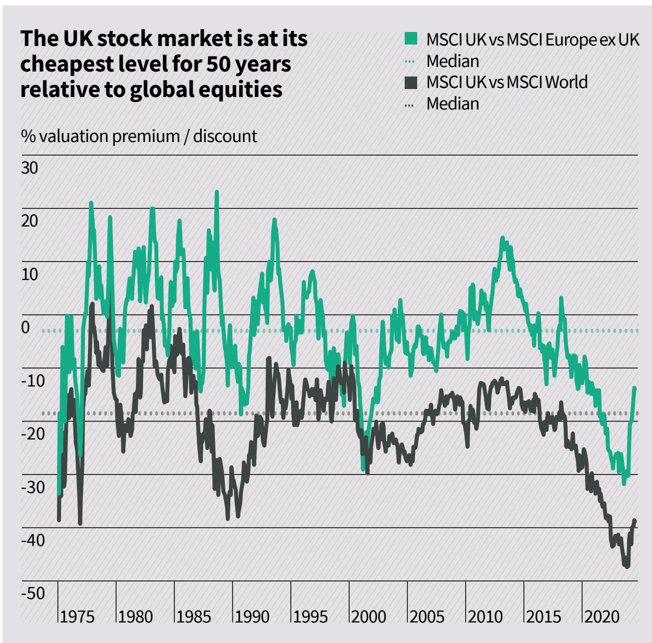
> *"It is no longer contentious to say that the macroeconomic conditions that produced the decade long bull market in growth stocks have changed, as inflation has reappeared and interest rates have risen in response to it. This has produced a regime change in which the winners of the last few years have become the losers."*

Every cloud has a silver lining

However, although the overall impact on equity markets may be negative, not all stocks will be affected equally by this rise in interest rates. The stocks that have benefited most from the prolonged period of ultra-low interest rates look considerably more vulnerable to what is unfolding. This in large part explains the significant dispersion in returns between growth-oriented parts of the market like Nasdaq, and pockets of value such as the UK market. It is worth recalling that the collapse of the dotcom bubble in 2000 occurred at the same time that value stocks produced one of their best periods of return in both absolute and relative terms. We believe that current conditions suggest that the recent rally in value stocks may have only just begun. The charts below should help to explain why.

1. The UK is one of the cheapest major global stock markets

Whilst equities look expensive in most parts of the world, one exception is the UK. As the chart below shows, despite the better performance year to date, the UK equity market is still at its cheapest level relative to the MSCI World index for nearly fifty years. This should make it an attractive place to invest for anyone concerned about the likely de-rating of equities elsewhere.

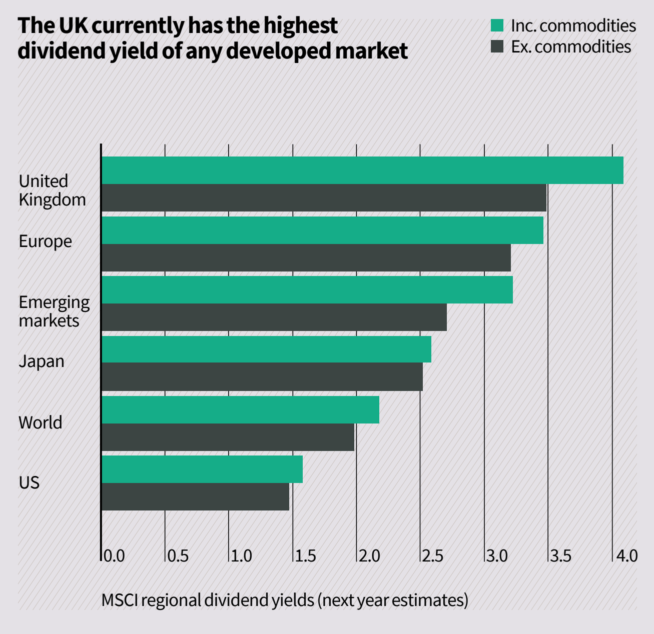


Source: Morgan Stanley to 30 June 2022. Past performance is not a guide to the future. No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment.

