

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

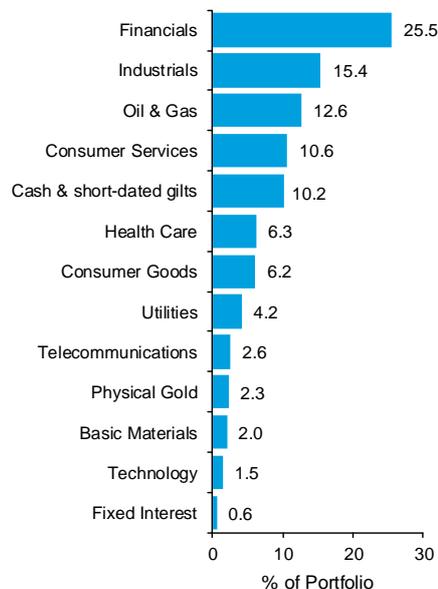
To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

Top Ten Equity Holdings (%) ¹

HSBC Holdings Plc	7.4
GlaxoSmithKline Plc	6.3
Royal Dutch Shell Plc	6.1
BP Plc	5.3
Lloyds Banking Group Plc	4.9
Grafton Group Plc	4.5
Royal Bank of Scotland Group Plc	4.0
British American Tobacco Plc	3.8
Direct Line Insurance Group Plc	3.1
BT Group Plc	2.6
Total	48.0

¹ % of total assets, including cash

Sector Analysis



Financial Data

Total Assets (£m)	817.6
Share price (p)	1044.0
NAV (p) (ex income, debt at mkt)	1061.8
Premium/(Discount), Ex income (%)	(1.7)
NAV (p) (cum income, debt at mkt)	1078.7
Premium/(Discount), Cum income (%)	(3.2)
Historic net yield (%)	3.8

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	-6.6	-2.9
3 months	-10.1	-6.6
1 year	-13.8	-5.6
3 years	9.2	11.2
5 years	33.2	16.3

² Capital return only

NAV total return % change

	Trust	FTSE All-Share ³
1 month	-5.5	-2.7
3 months	-9.2	-5.7
1 year	-6.1	-2.3
3 years	27.8	23.3
5 years	59.8	38.2

³ Total return

Performance, Price and Yield information is sourced from Morningstar as at 30.09.15.

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

Saying that value investing is a tough gig currently is rather like commenting that England had a disappointing Rugby World Cup. We seem to be in the part of the investment cycle where the rising stocks continue to climb and the descending ones just keep on giving.

A client, possibly inquiring about my health as much as my investment views, asked how this time felt relative to previous value bear markets in 1998-1999 and 2007-2008. The simple answer is 'different'. Investing would be far too easy if exactly the same set of circumstances arose in a cyclical manner. If that were so, we could revisit the history books and invest with a glorious dose of insouciance.

The time of 1998-1999 was truly horrible. There seemed no bottom for non-tech stocks, no interest in fundamental valuations, and an obsession with the new 'new thing'. Once valuations had departed from any historically accepted norm, one was forced to just sit back and wait. However, at least value investors 'knew' everything would be okay. It was just the timing that provided the sleepless nights.

Meanwhile, 2007-2008 was different. The banking crisis was very real and clearly affected developed markets more than emerging markets. Although mining stocks seemed to be discounting extraordinary growth rates in Chinese demand and, therefore, were an obvious area for value investors to avoid, the alternatives were not necessarily straightforward. A combination of high levels of corporate indebtedness, falling demand and a failing financial system left huge question marks over a number of developed market companies, and, indeed, many feared we were heading into a depressionary era.

And stocks ultimately priced in some very extreme risks. For example, one of our old favourites Travis Perkins fell over 80% relative to the FTSE All-Share Index from peak to trough.

Once again, not a lot of fun if you bought too soon (as value investors tend to do), but, on this occasion, more a worry about how low profits could go, and how badly balance sheets could be affected, as opposed to the 1998-1999 version of how low valuations could go.

And so we come onto the vintage of 2014-2015. This time around the problem is not so much that one or two sectors stand at elevated ratings, while others lie at a significant discount, or that there is a shocking earnings outlook (although that may still be to come). Instead, we are faced with a broad swathe of the market reflecting high valuations at a time of historically high earnings. However, those wishing to avoid these stocks are faced with a value stock universe (resource stocks, various mega caps and a variety of structurally challenged companies) that has suffered multi-year earnings downgrades.

Figure 1: Global profit recession



Source: BoA Merrill Lynch, 2015

Therefore, in many cases we are looking at stocks that are no cheaper on current earnings than they were three or four years ago. However, these are not typical 'cyclical' shares; it is more difficult to be a high conviction mean reversionist on a pharmaceutical company struggling to replace the blockbuster drugs of yesteryear, or a mining company that has just come from a super demand bubble than, say, a housebuilder recovering post a common garden recession.

So, 1998-1999 was a choice between the devil and the deep-blue sea, 2007-2008 a choice between Armageddon and its avoidance, while 2014-2015 leaves us stuck between a rock and a hard place. It is, therefore, easy to see why the majority of investors have decided to take the easy option and buy companies with 'high earnings visibility'.

The concept of earnings visibility is great. Who wouldn't prefer to invest in companies that have a clear (and growing) earnings profile with limited risk of disappointment? However, reality has often been disappointing. Outsourcing, drug and mortgage-servicing companies have been among those considered to have strong annuity earnings streams only to disappoint. Earnings tend to be visible for only the shortest of periods. Investors, therefore, place great emphasis on a very small part of a company's long-term earnings stream, and, consequently, any deviation from the expected path could be damaging to a share price given the risk to both the underlying earnings assumptions and the rating which the earnings are often given.

Many of this cycle's earnings visibility poster children are in the consumer staples sector, an area which has provided investors with great, and relatively smooth returns, for many years. However, the past is not always the most reliable of indicators for the future, and it is interesting to see what might now be called a challenging earnings profile for this sector, particularly given the reluctance of investors to believe that anything has changed.

The yield information has been calculated as at 30.09.15. All other information is from Investec Asset Management at 30.09.15.

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.

Issued by Investec Asset Management, which is authorised and regulated by the Financial Conduct Authority, October 2015.

Value investing may be a tough gig at the moment, but it has always proved a dangerous approach to bet against, especially if the alternatives are even riskier.



"Our earnings visibility just disappeared below the horizon"

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