

Trust Facts

Launch date: 1926

Wind-up date: None

Year end:

31 December

Dividends paid:

Quarterly in March, June, September and December

AGM:

March

Benchmark:

FTSE All-Share

ISA status:

May be held in an ISA

Capital Structure:

Share class	No. in issue	Sedol
Ordinary	66,872,765	0882532

Debt:

9.875% Debenture Stock 2017 £25m

5.50% Debenture Stock 2021 £38m

4.05% Private Placement Loan 2028 £50m

Charges:

Ongoing charge: 0.51% (31.12.16)

Includes a management fee of 0.35%

Board of Directors:

John Reeve (Chairman)

Arthur Copple

Richard Jewson

Nicholas Lyons

June de Moller

Lesley Sherratt

David Webster

Auditors: Ernst & Young LLP

Investment Manager:

Investec Fund Managers Ltd

Registrars: Equiniti Ltd

Secretary:

Investec Asset Management Ltd

Stockbrokers: JPMorgan Cazenove

Depository & Custodian: HSBC Bank Plc

Trust Objective

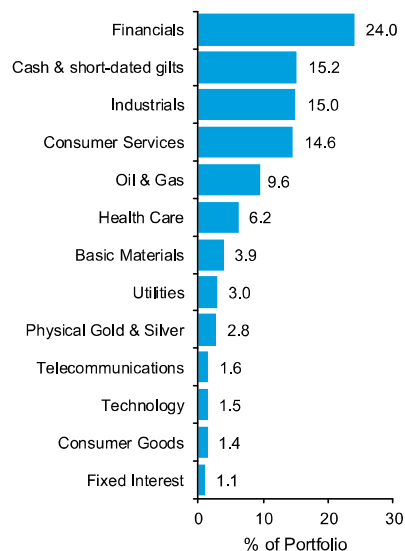
To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

Top Ten Equity Holdings (%)¹

HSBC Holdings Plc	8.4
GlaxoSmithKline Plc	6.2
Grafton Group Plc	5.6
Royal Dutch Shell Plc	5.3
Barclays Plc	4.5
BP Plc	4.4
SIG Plc	3.5
Royal Bank of Scotland Plc	3.0
WM Morrison Supermarkets Plc	2.8
Citigroup Inc	2.4
Total	46.1

¹% of total assets, including cash

Sector Analysis



Financial Data

Total Assets (£m)	982.4
Share price (p)	1272.0
NAV (p) (ex income, debt at mkt)	1332.0
Premium/(Discount), Ex income (%)	-4.5
NAV (p) (cum income, debt at mkt)	1349.0
Premium/(Discount), Cum income (%)	-5.7
Historic net yield (%)	3.2

Dividend History

Type	Amount (p)	XD date	Pay date
2 nd interim	8.33	07-Sep-17	08-Sep-17
1 st interim	8.33	08-Jun-17	30-Jun-17
Final	16.18	09-Mar-17	31-Mar-17
3 rd interim	8.09	08-Dec-16	30-Dec-16

Performance

Share Price % change²

	Trust	FTSE All-Share
1 month	2.9	1.1
3 months	0.8	2.1
1 year	15.3	10.7
3 years	4.6	12.8
5 years	37.7	38.2

²Capital return only

NAV total return % change³

	Trust	FTSE All-Share
1 month	0.9	1.2
3 months	4.3	3.0
1 year	18.9	14.9
3 years	25.0	25.7
5 years	78.5	65.0

³Total return

Performance, Price and Yield information is sourced from Morningstar as at 31.07.17.

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. This Trust may not be appropriate for investors who plan to withdraw their money within the short to medium term.

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.

Manager's Commentary

Thought for the month

For some time now, I've wanted to write about the role of complacency in investing. As contrarian investors we believe that there are underappreciated factors at play that encourage reversion to the mean in terms of both corporate performance and the valuations that are applied to stocks; put simply, pressures for companies and assets that are doing particularly well to do worse, and conversely pressures for companies and assets that are doing particularly badly to do better. There is a long list of factors driving this, but personally I've always thought that one of the more overlooked ones is complacency. It is unusual for a person not to succumb to complacency when times are good. Great sports people often have to receive coaching on how to overcome it. And with companies in large part just collections of people, complacency is just as likely to affect them. Whereas at the other end of the scale, I would argue that there is considerable benefit to the scrutiny and pressure that underperforming companies experience. I think that it's a fascinating topic. But a proper discussion on complacency is going to have to wait for another day, because it has been trumped by a conversation that recently took place over the desk.

It was along the lines of 'what mistakes have we made and is there anything that we could do better?' In a way strangely linked to the complacency that I had intended to talk about, it is important to occasionally conduct a critical review of what you are doing to see if it would benefit from any change. As a team we all strongly believe in the way that we invest, but having served us well for many years it hasn't performed as well as we'd have liked in recent years. That deserves consideration and I'd like to share our conclusions with you.

