

## 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

**Depository & Custodian:** HSBC Bank Plc

## Trust Objective

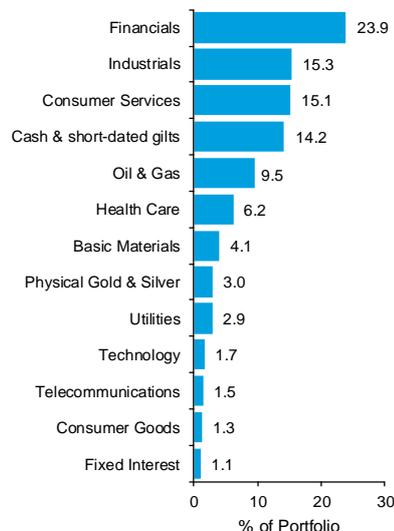
To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

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

HSBC Holdings Plc	7.3
GlaxoSmithKline Plc	6.2
Grafton Group Plc	5.7
Royal Dutch Shell Plc	5.2
BP Plc	4.3
Barclays Plc	4.2
SIG Plc	3.7
Royal Bank of Scotland Plc	3.0
WM Morrison Supermarkets Plc	2.8
Citigroup Inc	2.5
<b>Total</b>	<b>44.9</b>

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

## Sector Analysis



## Financial Data

Total Assets (£m)	985.3
Share price (p)	1293.0
NAV (p) (ex income, debt at mkt)	1340.7
Premium/(Discount), Ex income (%)	-3.6
NAV (p) (cum income, debt at mkt)	1364.2
Premium/(Discount), Cum income (%)	-5.2
Historic net yield (%)	3.2

## Dividend History

Type	Amount (p)	XD date	Pay date
2 <sup>nd</sup> interim	8.33	07-Sep-17	29-Sep-17
1 <sup>st</sup> interim	8.33	08-Jun-17	30-Jun-17
Final	16.18	09-Mar-17	31-Mar-17
3 <sup>rd</sup> interim	8.09	08-Dec-16	30-Dec-16

## Performance

### Share Price % change<sup>2</sup>

	Trust	FTSE All-Share
1 month	1.7	0.7
3 months	-0.7	-1.0
1 year	16.5	10.2
3 years	3.2	11.9
5 years	39.9	39.1

<sup>2</sup>Capital return only

### NAV total return % change<sup>3</sup>

	Trust	FTSE All-Share
1 month	1.1	1.4
3 months	1.2	0.0
1 year	15.9	14.3
3 years	22.1	24.8
5 years	75.8	67.3

<sup>3</sup>Total return

Performance, Price and Yield information is sourced from Morningstar as at 31.08.17.

**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

I am a sucker for a good recovery story. At heart, Value investors have a great belief in the powers of mean reversion and there is nothing like a well told anecdote to illustrate that not all declines need be terminal.

*Brick by Brick*, by David Robertson, details the history of Lego and in particular the travails and the astonishing recovery of the last twenty years.

LEGO (the name provided by using the first two letters of the Danish words *leggodt*, or 'play well') was founded by Ole Kirk Christiansen in Billund, Denmark in 1932. The early years of the company covered the Great Depression, Germany's occupation of Denmark, a fire that destroyed the factory and the death of the founder's wife. Christensen somehow persevered, driven by a desire to produce high-quality wooden toys. However, in 1946 he purchased a plastic injection moulding machine (costing twice the previous year's profits) and then spent the best part of a decade working out how to make a LEGO brick, the design of which was finally patented in 1958.

As Ole Kirk's health deteriorated, he handed over operational control to his son Godtfred, who having set some 'principles of play', such as the desire to make products which were affordable, simple, durable and offering rich variation, concluded that the LEGO brick offered far more attractions than the other two hundred plus products that the company made.

Godtfred's enthusiasm ran somewhat ahead of the market. A buyer at the Nuremberg Toy Fair in 1955 commented that, 'The product has nothing at all to offer the German toy market'. But Godtfred was a believer, so he dumped his company's other products and focused on the brick. By the early 1970s Godtfred's laser focus had paid off and the LEGO group employed over 1,000 people at Billund and was responsible for nearly 1% of Denmark's exports. The business then slowed with Godtfred reluctant to hand over to his young son Kjeld Kirk Kristiansen. This eventually happened in 1979 and catalysed a period of extraordinary growth (sales doubling every 5 years for fifteen years reaching over DKK 7 billion by 1993 having stood at just DKK 1 billion in 1978).