[1] All data in this section is sourced from Bloomberg, covering the six months to 30 June 2022, in local currency. Past performance is not a guide to the future.
[2] Let the Wild Rumpus Begin by Jeremy Grantham, GMO, 20 Jan 2022

2. The UK offers one of the highest dividend yields

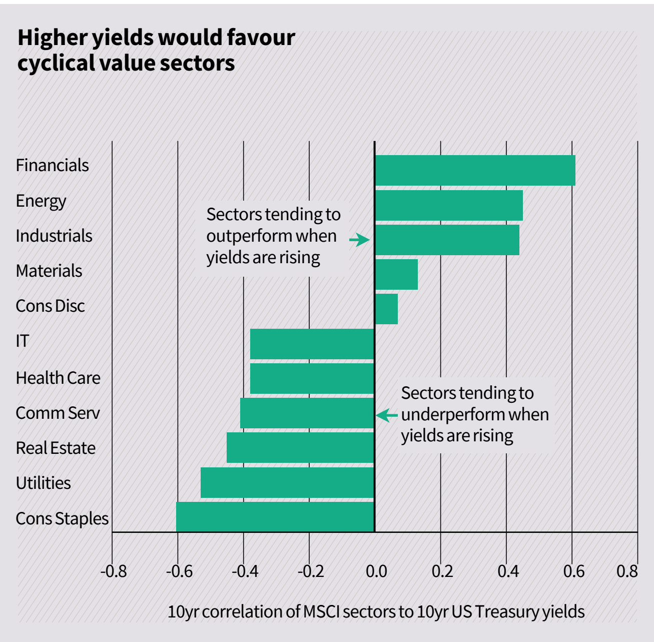
For a number of years, investors have grown used to seeing healthy capital gains from their equity portfolio and this has reduced the need to produce an income as investors could sell part of their capital to generate income. If investors can no longer rely on predictable capital gains from their equity portfolio, then dividend income may once again become important. The UK offers a clear advantage here as it currently has the highest dividend yield of any developed market.



Source: Morgan Stanley to 30 June 2022. Past performance is not a guide to the future. No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment.

3. The UK has a large weighting to the sectors which historically do well as interest rates rise

During the bull market in technology stocks, many investors shunned the UK as it had very little representation to the sector. The change in the monetary backdrop has created a regime change in which the best performing sectors have been energy and mining, to which the UK has high exposure. As the Nasdaq index continues its collapse, the UK's low exposure to the technology sector has become a positive attribute.



Source: Morgan Stanley to 30 June 2022. Past performance is not a guide to the future.

4. Low valuations

The valuations of many of the trust's largest holdings are amongst the lowest that we have witnessed in our entire investing career (some examples are shown in the table below). Although this is no guarantee of success, historically low starting valuations have been highly correlated with strong subsequent returns.

Security	PE	Dividend Yield %
Shell	3.9	4.4
BP	3.8	5.1
Anglo American	4.9	8.8
Royal Mail	7.0	7.0
NatWest Group	8.0	7.0
Standard Chartered	7.0	3.0
Centrica	8.0	4.0
TotalEnergies	3.6	6.3
Marks & Spencer Group	8.0	4.7

Source: Bloomberg as at 30 June 2022. No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment.

Conclusion

It is no longer contentious to say that the macroeconomic conditions that produced the decade long bull market in growth stocks have changed, as inflation has reappeared and interest rates have risen in response to it. This has produced a regime change in which the winners of the last few years, led by technology stocks, have become the losers in the last twelve months. Conversely, the old economy sectors that were shunned through this period such as energy, mining and industrials have produced the some of the greatest returns over the last year and yet still look very lowly valued.

Such were the excesses that occurred during the final stage of the bubble, we find it very unlikely that these will correct in twelve months. Indeed, it seems more likely to us that this is just the start of a multi-year period of returns for value stocks which should be of long-term benefit to the holdings in the trust.

The first half of 2022 has been a tough period across asset classes, and we acknowledge that these are uncomfortable times for investors. But, for the reasons we've outlined, this 'annus horribilis'[3] could turn into an 'optimum tempus'[4] for long-term shareholders.

[3] A Latin phrase roughly translated to 'horrible year'
[4] A Latin phrase roughly translated to 'excellent period'

"It is worth recalling that the collapse of the dotcom bubble in 2000 occurred at the same time that value stocks produced one of their best periods of return in both absolute and relative terms. We believe that current conditions suggest that the recent rally in value stocks may have only just begun."

