Monthly update **31 January 2020**

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% (31.12.19)
Includes a management fee of 0.35%. Excludes borrowing and portfolio transaction costs.

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

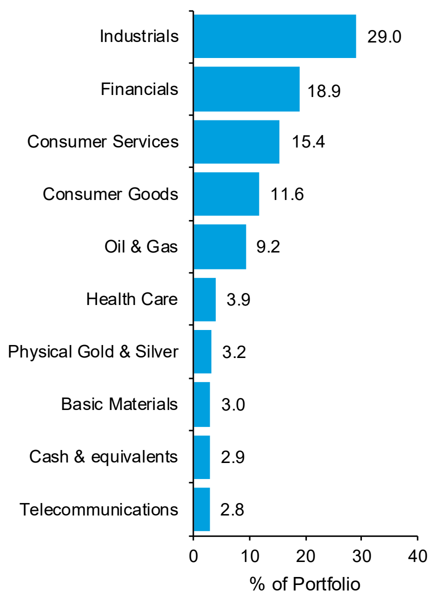
To provide growth in income and capital to achieve a long-term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

Top Ten Equity Holdings (%)[1]

Capita Plc	7.2
Travis Perkins Plc	6.6
Royal Dutch Shell Plc	4.8
Grafton Group Plc	4.7
BP Plc	4.4
GlaxoSmithKline Plc	3.9
Tesco Plc	3.9
Barclays Plc	3.7
Royal Bank of Scotland Group Plc	3.5
EasyJet Plc	2.7
Total	45.4

[1]% of total assets, including cash

Sector Analysis



Financial Data

Total Assets (£m)	1002.8
Share price (p)	1314.0
NAV (p) (ex income, debt at mkt)	1349.6
Premium/(Discount), Ex income (%)	-2.6
NAV (p) (cum income, debt at mkt)	1369.7
Premium/(Discount), Cum income (%)	-4.1
Historic net yield (%)	4.1

Dividend History

Type	Amount (p)	XD date	Pay date
3rd interim	11.00	05-Dec-19	30-Dec-19
2nd interim	11.00	12-Sep-19	30-Sep-19
1st interim	11.00	06-Jun-19	28-Jun-19
Final	20.47	07-Mar-19	29-Mar-19

Performance (Total Return)

Cumulative Returns (%)

	Share Price	NAV	FTSE All-Share
1 month	-11.0	-6.3	-3.2
3 months	0.8	1.7	2.2
1 year	9.6	10.9	10.7
3 years	20.1	17.7	18.4
5 years	35.3	36.4	35.6
10 years	162.2	146.6	119.0

Rolling 12 Month Returns (%)

	Share Price	NAV	FTSE All-Share
31.01.19-31.01.20	9.6	10.9	10.7
31.01.18-31.01.19	-0.3	-2.3	-3.8
31.01.17-31.01.18	9.9	8.7	11.3
31.01.16-31.01.17	26.1	24.2	20.1
31.01.15-31.01.16	-10.7	-6.7	-4.6

Performance, Price and Yield information is sourced from Morningstar as at 31.01.2020

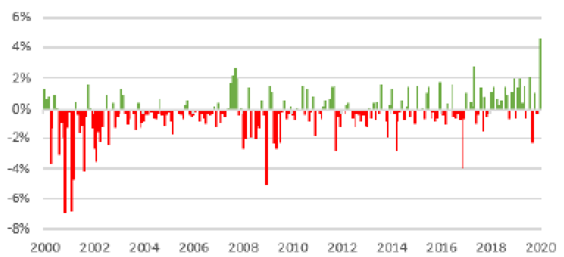
Past performance should not be taken as a guide to the future and dividend growth is not guaranteed. The value of your shares in Temple Bar and the income from them can fall as well as rise and you may lose money. This Trust may not be appropriate for investors who plan to withdraw their money within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

Manager's thought for the month

Following a gratifying bounce for value equities in the fourth quarter of 2019, normal service (for this cycle) was resumed in January, with value underperforming and momentum shining. In fact, January was a shocker, with the worst monthly performance of US value versus momentum in 20 years (see chart below).

