Monthly update **31 July 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: BDO LLP

Investment Manager:
Ninety One Fund Managers UK Limited

Portfolio Managers:
Alessandro Dicorrado and Steve Woolley

Value team portfolio management start date:
1 August 2002*

Registrars: Equiniti Ltd

Secretary:
Ninety One UK Limited

Depositary & Custodian: HSBC Bank Plc

*Managed by Alastair Mundy from August 2002 – April 2020

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

Trust Objective

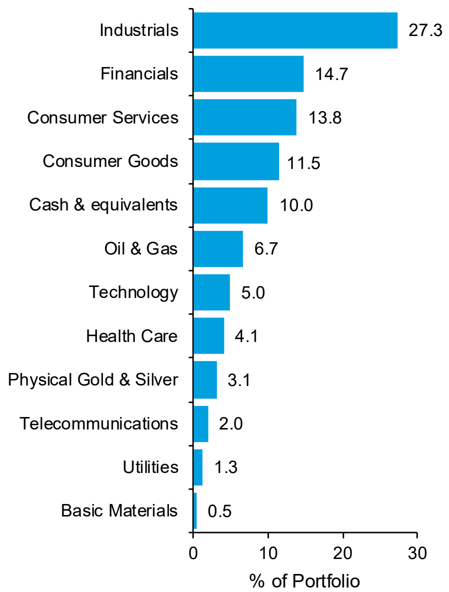
To provide growth in income and capital to achieve a long-term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the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

Top Ten Equity Holdings (%)[1]

Travis Perkins Plc	5.3
Grafton Group Plc	4.4
Bayer AG	4.1
IWG Plc	3.6
American Express Company	3.3
Sprott Physical Silver Trust	3.1
Safran SA	2.9
BP Plc	2.9
Rolls-Royce Holdings Plc	2.9
Royal Dutch Shell Plc	2.9
Total	35.4

[1]% of total assets, including cash

Sector Analysis



Financial Data

Total Assets (£m)	615.9
Share price (p)	702.0
NAV (p) (ex income, debt at mkt)	770.3
Premium/(Discount), Ex income (%)	-8.9
NAV (p) (cum income, debt at mkt)	770.3
Premium/(Discount), Cum income (%)	-8.9
Historic net yield (%)	7.3

Dividend History

Type	Amount (p)	XD date	Pay date
1st interim	11.00	04-Jun-20	30-Jun-20
Final	18.39	12-Mar-20	31-Mar-20
3rd interim	11.00	05-Dec-19	30-Dec-19
2nd interim	11.00	12-Sep-19	30-Sep-19

Performance (Total Return)

Cumulative Returns (%)

	Share Price	NAV	FTSE All-Share
1 month	-8.7	-10.2	-3.6
3 months	-4.2	-4.2	1.2
1 year	-40.9	-38.8	-17.8
3 years	-37.6	-35.7	-9.1
5 years	-26.8	-22.8	8.4
10 years	32.1	43.0	73.0

Rolling 12 Month Returns (%)

	Share Price	NAV	FTSE All-Share
31.07.19-31.07.20	-40.9	-38.8	-17.8
31.07.18-31.07.19	-0.6	-2.2	1.3
31.07.17-31.07.18	6.3	7.5	9.2
31.07.16-31.07.17	19.2	18.9	14.9
31.07.15-31.07.16	-1.7	1.0	3.8

Performance, Price and Yield information is sourced from Morningstar as at 31.07.2020

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.

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 move independently to the net asset value.

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. insolvency), 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.

Manager commentary

Let's begin with some introspection. One of the greatest conundrums for value investors has been the emergence of a small number of large-cap US technology stocks that, over the last two decades, have consistently delivered high rates of revenue and earnings growth. Their multiples might have looked high through most of this period, but they have been repeatedly justified by subsequent earnings growth. It does not really help to blame low interest rates, the value cycle or the fact that anti-trust authorities have allowed these firms to become unregulated monopolies. All of this may be partially true, but it is undeniable that the economics of companies like Amazon, Microsoft, Apple, Google and Facebook are spectacular. These companies have not only grown within a pre-existing market at the expense of incumbents, but have created entirely new markets, and done so by using very little incremental invested capital.