Other news

Annual General Meeting 2022

In May, we hosted Temple Bar's Annual General Meeting (AGM) at Redwheel's offices in Victoria, London. This was the first in-person AGM we've been able to hold since Redwheel took on portfolio management responsibilities in 2020. Shareholders in attendance were greeted by an introductory speech from Chairman, Arthur Copple, before proxy voting took place. All resolutions were passed.

Portfolio managers Ian Lance and Nick Purves then gave a short presentation on their long-standing investment approach and the positive long-term outlook for the Temple Bar portfolio.

The presentation explained that the portfolio had made an encouraging start since Redwheel was appointed as Temple Bar's investment manager in November 2020, but that there was much more to go for in a compelling long-term investment opportunity. The portfolio managers believe that the prolonged period of ultra-low interest rates and quantitative easing that has persisted since the global financial crisis has caused a substantial bubble in long-duration assets and growth stocks. The recent increase in inflation may be bringing that to an end. Financial markets are now anticipating much tighter monetary policy (in the form of higher interest rates) and this has already prompted a significant sell-off in technology stocks.

As a result, now may be an appropriate time to consider diversifying into value stocks, which tend to do well in periods of high inflation. The UK is one of the cheapest major stock markets and offers one of the highest dividend yields globally (source: Morgan Stanley). The Temple Bar portfolio, which invests primarily in the UK and adopts a value-based investment approach, is therefore potentially well-positioned to benefit from reflation, and the portfolio managers are very confident in the long-term outlook for shareholders.

Share split

Shareholders approved a five-for-one share split at the AGM, which means that investors received five new ordinary shares for each existing share previously held. This increased the number of shares in issue by a factor of five and the Temple Bar share price and net asset value per share, immediately moved to become one-fifth of their prior values. Overall, therefore, the share split did not affect the value of your holding. The ticker for the new shares remains the same (TMPL), but they have a new ISIN (GB00BMV92D64) and SEDOL (BMV92D6).

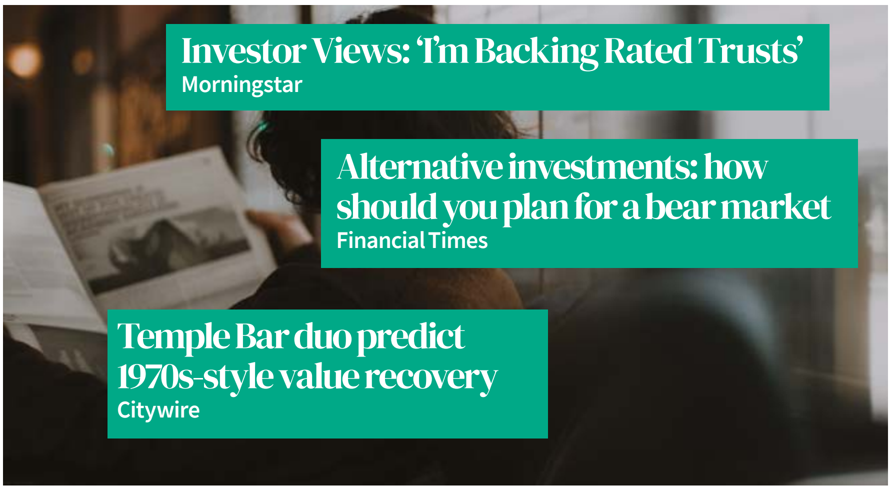
Dividend

Shortly after the AGM, the board of directors declared its first interim dividend for the current financial year of 10.25p per share. This was based on the number of shares in issue prior to the share split. Taking into consideration the five-for-one share split, the first interim dividend of 2.05p per share was paid on 30 June 2022 to those shareholders registered at the close of business on 10 June 2022.

Temple Bar intends to pay four interim dividends totalling at least 8.2p per ordinary share (post share split) for the year ending 31 December 2022. This will represent growth of at least 3.8% on the equivalent dividends paid for the year ended 31 December 2021.

