

## Trust Facts

**Launch date:** 1926

**Wind-up date:** None

**Year end:**

31 December

**Dividends paid:**

Quarterly in March, June, September and December

**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:** 0.49% (31.12.15)

Includes a management fee of 0.35%

**Board of Directors:**

John Reeve (Chairman)

Arthur Copple

Richard Jewson

June de Moller

Lesley Sherratt

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

**Depository & Custodian:** HSBC Bank Plc

## Trust Objective

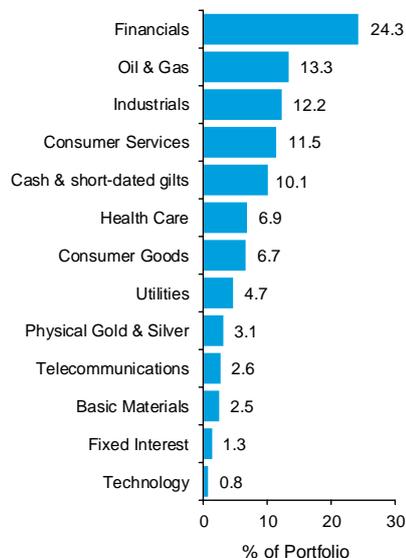
To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

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

GlaxoSmithKline Plc	6.9
HSBC Holdings Plc	6.8
BP Plc	6.7
Royal Dutch Shell Plc Class B	6.6
Grafton Group Plc	4.3
Lloyds Banking Group Plc	4.2
British American Tobacco Plc	4.1
Royal Bank of Scotland Group Plc	3.2
Direct Line Insurance Group Plc	2.9
WM Morrison Supermarkets Plc	2.7
<b>Total</b>	<b>48.4</b>

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

## Sector Analysis



## Financial Data

Total Assets (£m)	845.3
Share price (p)	1056.0
NAV (p) (ex income, debt at mkt)	1118.8
Premium/(Discount), Ex income (%)	-5.6
NAV (p) (cum income, debt at mkt)	1134.3
Premium/(Discount), Cum income (%)	-6.9
Historic net yield (%)	3.8

## Dividend History

Type	Amount (p)	XD date	Pay date
Final	15.87	10-Mar-16	31-Mar-16
3rd interim	7.93	10-Dec-15	30-Dec-15
2nd interim	7.93	10-Sep-15	30-Sep-15
1st interim	7.93	11-Jun-15	30-Jun-15

## Performance

### Share Price % change

	Trust	FTSE All-Share <sup>2</sup>
1 month	4.8	0.8
3 months	5.1	2.6
1 year	-10.9	-9.0
3 years	-6.8	0.9
5 years	12.8	8.5

<sup>2</sup>Capital return only

### NAV total return % change

	Trust	FTSE All-Share <sup>3</sup>
1 month	3.0	1.1
3 months	6.9	3.9
1 year	-6.1	-5.7
3 years	12.2	12.0
5 years	47.0	29.4

<sup>3</sup>Total return

Performance, Price and Yield information is sourced from Morningstar as at 30.04.16.

**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

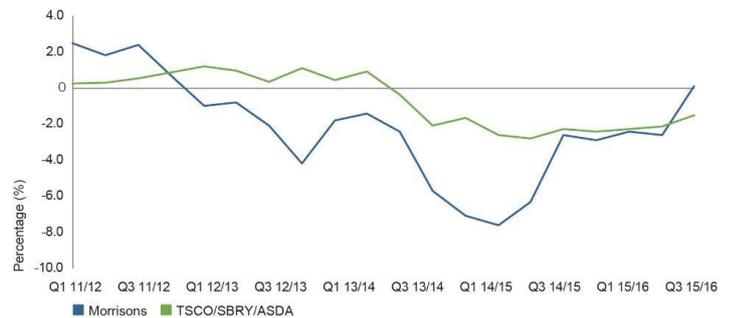
A number of recent manager commentaries in the industry have referred to the Oscar winning film, *The Big Short* – a film describing the inflation and subsequent bursting of the US housing bubble during the 2000s through the eyes of some of the smart guys who profited from the crash. It is indeed both a decent way of spending a few hours and a pretty good introduction to some of the more exotic products bought and sold in financial markets. However, my poor attention span and need for a fast moving story was slightly better suited to *Eddie the Eagle*. This film, a biography of our very own talent-limited ski-jumper Eddie Edwards, seems less likely to pick up as many industry gongs, but certainly kept my daughter and I amused on a wet Saturday afternoon. Sadly, that did not mean I was totally in leisure mode and from a financial market sense, one scene particularly resonated.

