Temple Bar quarterly newsletter

Issue 10
November 2023

Dear investor,

Welcome to the tenth issue of Temple Bar's quarterly newsletter. To mark the third anniversary of Redwheel's management of the trust's portfolio, in this quarter's feature article, Ian Lance reflects on the journey so far and the opportunity that lies ahead for investors.

We also include information about a recent video update recorded by Ian Lance, news of the trust's half-year report and a selection of recent media coverage.

We remain open to your feedback on all matters relating to the trust. Please feel free to email us at TempleBar@Redwheel.com or by any of the other means of contacting us that are detailed on our website.

3 YEARS ON

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TEMPLE BAR
Investment Trust Plc

THE FIRST THREE YEARS

As this quarter marks the third anniversary of Nick and I taking over the management of Temple Bar Investment Trust, we thought we would take the opportunity to reflect on the last three years, discuss the lessons we have learnt and then finally explain how the trust is positioned for the opportunity that we see ahead of us.

By Ian Lance

A turbulent start

Time dulls the memory and hence it is very easy to forget just how turbulent everything was – not just financial markets – in the summer of 2020 during the pandemic and accompanying lockdown. By way of illustration, our first face-to-face meeting with the board took place in the open air at a suitable social distance. On the way to the meeting, I took a photo of an underground platform at Leicester Square at 8:00 in the morning where I was one of only two people commuting.

It is also easy to forget the level of fear in the stock market at that time. This is perhaps best demonstrated by the fact that the share price of NatWest Bank (formerly RBS) declined to the same level that it reached in early 2009 during the financial crisis, shortly before the UK Government had to step in and part-nationalise it[1]. Having spent the subsequent decade rebuilding its balance sheet, there was little real possibility that NatWest was actually insolvent. Rather, many investors were so fearful of the economic impact of the Government's pandemic response that they were willing to sell cyclical stocks almost regardless of how lowly-valued they had become and buy defensive stocks regardless of how highly-valued they were.

Needless to say, this was a terrible period for those of us who followed a value style of investing although, as we shall see later, it also provided one of the best opportunities to buy undervalued stocks in a decade and set up the strong returns of the last three years.

It was against this background that the trust's board were deciding to change portfolio manager and one should not underestimate the scale of the courage required to stick with a value investing strategy following a period in which it had been so out of favour (some other boards appointed high flying growth managers at this time). As the returns below demonstrate, however, it was indeed fortuitous for shareholders that they did.

Temple Bar under Ian Lance and Nick Purves – the first three years	
Temple Bar share price	78.8%
Temple Bar NAV	74.8%
FTSE All-share Index	39.4%

Source: Morningstar in total return terms in UK sterling from 30 October 2020 to 31 October 2023.
Past performance is not a guide to future returns. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

Investing away from the herd

We are pleased with the investment results delivered since we took over management of the trust and we hope that, as shareholders, you are as well. Furthermore, there are three important conclusions we can draw from these results, all of which seem to run counter to the current prevailing narrative.

1. Valuation matters

The mantra of many asset allocators over the last few years has been to 'go global' when it comes to equity investment. The US now represents nearly 70% of the MSCI World Index[2], so this effectively means allocating the majority of a portfolio's equity exposure to the US, with minimal exposure to other regions such as the UK. This has been one of the factors behind the relentless selling of UK equities over the last few years which has occurred despite the fact that UK equities have traded at a significant and increasing valuation discount to US equities. We believe, however, that the figures above suggest that, when purchased at low valuations, UK equities can still generate very attractive returns for investors. Indeed, the UK has actually outperformed the US over the last three years[3].

[1] Source: Koyfin. NatWest closed at the same effective share price of 93p on 23 January 2009 and 30 September 2020.

[2] Source: Morgan Stanley as at 30 September 2023.

[3] Morningstar, Bloomberg, based on total returns in local currency of 39.4% and 34.4% delivered by the FTSE All Share Index and S&P 500 Index respectively, from 30 October 2020 to 31 October 2023. Past performance is not a guide to future returns.

2. Discipline is key

As money flooded into mega cap technology stocks and drove their share prices higher, many growth investors were quick to sound the death knell of value investing. We believe that the results of the trust over the last three years demonstrate that a value strategy can still generate significant excess returns if applied with discipline. Indeed, one of the keys to a successful value investing strategy is the ability to stick with it during periods that it is out of favour and being written off by market commentators.

3. Active management can add value

Another investment maxim that has become popular in recent years is that it is not worth paying for active management since very few fund managers can beat the index. Thus, the logic goes, investors should just buy low-cost passive funds. Again, we believe the recent results of the trust suggest that active management can still produce a return after fees that comfortably beats the index. Hence, it is worth paying for active management – as long as you choose the right manager.

