

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

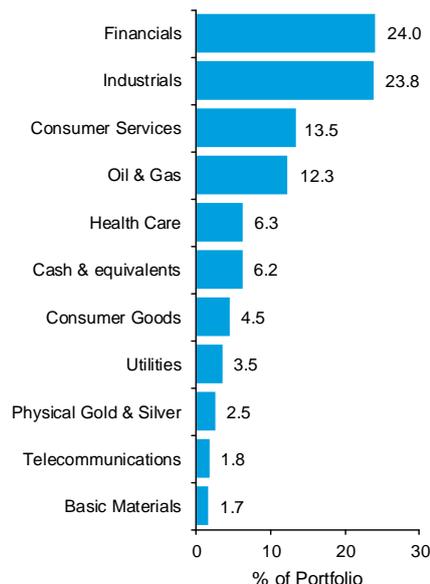
To provide growth in income and capital to achieve a long-term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

Top Ten Equity Holdings (%)¹

Capita Plc	6.6
Royal Dutch Shell Plc	6.6
GlaxoSmithKline Plc	6.3
BP Plc	5.8
HSBC Holdings Plc	5.8
Travis Perkins Plc	4.2
Lloyds Banking Group Plc	4.1
Royal Bank of Scotland Plc	4.0
Grafton Group Plc	3.9
Barclays Plc	3.8
Total	51.1

¹% of total assets, including cash

Sector Analysis



Financial Data

Total Assets (£m)	990.7
Share price (p)	1266.0
NAV (p) (ex income, debt at mkt)	1338.1
Premium/(Discount), Ex income (%)	-5.4
NAV (p) (cum income, debt at mkt)	1360.5
Premium/(Discount), Cum income (%)	-6.9
Historic net yield (%)	3.4

Dividend History

Type	Amount (p)	XD date	Pay date
2 nd interim	8.75	06-Sep-18	28-Sep-18
1 st interim	8.75	07-Jun-18	29-Jun-18
Final	17.48	08-Mar-18	29-Mar-18
3 rd interim	8.33	07-Dec-17	29-Dec-17

Performance (Total Return)

Cumulative Returns (%)

	Share Price	NAV	FTSE All-Share
1 month	0.2	0.2	0.7
3 months	-3.6	-2.7	-0.8
1 year	-0.4	2.0	5.9
3 years	34.7	39.2	38.4
5 years	26.8	38.0	43.5
10 years	209.7	218.5	138.5

Rolling 12 Month Returns (%)

	Share Price	NAV	FTSE All-Share
30.09.17-			
30.09.18	-0.4	2.0	5.9
30.09.16-			
30.09.17	22.4	18.1	11.9
30.09.15-			
30.09.16	10.5	15.6	16.8
30.09.14-			
30.09.15	-10.8	-6.1	-2.3
30.09.13-			
30.09.14	5.5	5.6	6.1

Performance, Price and Yield information is sourced from Morningstar as at 30.09.2018

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

In the late 1950s, Sandborn Maps was struggling. Sales of its detailed maps to insurance companies were under pressure as a consequence of industry consolidation among its customers and those customers finding superior ways to assess fire risk. Operating profits had fallen by more than 80% over the previous 20 years and the share price had followed, falling from US\$110 to US\$45. A market cap of US\$4.7 million for the US\$100,000 of operating profits being made might have looked generous if it had not been for the US\$7 million of marketable securities that the company also held.

The market may have missed this, but the young Warren Buffett didn't. He began to buy Sanborn shares in 1958 and encouraged his friends and family to do the same. With a sufficiently large holding he was able to win a seat on the board and began agitating for change. Not all the other directors shared Buffett's enthusiasm for a new direction, so he and his pals continued to buy. This left him with enough control to persuade the other directors to use the portfolio to buy out shareholders and resulted in a profit of around 50% for Buffett.

This is one of the early examples of Buffett's success outlined in *The Deals of Warren Buffett*, *The First US\$100 million* by Glen Arnold and clearly illustrates the importance of a margin of safety to Buffett in his earlier years.

The phrase 'margin of safety' was coined by Ben Graham, Warren Buffett's mentor. Graham's focus was very much on buying the tangible assets of the company at a very large discount to their liquidation value. In Seth Klarman's book, *Margin of Safety*, he offered his own modernised definition: 'A margin of safety is achieved when securities are purchased at prices sufficiently below underlying value to allow for human error, bad luck, or extreme volatility in a complex, unpredictable and rapidly changing world.'

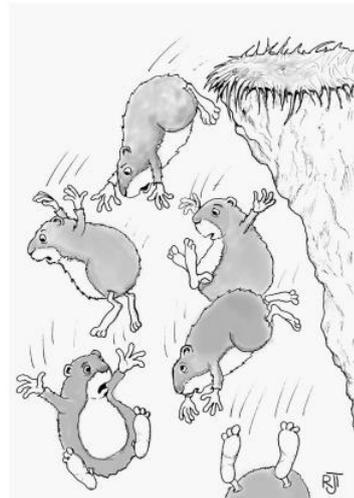
Buffett's margin of safety was that he was effectively buying an investment trust which traded at a significant discount to its (liquid) asset value and which also owned an operating business not firing on all cylinders. To further improve his odds, Buffett then put himself in a position where he could crystallise that value.

At around the same time, Buffett began to build a position in Dempster Mill, a supplier to windmills and irrigation systems based in Beatrice, Nebraska. Arnold quotes a purchase price of US\$16-18 against a book value of US\$75. The derisory rating reflected a poor trading history plus a high level of leverage in the company. Once again, Buffett commandeered his friends and they secured sufficient stock to win Buffett a board place.

By 1961, the Buffett Partnership owned about 70% of the company at an average price of US\$28. Despite his new-found powers, Buffett struggled to engineer a recovery in operating profitability and the company's bankers became increasingly concerned – as must Buffett have been with over 20% of his portfolio committed to the company. Fortunately, Buffett had recently met Charlie Munger who suggested a manager he believed could turn the business around. This he did with gusto. For example, in 1962 inventory in the company was reduced from US\$4.2 million to US\$1.6 million.

Activist and arch cost-cutter Buffett (how times have changed) now tried to sell the company. With fears of him selling to another corporate raider, the locals of Beatrice were so concerned they clubbed together and purchased the operating assets of the group. The listed shell company that remained then liquidated its assets and returned cash to shareholders. Buffett had trebled his money.

Can we learn anything from Buffett's actions of 50-60 years ago and his use of a margin of safety? We might note that markets were far more inefficient then and activist investors such as Buffett had some great opportunities to spot and crystallise extreme value opportunities. We could also learn that the definition of margin of safety has evolved over that time, probably in line with Klarman's definition. We would love to find a Sandborn Maps or Dempster Mill-type opportunity; but, in the meantime, we must be happy with opportunities where we feel the odds are most skewed in our favour.



"Which one of you calculated the margin of safety?!"

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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