Temple Bar Investment Trust PLC – Monthly update 31st March 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	60,751,367	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

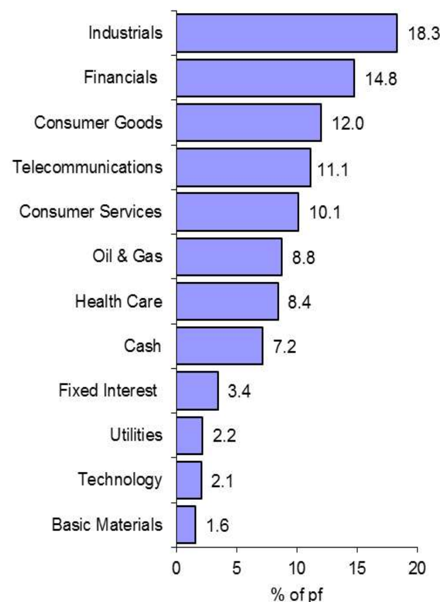
To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

Top ten equity holdings (%) *

Holding	%
GlaxoSmithKline PLC	7.7
HSBC Holdings PLC	7.5
Vodafone Group PLC	6.9
Signet Jewelers Ltd.	6.5
Royal Dutch Shell PLC (CL B)	6.5
Unilever PLC	4.8
Grafton Group PLC	4.7
BT Group PLC	4.2
Travis Perkins PLC	3.9
QinetiQ Group PLC	3.0
	55.7

* % of total assets, including cash

Sector Analysis



Financial data

Total Assets (£m)	718.80
Share price (p)	1105.00
NAV (p) (ex income, debt at mkt)	1087.37
Premium/(Discount) (%)	1.6
Historic net yield (%)	3.32

Performance

Share Price % change

	TBIT	All-Share *
1 month	-0.3	0.9
3 months	10.0	9.3
1 year	19.8	12.6
3 years	42.2	16.2
5 years	64.4	15.5

* Capital return only

NAV total return % change

	TBIT	All-Share *
1 month	5.9	1.4
3 months	16.7	10.3
1 year	26.1	16.8
3 years	49.1	28.7
5 years	96.5	38.5

* 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

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Manager's Commentary

One of the exercises we typically conduct as potential investors in an underperforming company is to speculate over the likelihood that the company's performance reverts to its mean. We are particularly aware of the risks that the past is no guide to the future and that the company we are investigating might need to accept a lower level of profits as the new standard.

What we, and others who share our investment philosophy, have possibly spent insufficient time considering is when the future may actually be better than the past. Perhaps a company or industry has generated disappointing levels of profitability for many years due to overcapacity, onerous regulation or irrational competition. Conditions finally change and create an environment for higher levels of profits and the shares respond positively. We usually regard these companies as the ones that got away and the lost opportunities as simply a function of what we do. Given our reluctance to forecast the future (certainly compared to our peers) why should we believe we can successfully build, to steal a business management cliché, a 'blue-sky scenario'?

Tim Marshall, the transport analyst at Redburn Partners highlights the airline industry as one which has changed significantly in recent years. For many years investors have considered the industry as unworthy of their time or money. Perhaps Warren Buffett has been the most vocal with his doubts:

"The worst sort of business is one that grows rapidly, requires significant capital to engender the growth, and then earns little or no money. Think airlines. Here a durable competitive advantage has proven elusive ever since the days of the Wright Brothers. Indeed, if a farsighted capitalist had been present at Kitty Hawk, he would have done his successors a huge favor by shooting Orville down."

Letter to Berkshire Hathaway shareholders 2007

Mr Marshall, however, states an excellent case for the defence. He believes there are now less irrational players - particularly governments - and that liberalisation has removed a number of restrictions to mergers and acquisitions thus leading to greater scale and efficiency for the players. With fuel costs so high, airlines are much less likely to fly so frequently (they need to cover their variable costs before generating cash) or so cheaply (thus discouraging new entrants). And airline financing has become harder to source too.

So having identified a company, or an industry, which may break out of its historic profitability range and the range of its peers, how can we estimate the new normal and consequently a fair value for the shares? The obvious answer is we can't; it's a guess. However, we can set a few ground rules.

Firstly, it may well be worthwhile watching a company's profit forecasts. Historically, we would be sceptical about this approach as company management is typically excessively bullish, but in the instance of management suggesting a (deep breath) new paradigm the market often adopts an ultra-sceptical stance with claims that an industry is structurally hampered, uninvestable and incapable of ever generating decent returns for investors. These company forecasts are unlikely to be extraordinarily bullish, so may well set a good base case; after years of disappointment there seems little point in a management team making outlandish forecasts.

Secondly, it may be possible to find less obvious peers – perhaps industries with similar levels of capital intensity or market structures – to determine what returns may be possible. The stock market is structured to encourage a silo mentality – investment bank analysts tend to focus their attention on companies in their own sectors and opportunities for cross-pollination are perhaps not maximised.

Finally, and perhaps combining the first and second points, we should try to detach ourselves from the industry (and the biases that come with the years of disappointment) as much as possible and ask ourselves what returns an industry or company with certain characteristics could generate given the barriers to entry and exit, cashflow requirements, market shares and pricing power.
Some value investors may question whether this approach moves us into the sphere of growth investing. It is a fair point, but it is just as important for investors to keep an open mind about most things. Just as putting too great an emphasis on the past as a guide to the future can lead to great losses, it can also lead to missed opportunities.

"Looks like the business is growing fantastically Jack!"

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