

## 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% (30.06.16)

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

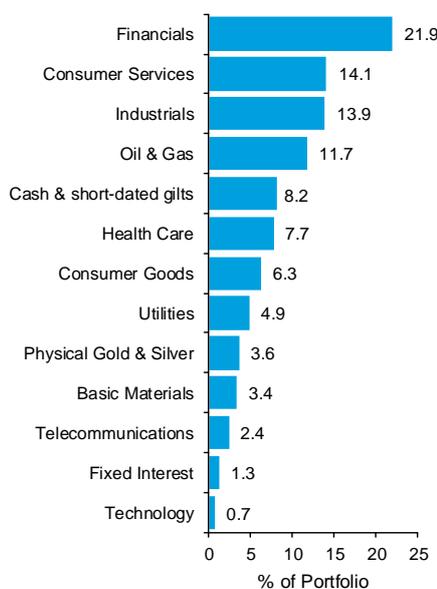
To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

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

GlaxoSmithKline Plc	7.7
HSBC Holdings Plc	7.3
Royal Dutch Shell Plc Class B	6.3
BP Plc	5.5
Grafton Group Plc	4.0
British American Tobacco Plc	3.7
Lloyds Banking Group Plc	3.2
Royal Bank of Scotland Group Plc	2.6
SIG Plc	2.5
Drax Group Plc	2.5
<b>Total</b>	<b>45.3</b>

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

## Sector Analysis



## Financial Data

Total Assets (£m)	872.4
Share price (p)	1103.0
NAV (p) (ex income, debt at mkt)	1154.4
Premium/(Discount), Ex income (%)	-4.5
NAV (p) (cum income, debt at mkt)	1171.1
Premium/(Discount), Cum income (%)	-5.8
Historic net yield (%)	3.6

## Dividend History

Type	Amount (p)	XD date	Pay date
2 <sup>nd</sup> interim	8.09	08-Sep-16	30-Sep-16
1 <sup>st</sup> interim	8.09	09-Jun-16	30-Jun-16
Final	15.87	10-Mar-16	31-Mar-16
3 <sup>rd</sup> interim	7.93	10-Dec-15	30-Dec-15

## Performance

### Share Price % change

	Trust	FTSE All-Share <sup>2</sup>
1 month	7.4	3.9
3 months	4.5	6.8
1 year	-5.5	0.0
3 years	-9.6	4.1
5 years	23.0	20.7

<sup>2</sup>Capital return only

### NAV total return % change

	Trust	FTSE All-Share <sup>3</sup>
1 month	4.0	4.0
3 months	4.0	7.7
1 year	1.0	3.8
3 years	9.3	15.5
5 years	59.5	44.1

<sup>3</sup>Total return

Performance, Price and Yield information is sourced from Morningstar as at 31.07.16.

**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

### Thought for the month

Wandering past my bookshelves recently, one of my favourite business books caught my eye. 'Best Served Cold' by Malcolm Walker, founder and chief executive of Iceland Frozen Foods, is a fast-moving roller coaster journey through the rise, fall and recovery of both Iceland and Mr Walker. The title is a simple play on words reflecting both the core Iceland business, but (as importantly for Walker) the revenge he took on Bill Grimsey, who replaced him as chief executive and then invited the Serious Fraud Office to investigate Walker's share sales (against which no action was ever taken).

Given Walker, who founded the business almost 50 years ago, has managed it through a number of economic cycles, conducted his fair share of corporate activity and is clearly a bit of a character, a number of relevant themes popped out from his story.

**Leasehold Growth** – other than spending some cash on the first month's rent, Walker claims he never had to put money into the Iceland business. It expanded quickly, but mainly through leaseholds. Each time a new store opened more cash was generated as customers paid for goods before the company had to pay suppliers. Obviously we read a lot in the press about companies which grow strongly and then blow-up, but there is little more successful than a leasehold rollout does that doesn't blow up!

**Management often needs refreshing** – at various times over the years Iceland's trading slowed. At one point Walker became so desperate that he introduced consultants into the business (very much against his character). Whilst he soon bored of the consultants, the experience encouraged him to focus on the need to refresh some of the senior management whom the business had outgrown.

