temple bar Investment Trust PLC – Monthly update 31 March 2014

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	63,586,008	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

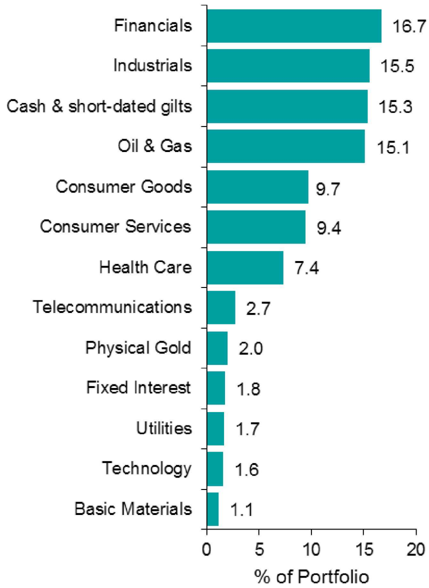
To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

Top Ten Equity Holdings (%) [1]

HSBC Holdings Plc	8.4
Royal Dutch Shell Plc Class B	8.3
GlaxoSmithKline Plc	7.4
BP Plc	5.4
Grafton Group Plc	4.4
British American Tobacco Plc	3.2
Signet Jewelers Limited	2.9
Unilever Plc	2.8
QinetiQ Group Plc	2.8
BT Group Plc	2.7
Total	48.3

[1] % of total assets, including cash

Sector Analysis



Financial Data

Total Assets (£m)	866.0
Share price (p)	1210.00
NAV (p) (ex income, debt at market value)	1203.27
Premium/(Discount), ex income (%)	0.56
NAV (p) (cum income, debt at market value)	1214.58
Premium/(Discount), cum income (%)	-0.38
Historic net yield (%)	3.12

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 [2]
1 month	-5.5	-3.0
3 months	-2.9	-1.5
1 year	9.5	5.2
3 years	36.6	15.9
5 years	138.0	79.2

[2] Capital return only

NAV total return % change

	Trust	FTSE All-Share [3]
1 month	-1.1	-2.6
3 months	0.6	-0.6
1 year	12.6	8.8
3 years	50.5	28.8
5 years	177.6	113.3

[3] Total return

Performance, Price and Yield information is sourced from Thomson Datastream as at 31.03.14.

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.

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Manager's Commentary

What are the most important elements of stock selection? Most investors would claim successful stock picking requires holding a more informed view of a company's future than the majority. Other investors would suggest following a systematic list of quantitative rules, while a smaller group – technical analysts – would seek to second guess the actions of others by studying price charts, but with absolutely no interest in forecasting the operational future of the company.

Of these approaches, success through holding an informed view of the future is probably intellectually more appealing (and more fun), but, as we have written previously, recognised experts in a field have very little ability to accurately forecast the future, when compared with a control group. So, although we can say with a reasonable degree of confidence that Manchester City have a greater chance of winning the FA Premiership than Cardiff, these probabilities are already discounted in the book-keepers (the control group) prices. Although many investors, including ourselves, encourage the use of probability-weighted outcomes to further our chances of success, by betting only when the odds are attractive, I am unconvinced that many probabilities can be 'calculated' sufficiently accurately as to provide meaningful conclusions. It is hard to get away from Yogi Berra's assertion that "it's tough to make predictions, especially about the future".

However, sometimes markets make the challenge slightly easier. Periods of panic throw up more possibilities of non-consensual visions of the future and the chances that share prices will move significantly away from their intrinsic value. At these times, some form of arbitrage (using the weakest form of the word) potential may exist if investors have longer holding periods than the majority – providing opportunities to buy stocks that look optically cheap, but in others' eyes have no catalysts to immediately correct the mispricing. Alternatively, opportunities can exist if stocks are considered 'uninvestable', typically because of a particularly worrying and obvious threat to a company's business model. Or sometimes stocks fall off investors' radars, are embedded with an extreme macroeconomic outcome, or simply stand on too low a rating. All of these can rationally explain a low share price and shocking sentiment and thus provide hope that shares have been oversold.

Yet if, outside these times of market stress, spending too much time forecasting the future is futile, is there an argument to simply buy just the cheapest stocks? There probably is, but that portfolio would then have all the good and bad attributes that come with black box investing (the infamous algorithm-based investment process). Typically, instead, investors who believe that cheap stocks outperform expensive stocks use their 'judgement' to differentiate between the 'cheapies' in their quest to outperform the black box. The cliché that many stocks are cheap for a reason – therefore promoting the use of 'judgement' is probably true and often repeated, but has there ever been a successful audit highlighting which reasons are correct?

It is very difficult for investors to break down their performance and understand which factors have assisted them and which have damaged them. My guess is that much of what investors do, and believe is important, probably cancels out in the long run. However, we can write history in such a way as to convince ourselves of attributes which we believe we have. For example, an extraordinary number of words has been written to explain the inner workings and thought processes of Warren Buffett's mind, beyond his many aphorisms. Despite this, recent academic works, studying his success, such as Buffett's Alpha, by Andrea Frazzini, David Kabiller, and Lasse Heje Pedersen (November 2013), conclude that it was achieved simply through i) the purchase of 'cheap, safe, quality stocks' combined with ii) gearing (using the float of his insurance companies) – so, despite his extraordinary record, nothing a computer couldn't have done. Buffett's genius was actually seeing the opportunity early, implementing it and sticking to it consistently. The academics are suggesting that much of the commentary around his skills has just been noise.

Of course, some might suggest that I am overly cynical and that it is easy to 'prove' the ability of others to forecast the future, by listing managers with great track records and well documented processes. If none of them are forecasting the future accurately can so many really be lucky? Putting the luck to one side, I am merely suggesting that some of this outperformance is incorrectly attributed. It is quite possible that it may simply be due to some simple factors, such as long-term overweights to mid-cap stocks or a rising market. My argument is not that these themes are inherently a bad way to make money, just that magic dust can be misunderstood (even by the purveyor of the dust).

If the future is unknowable, what can we do to protect ourselves from loss or increase our chances of success – apart from waiting for cheap valuations and checking for significant downside risk? What many of us do, perhaps – but either ignore or under-emphasise – is to answer a slightly easier question by selecting those stories which we think appeal to other investors, while having no view on the likelihood of whether the story itself is correct.

For example, we have recently purchased Tesco. Frankly, we have little idea how the food retail market will unwind over the next five to fifteen years. Fifteen years ago, the focus was on which companies were opening the largest stores and offering the best selection in non-food goods and services, such as banking and insurance. Now, the focus is on success through convenience stores, reducing non-food space and increasing profitable internet retailing. Is Tesco, with its huge market share, a likely winner? Or will it be hamstrung by its very large stores, its underperforming international division and its growing debt burden? Place your bets. What is perhaps easier to forecast – possibly after a particularly nasty profits warning – is that sentiment towards Tesco could turn. Investors might highlight the management team's options for a change of direction; be it a sale of the company's international division, a price war, sale of property assets, a large reduction in capital expenditure or, simply, significant operational improvements. With the shares optically cheap, some sensible stories could drive a meaningful re-rating, irrespective of the actual outcome.

"The data's not at all clear...I don't suppose the World Cup octopus is available yet?"

The yield information has been calculated as at 31.03.14. All other information is from Investec Asset Management at 31.03.14.

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.