The best may be yet to come

Having seen the share price of the trust go up by almost 80%, it would be tempting to conclude that the best must be behind us. We do not believe this to be the case and are firmly convinced that the trust, as it is currently positioned, has the ability to generate good returns for shareholders for years to come.

What gives us this confidence is, as always, the very low starting valuations that characterise so many of the holdings in the trust. One of our most recent purchases for the portfolio is the auto manufacturer, Stellantis, which is valued on a price-to-earnings ratio of 3x, although when one adjusts for the fact that the company has cash on its balance sheet, the enterprise value to operating profit ratio is just 1.5x. In addition, the company pays a dividend that is 8.5% of the share price at the moment. Contrast this with another auto manufacturer, Tesla, which currently trades at 80x earnings despite the fact that the two companies have similar levels of profitability (c.11% operating profit margin).

This is, however, just one example of the many lowly-valued stocks held by the trust. High quality banks such as NatWest are available for purchase at a price-to-earnings ratio of 5x and a dividend yield of nearly 9%. Energy company Centrica is currently valued at 5x earnings but, like Stellantis, has a considerable amount of cash on its balance sheet and once adjusted for, is valued at an enterprise value to operating profit of 2.5x[4].

Past performance is, as we are all regularly told, not a reliable guide to the future. But Nick and I believe it is important that you understand the confidence that we have in the Temple Bar portfolio and the considerable potential that it holds. When we can put together a reasonably diversified portfolio of businesses trading at these sorts of valuations, the subsequent investment returns are usually very satisfactory. We see no reason to believe that this time will be any different. We are, therefore, hopeful that the next three years may be at least as rewarding as the first three years, if not more so.

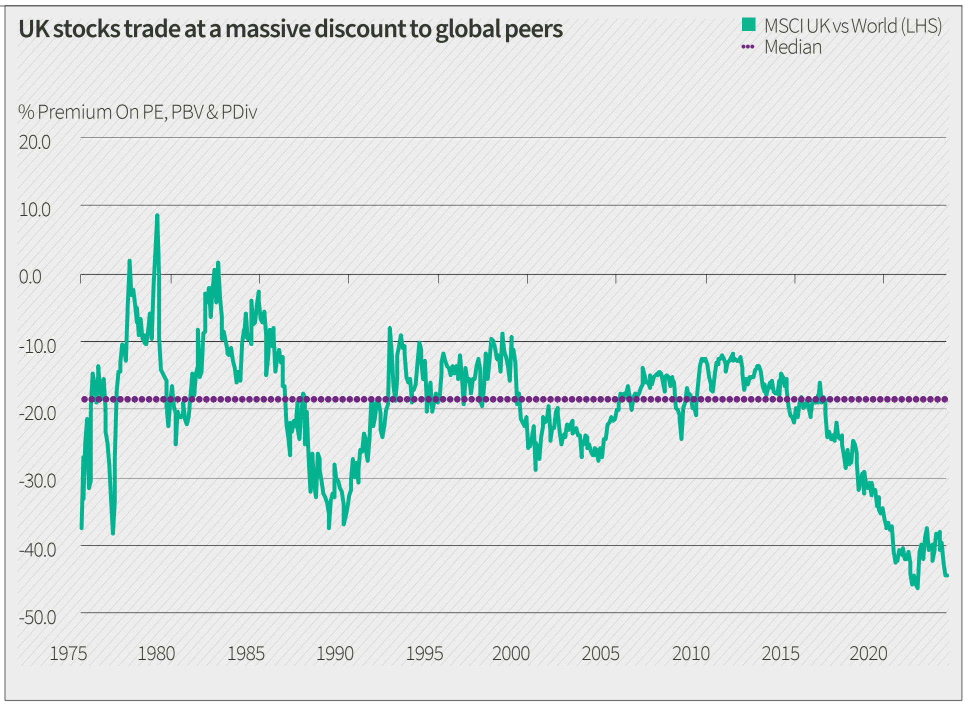
Thank you for your ongoing support.

[4] The source of all valuation data in this section is Bloomberg as at 30 September 2023.

A COMPELLING INVESTMENT CASE

Why UK?

UK equities are currently among the cheapest assets that investors can buy anywhere in the world. As the chart below illustrates, the UK stock market currently trades at a valuation discount of more than 40% to the rest of the world – that's more than double the historic average and the biggest discount seen in the last fifty years.