**Boredom** – Walker often speaks highly of his colleagues and their various abilities. In fact, they seem so talented the reader is sometimes left wondering how he filled his days. The answer at least partially seems to be in discussing potential deals. At various times Walker has talked to BHS, Littlewood, N Brown, T&S Stores, Dunnes Stores (in Ireland) and the Argyll Group amongst others. To be fair, not many of these came to anything, but it does highlight a potential risk if management attention wanders.

**Diversification** – Walker is happy to point out his weakness for diversification throughout his career. In the early years when he must have had sufficient growth prospects at Iceland to keep him busy, he had his attention focused on printers, pizza restaurants, take-away diners and so on. Perhaps in Iceland's glory years, it was almost too easy and Walker needed more of a challenge. Fortunately, the diversification was always limited, but once again it highlights the potential risk for all companies.

### Proven management do not always reproduce the magic –

When Bill Grimsey is recruited to head Iceland, Walker explains that the city are delighted. Grimsey and his sidekick Hoskins had successfully turned Wickes around after an accounting irregularity, and investors believed Iceland had recruited a crack team. They talked of introducing structure, process, order, control and accountability. Unfortunately, the magic was impossible to re-create and the Iceland business struggled under their management.

**Acquisitions are never straightforward** – Iceland's largest competitor in the late 1980s was Bejam, the more southern focused equivalent of Iceland. The company had lost its way and this provided Walker with a great opportunity to pounce. As the takeover was hostile, Iceland were buying Bejam blind. They had estimated that sales would be down 5% on the previous year, but when they got their hands on the company's books they discovered sales were actually down 13%. Whilst the deal was ultimately very rewarding for Iceland shareholders, it does illustrate that however much confidence management may give to shareholders when bidding for a company, they are never fully aware of what they are purchasing.

**Opportunities in massively unpopular businesses** – Walker merged his Iceland business with Stuart Rose's Booker, and Walker was amazed at how shockingly Booker was run and what great potential it offered. Although it had been listed for many years it was poorly covered by analysts who assumed it was in structural decline. Under new management, who are still there, Booker has thrived as a business. Perhaps rather than diversify, management should always ensure they have squeezed every last penny out of the core and most similar businesses.

**Profits are very subjective.** When Grimsey arrives, Walker explains to him that Iceland had had a tough year (mainly as a result of management own goals), but that Walker was keen to meet analysts' expectations of £130 million in profit. This, he said, would involve having 'to throw in the kitchen sink to get there'. A very poor Christmas trading period followed and the Iceland management reduced their expectations to something closer to £120 million. Walker then went on holiday and whilst away the new management re-based expectations and started to kitchen sink it across the entire business. As Walker tells it (and to be fair many of the provisions the new management team raised were never used) the cuts to numbers were very aggressive.

What caught my interest was that Walker admits that, "there are always items in the accounts that are 'grey' and I could quite understand how he [Grimsey] would have been able to knock the number down to even as low as £100 million if he had been ruthless". He is then informed that the new management's estimate has been reduced further to £63 million. Walker then questions which number was 'right' and confesses that both were depending on whether management and auditors wished to be optimistic or pessimistic! And this for a business whose main business couldn't have been much more straightforward. This is an excellent example of why it is so important to analyse the cashflow of a company. (The results finally produced showed profits of just £40 million as well as exceptional items of £66 million which Walker describes as 'astonishing').

The yield information has been calculated as at 31.07.16. All other information is from Investec Asset Management at 31.07.16.

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](mailto: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, July 2016.

With Walker back at the helm and in financial control of the business, Iceland is still performing strongly. It is quite clearly a business that if it didn't exist would not need inventing and it is tempting to worry about its long-term prospects in a fast-moving and very competitive market. However, Walker and his team have made a lot of money from purchasing the company cheaply and running it well. In a world where the majority of investors are currently focused on buying companies with great long term prospects almost regardless of price, the Iceland story is a fascinating tale.



*"We might want to re-assess our shopping habits"*

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