Eddie is portrayed as a downhill skier attempting to break into the British downhill team. At one point the British Olympic Association introduces the whole team to potential sponsors at a dry ski slope. The team ski down one at a time before coming to a stop in front of the would-be sponsors. Eddie is the last skier to come down, joins the rest of the team at the bottom, loses his balance and knocks into his colleagues who fall over one at a time, leaving the whole squad on their backsides in the snow. The relevance? In an equity market trading above its long-term average valuation, with declining earnings – probably as a result of sluggish revenue growth and margins under pressure – and a host of uncertainties (Brexit, euro-crisis, China, Trump etc.) it would seem that the most important factor holding it up is the very low level of government bond yields. If these yields were to reverse, for whatever reason, the Eddie domino effect could have very significant implications for a number of different asset classes.

While on the subject of films, I remember many years ago watching a Clint Eastwood movie (it really could have been any one of twenty). He is sitting in a bar minding his own business while a huge fight breaks out in the background. Clint is completely unmoved until one of the protagonists accidentally knocks his beer. This shakes Clint into action and soon he is knee deep in victims. Rather like Clint, we do not go looking for trouble, but trouble has a habit of finding us. Currently, the good news is that there is more trouble finding us than there has been for some time – probably a consequence of a broader spread of stocks being downgraded and increasing shareholder nervousness. This certainly makes our roles more interesting, but we must be careful. We are as strict as we can be that we wait for shares to significantly underperform before we even consider buying them. This demands great patience, but just as importantly sometimes demands great ongoing discipline to turn stocks away even as supply increases.

While food retailing remains a very competitive industry, there is no doubt that the major players are now fighting back against the irritants Aldi and Lidl. Morrisons in particular appears to have turned a corner:

Figure 1: Morrisons versus competitors - quarterly like-for-like growth trends



Source: Jefferies company data, April 2016

This is all the more impressive given that the consensus a year or so ago was that given its smaller buying compared to the big boys, and its label as a low price brand (but not very low prices) they would be the most vulnerable to the continued march of the discounters.

What is also interesting is that much of this recovery has occurred with little fanfare. Only a handful of investment banks' research notes longer than 16 pages (not a huge hurdle given the seemingly never ending pages of compliance warnings now required) have been written on the company over the past 12 months. Given two of them are titled 'Caught in the Middle' and 'Structural Problems Remain', the investment bank community is yet to be fully convinced of the Morrisons recovery, despite the improvement in trading. Perhaps management is simply spending the majority of its time trying to grow the business in preference to schmoozing city analysts. And perhaps it would be better for shareholders in a number of companies if other management teams had a similar approach?

While on the subject of the discounters, it is taken as read that Aldi and Lidl will push on from their current market share of about 10% towards a 15% market share as they continue to roll out new stores. However no roll-out is without risks. Aldi and Lidl will be feeling the pressure of the increased attention from the Big Four and may find themselves moving more into branded products, finding stores with larger car parks, introducing bakeries etc. All of this would add complexity to what has been a straightforward story to date and one which their larger competition ignored for a very long time. Perhaps the discounters are truly invincible, but it is worth noting that even the mighty JD Wetherspoon failed by a considerable distance to match estimates for the size and speed of their pub roll-outs. Looking back at old research, many analysts expected Wetherspoons to have 1,000 pubs by 2010, a number which despite stable management and good execution they have still failed to reach.

The yield information has been calculated as at 30.04.16. All other information is from Investec Asset Management at 30.04.16.