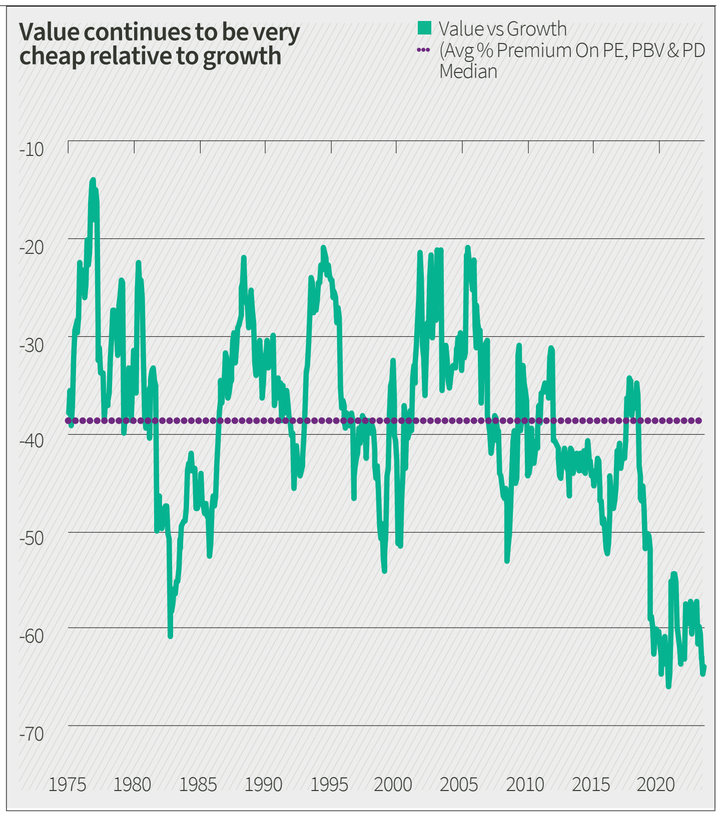
UK stocks trade at a massive discount to global peers

Source: Morgan Stanley to 30 June 2023. Past performance is not a guide to the future. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested. The information show above is for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice.

Why value?

Empirical evidence has consistently demonstrated that value investment strategies work over the long run. Lowly valued stocks have outperformed in every complete decade for the last 100 years, apart from the 2010s[1]. Quality and growth strategies, on the other hand, have not generally worked over longer time periods .

In an uncertain world where we don't know what the future holds, it makes sense to rely on what has worked in the past.



Source: Morgan Stanley to 30 June 2023. No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment. Past performance is not a guide to the future. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested.

[1] Source: Research Affiliates, Kenneth R. French library, Morgan Stanley Research.

Why active management?

Given the extent of the UK valuation discount, broad exposure to the UK stock market has the potential to deliver exceptional long-term returns to investors. But the more selective approach pursued by active portfolio managers such as Ian Lance and Nick Purves, has the potential to deliver even better outcomes, albeit these are not guaranteed.

With more than seventy years investment experience between them, Ian and Nick focus the portfolio towards the most compelling investment opportunities and avoid those that look less attractive. In doing so, they are confident they can deliver an even better long-term performance than the broad UK stock market, which is an outcome that their investors have regularly enjoyed in the past.

"We are value investors because we believe that it is a strategy that works and there is a huge amount of empirical evidence to prove this. The reason it works is because human beings are subject to behavioural biases that mean that they are prone to overreaction and extrapolation. We try to put ourselves at a fundamental advantage by thinking and acting longer term than most market participants and thus exploiting these biases."

OTHER NEWS

Temple Bar in the media

Further positive media coverage of the trust continued during the third quarter of 2023, with Ian and Nick contributing to a range of publications, including This is Money, The Daily Express, Bloomberg, Reuters, Citywire and an appearance on Money Marketing's "In conversation with. . ." podcast.

Share buybacks will rerate the UK
– Citywire

Household names begin to pay off for patient duo
– This is money

In conversation with... Ian Lance
– Money Marketing

Experts say tide is turning on UK shares
– This is money

Get your UK equities before they're all gone
– Bloomberg

Video update

Portfolio manager Ian Lance recently recorded a video update for the Doceo investment trust platform. He provides an update on recent performance, current strategy and an outline of the investment case for a new holding in the car maker Stellantis, and two of the portfolio's long-standing core holdings, Marks & Spencer and Centrica. He also reiterates the enduring attractions of the potential long-term opportunity that lies ahead for Temple Bar, by investing in increasingly attractively valued UK equities.

You can find the recording on the Temple Bar website by following the link below.