Temple Bar in the news

Temple Bar featured in a number of interesting media articles during the quarter, including coverage in The Times, Financial Times, This is Money, Bloomberg, Morningstar, What Investment and Citywire. Ian Lance also appeared on Sky News in early July, discussing the undervalued nature of the Temple Bar portfolio with presenter Ian King.



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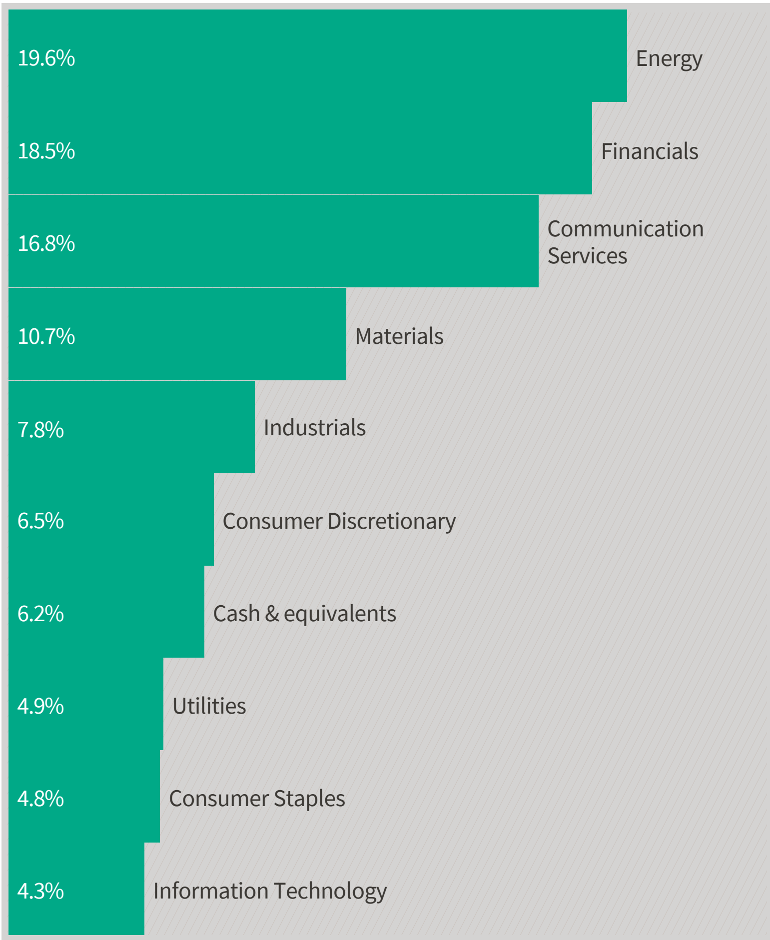
The Temple Bar portfolio

Data as at 30 June 2022

Top 10 equity holdings	(%)
Shell	7.39
BP	7.03
Standard Chartered	5.50
TotalEnergies	5.15
NatWest Group	4.88
Centrica	4.86
Marks and Spencer Group	4.84
Anglo American	4.83
Pearson	4.66
Royal Mail	4.62
Total	**53.8**

Sector analysis



Financial data

Total Assets (£m)	810.28
Share price (p)	218.0
NAV (p) (ex income, debt at mkt)	224.7
Premium/(Discount), Ex income (%)	-3.09
NAV (p) (cum income, debt at mkt)	226.7
Premium/(Discount), Cum income (%)	-4.00
Historic net yield (%)	3.67

Dividend history

Type	Amount (p)	XD date	Pay date
1st interim	2.05	10.06.22	30.06.22
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

Performance (total return)

Cumulative returns (%)

	Share price	NAV	FTSE All-Share
1 month	-7.0	-8.1	-6.0
3 month	-4.9	-3.9	-5.0
1 year	5.8	0.1	1.6
3 year	-2.4	-1.7	7.4
5 year	7.7	3.6	17.8
10 year	76.4	83.9	94.6

Rolling 12 month returns (%)

	Share price	NAV	FTSE All-Share
30.06.21 - 30.06.22	5.8	0.1	1.6
30.06.20 - 30.06.21	44.5	41.5	21.5
30.06.19 - 30.06.20	-36.2	-30.6	-13.0
30.06.18 - 30.06.19	-0.3	-4.1	0.6
30.06.17 - 30.06.18	10.6	9.9	9.0

Important information