This does not necessarily mean an investor should buy into these companies today (a well-known adage suggests that 'what the wise do in the beginning, fools do in the end'). But it does make it objectively difficult to state with a high degree of certainty whether these stocks are overvalued. We think it is hard to make the case that they are undervalued, but you can see what we are driving at: we do not know.

An easier call is to look at what may be considered second-tier growth stocks. These are companies whose valuations have been driven higher by investors looking for the 'next Amazon' or the 'next Google' – but that do not seem to display any of the characteristics that the real Amazon and Google possess. We observe this phenomenon in most stock markets, including the UK, but nowhere is it more evident than in the US. The latter market sets the tone in the global growth universe, and it is where Verdad Capital, a research firm we regularly follow, has conducted some insightful analysis.

Verdad starts by aggregating earnings data for the FANMAG companies (Facebook, Amazon, Netflix, Microsoft, Apple and Google), which have driven a significant percentage of US equity market gains over the past few years. Collectively, these firms achieve profit margins of 26%, a return on assets of 9%, and an annualised three-year revenue growth rate of 22%, as shown in the table.

FANMAG quality statistics

	Growth		Profitability	
	3yr revenue CAGR (compound annual growth rate)	2yr forward revenue growth	Net income margin percentage	Return on assets
FANMAG	22%	14%	26%	9%

Source: Verdad Capital/Capital IQ

The market is currently (as at mid-July 2020) rewarding these characteristics with high multiples: in aggregate, the FANMAGs trade at 7.7x revenues and 55x earnings. If we concede that these valuations are justified by fundamentals, it is reasonable to argue that companies with worse fundamentals should trade at lower valuations. However, of the 3,000 US stocks with a market capitalisation greater than US$100 million, about 500 confound this expectation. In other words, they seem to have worse fundamentals than the FANMAGs but trade at higher valuations. Verdad Capital calls these companies the 'Bubble 500', and they account for about 7% of the S&P500 Index and 25% of the Russell 2000 Small-Cap Index. The next table shows valuation metrics for the Bubble 500.

Bubble 500 key statistics

	Valuation		Growth		Profitability	
	Enterprise value to sales	Earnings/price	3yr revenue CAGR (compound annual growth rate)	2yr forward revenue growth	Net income margin percentage	Return on assets
Weighted average	14x	0.0%	19%	20%	0.5%	0.0%
Median	13x	-2.1%	10%	13%	-0.6%	-9.0%

Source: Verdad Capital/Capital IQ

In aggregate, the Bubble 500 group of stocks trades at 13-14x revenues (as at mid-July 2020) and makes essentially zero profit. This means that over one-sixth of the 3,000 US stocks with market caps over US$100 million are being priced on the expectation that they will one day be like the FANMAGs, but that look like lower-quality businesses today. You could argue that paying over 10x revenues for a large group of unprofitable hopefuls is possibly one of the worst long-term investment methodologies ever. We would like to quote Verdad Capital directly here: "Our research on similarly priced, similarly unprofitable new-issue stocks with similar growth prospects suggests that this is because of their dramatically high failure rate and disproportionate risk of extreme multiple compression. And this is true even excluding the dot-com bubble. Bankruptcy-level losses occur at such high rates that [this type of] stocks has an actuarial price-return risk equivalent to investing exclusively in tomorrow's levered defaulters."

The counterargument to the above is that times have changed, and that new technology has unleashed a wave of innovation that will justify these valuations – and that the Bubble 500 companies are concentrated in sectors at the forefront of these changes.

Bubble 500 sector composition

Sector	Weight (%)
Software	24%
Payment processing	11%
Healthcare equipment	11%
Biotech	14%
Real estate investment trusts (REITs)	18%
Electric vehicles	6%
Other	16%

Source: Verdad Capital/Capital IQ

Monthly update **31 July 2020**

At the origin of any mispricing, there is usually a narrative that is correct in principle. Most of the companies trading on high valuations currently display faster revenue growth than most ‘old economy’ stocks. However, every good narrative tends to push prices to levels where a positive future is more than priced in. We feel that most developed markets today, including the UK, find themselves in this situation, and we think that investors paying for the hope of picking the next FANMAG are unlikely to do as well as they expect.

Contact us

Post
Company Secretary
Ninety One UK Limited
55 Gresham Street
London
EC2V 7EL

Investor Services & Broker Support
Phone: 020 3938 1800
Email: enquiries@ninetyone.com