Temple Bar Investment Trust PLC

Monthly update **30 April 2017**

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: 0.51% (31.12.16)
Includes a management fee of 0.35%

Board of Directors:
John Reeve (Chairman)
Arthur Copple
Richard Jewson
Nicholas Lyons
June de Moller
Lesley Sherratt
David Webster

Auditors: Ernst & Young LLP

Investment Manager:
Investec Fund Managers Ltd

Registrars: Equiniti Ltd

Secretary:
Investec Asset Management Ltd

Stockbrokers: JPMorgan Cazenove

Depositary & Custodian: HSBC Bank Plc

Trust Objective

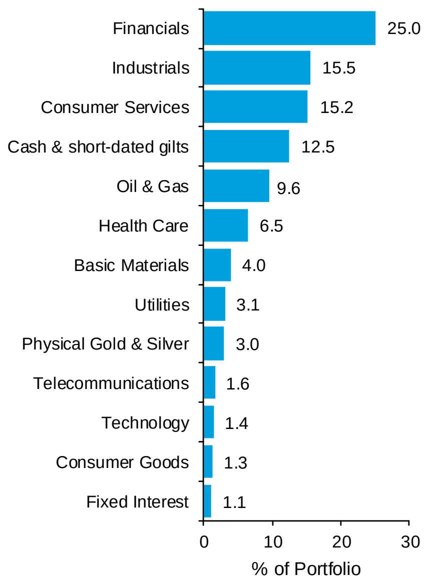
To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

Top Ten Equity Holdings (%)[1]

HSBC Holdings Plc	7.3
GlaxoSmithKline Plc	6.5
Grafton Group Plc	5.6
Royal Dutch Shell Plc	5.2
Barclays Plc	4.6
BP Plc	4.5
Royal Bank of Scotland Plc	3.3
SIG Plc	3.3
WM Morrison Supermarkets Plc	2.9
Lloyds Banking Group Plc	2.9
Total	46.1

[1]% of total assets, including cash

Sector Analysis



Financial Data

Total Assets (£m)	954.3
Share price (p)	1262.0
NAV (p) (ex income, debt at mkt)	1287.5
Premium/(Discount), Ex income (%)	-2.0
NAV (p) (cum income, debt at mkt)	1301.8
Premium/(Discount), Cum income (%)	-3.1
Historic net yield (%)	3.2

Dividend History

Type	Amount (p)	XD date	Pay date
Final	16.18	09-Mar-17	31-Mar-17
3rd interim	8.09	08-Dec-16	30-Dec-16
2nd interim	8.09	08-Sep-16	30-Sep-16
1st interim	8.09	09-Jun-16	30-Jun-16

Performance

Share Price % change[2]

	Trust	FTSE All-Share
1 month	2.6	-0.7
3 months	3.4	2.7
1 year	19.5	15.8
3 years	2.4	9.5
5 years	36.3	32.8

[2]Capital return only

NAV total return % change[3]

	Trust	FTSE All-Share
1 month	-0.5	-0.4
3 months	2.1	4.0
1 year	18.6	20.1
3 years	17.7	21.8
5 years	70.9	58.6

[3]Total return

Performance, Price and Yield information is sourced from Morningstar as at 30.04.17.

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

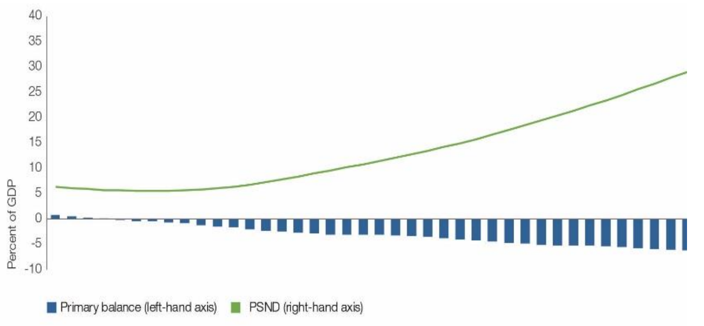
Thought for the month

The UK's Office of Budget Responsibility (OBR) was created in 2010 to generate independent economic forecasts to assist the Treasury to make decisions on taxation and expenditure. Each year the OBR publishes a Fiscal Sustainability Report (FSR) specifically studying long-term projections of the government's finances.

Not surprisingly, the OBR's reports are typically pretty dry stuff, which makes it all the more interesting when the language used in them perks up. For example, in the last FSR published in January 2017, it says that, 'the central projection in each of our reports – since the first was published in 2011 – has pointed to an unsustainable fiscal position over the long term'. It highlights that an ageing population will require greater spending whilst the same demographic trends leave government revenues roughly stable – a worrying combination.

This is nicely illustrated by the chart below in which the PSND (the public sector net debt) is shown as a percentage of GDP (the blue and the left-hand scale). And just in case the reader thinks it can only improve from 2066, the OBR helpfully points out that 'beyond this point, debt would remain on a rising path'.