This kidney punch coincided with the arrival in my inbox of an academic study by Baruch Lev and Anup Srivastava, 'Explaining the Recent Failure of Value Investing'. A title like that could not be ignored. The authors claim that value investing – their focus is on the US – has 'generally been unprofitable for almost 30 years'. The real-world numbers would seem to contradict that claim, but why let facts get in the way of a good story? Anyway, the authors identify two major reasons for value's supposed failure: 1) accounting deficiencies causing systematic misidentification of value, and particularly of glamour (growth) stocks; and 2) fundamental economic developments, which slowed down significantly the reshuffling of value and glamour stocks (mean reversion), which drove the erstwhile gains from the value strategy.
In the last few decades, the authors argue, an increasing number of companies have grown their businesses by spending more on intangible items such as IT and research & development, relative to tangible assets such as land. These intangibles have been expensed (i.e., taken immediately through the profit & loss account), rather than depreciated over extended periods. Consequently, the value of businesses has been understated as intangibles are not included in the book value, as have profits as intangibles are expensed.
The authors' adjusted book values to address this and found that 'in 34 of the 39 years examined … returns from the adjusted value strategy were higher than those of the conventional strategy…and in most years the adjusted returns were substantially higher'. A similar adjustment to earnings produced similar conclusions.

Figure 1: Difference in monthly Growth vs Value performance



Note: Green bar = 'Growth' outperforming; red bar = value outperforming.
Source: Bloomberg, Investec Asset Management

But despite these adjustments, the authors still concluded that 'recent 10-12 years returns from value investing were unusually low'. This left them searching for a second contributory factor to value's claimed weak performance. The authors refer to the widely experienced phenomenon of mean reversion as an important historic influence on the performance of the value factor. Mean reversion works, they argue, because outperformance (of any factor) is typically a combination of fundamentals and randomness. Sometimes this randomness moves in the same direction as the fundamentals; at other times it moves in the opposite direction. These ups and downs of randomness drive mean reversion.
That was in the old days, anyway. In the new era, the authors show that glamour stocks have remained glamourous for longer and value stocks have remained as value stocks (no sign of Amazon or Royal Mail mean reverting just yet). Why? They pin it on the different economic environment since the global financial crisis, and particularly on the slow growth in bank lending and the 'prolonged decline in consumer demand'. This leads them to the (not really expanded upon) conclusion that it is 'not surprising, therefore, that during the past decade the five leading industries of value firms were banking, retail, insurance, wholesale and utilities'. They also show that the operational performance of these companies has been poor since the financial crisis.

In general, I would not disagree with their conclusion, although I would put it another way and say that value firms need either busts or booms to eliminate excess capacity, and since the crisis we have had neither.
But all is not quite lost — or more precisely, not all value investors have lost. The authors highlight certain attributes that have helped value companies rise in valuation in this most recent period: those that were relatively small, were making relatively high intangible investment and relatively high capex, have steady sales growth and are buying back shares.
And finally, the academics can't resist turning into forecasters. They highlight that, even after value's underperformance, on their adjusted numbers the median market-to-book ratios of large glamour and large value firms offer little succour to value investors. In their eyes, this leaves just the hope of operational improvement for value firms. Don't hold your breath, they say, as the likelihood of the required fundamentals for value companies to succeed or glamour stocks to collapse 'don't seem to us likely in the short-median (sic) terms'.

Perhaps they are right, but I would argue differently. With clear signals from central bankers around the world that monetary policy has done as much as it can and governments seeming more than willing to take up the slack through fiscal expansion (thus simultaneously showing both their populist and green credentials), the macro backdrop could be changing from one with inflation targeting at its core to one emphasising nominal GDP growth. These conditions could be perfect for value investors.

"Son, there are three constants in life......death, taxes and predictions of the demise of value investment"

Contact us

Post
Company Secretary
Investec Asset Management Limited
Woolgate Exchange
25 Basinghall Street
London
EC2V 5HA

Investor Services
Phone: 020 7597 1800
Fax: 020 7597 1818
Email: enquiries@investecmail.com

Broker Support
Phone: 020 7597 1800
Fax: 0207597 1919
Email: enquiries@investecmail.com

Risks

Borrowing/leverage risk

The Company can borrow additional money to invest, known as leverage. This increases the exposure of the Company to markets above and beyond its total net asset value. This can help to increase the rate of growth of the fund but also cause losses to be magnified.

Charges to capital risk

A portion (60%) of the Company's expenses are charged to its capital account rather than to its income, which has the effect of increasing income (which may be taxable) whilst reducing its capital to an equivalent extent. This could constrain future capital and income growth.

Company share price risk

The Company's share price is determined by supply and demand for such shares in the market as well as the net asset value per share. The share price can therefore fluctuate and may represent a discount or premium to the net asset value per share. This can mean that the price of an ordinary share can fall when its net asset value rises, or vice versa.

Interest rate

The value of fixed income investments (e.g. bonds) tends to decrease when interest rates and/or inflation rises.

Equity investment

The value of equities (e.g. shares) and equity-related investments may vary according to company profits and future prospects as well as more general market factors. In the event of a company default (e.g. bankruptcy), the owners of their equity rank last in terms of any financial payment from that company.

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.