Watch now >
https://www.templebarinvestments.co.uk/ian-lance-update-video-october-2023/

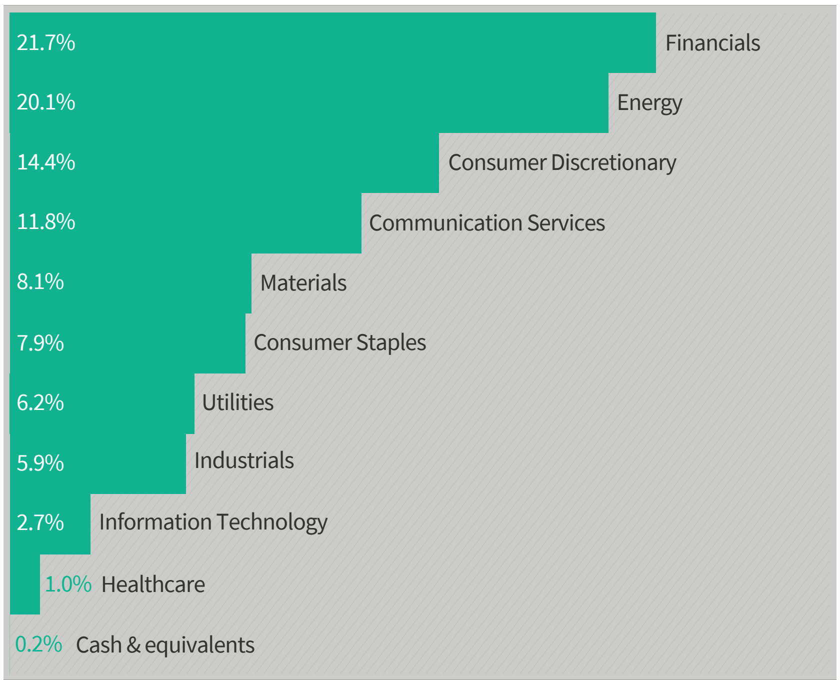
Half-year report 2023

Temple Bar's half-year report for the six months ended 30 June was released on 18 August 2023. Shareholders should already have been notified of this, but you can download a copy of the report from the documents section of our website (www.templebarinvestments.co.uk) or request a copy by emailing us at TempleBar@Redwheel.com.

The Temple Bar portfolio

Data as at 30 September 2023

Top 10 equity holdings	**(%)**
Marks & Spencer	7.9
Shell	7.4
BP	7.3
Centrica	6.2
TotalEnergies	5.5
NatWest	5.0
ITV	4.8
Anglo American	4.3
Standard Chartered	4.2
Pearson	4.2
Total	**56.8**



Performance, price and yield information is sourced from Morningstar as at 30.09.23.

Financial data

Total Assets	£798.7m
Share price (p)	236.00
NAV (p) (cum income, debt at mkt)*	250.4
Premium/(Discount), Cum income (%)*	-5.8
Historic net yield (%)	4.1
Net gearing (%)*	7.7

*Calculated with debt at fair value

Dividend history

Type	Amount (p)	XD date	Pay date
2nd interim – 2023	2.30	24.08.23	29.09.23
1st interim – 2023	2.30	01.06.23	30.06.23
4th Interim – 2022	2.50	02.03.23	31.03.23
3rd interim – 2022	2.50	08.12.22	12.30.22

Performance (total return)

Past performance is not a guide to future performance. The value of investments and the income from them may fall as well as rise and is not guaranteed; an investor may receive back less than the original amount invested. This Trust may not be appropriate for investors who plan to withdraw their money within the short to medium term.

Performance (total return)

Cumulative returns (%)

	Share price	NAV	FTSE All-Share
1 month	3.3	3.4	1.8
3 months	7.6	6.8	1.9
1 year	22.8	23.1	13.8
3 year	102.1	83.2	39.8
5 year	15.2	12.6	19.7
10 year	46.1	55.4	71.8
Since 30/10/2020	88.8	83.5	45.33

Rolling 12 month returns (%)

	Share price	NAV	FTSE All-Share
30.09.22 - 30.09.23	22.8	23.1	13.8
30.09.21 - 30.09.22	-2.2	-5.8	-4.0
30.09.20 - 30.09.21	68.3	58.0	27.9
30.09.19 - 30.09.20	-45.0	-39.7	-16.6
30.09.18 - 30.09.19	3.7	2.0	2.7

Important information

Past performance is not a guide to the future. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested. Forecasts and estimates are based upon subjective assumptions about circumstances and events that may not yet have taken place and may never do so.

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