

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

Depository & Custodian: HSBC Bank Plc

Trust Objective

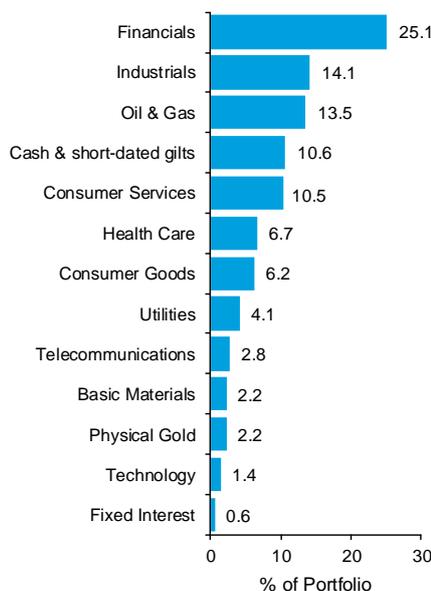
To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

Top Ten Equity Holdings (%)¹

HSBC Holdings Plc	7.2
BP Plc	6.9
GlaxoSmithKline Plc	6.7
Royal Dutch Shell Plc	5.3
Lloyds Banking Group Plc	4.6
Grafton Group Plc	4.4
Royal Bank of Scotland Group Plc	3.9
British American Tobacco Plc	3.8
Direct Line Insurance Group Plc	3.1
BT Group Plc	2.8
Total	48.7

¹% of total assets, including cash

Sector Analysis



Financial Data

Total Assets (£m)	851.6
Share price (p)	1080.0
NAV (p) (ex income, debt at mkt)	1114.0
Premium/(Discount), Ex income (%)	(3.1)
NAV (p) (cum income, debt at mkt)	1133.3
Premium/(Discount), Cum income (%)	(4.7)
Historic net yield (%) ²	3.6

²Due to the change in dividend policy, the yield calculation is based on the Final, 1st interim and 2nd interim dividends below.

Dividend History

Type	Amount (p)	XD date	Pay date
3rd interim ³	7.93	10-Dec-15	30-Dec-15
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

³Please note that the Trust is now paying dividends on a quarterly basis and the next interim payment will be paid on 30 December 2015.

Performance

Share Price % change

	Trust	FTSE All-Share ⁴
1 month	3.4	4.5
3 months	-7.5	-4.6
1 year	-9.1	-0.5
3 years	11.3	15.2
5 years	30.9	18.7

⁴Capital return only

NAV total return % change

	Trust	FTSE All-Share ⁵
1 month	5.1	4.7
3 months	-5.1	-3.6
1 year	0.4	3.0
3 years	31.9	27.7
5 years	62.9	41.1

⁵Total return

Performance, Price and Yield information is sourced from Morningstar as at 31.10.15.

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

One of the lessons we can take from our expensive sortie on Avon Products – which is still trying to turn things around – and our freebie on Serco (much of which we have watched from the sidelines, as we only held the stock for a brief period of time) is how turnaround stories, even if successful, do not just often take a long time to turnaround, but that they can also shrink significantly in the process.

Few turnarounds go without a hitch and a lot of the time margins can disappoint relative to original expectations while indebtedness can grow as company management undertakes various restructuring programmes. These two factors alone can significantly affect the fair value of the equity of these companies, but another important swing factor can be a big fall in turnover.

Many companies sitting in intensive care have typically overstretched themselves in the good times – perhaps encouraged by remuneration schemes which incentivised poor strategic decisions. This may have encouraged purchases of high-growth companies, increased exposure to faddish industries, sales of products or services at unattractive margins, moves into geographic or product areas with no competitive advantage and so on. A naïve reversion to the mean calculation assumes all these sales are of the same quality as the core business.

However, history informs us that recovery stories are typically more complex than a margin reverting to the mean on a stable sales base. New management often decides to sell underperforming businesses, therefore passing much of the potential margin increase onto the buyer, or even worse close a business down thus losing the benefit of the sales completely (while sometimes keeping a liability such as rent) or alternatively the boom that the company benefited from in the good times becomes a bust, rather than a blip, in the bad times. Additionally, while a company is in the early stages of recovery, its competition rarely stands still and will often take advantage of its weakness. Consequently, the stronger players may expand quickly, taking good staff, competing more actively on price, investing more in research and development and so on, thus making a full recovery for the weaker players that much more difficult.

It is interesting, for example, to see how turnover estimates have fallen for Serco in the past few years. In summer 2013, sales expectations were for £5.75 billion for the year ended December 2015. The actual sales number is likely to end at £3.5 billion. While this can be partially explained away by disposals, it also reflects lost contracts and a lower success rate at winning new contracts.

How can we protect ourselves against these sales implosions? One simple adjustment is perhaps to always assume recovered sales are significantly lower than today's sales. Another is to take a view on how flaky a company's sales are – which can be dependent on various items such as the high growth mentioned above, the fickleness of its customers, the quality of the competition, the durability of the industry and so on. Of course, one still has to pick a lower sales number to use, but even just a 10-20% lower sales number (from the depressed expectations when analysis begins) can at the minimum delay a rash purchase and provide an opportunity to watch how a recovery develops.



"Well I wasn't expecting that!"

The yield information has been calculated as at 31.10.15. All other information is from Investec Asset Management at 31.10.15.

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.

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