

## Trust Facts

**Launch date:** 1926

**Wind-up date:** None

**Year end:**  
31 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	63,323,248	0882532

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

**Charges:**  
**Ongoing charge:** 0.48%\* (31.12.13)  
\*Includes a management fee of 0.35%

**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

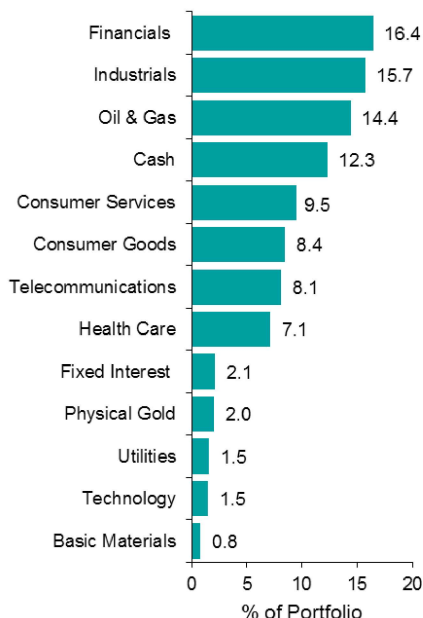
To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

## Top Ten Equity Holdings (%) <sup>1</sup>

Royal Dutch Shell Plc Class B	7.8
HSBC Holdings Plc	7.8
GlaxoSmithKline Plc	7.1
Vodafone Group Plc	5.4
BP Plc.	5.3
Grafton Group Plc	4.3
Signet Jewelers Limited	4.2
British American Tobacco Plc.	2.8
QinetiQ Group Plc	2.7
BT Group Plc	2.7
<b>Total</b>	<b>50.1</b>

<sup>1</sup> % of total assets, including cash

## Sector Analysis



## Financial Data

Total Assets (£m)	849.94
Share price (p)	1216.00
NAV (p) (ex income, debt at market value)	1183.06
Premium/(Discount), ex income (%)	2.80
NAV (p) (cum income, debt at market value)	1204.47
Premium/(Discount), cum income (%)	0.96
Historic net yield (%)	3.10

## Dividend History

Type	Amount (p)	XD date	Pay date
Interim	15.10	11.09.13	30.09.13
Final	22.65	12.03.14	31.03.14

## Performance

### Share Price % change

	Trust	FTSE All-Share <sup>2</sup>
1 month	-2.4	-3.1
3 months	-0.2	-2.5
1 year	12.8	6.4
3 years	36.8	14.9
5 years	105.8	68.2

<sup>2</sup> Capital return only

### NAV total return % change

	Trust	FTSE All-Share <sup>3</sup>
1 month	-2.9	-3.1
3 months	-1.2	-2.0
1 year	17.5	10.1
3 years	51.1	27.6
5 years	170.4	100.9

<sup>3</sup> Total return

Performance, Price and Yield information is sourced from Thomson Datastream as at 31.01.14.

**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.

Manager's Commentary

The year always begins with Uncle Tom Cobley and all offering their 12-month forecasts for a number of major asset classes. Despite market conditions, the views I have read have been remarkably consensual: sell bonds, buy equities, avoid anything with emerging in the title, buy the US dollar and buy plenty of Japanese equities.

As always, it is good practice to have an open mind when reading these documents and form a view on the merits of the arguments presented. Therefore, let us assess the main reasons we are encouraged to stick with equities.

**'Bull markets climb a wall of worry'.**

Here, the bulls simply brush off any bearish arguments, with no need for further analysis. Of course, this argument probably has some virtues – at the beginning of a bull market most investors will naturally have several concerns deterring them from putting their money to work. While many of these worries will dissipate over time as the market's worst fears prove unfounded, these negatives have a nasty habit of being replaced by one that is even worse: high valuations – the best indicator of future equity returns.

**'This is not an equity bubble'.** This argument apparently rests on the basis that equities were horrendously valued in 1999, and have yet to reach such levels again. Even if this is true, and we would argue on some valuation metrics that it is not, why should equities have to reach absurd levels before being considered a tad expensive? After all, there were bear markets before 1999.



Source: Bank of America Merrill Lynch

**'Everyone's bearish'.** Bulls often claim that it is a strong contrarian sign if there are too many bears. It is easy to sympathise with this argument, however, if the BoAML Fund Managers' Survey is anything to go by – 'everyone' is apparently bullish.

**'The Shiller P/E ratio (the market's value divided by the market's earnings over the past 10 years, adjusted for inflation) is wrongly calculated/misleading/comparing apples with pears/not a great indicator of a market's future returns (delete as appropriate).'** Like it or not, the Shiller P/E has a very good record in forecasting long-term equity market returns. It is not necessarily a buy or sell trigger – it simply suggests long-term returns will be higher, the lower the ratio. Moreover, the Shiller P/E is not the only valuation metric that currently suggests equities are expensive. Strangely enough, most Shiller P/E detractors prefer to use other metrics such as forward P/Es – metrics with a far worse historical track record of accuracy in long-term forecasting. Bear in mind such charts use market-cap weighted indices and therefore miss the phenomenal run that mid-cap stocks have had. An equal-weighted Shiller P/E would undoubtedly offer different, less bullish, conclusions.

**'It is a stock pickers' market and there are always cheap stocks'.** Are there? We have found it increasingly difficult in this bull market to identify cheap stocks. Typically, there is a good spread between cheap and expensive stocks, but in this cycle, the spread has proved frustratingly small and consequently reduced the number of so-called bargain basement offers.

**'There are finally signs of sustained economic improvement, the US economy is recovering strongly, Europe is past the worst, Japan is showing more life than has been seen for years and the Chinese authorities are pulling off a soft landing'.** Obviously this is a touch simplistic. For example, the US economic recovery is actually pretty long in the tooth compared to previous recoveries and many European countries appear as dangerously indebted as ever. However, these arguments are irrelevant as many studies have shown the lack of correlation between economic growth and stock market returns.

**'Equities are cheaper than bonds'.** Possibly true, although, not necessarily within the time horizon of most investors. Lauding the prospects for one asset class after comparing it to an unattractive asset class is not the toughest test of cheapness. Could both asset classes be expensive?

**'Profits growth is likely to surge if economic growth is strong, thus validating valuations'.** Even assuming economic growth is strong, there is no guarantee this would feed through into earnings growth. An earnings recession is possible outside economic recessions. Yes, earnings growth is possible, but would result in a further reduction in the government and employee take of the economic pie. Given both these latter measures are at multi-year lows, this seems an unsustainable situation.

**'There is no obvious reason why equities should suddenly fall sharply'.** There rarely is until it happens. Investors love to highlight potential catalysts for price movements, however in reality, only correctly identify them when writing their end of year reports.

We are quite prepared to accept that we are wrong and markets are much cheaper than we believe. However, we believe the current bull arguments seem to rest more on aphorisms and clichés than anything concrete.



'Cheer up. These forecasts will make you laugh!'

The yield information has been calculated as at 31.01.14. All other information is from Investec Asset Management at 31.01.14.

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

For further details, call the Investor Services Department on 020 7597 1900, or send an email to enquiries@investecmail.com. Alternatively, visit the Temple Bar website: www.templebarinvestments.co.uk.

Issued by Investec Asset Management, who is authorised and regulated by the Financial Conduct Authority, February 2014.