

## 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:** 0.48%\* (31.12.14)  
\*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.

## Financial Data

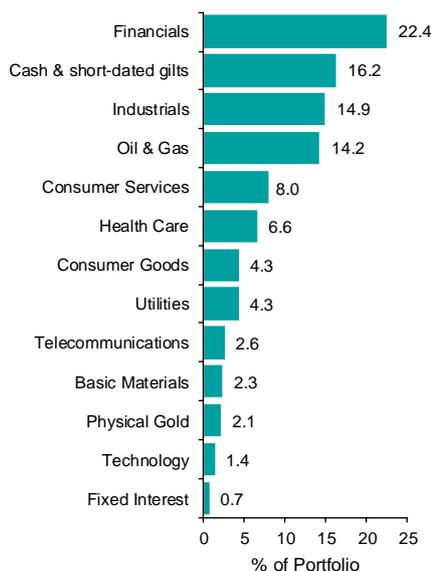
Total Assets (£m)	934.3
Share price (p)	1185.0
NAV (p) (ex income, debt at market value)	1236.4
Premium/(Discount), ex income (%)	-4.2
NAV (p) (cum income, debt at market value)	1251.2
Premium/(Discount), cum income (%)	-5.3
Historic net yield (%)	3.3

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

HSBC Holdings Plc	8.4
GlaxoSmithKline Plc	6.6
Royal Dutch Shell Plc Class B	6.5
BP Plc	6.3
Grafton Group Plc	4.9
Lloyds Banking Group Plc	3.5
British American Tobacco Plc	3.3
Royal Bank of Scotland Group Plc	2.9
Direct Line Insurance Group Plc	2.5
BT Group Plc	2.5
<b>Total</b>	<b>47.4</b>

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

## Sector Analysis



## Dividend History

Type	Amount (p)	XD date	Pay date
Interim	15.55	10-Sep-14	30-Sep-14
Final	23.33	12-Mar-15	31-Mar-15

## Performance

### Share Price % change

	Trust	FTSE All-Share <sup>2</sup>
1 month	1.8	2.6
3 months	1.0	3.8
1 year	-3.8	3.9
3 years	28.0	26.0
5 years	51.5	31.3

<sup>2</sup> Capital return only

### NAV total return % change

	Trust	FTSE All-Share <sup>3</sup>
1 month	3.7	3.0
3 months	6.2	5.1
1 year	5.7	7.5
3 years	53.5	40.0
5 years	79.3	55.9

<sup>3</sup> Total return

Performance, Price and Yield information is sourced from Morningstar as at 30.04.15.

**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 decade ago BT was a classic 'unloved stock'. The shares had underperformed the FTSE All-Share Index by approximately 75% from their technology bubble peak and witty market commentators liked to point out that the company was actually a large pension fund with a small telecommunications business attached. Anecdotes abounded about youngsters leaving parental homes and setting up in their new pads without fixed lines as their mobile providers were offering packages including a plethora of free voice calls. With BT's business partially regulated, investors also worried there was little opportunity for positive surprises. To many it looked like a standard value trap especially given eight successive quarters of negative EBITDA growth and, according to Bloomberg, just 13% of investment banks researching the company had a buy recommendation on it.

10 years later the shares trade at around 460p, having produced a total return of 261%. Admittedly the UK market has increased 122% over that time (10 years to 30 April 2015), but BT has clearly outperformed comfortably. Some of that performance has come in recent months post the expectation and subsequent announcement of the acquisition of mobile operator EE. However, even disregarding this recent boost, the shares have still performed strongly.

So what happened? The company has certainly evolved over the years – a more durable fixed line business than expected, an extensive cost-cutting programme, a regulator keen to see the industry leader invest and the popularity of BT broadband all appear key factors in BT's successful run. However, in isolation this would give the impression that profits and cashflow have grown strongly. Is this the case?

Exane BNP Paribas highlight that the earnings per share that BT has produced has increased by between 75% and 100% (depending on definition) over the past 11 years – a compound rate of between 5.8% and 7.2% per annum; okay, but not great. This earnings growth is supported by an average price/earnings which has risen from approximately 11 times to 14.5 and the combination of the two is the dynamic behind the increased share price.

However, Exane also analyse the cashflow the company has produced. They slice and dice the number to provide cashflow using three definitions - operating cashflow, operating free cashflow and free cashflow. Rather than argue about the definitions it is perhaps easiest to compare the progress of each measure. According to Exane, operating cashflow has decreased from £5.4 billion in the year ending March 2004 to an estimated £5.3 billion for the year ending March 2015. A reduction in capital expenditure over that period however drove an improvement in operating free cashflow from £2.7 billion to £2.9 billion while the free cashflow number is virtually identical across the two periods. One win, one loss and one draw, so it is probably fair to say cashflow has barely changed over the past 11 years.

An extraordinary amount of research has been written on BT since 2004, covering subjects that range from regulation, BT Sport, broadband, pricing, global services, the acquisition of EE and the increased competition in the telecoms market. While all of these issues have probably had an effect on cashflow they have roughly cancelled each other out. So why have the shares performed so well? Quite simply the re-rating of the shares together with the dividend pay-out. And the re-rating itself may be primarily due to the more positive commentary provided by BT management focusing on growth areas such as broadband, TV and mobile.

Is there a lesson here? Well perhaps there is. Investors in general spend a lot of time analysing businesses and attempting to forecast their likely development in years to come. However, back-tests which support the use of value investing do not do this. Instead they systematically purchase those stocks which are optically cheap. The value premium highlighted in academic studies often comes from the mean reversion of a discount valuation or to put it another way a positive change in perception of a company's future, even if unsupported by a change in cash profits. It is clearly not as exciting as detailed and rigorous business analysis, but the practice of buy cheap, sell dear remains a powerful one.



"...& which one of you issued a trading statement saying The Sky's The Limit!"

The yield information has been calculated as at 30.04.15. All other information is from Investec Asset Management at 30.04.15.

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.

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