

Trust Facts

Launch date: 1926

Wind-up date: None

Year end:
31 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	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%* (30.06.14)
*Includes a management fee of 0.35%

Board of Directors:
John Reeve (Chairman)
Arthur Copple
Richard Jewson
June de Moller
Martin Riley
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

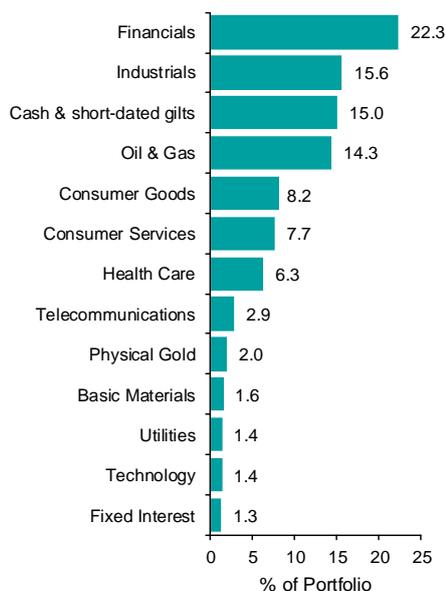
To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

Top Ten Equity Holdings (%)¹

HSBC Holdings Plc	8.4
Royal Dutch Shell Plc Class B	7.9
GlaxoSmithKline Plc	6.3
BP Plc	5.4
Grafton Group Plc	4.3
British American Tobacco Plc	3.4
BT Group Plc	2.8
Royal Bank of Scotland Group Plc	2.7
Direct Line Insurance Group Plc	2.5
Lloyds Banking Group Plc	2.4
	46.1

¹ % of total assets, including cash

Sector Analysis



Financial Data

Total Assets (£m)	879.9
Share price (p)	1191.00
NAV (p) (ex income, debt at mkt)	1152.77
Premium/(Discount), Ex income (%)	3.3
NAV (p) (cum income, debt at mkt)	1174.37
Premium/(Discount), Cum income (%)	1.4
Historic net yield (%)	3.2

Dividend History

Type	Amount (p)	XD date	Pay date
Interim	15.55	10-Sep-14	30-Sep-14
Final	22.65	12-Mar-14	31-Mar-14

Performance

Share Price % change

	Trust	FTSE All-Share ²
1 month	-2.2	-1.7
3 months	-1.7	0.0
1 year	-4.4	-2.1
3 years	38.8	23.6
5 years	57.5	28.0

² Capital return only

NAV total return % change

	Trust	FTSE All-Share ³
1 month	-2.2	-1.6
3 months	-1.1	0.6
1 year	-2.6	1.2
3 years	53.1	37.3
5 years	72.3	51.8

³ Total return

Performance, Price and Yield information is sourced from Thomson Datastream as at 31.12.14.

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

On a friend's recommendation I recently popped into a gym run by Pure Gym. The company is a relatively new 'budget' chain which is expanding quickly throughout the UK. I am not a gym rat nor is this intended as a comprehensive review of the chain, but the gym ticked all my boxes: it had all the essential equipment, was clean, had fair sized changing rooms and had a plethora of vending machines offering overpriced sugary food and drink masquerading as healthy products. For those who care, it seemed to have a good mix of sexes, ages and shapes, while those seeking flexibility in their exercise timetable benefit from 24 hour opening 7 days a week.

The gym was very busy. Admittedly it had only been open a week so it is possible that it was benefiting from people's curiosity, but I think its major attraction, in both the short and long term, is the price. Monthly fees are, depending on location, about £20 per month – a significant discount to the mass market operators and there are no contracts. As might be expected, there are some downsides: the lack of racquet sports, swimming pools and bar areas probably puts some off while car parking facilities are variable and the locations of the gyms themselves are not always as desirable as some folks might wish.

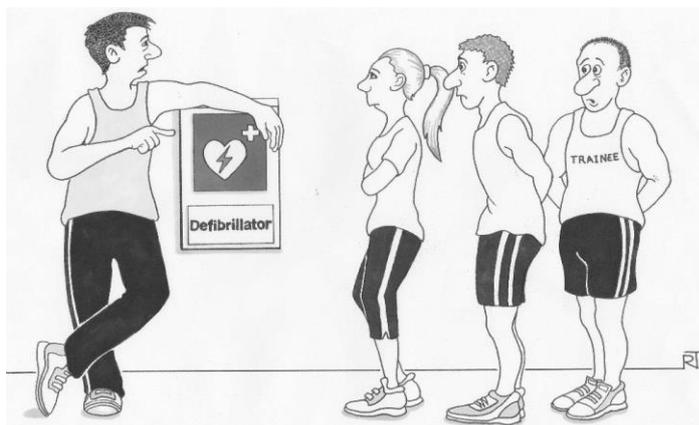
However, Pure Gym and their low cost brethren clearly bring something new to the market and their approach probably expands the overall number of gym users in the market. However, the budget companies also probably win market share from small local gyms, who may struggle to maintain the necessary capital expenditure or from council run (or outsourced) businesses. They must also be winning customers from the mid-market operators who have grown aggressively over the years while continuing to push up membership fees. I daresay the mid-market players have a number of strategies up their sleeves to retain their profitability, but life must be becoming increasingly hard for them. The industry is fairly mature, there seems limited opportunity to cut costs and alternative sources of revenue streams (e.g bar and restaurant and conference hire) are minor compared to membership fees. It is quite possible that increases in membership fees have compensated for loss of members historically, but if membership lapse rates were to increase the compensating fee increase becomes exponentially penal.

There are no longer any quoted fitness clubs so this has no direct read across to the UK equity market. However, it is worth pondering how many other companies have pushed pricing up to such an extent that they have initially created an opportunity for competition to thrive and then exacerbated the problem by expanding the price difference.

The poster child for the failure of the price expansion strategy in 2014 was obviously the large food retailers. Which companies could find themselves under pressure in 2015 and beyond? One interesting possibility is the branded food, drink and household manufacturers. For example, in their last set of results, Diageo highlighted that within the north American spirits market it 'continues to lead the industry on price and mix but the volume performance was weaker, especially in the increasingly price sensitive standard vodka segment where the decline of Smirnoff was the main driver of overall volume, down 1%'. Have we finally reached the limit of the price premium that can be extracted for a product with little obvious taste, smell or colour and could this be extended to other brands?

The success of discount retailers suggests that many consumers if provided with decent quality at an attractive price are happy to ditch famous brands. We have written about WH Smith previously and their success at gross margin expansion (usually price increases), but there must be some limit to what a sane individual will pay for a Mars bar when it is significantly cheaper 20 yards down the road. The switching of bank accounts has been made significantly easier in recent years and now allows customers to leave their banks rather than just moan about them. Meanwhile, comparison websites across many industries can only increase transparency for customers.

Despite the powers of the internet many companies in a number of industries appear to have benefited from customer inertia (and high levels of trust) over the years. However, a new breed of companies in airlines, hotels, fitness, food and financial services have found profit margins wide enough to build significant businesses. Some of their competitors have already cracked under the pressure, others have, so far, stood firm. But for how long?



"We find it gets used most when we ask members for their monthly fee!"

The yield information has been calculated as at 31.12.14. All other information is from Investec Asset Management at 31.12.14.

Telephone calls may be recorded for training and quality assurance purposes.

For further details, call the Investor Services Department on 020 7597 1900, or send an email to enquiries@investecmail.com. Alternatively, visit the Temple Bar website: www.templebarinvestments.co.uk.

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