Undeniably the world is changing much more quickly than it has in the past. When the world was transitioning to calculators, we used to refer to the risks of investing in the modern equivalent of cheap looking abacus makers, and today there are a long list of industries that face significant structural challenges. Back when the world changed more slowly, there was sometimes the opportunity to make decent returns while the structural decline was taking place. But today change often happens so quickly and represents such a headwind, that it is much more dangerous to stand in its way. This has been part of our thinking for a long time now. One of the key questions that we ask ourselves is will the company in question still be around in 5-10 years and is it likely that it will be equally or more profitable than it is today. This weeds out some potential investments but still leaves us with more than enough candidates, and an analysis of our recent performance confirmed that it is not structural change that has been hurting us.

A big part of the recent performance can be attributed to the underperformance of Value versus Growth, as we have previously highlighted. Growth stocks tend to realise a greater proportion of their value further out into the future, and with the decline in interest rates that has been seen, this more distant value becomes more attractive in present-day terms. Conversely, Value stocks – where a greater proportion of the value is nearer in – become relatively less attractive. Plot the relative performance of

Value against bond yields and the relationship is clear. The good news is that interest rates seem to have bottomed and central banks are clearly preparing the world for higher rates. So while this trend has been painful, there are good reasons to think that it has run its course and will perhaps now reverse.

As an investment team, we feed on emotional overreaction. We avoid popular stocks and asset classes where we believe investors have become caught up in the good news and are overpaying for prospects. And we seek unpopular stocks and assets where we believe investors are likely to have overreacted to bad news. As such, dispersion in stock performance is our friend. We want popular assets to do very well and unpopular ones to do very badly, and until more recently this hadn't been the case for a while. The screen of relative underperformers that we run is a good indicator of dispersion, and over recent years the number of candidates on it has been unusually low. The market for some reason wasn't reacting as emotionally as it had in the past. But again there is good news; animal spirits seem to have returned. The number of candidates on the screen is now unusually high. Logically, an increase in the number of stocks entering our universe should be a lead indicator of better times ahead for our approach.

Unhelpfully our main valuation metric has also worked against us. Generally we focus on the ratio of enterprise value (EV) to normalised cash operating profit, with enterprise value being the sum of a company's market cap., its debt and its other obligations such as pension deficits. Enterprise value is a very real world way of valuing companies, it adjusts for the non-operational effect of balance sheet gearing on profitability and back-testing has shown that using it tends to result in outperformance. We view the fact that we use it as one of our edges, but by making stocks that carry less debt look more attractive than those that carry a lot of debt, it has steered us away from heavily indebted stocks that have done better as the cost of servicing their debt has fallen and which have been more financially geared plays on the improving economic environment that has been seen over recent years. I'm aware that we're saying this quite a lot, but the good news is that with interest rates now looking as if they are on the up, enterprise value should not only return to adding value but should become particularly powerful.

So is the result of all our self-examination that we've got nothing to learn or to change? Have we just suffered from the adverse effect of an unexpected decline in interest rates – on both the kind of stocks that we invest in and on our main valuation metric? It wasn't our fault, it was the fault of crazy interest rates! We're not quite that self-congratulatory. It would be worrying if there weren't some lessons to learn from any multi-year period as an investor and there are some for us.

In hindsight for example it was wrong to be relatively defensively positioned over recent years, given that financial markets have gone ever higher. But with valuations high by historic standards and the world an unusually risky looking place, I think that we could be forgiven for worrying. And the game is not over yet. With you having to make roughly a 50% return to get back to where you started before a 33% fall, it is well worth stepping back when things look dangerously stretched, even if you are too early.

The yield information has been calculated as at 31.07.17. All other information is from Investec Asset Management at 31.07.17.

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 enquiries@investecmail.com. Alternatively, visit the Temple Bar website: www.templebarinvestments.co.uk.

Issued by Investec Asset Management, which is authorised and regulated by the Financial Conduct Authority, July 2017.

One thing that we are likely to do differently next time is to do more to close out any bets we have as the market starts to heavily discount them in share prices. We worry about China and for this and other reasons we have been light in the mining sector for a while. Although we did buy some Rio Tinto when the market was panicking about Chinese demand back in 2016, if the same thing was to happen again now we would probably buy more across the sector.

It has been a tough couple of years for Value Contrarian investing, but investing in things that have had a difficult time and are out of favour works because many tend to ultimately revert to the mean. Human beings' tendency to overreact at the extremes and to be short-termist is one of the more dependable things in the investment world. And having looked into what has driven our performance over recent years, we can identify a number of adverse trends that are now likely to have run their course and will possibly reverse. Here's to better times ahead for the way that we invest.

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