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

For further details, call the Investor Services Department on 020 7597 1800, or send an email to enquiries@investecmail.com. Alternatively, visit the Temple Bar website: [www.templebarinvestments.co.uk](http://www.templebarinvestments.co.uk).

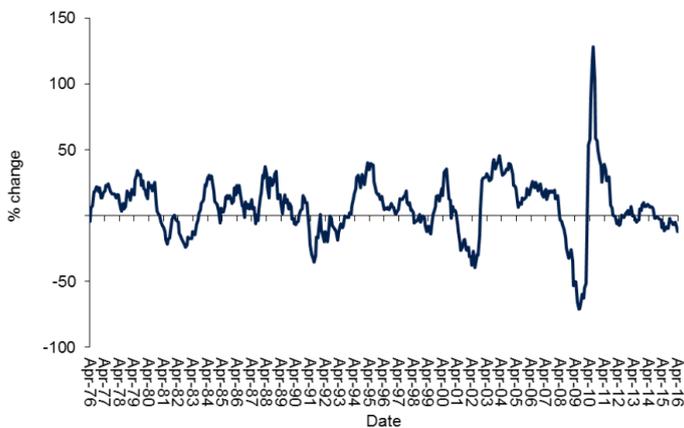
Issued by Investec Asset Management, which is authorised and regulated by the Financial Conduct Authority, May 2016.

While a number of value stocks are standing at the top of the performance tables year to date, the banks are a notable omission. Investors have had a host of reasons to avoid them in the past few years: competition, litigation, regulation and so on, but it could be argued that the clouds were clearing somewhat towards the end of last year. At that time, the governor of the Bank of England was making clear noises that regulation in the UK banking industry was near its peak. Perhaps that would have made a great catalyst for bank performance to bottom. Unfortunately, the Japanese central bank then arrived on the scene and took interest rates negative. Echoes of Scooby Doo, 'if it hadn't been for those meddling Japanese central banks...'

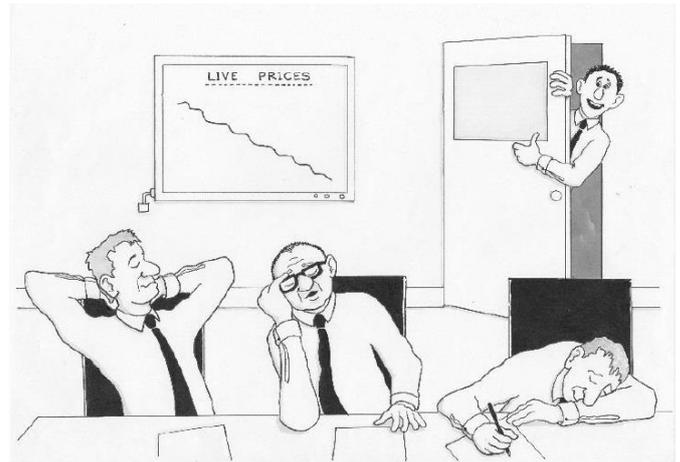
One interesting aspect about bank shares is that underlying profitability before nasties (fines, non-core losses etc.) remains very healthy, and if comfort can be reached on the ultimate size of the nasties along with some belief that the underlying profit can be maintained, this provides an attractive profit stream when compared with current market capitalisations. This compares with many other value plays in the market which need core profits to increase to validate current valuations. Obviously, in an ideal world, value investors prefer to buy stocks that look cheap on today's (depressed) earnings, not for some hope for earnings in the future. In current markets that is proving a hard ask.

So while the debate rages as to whether or not the US may or may not be in recession, or if the euro-zone economy is finally recovering, equity investors cannot get away from the inescapable fact that profits are declining the world over. Earnings per share (EPS) for companies within the MSCI World Index are now declining at the fastest pace since 2009, losing 4% in the past couple of months alone (this despite stronger oil prices). Global earnings are now 14% off the peak set in August 2014 and back to where they stood five years ago. Equity prices on the other hand are 25% higher. Gravity beckons!

Figure 2: MSCI World profits continue to fall away (6 month change in reported earnings per share (EPS), annualised rate %)



Source: MSCI, April 2016



'Wake up guys!' We are almost there!

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