

Temple Bar Investment Trust PLC – Monthly update 30th April 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 61,001,367 0882532
*250,000 issued since 31-3-13

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

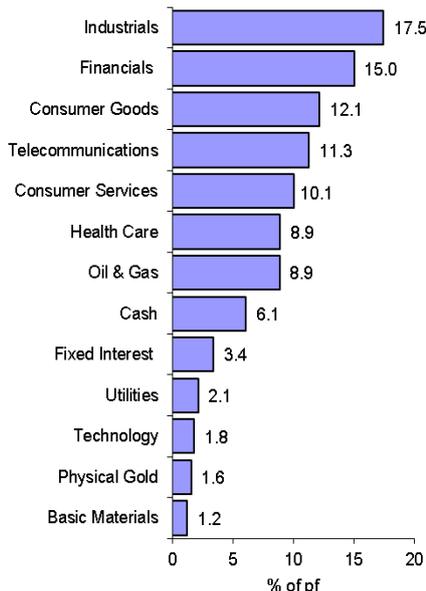
To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

Top ten equity holdings (%) *

| | |
|------------------------------|-------------|
| GlaxoSmithKline PLC | 8.2 |
| HSBC Holdings PLC | 7.3 |
| Vodafone Group PLC | 7.2 |
| Royal Dutch Shell PLC (CL B) | 6.6 |
| Signet Jewelers Ltd. | 6.5 |
| Grafton Group PLC | 4.7 |
| Unilever PLC | 4.7 |
| BT Group PLC | 4.1 |
| Travis Perkins PLC | 3.3 |
| SIG PLC | 2.9 |
| | 55.5 |

* % of total assets, including cash

Sector Analysis



Financial data

| | |
|----------------------------------|---------|
| Total Assets (£m) | 731.43 |
| Share price (p) | 1133.00 |
| NAV (p) (ex income, debt at mkt) | 1105.43 |
| Premium/(Discount) (%) | 2.5 |
| Historic net yield (%) | 3.23 |

Performance

Share Price % change

| | TBIT | All-Share * |
|----------|------|-------------|
| 1 month | 2.5 | 0.3 |
| 3 months | 5.1 | 3.1 |
| 1 year | 22.4 | 13.6 |
| 3 years | 44.9 | 18.4 |
| 5 years | 64.2 | 9.4 |

* Capital return only

NAV total return % change

| | TBIT | All-Share * |
|----------|------|-------------|
| 1 month | 1.7 | 0.6 |
| 3 months | 9.9 | 4.3 |
| 1 year | 28.6 | 17.8 |
| 3 years | 51.6 | 31.3 |
| 5 years | 88.1 | 31.1 |

* 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

We are often asked how much weight we give to dividend yield when valuing stocks. After all, it is common knowledge that income has generated a large percentage of total equity market returns over many years.

The attractions of dividends are obvious – they are genuine cash payments and indicate a company management focused on delivering value to shareholders. It is often argued they are used by management to demonstrate (from their privileged vantage point) confidence in its company's future. Many investors also believe that when a dividend yield reaches a certain level it offers 'yield support' to a share price; implying that downside risk is limited, but upside potential remains thus generating a good risk/reward profile.

We however believe the allure of dividends can be overdone. Firstly, a board of directors may increase a dividend for a number of reasons. Rather than providing evidence of its confidence in the future, it may instead be encouraged to raise a dividend to counter some bad news, alleviate the embarrassment of have nothing positive to say on the company's prospects or even to persuade investors that financing is strong. It is a sobering thought that the management of Northern Rock announced an increase in its interim dividend of over 30% less than six months before being nationalised.

Secondly, although a dividend is certainly less volatile than a company's profits, it is not set in stone. Even after a dividend is cut, or, to use the modern vernacular, rebased, disappointment can still follow.

For example, over the last decade the most recent three chief executives at Aviva has each cut the dividend to a level from which it believed it could grow in the future! Yield support on each occasion proved illusory.

A dividend may also be paid out of debt and therefore is reasonably meaningless in terms of the cash generation of the company.

We therefore read little of relevance into dividend increases and pay little attention to them. However, dividend cuts are rather more interesting. A cut (particularly if it is referred to as that rather than a softer sounding euphemism), may highlight an end to the denial stage of a management team's narrative. In fact, even though a dividend cut usually receives wide exposure in the press, it often comes close to the end of a bad story. Despite this it can often presage a move down in price and some selling by income orientated funds, and therefore throw up some interesting opportunities.

Perhaps of even more fascination are dividend omissions. Given this is an extreme decision for a board to take, it is typically accompanied by a poor set of results and a bleak outlook for the future. To many investors this could act as a final straw and encourage capitulation. While that is sometimes the correct decision, it may also act to shake out the final sellers; unable to value the shares on yield or earnings and staring at a weak balance sheet. Often in the past a dividend omission has been the penultimate stop ahead of bankruptcy, but sometimes it has marked the bottom of a company's fortunes and led to extraordinary returns for shareholders. It would be fascinating to see a study into the success or otherwise of this very high risk style of investing.

"Sales are down significantly, profits have evaporated, our balance sheet is deteriorating and the outlook is poor...I am therefore proposing a 25% increase in the dividend!"



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