Figure 1: Central projection of the primary balance and PSND



So what does the Treasury do with these forecasts? They have a number of alternatives and as the forecast is for a slow and steady deterioration there must be a significant temptation to simply kick this can down the road, especially given the [in] accuracy of long-term forecasts. On the other hand, as we saw during the global financial crisis and subsequent years, public financing can deteriorate very quickly and concentrate minds earlier than expected.

Thus, it is fair to assume that the Treasury has its brightest and best considering these issues. Of course, many governments have run into these issues before and reacted in a number of ways so the academics are not short of precedents to analyse.

Economists Reinhart (Mr and Mrs) and Rogoff published a paper, 'Dealing with Debt' in January 2015 in which they laid out a 'complete menu of options'. The 'orthodox' strategies are enhancing growth, running surpluses and privatising government assets whilst 'heterodox policies' include 'restructuring debt contracts, generating unexpected inflation, taxing wealth, and repressing private finance'.

Much has been written about some of these policies in the popular press – 'austerity' is closely connected to the strategy of running surpluses whilst teeth-gnashing about low productivity is closely related to prospects for enhancing economic growth.

The 3Rs (authors) highlight that inflation needs to be unanticipated and therefore not debated in public, otherwise buyers of government debt will demand significant compensation in high interest rates. Ideally in this position the government debt will be as long-dated (the UK's debt is relatively long-dated) as possible.

Wealth taxes have, so far, received little attention, and can raise significant funds quickly. However, there are likely to be few mainstream politicians wishing to recommend this policy as anything other than a last resort.

Financial repression covers a host of policies which were very popular in the decades post 1945 and are credited by the 3Rs in reducing the debt mountains built up in advanced economies as a consequence of the war. Typically such repression consists of keeping interest rates below those which a free market would generate, by for example, introducing regulation that creates forced buyers of government debt.

Clearly, since the global financial crisis the authorities have imposed significant financial repression; increased regulation has forced banks to hold more government debt and quantitative easing (QE) has forced interest rates down across the whole of the maturity curve.

It is however striking that after almost a decade of financial repression (plus austerity measures) the future according to the OBR remains pretty bleak. Indeed their expectation for government debt has actually deteriorated since their previous forecast.

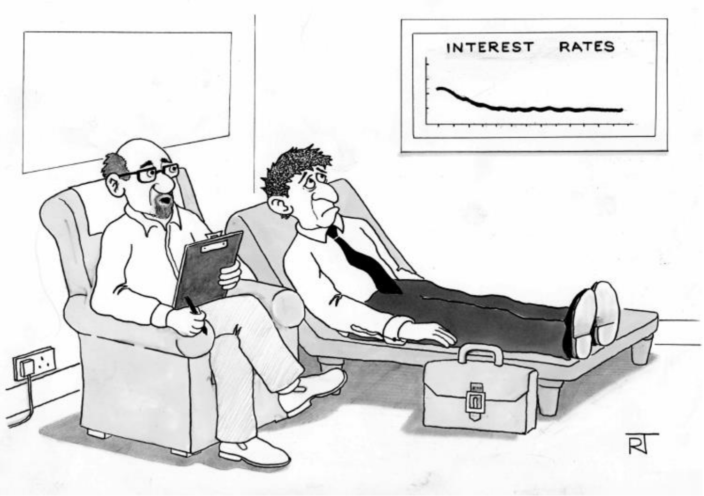
So failing a wealth tax – perhaps inevitable but still probably best viewed as a last resort – and given that higher taxes and/or lower spending will be progressively harder to push through, more financial repression looks the likely long-term response.

Combination therapy may however be even more potent. For example, a mix of inflation of say 4% (generated by the use of much talked about 'helicopter money' whilst maintaining very low interest rates (through even more QE) could have a dramatic impact on debt levels.

How would this affect asset prices? Well, it would keep bond prices high and potentially move index-linked bonds much higher (as real yields, the difference between nominal yields and inflation could become very negative). Such wholesale manipulation of interest rates would probably be an excellent support for the prices of precious metals. Meanwhile, significantly negative real yields would be a nightmare for pension funds, further increasing deficits and forcing higher company contributions. The outlook for equities in such a scenario is up for debate. Some would argue that given the lack of credible investment alternatives and their natural protection against inflation, equities would prove an excellent defensive asset class. Others, including ourselves, would suggest that buying equities when they are already highly rated has historically proved a very dangerous strategy.

It is interesting that there is currently far more chatter about reversing, rather than increasing, the QE that has become so fashionable in recent years. This may be due to (independent) monetary authorities – whose job it is to keep inflation under control – being convinced that they have already taken on more risk than suits their appetite. So then, how do politicians work their way around this issue? Perhaps through increasing the inflation target to 4% or, rather more dramatically, by reducing the independence of central banks?

We expect these issues to generate a lot more interest over the next few years and continue to believe that insurance against tail risks remains vital for our portfolios.



"You're suffering from financial repression"

The yield information has been calculated as at 30.04.17. All other information is from Investec Asset Management at 30.04.17.

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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