temple bar Investment Trust PLC – Monthly update 30 June 2015

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%* (30.06.15)
*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

Depositary & Custodian: HSBC Bank Plc

Trust Objective

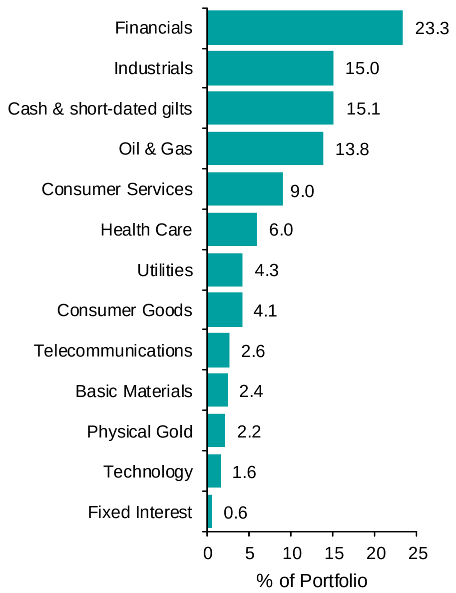
To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

Top Ten Equity Holdings (%) [1]

HSBC Holdings Plc	7.7
Royal Dutch Shell Plc	6.4
BP Plc	6.1
GlaxoSmithKline Plc	6.0
Grafton Group Plc	4.8
Royal Bank of Scotland Group Plc	4.1
Lloyds Banking Group Plc	4.0
British American Tobacco Plc	3.2
BT Group Plc	2.6
Direct Line Insurance Group Plc	2.5
Total	47.4

[1] % of total assets, including cash

Sector Analysis



Financial Data

Total Assets (£m)	896.8
Share price (p)	1161.0
NAV (p) (ex income, debt at mkt)	1182.4
Premium/(Discount), Ex income (%)	(1.8)
NAV (p) (cum income, debt at mkt)	1196.6
Premium/(Discount), Cum income (%)	(3.0)
Historic net yield (%)	3.4

Dividend History

Type	Amount (p)	XD date	Pay date
2nd interim*	7.93	10-Sep-15	30-Sep-15
1st interim	7.93	11-Jun-15	30-Jun-15
Final	23.33	12-Mar-15	31-Mar-15

*Please note that the Trust is now paying dividends on a quarterly basis.

Performance

Share Price % change

	Trust	FTSE All-Share [2]
1 month	-4.2	-6.0
3 months	-0.3	-2.5
1 year	-6.6	-0.8
3 years	28.9	23.5
5 years	57.7	40.4

[2] Capital return only

NAV total return % change

	Trust	FTSE All-Share [3]
1 month	-4.5	-5.7
3 months	-0.2	-1.6
1 year	1.8	2.6
3 years	50.1	36.9
5 years	94.6	66.6

[3] Total return

Performance, Price and Yield information is sourced from Morningstar as at 30.06.15.

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

Discovering that Ben Graham 'the father of value investing' was at heart a growth investor is a bit like hearing that Roger Federer prefers to play his tennis on clay rather than grass. While fund manager Fred Martin does not quite go to this extreme in his claims, his book 'Benjamin Graham and the Power of Growth Stocks' makes it clear that Graham spent some time trying to figure out how to value stocks in the sexier parts of the market.

Martin reveals that in the 1962 edition of Security Analysis, Graham included a chapter entitled, 'Newer Methods for Valuing Growth Stocks'. And to put a Holmeseque spin on the story, this chapter was then inexplicably omitted from subsequent reissues, all post Graham's death, in 1996, 1998 and 2009.

Graham devised a simple formula to value all stocks which he detailed in the missing chapter. It is probably easiest not to bore the reader with the details and move straight to the punchline. Graham's formula calculated that a no-growth company was worth a price earnings (p/e) ratio of 8.5, a company growing earnings of 5% per annum was worth a p/e of 17.5 and a company growing its earnings by 10% a year was worth 28.5 times. (Graham also made adjustments if long-term interest rates exceeded 4.4%, but let's not go there). As Martin highlights, Graham does not distinguish between companies with different levels of debt.

Martin explains that this formula provides today's intrinsic value for the company, but that it is essential to also calculate a future value for the company given its growth characteristics. To do this, Martin projects the company's earnings forward seven years and then repeats Graham's formula. His assumption post year seven is that the company is capable of earnings growth of 7% per annum. Using Graham's formula this spits out a p/e in year seven of 22.5. So for a company making £1 today and expected to grow by 10% per annum to approximately £2 in seven years' time and then grow at 7% per annum thereafter Martin obtains a value of £45 in year seven.

To work out what to pay for the stock Martin suggests backing out a desired hurdle rate. So for example if the investor's required hurdle rate is 8% per annum, then one should discount £45 by 8% per annum.

This really is an incredibly simple approach to investing and rather refreshing given some of the advanced mumbo jumbo mathematics spewed out these days. And to be fair it seems to have paid handsome dividends to Martin and clients over three decades (although his quoted performance numbers are not entirely clear, it appears that he outperformed the S&P 500 by over 4.5% per annum during a 30-year stretch).

Clearly, the tough part of this process is to be correct in one's growth assumptions – after all paying a p/e of 22.5 times for a growth dud is an expensive business. On the other hand, successfully finding a company which grows at the rate highlighted above is quite a challenge in the real world. Martin clearly did this very successfully and is happy to share the characteristics he requires in his companies and covers the age old favourites of competitive barriers, customer captivity, network economics and so on. While he provides a number of worked examples and case studies it might strike the reader that most listed companies can be placed into at least one of his categories. Beauty is in the eye of the beholder and if the beholder really wants to like a stock then there are typically sufficient facts to build a suitably bullish story.

We will never know whether Graham underwent a Damascene type conversion (which his disciple Buffett was coincidentally (?) undergoing at the same time following his blossoming friendship with Charlie Munger) or whether his curious mind had wandered temporarily into non-mainstream areas. It is likely the former and as is often the case, the conclusion is best written by Buffett himself: 'Most analysts feel they must choose between two approaches customarily thought to be in opposition: "value" and "growth." Indeed, many investment professionals see any mixing of the two terms as a form of intellectual cross-dressing. We view that as fuzzy thinking (in which, it must be confessed, I myself engaged some years ago). In our opinion, the two approaches are joined at the hip: Growth is always a component in the calculation of value, constituting a variable whose importance can range from negligible to enormous and whose impact can be negative as well as positive.

"*Rather than growing into mighty oaks Jenkins, your little investment 'acorns' have all turned into bonsais*"

The yield information has been calculated as at 30.06.15. All other information is from Investec Asset Management at 30.06.15.

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.