Temple Bar Investment Trust PLC

Monthly update **31 May 2018**

Trust Facts

Launch date: 1926

Wind-up date: None

ISIN: GB0008825324

TIDM code: TMPL

Year end: 31 December

Dividends paid:
Quarterly in March, June, September and December

AGM: March

Benchmark: FTSE All-Share

Association of Investment Companies (AIC) sector: UK Equity Income

ISA status:
May be held in an ISA

Capital Structure:

Share class	No. in issue	Sedol
Ordinary	66,872,765	0882532

Debt:
5.50% Debenture Stock 2021 £38m
4.05% Private Placement Loan 2028 £50m
2.99% Private Placement Loan 2047 £25m

Charges:
Ongoing charge: 0.49% (31.12.17)
Includes a management fee of 0.35%

Auditors: Ernst & Young LLP

Investment Manager:
Investec Fund Managers Ltd

Portfolio Manager: Alastair Mundy

Portfolio Manager start date:
1 August 2002

Registrars: Equiniti Ltd

Secretary:
Investec Asset Management Ltd

Depositary & Custodian: HSBC Bank Plc

The Company's gearing and discount management policies can be found at https://www.templebarinvestments.co.uk/investment-approach/investment-policies/

Trust Objective

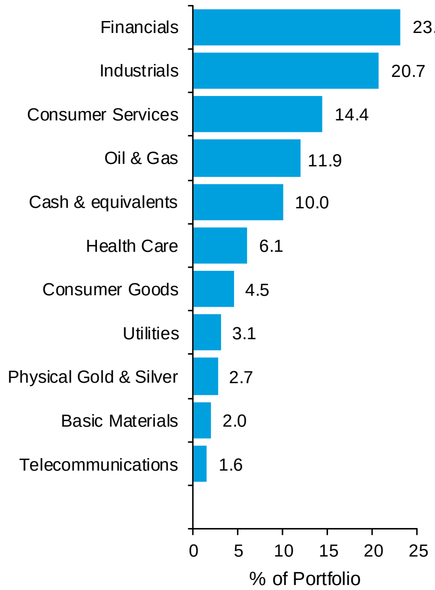
To provide growth in income and capital to achieve a long term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

Top Ten Equity Holdings (%)[1]

Royal Dutch Shell Plc	6.4
Capita Plc	6.2
GlaxoSmithKline Plc	6.1
HSBC Holdings Plc	6.1
BP Plc	5.5
Barclays Plc	4.3
Lloyds Banking Group Plc	4.3
Grafton Group Plc	3.8
SIG Plc	3.4
Royal Bank of Scotland Plc	3.2
Total	49.3

[1]% of total assets, including cash

Sector Analysis



Financial Data

Total Assets (£m)	1012.0
Share price (p)	1310.0
NAV (p) (ex income, debt at mkt)	1365.7
Premium/(Discount), Ex income (%)	-4.1
NAV (p) (cum income, debt at mkt)	1391.9
Premium/(Discount), Cum income (%)	-5.9
Historic net yield (%)	3.3

Dividend History

Type	Amount (p)	XD date	Pay date
1st interim	8.75	07-Jun-18	29-Jun-18
Final	17.48	08-Mar-18	29-Mar-18
3rd interim	8.33	07-Dec-17	29-Dec-17
2nd interim	8.33	07-Sep-17	29-Sep-17

Performance (Total Return)

Cumulative Returns (%)

	Share Price	NAV	FTSE All-Share
1 month	0.5	2.1	2.8
3 months	5.3	6.2	7.4
1 year	4.0	6.0	6.5
3 years	20.1	22.0	24.3
5 years	33.9	41.9	50.5
10 years	179.5	169.3	96.2

Rolling 12 Month Returns (%)

	Share Price	NAV	FTSE All-Share
31.05.17-31.05.18	4.0	6.0	6.5
31.05.16-31.05.17	27.8	23.9	24.5
31.05.15-31.05.16	-9.6	-7.1	-6.3
31.05.14-31.05.15	0.1	5.2	7.5
31.05.13-31.05.14	11.4	10.6	8.9

Performance, Price and Yield information is sourced from Morningstar as at 31.05.18