Even during the extraordinary years of growth the company had experienced its fair share of failures, but these were outnumbered by the many successes. However, by the 1990s, sales had flattened, the company's innovation rate had slowed and the core LEGO player had been seduced by a number of exciting technological alternatives such as VCRs, video games and computers. LEGO managed one last successful role of the dice by agreeing a licensing deal with Lucas film to create products in conjunction with the Star Wars films. Indeed, *The Phantom Menace* release accounted for more than one-sixth of Lego's annual sales. This success further papered over some significant structural issues which finally became apparent when there was a pause in new Star Wars films.

Robertson highlights the pertinent issues:

1. The introduction of significant levels of low-priced competition as LEGO's patents expired

2. An apparent maturity in sales as LEGO reached worldwide saturation
3. Uncontrolled new product development as the company tried to deal with this maturity
4. Kids having moved on to the digital world

If LEGO had been listed on the stock market it is a fair bet that analysts would have claimed that it was a value trap in structural decline.

LEGO dealt with this malaise by recruiting Poul Plougmann, a turnaround expert, previously at Bang & Olufsen. The Plougmann strategy reads like classic MBA stuff:

1. Hire diverse people
2. Head for blue-ocean markets
3. Be customer driven
4. Practice disruptive innovation
5. Foster open innovation
6. Explore the full spectrum of innovation
7. Build an innovation culture

Having won the buzzword bingo competition, Plougmann then executed and in the process lead LEGO headfirst into almost complete destruction. With sales falling quickly, senior management asked the head of strategic development Jorgen Vig Knudstorp, to diagnose the problem.

Knudstorp, despite his McKinsey background, provided a far simpler conclusion identifying profitable innovation as a key missing link (the author highlights that Plougmann was incentivised to double sales, with no mention of profits, so perhaps perverse incentives were largely to blame for LEGO's woes) but also highlighted dysfunctional silo-type management, and low quality financial controls. Plougmann's desire for turbo-charged growth (in new areas) had clearly trumped every other business decision. Growth opportunities had taken the company into software, education, fashion, girls' toys, media, theme parks and retail stores. Once again, you can imagine the analyst notes that would have greeted these growth plans.

As a Professor of Innovation Robertson is unlikely to disagree with Plougmann's to do list. In fact, he claims that it was these 'Seven Truths of Innovation' which Knudstorp (placed in charge post Plougmann's departure) eventually focused on post saving the company which drove LEGO's elongated recovery. But first Knudstorp had to improve the balance sheet and make LEGO profitable again.

Knudstorp and his finance director Jesper Ovesen took Lego back to its core. Relationships with the retailers selling the company's products had deteriorated dramatically as a result of stuffing the retailers with unsaleable inventory and then under-supplying them with the winners. These relationships were improved. Back to the core also saw the end of the diversification efforts and this was implanted by simply focusing on just one number – an operating margin hurdle of 13.5% (maybe a bit crude but much better than Plougmann's sales obsession). This led to 30% of the product portfolio being cut, curtailment of the stores roll-out and sales and closures of the theme parks and computer games business respectively. The DUPLO brand, dropped by previous management and much loved by the customer and staff, was restored. Manufacturing was also greatly simplified as the company at its peak was making 14,200 separate LEGO

components in more than fifty different colours. Many of these components were used in just one set making the cost of production extraordinarily high. The restructuring was far from pain-free with nearly a third of the company's workforce leaving. All very dull stuff, but key to taking the company from shocking losses to very high levels of profitability.

The remainder of the story of LEGO's remarkable re-birth, and the huge growth in sales and profits that ensued, is of more interest to an innovation junkie than a value investor, but the success of Knudstorp compared with Plougmann – from a far inferior starting position is interesting. The stock market is always fascinated by the arrival of new management at a previously high-flying company and is typically supportive of new growth strategies. Knudstorp delivered more growth than anyone could have imagined, but only having first put the LEGO house on firm foundations.



*"Turning the company around? ... It was child's play!"*

The yield information has been calculated as at 31.08.17. All other information is from Investec Asset Management at 31.08.17.

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](mailto:enquiries@investecmail.com). Alternatively, visit the Temple Bar website: [www.templebarinvestments.co.uk](http://www.templebarinvestments.co.uk).