

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	66,525,412	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.

Financial Data

Total Assets (£m)	870.3
Share price (p)	1188.00
NAV (p) (ex income, debt at mkt)	1149.57
Premium/(Discount), Ex income (%)	3.3
NAV (p) (cum income, debt at mkt)	1166.47
Premium/(Discount), Cum income (%)	1.8
Historic net yield (%)	3.2

Dividend History

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

Top Ten Equity Holdings (%)¹

HSBC Holdings Plc	9.0
Royal Dutch Shell Plc Class B	8.4
GlaxoSmithKline Plc	6.7
BP Plc	5.1
Grafton Group Plc	4.4
British American Tobacco Plc	3.5
Royal Bank of Scotland Group Plc	2.7
BT Group Plc	2.6
QinetiQ Group Plc	2.5
Direct Line Insurance Group Plc	2.4
Total	47.3

¹ % of total assets, including cash

Performance

Share Price % change

	Trust	FTSE All-Share ²
1 month	-1.9	-0.9
3 months	-2.3	-2.3
1 year	-2.5	-2.3
3 years	38.9	22.5
5 years	69.0	35.6

² Capital return only

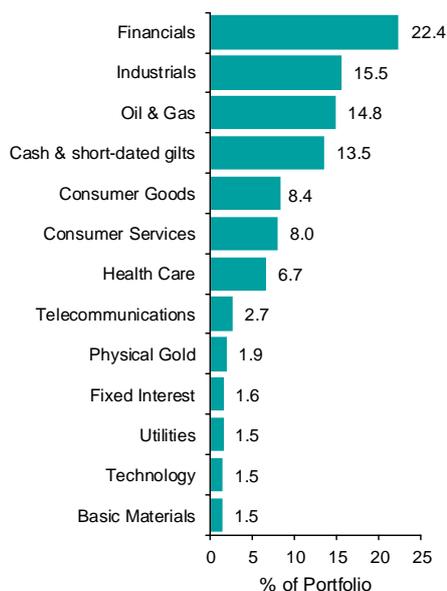
NAV total return % change

	Trust	FTSE All-Share ³
1 month	-1.8	-0.7
3 months	-0.8	-1.4
1 year	-0.5	1.0
3 years	52.2	36.2
5 years	83.6	61.0

³ Total return

Performance, Price and Yield information is sourced from Thomson Datastream as at 31.10.14.

Sector Analysis



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

We are often asked by clients to highlight the catalysts for a share's future performance. Our standard reply is that we are more focused on value than catalysts. Significant evidence has been found over many years in different markets that buying cheap stocks generates better-than-market performance, but of course, if we could identify in advance exactly when these shares were about to outperform that would be even better. However, catalysts typically work much better in the rear view mirror ("it was obvious they would be bid for", "that new management team was always guaranteed to turn it around", "the shares always outperform when interest rates rise" etc.) than in real-time.

If it was possible to make your own catalysts, then perhaps more value could be added to a pure value driven process. A new book, *Deep Value* by Tobias Carlisle, brings this together and gives away the punchline with the book's sub-heading: *Why Activist Investors and Other Contrarians Battle for Control of Losing Corporations*. (Carlisle's previous book, *Quantitative Value*, published only last year covered much of the quantitative proof behind the success of value investing).

Carlisle focuses on long-time activist Carl Icahn and other famous activists to illustrate the potential gains to be made by focusing on seemingly unattractive investment opportunities. Icahn had for many years operated a number of successful classic arbitrage strategies, but in 1975 felt the time was right to start pointing his guns at underperforming public companies with undervalued assets. 'The Icahn Manifesto' (as named by his biographer) detailed the intention to purchase shares in the target companies and attempt to "control the destinies of the companies in question by forcing a bid, a sale of assets, a change in management or a repayment of capital".

As Carlisle highlights, the beauty of Icahn's approach was that the "proxy contest would act as a catalyst, signalling to other potential bidders in the market the company's undervaluation and mismanagement". Over the years Icahn has successfully repeated the process.

Carlisle quotes some extraordinary performance statistics for Icahn, "His returns, measured from the date of his schedule 13D filings – often the first public disclosure of an intention to engage in activism – to his exit, are extraordinary: an annualised 29% through 30 June 2013, compared with 6.9% for the S&P 500 index".

Carlisle quotes some academic studies which have measured the performance of companies in receipt of a schedule 13D notice. Although some of the studies conflict, the overall conclusion is positive. Activism works in terms of making things happen, pushing share prices up, improving corporate governance and making balance sheets more efficient. One study also concluded that activism worked much better than 'relatively friendly engagements'.

Icahn's most recent success has been the spin-off of PayPal from eBay along with board changes and the imminent departure of the chief executive officer (CEO). It is clear from his dealings with the company that 'relatively friendly engagements' are not necessarily his style. For example, in an open letter to stockholders where he queried the sale of Skype, he asked whether eBay CEO John Donahoe was "either incompetent or negligent or perhaps even worse" and added that "we believe that eBay is the quintessential example of what is wrong with corporate governance at many of our public corporations and why the system is dysfunctional". Despite Icahn only controlling about 2% of eBay's shares and management's enthusiastic defence, Icahn finally achieved his desired impact when in September eBay announced plans to spin off PayPal and that Donahoe was to step down as CEO once the demerger was completed.

Carlisle quotes research highlighting the typical companies targeted by activists: those with poor recent stock performance, a low valuation, a large cash holding and few opportunities for growth – metrics typically appealing to value investors. It is therefore not surprising to read how Icahn explains his strategy: "you buy stocks in a company that is cheap and you look at the asset value of the companies that you buy the stocks in and it becomes a little more complex.

Basically, you look for the reason that they're really cheap and the major reason is often – and usually – very poor management. In a sense, it's like an arbitrage. You go in; you buy a lot of stock in a company; and you then try to make changes at the company". It is interesting that over the years Icahn and fellow activists have concentrated their guns almost exclusively at companies listed in the US. With the US market pretty expensive whichever way it is sliced and diced, perhaps it would not be surprising to see activists become more high profile in the UK market over the next few years.



"The CEO and finance director have refused to come out from under the desk since they heard Mr Icahn had invested in the company"

The yield information has been calculated as at 31.10.14. All other information is from Investec Asset Management at 31.10.14.

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.

Issued by Investec Asset Management, who is authorised and regulated by the Financial Conduct Authority, October 2014.