temple bar Investment Trust PLC – Monthly update 31 January 2015

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	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: 0.48%* (30.06.14)
*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 Fund Managers Ltd

Registrars: Equiniti Ltd

Savings Scheme Administrator:
Equiniti Financial Services Ltd

Secretary:
Investec Asset Management Ltd

Stockbrokers: JPMorgan Cazenove

Depositary & Custodian: HSBC Bank Plc

Trust Objective

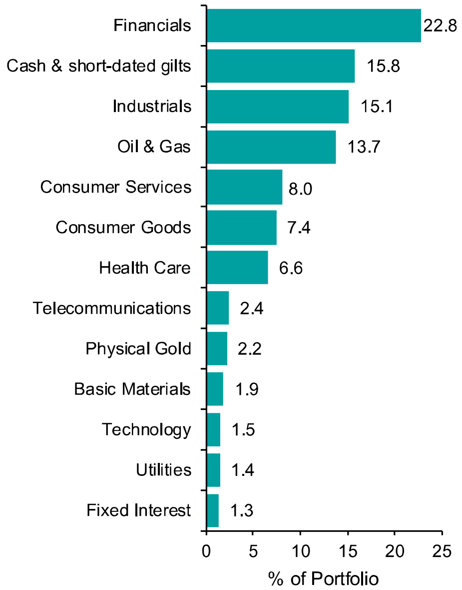
To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

Top Ten Equity Holdings (%) [1]

HSBC Holdings Plc	8.2
Royal Dutch Shell Plc Class B	7.3
GlaxoSmithKline Plc	6.6
BP Plc	5.4
Grafton Group Plc	4.4
British American Tobacco Plc	3.5
Lloyds Banking Group Plc	3.4
Direct Line Insurance Group Plc	2.6
Royal Bank of Scotland Group Plc	2.4
BT Group Plc	2.4
	46.2

[1] % of total assets, including cash

Sector Analysis



Financial Data

Total Assets (£m)	900.5
Share price (p)	1173.00
NAV (p) (ex income, debt at mkt)	1178.15
Premium/(Discount), Ex income (%)	(0.4)
NAV (p) (cum income, debt at mkt)	1200.69
Premium/(Discount), Cum income (%)	(2.3)
Historic net yield (%)	3.3

Dividend History

Type	Amount (p)	XD date	Pay date
Interim	15.55	10-Sep-14	30-Sep-14
Final	22.65	12-Mar-14	31-Mar-14

Performance

Share Price % change

	Trust	FTSE All-Share [2]
1 month	-1.5	2.5
3 months	-1.3	3.4
1 year	-3.5	3.6
3 years	32.5	23.5
5 years	60.7	36.1

[2] Capital return only

NAV total return % change

	Trust	FTSE All-Share [3]
1 month	2.4	2.6
3 months	3.1	3.9
1 year	3.0	7.1
3 years	53.6	37.1
5 years	81.0	61.5

[3] Total return

Performance, Price and Yield information is sourced from Morningstar as at 31.01.15.

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

Over the past 5 years, the average fund in the IMA UK All Companies Sector has comfortably outperformed the FTSE All-Share Index. Given the inherent disadvantage of including fees when making such comparisons, this seems a very creditable result and one which the fund management industry is only too happy to highlight, from one of two angles: 'look at how great active management is' or 'look at how great this particular fund is'.

However, this benchmark beating performance appears rather unusual. Unfortunately, it is difficult, if not impossible, to accurately generate this measure historically. Over the years many funds have been closed and merged and their performance expunged from the records. It is likely that these funds would have had inferior performance and therefore any statistics using current data are significantly affected by survivorship bias.

So have fund managers improved in recent years? And if active funds are winning, who is losing? I would guess that fund managers have not improved recently. Many decades ago, financial markets were less efficiently priced and had a higher percentage of individual investors (with less access to price sensitive information) and therefore it is claimed these losers were funding the winners. Nowadays, most of the stock market is in the hands of professional investors and consequently the opportunity to make 'easy' money is significantly reduced.