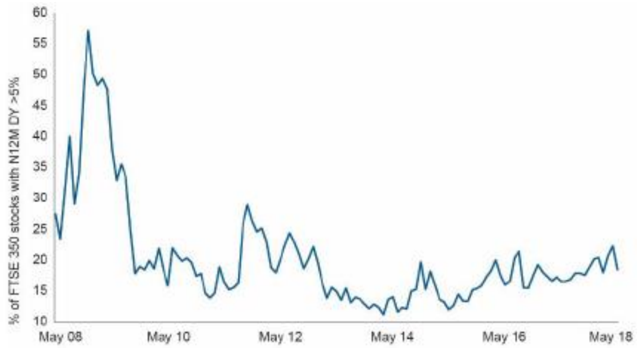
Past performance should not be taken as a guide to the future and dividend growth is not guaranteed. The value of your shares in Temple Bar and the income from them can fall as well as rise and you may lose money. This Trust may not be appropriate for investors who plan to withdraw their money within the short to medium term.

Manager's Commentary

Thought for the month

In a recent note upgrading the UK equity market to overweight, Morgan Stanley, the US investment bank, highlighted the relatively large number of stocks yielding more than 5%. With 'search for yield' competing as one of the most overused phrases of that period, how can we make sense of this statistic and does it represent a big investment opportunity?

Figure 1: 56 stocks in the UK market currently have a 12-month dividend yield >5% close to 5Y high

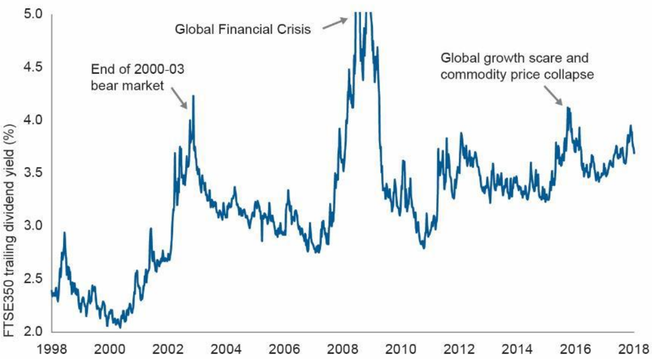


Source: MSCI, IBES, Morgan Stanley Research

With so many high yielders, the UK market yield relative to the rest of the world's equity markets is higher than at almost any time in the last 15 years. One way we can make sense of this is that UK equities are very out of favour with investors, as confirmed by a recent Bank of America/ ML Fund Manager Survey.

Even in absolute terms the UK dividend yield is fairly high relative to the last 20 years.

Figure 2: UK dividend over past 20 years



Source: Datastream, Morgan Stanley Research

Before we back up the truck and load it with these high yielders, a few points are worth making:

• When we talk about the UK market it is important to remember it is dominated by a small number of stocks. For example, the largest 10 companies in the FTSE All-Share represent over 37% of the index. The statement about the market yield above is very much a statement about these largest companies.

• An individual company dividend yield of 5% in the next 12 months does not really tell us much. An investor needs to believe the dividend is sustainable. At the minimum, a quick look at the median (because of the large stock effect mentioned above) dividend cover across the whole market is a must. This suggests that companies are distributing rather more in earnings than they have previously and suggests less room for error

• Yes, the UK market's yield is high relative to the market. Or perhaps the rest of the world (for which read the US in particular) is low relative to the UK. The trade may be more attractive on a relative basis (the UK is preferable to the US) than an absolute basis (buy the UK).

Figure 3: UK vs MSCI World price to dividends

Source: MSCI, Morgan Stanley Research

• A number of UK companies with high yields are very reliant on factors outside their control, whether it be various commodity prices, political interference, house prices, the future of cigarette smoking or the levels of bond and equity markets.

• There is no doubt that, as we have written about before, some companies over-distribute, most probably because their advisers have informed them that their shareholders would not welcome a dividend cut. However, paying an unsustainable dividend for too long can harm a company, especially if a consequence is that it is not in a position to invest as much as it should in its business or if it keeps debt too high. Dividends should not necessarily be a residual payment after everything else has been taken care of, but neither should it be unquestionably baked in the cake.

• The median dividend yield of the UK market takes some shine off the claim that the UK market is cheap. Perhaps the conclusion is that there are a few more outliers than normal. The current challenge is to decide whether those outliers offer great value or are over-distributing.

Figure 4: MSCI UK – Median dividend yield (latest = 3.0%)

Source: MSCI, FactSet Estimates, IBES Estimates, Morgan Stanley Research

"…and if you look down now you'll see a largely deserted island."

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.

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