Temple Bar Investment Trust PLC – Monthly update 31st May 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	61,001,367	0882532

Debt:
5.5% Debenture Stock 2021 £38m
9.875% Debenture Stock 2017 £25m

Charges:
Management fee: 0.35% per annum based on the value of the investments of the Company.
Ongoing charges: 0.51% (December 2012)

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

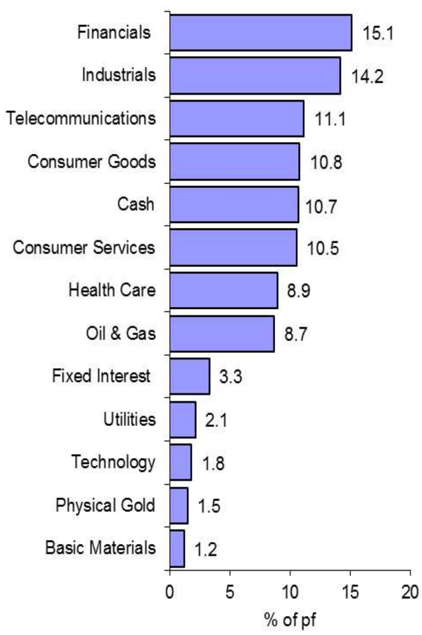
To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

Top ten equity holdings (%) *

GlaxoSmithKline PLC	8.2
HSBC Holdings PLC	7.3
Vodafone Group PLC	6.8
Royal Dutch Shell PLC (CL B)	6.5
Signet Jewelers Ltd.	6.4
Grafton Group PLC	4.8
BT Group PLC	4.3
Unilever PLC	3.4
SIG PLC	3.0
Avon Products Inc.	2.8
	53.5

* % of total assets, including cash

Sector Analysis



Financial data

Total Assets (£m)	751.60
Share price (p)	1159.00
NAV (p) (ex income, debt at mkt)	1137.47
Premium/(Discount) (%)	1.9
Historic net yield (%)	3.16

Performance

Share Price % change

	TBIT	All-Share *
1 month	2.3	2.5
3 months	4.6	3.7
1 year	36.2	25.5
3 years	50.9	30.0
5 years	70.1	12.7

* Capital return only

NAV total return % change

	TBIT	All-Share *
1 month	2.6	2.9
3 months	10.5	5.0
1 year	40.2	30.1
3 years	65.8	44.1
5 years	93.3	35.2

* Total return

Source: Thomson Datastream, Investec

Dividend History

Type	Amount (p)	Ex date	Pay date
Final	22.00	13-Mar-13	28-Mar-13
Interim	14.65	21-Sep-12	28-Sep-12

Temple Bar Investment Trust PLC – Monthly update 31st May 2013

Manager's Commentary

With bond yields - be they government, investment grade or high yield - at miserably low levels and clients of all types eager to maintain their income flows, many investors are desperately seeking alternatives. The good news in capital markets is that when demand is apparent, supply is usually never far away, so it has been little surprise to see a recent surge in issuance of what I would generously describe as bond substitutes.

Some substitutes seen so far are student accommodation, aircraft leasing, senior secured loans, property loans, floating rate loans, leveraged loans, wind farms with many other variations on the theme undoubtedly in the pipeline. To optimize suitability of these assets for clients' portfolios, they tend to be packaged as investment companies, complete with a stock market listing and a board of directors.

Typically investors have little prior knowledge of the assets, but that need be no drawback as the appointed managers are always available to share their expertise and knowledge on the subject. They are always accompanied by their sponsoring broker who assures the client that this is a fantastic investment (although sadly not one the sponsoring broker will be investing in) and that the manager is supported by an excellent board of directors (despite them holding far too many board positions already and usually having little experience of the underlying asset class).

The experts on each eclectic asset – a friend once told me that an expert was a man from out of town with a briefcase – provide an impassioned defence of their chosen asset, but it is remarkably hard for an investor to obtain an independent view. The sponsoring broker will have undertaken some basic due diligence, but their interests are conflicted as they only receive fees if they raise money. Meanwhile, third parties will not waste time highlighting unattractive investments.

The client meanwhile will be on the receiving end of the previously highlighted Cialdini's six principles of influence, which will skew him subconsciously towards buying the asset – reciprocity (being taken out to lunch by the sponsoring broker and thus feeling a sense of indebtedness), commitment (perhaps orally establishing some interest and therefore feeling committed), social proof (being informed that other investors are buying), authority (the 'expert' stressing the great value of the investment), liking (the broker and expert applauding the investor for the quality of the searching questions) and scarcity ('books close in a week').

As if the odds were not already sufficiently against the clients' chances of reaching an objective conclusion, there will also be a bird sitting on their shoulder highlighting the nice fat dividend yield.

Some of these assets will perform successfully initially and inevitably encourage further issuance. This is important as issuance can reduce liquidity in the secondary market for those wishing to take profits. Needless to say it is always very difficult to sell on the way down.

These investment vehicles will typically charge some generous management fees, often accompanied by performance fees and usually calculated on the manager's assessment (or that of an adviser who they employ) of market value.

Fortunately we have seen this kind of movie before and can therefore reveal how it is likely to end.

i) It will become apparent that the 'expert' has less expertise than previously thought. Perhaps he had dealt in similar, but not identical assets, or maybe his track record was with a much smaller amount of money or from a particularly positive period for the asset class.

ii) The fees – whether they be new issues fees , on-going management fees, performance fees or directors' fees, will have bled a lot of value from the company especially as many of these fees would have been based on overly optimistic asset values

iii) The investment opportunity will be rather less attractive than initially highlighted – greater costs than expected, higher prices paid than hoped, too many middlemen to be kept sweet as well as a number of risk factors not mentioned previously – be they political, regulatory or competitive.

iv) The debt these companies may have taken on to further the investment opportunity will become increasingly onerous as asset values fall, forcing the managers to sell assets at distressed prices

v) The investment company, under pressure from investors disappointed with performance, will move to a big discount to asset value.

vi) This will lead the board to encourage the manager to sell some assets to prove the asset value is accurate.

vii) The manager will fail to sell assets at the stated asset value, thus further disappointing investors who will force the shares down to an even wider discount to the stated asset value

viii) The reduction in assets will reduce the income generated and therefore the yield on the investment will be cut.

This cycle may repeat a couple of times with possible rescue rights issues, changes of terms with the banks, further cut dividends, board and manager resignations and ultimately a wind-up of the assets.

Central bankers are happy to keep interest rates very low and are, temporarily at least, accomplishing their aims of forcing investors out of bonds and into equities thus creating a positive wealth effect. In the process they are creating a shortage of income which encourages investors to drop their guard as they put the income cart ahead of the due diligence horse. So what is the solution? I would suggest at certain times it makes far more sense to create income synthetically by selling capital rather than chasing income at increasingly unattractive levels. It is a simple solution, but sometimes simplicity is good.

"Exactly how many times do I have to kiss you before you turn into a prince?"