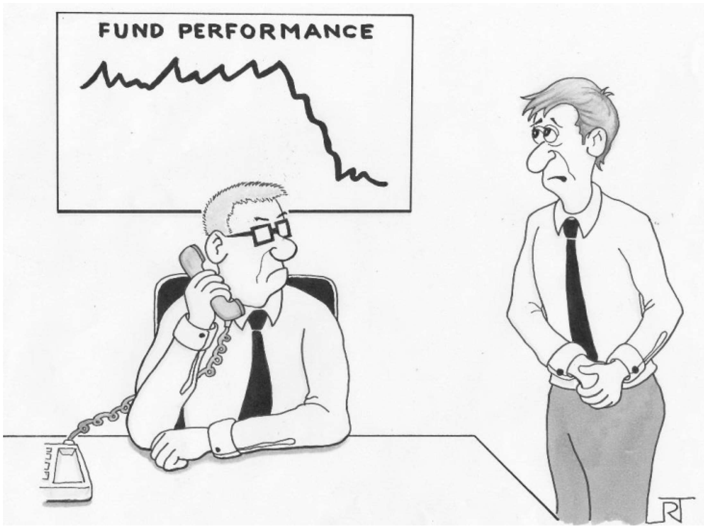
In the absence of fund manager improvement it seems that the most likely cause of improved performance is the industry's choice of benchmark. For example, at the extreme, and given they account for only about 10% of all investments in UK equities, all open-ended funds could be overweight mid caps and small caps and thus all funds could theoretically outperform the All-Share Index over all periods. The losers could then be selected from other sources such as pension funds, life companies, charities and so on.

Incidentally, it is interesting with so much current chatter about active share (i.e. how much of a fund is unique relative to a comparison index) fund managers are being encouraged to move further away from any positions which might make up large parts of the index. The surge of interest in active share is a consequence of recent research highlighting a correlation of high active share with outperformance. However, a high active share effectively means that a fund has very low weightings in the largest index constituents and given many of the largest constituents of the FTSE All-Share Index have performed poorly in recent years (think GlaxoSmithKline, HSBC, BP etc), then an overweight mid cap position is typically synonymous with high active share and the more likely reason for the correlation between active share and outperformance.

Of course, many investors would claim a structurally overweight position in mid and small caps as advantageous given inherent information and pricing inefficiencies and to benefit from the enduring small cap premium (i.e. small caps tend to outperform large caps). As we have highlighted before, it is very difficult to believe that there are information asymmetries at work among mid caps. To pick one stock at random, Bloomberg currently highlights 17 investment bank analysts who follow the fortunes of WH Smith (£1.6 billion market cap) and Thomson Reuters highlights 40 research notes written by some of these analysts in that time. Meanwhile, the WH Smith website provides access to a decade of the company's results announcements and results presentations, report and accounts and, failing that, the company's investor relations team will also happily help with enquiries. Admittedly, institutional investors will often articulate their competitive advantage comes from meeting company management. However, these meetings are generally widely available and to believe they provide additional insight (and insight which can be legally acted upon) suggests a level of interrogation akin to the most talented of torturers.

While we believe the information advantage is tenuous, the mid and small cap premium does appear to have genuine legs. An investor preferring small caps to large caps say 100 years ago would have undoubtedly generated far superior performance to an investor with the opposing trade. However, this performance has historically not been generated in a straight line, but in multi-year fits and starts with some decades providing great outperformance and others not (there are a number of different studies on this effect, showing various results and also requiring some brave assumptions). So long and deep were some of the periods of underperformance that it would have required great fortitude from an active investor and their advisor to remain with small caps in these periods. Perhaps for investors with anything other than very long-term investment horizons and the strongest of stomachs, the better way to think of small caps is to be overweight them when they have performed dreadfully and to be wary of them when they have performed really well.

This brings us back to the beginning of this note. Yes, managers of open-ended vehicles have performed well in recent years, assisted by the use of a market cap weighted index rather than an equal weighted index for performance comparisons with the lagging performance of large caps (and in particular very large caps) emphasising this trend. However, given the long-term cycles of outperformance of mid and small caps, it is probably not a good time to naively extrapolate this improving trend of active management.



"Time to change the benchmark again sir?"

The yield information has been calculated as at 31.01.15. All other information is from Investec Asset Management at 31.01.15.

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.