Temple Bar Investment Trust PLC (the "Trust" or "Temple Bar")

Change of Investment Manager - Your Questions Answered

Background

Following the disappointing performance of the Trust in 2020 and the departure due to ill health of the named fund manager, the board of Temple Bar (the Board) announced on 20th April 2020 that it would conduct a review of its management arrangements.

The Board undertook a very thorough and considered tender process which included numerous stages over the course of five months. The first step was to assess whether Temple Bar's value investing strategy remained the most suitable one for shareholders. A third party, Stanhope Consulting, conducted an exhaustive review of value investing, with a particular focus on the UK. Their review included both historical analysis and an assessment of whether value remains a sustainable strategy, given the context of the pandemic and climate change. As a result of this analysis, and from Shareholder feedback, it was clear to the Board that value stocks still present a good long-term investment opportunity, and the board began the process of accepting proposals from investment managers to manage the Trust.

The Board sought out individual management firms in the US, Europe and the UK, and invited them to submit proposals. They received 19 proposals in total and, in conjunction with Stanhope Consulting, reviewed them in detail, narrowing the selection down to six firms. Those six firms submitted more detailed written proposals and presented them to the board via Zoom. The Board then interviewed the final two firms in person. As a result of this process, it was abundantly clear to the Board that RWC Asset Management LLP ('RWC") offered the strongest proposal that would continue to deliver the investment objectives of the Trust for its Shareholders.

Questions and Answers:

Will the investment approach and philosophy change?

The Trust's investment objective will remain unchanged; to provide growth in income and capital to achieve a long-term return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. Likewise, the investment policy (including investment restrictions) will remain unchanged. Temple Bar has for many years had a value investment approach and the Board has selected RWC for its proven expertise and excellent long-term track record in this investment discipline, thereby ensuring continuity in the investment approach for Shareholders.

How will the change of manager benefit Shareholders?

The Board believes that over the long term, Shareholders will benefit from the experience of the management team as well as the alignment of investment philosophies and that the new managers will increase the likelihood of consistently delivering against the Trust's long-term performance objectives.

Shareholders will benefit from one of the lowest management fees of any investment trust and a long fee holiday. The Trust will continue to be managed with a sustainable value style approach, benefiting from RWC's impressive track record in the sector. The Board believes it is currently the right time for the RWC investment strategy: UK equities are trading at the greatest discount to World Equities for fifty years, whilst UK value stocks are trading at the greatest ever discount to growth stocks.

Who will the new Managers be?

The Trust's portfolio will be managed by the long-term partnership of Nick Purves and Ian Lance who each have around 30 years investment experience. They employ a long-term, sustainable value-oriented approach, which takes advantage of stock market over reaction to enable them to purchase shares in sound businesses at a significant discount to their intrinsic value. They have applied this tried and tested approach in a disciplined fashion over a number of cycles.

RWC is a specialist, independent investment manager established in 2000 with a simple ambition: to create an environment where exceptional fund managers can operate in a manner that allows them to maximise their skills over the long term and create superior returns for investors.

RWC is managed as a sustainable investment organisation believing that long-term stability is derived from an effective and positive corporate culture. This drives its hiring policy, the way it structures remuneration, the investment autonomy of its investment teams, the nature of internal support and governance that it has for its investment strategies, and its approach to client service and new business.

RWC's investment teams reflect the organisation's belief that experience, well-defined investment philosophies and a creative environment are essential for producing exceptional investment returns. There is no centralised investment committee; each investment team has responsible autonomy for their investment philosophy, process, people and capacity. This approach allows them to take full accountability for their investment decisions. A focus on performance sits within a culture of strong risk management and compliance oversight. At all times, results are based on delivering returns within known and acceptable levels of risk. In each strategy, protecting clients' assets is as important as capturing return.

Today RWC invests c. $18bn (as at 31st August 2020) on behalf of their clients, who include some of the foremost distinguished asset owners, institutions and advisors. They have 155 people, including 57 dedicated investment professionals working across 8 independent teams, with offices in London, Miami and Singapore.

What qualities did you assess potential managers by?

The Board primarily sought a manager who was able to deliver sustainable value investing and to deliver the investment objectives of the Trust to shareholders. Managers were assessed on:

- Sustainable value investment style
- Capacity and ability to manage a portfolio of this size
- Strong track record of achieving investment objectives over the medium and long term
- Investment process, governance and oversight
- Relevant experience and track record
- Strength of the management team and broader infrastructure
- Depth of understanding of their portfolio companies
- Stability of the investment management team
- Commitment of the senior management
- Ability to provide efficient marketing and back-office support

What is the new team excited about in terms of sectors or stock?

RWC believe that investors concern about the economic downturn has led them to overpay for growth and defensive stocks whilst simultaneously undervaluing more cyclical stocks. As a result, they have been rotating out of sectors such as food retail and pharmaceuticals and into sectors such as banks, energy, industrials, media and retail.

Will there be any changes to the way the Trust is managed?

The Trust will appoint Link Fund Solutions Limited ("Link") as AIFM, who will then delegate the portfolio management of the Trust to RWC. Link will be responsible, as AIFM, for risk management in respect of the Trust

What have the costs of this manager replacement been?

There are always costs associated with replacing a manager. However, fixed costs and the cost of terminating the contract with Ninety One Fund Managers UK Limited ("Ninety One") will be largely offset by RWC waiving their management fee until 30 June 2021. Temple Bar is contractually obliged to pay a management fee to Ninety One until 21 April 2021, which it will of course honour.

Will the charges change for the Trust?

The management fees will remain at 0.35 per cent of total assets and the trusts competitive fixed costs mean that the total expense ratio will continue to be one of the lowest in the sector.

The appointment of Link as AIFM should add 2-3 bps per annum to costs. The Board believes that enhancing the Trust's long-term governance structure and independence is worth that slight additional cost. The Board remains committed to delivering the best value for Shareholders in the long run.

What do existing shareholders need to do following this announcement?

Existing Shareholders don't need to take any action. There is no requirement for a General Meeting, as reviewing and changing investment managers is part of the responsibilities of Board's on an investment company, acting in the best interest of the Shareholders.

The investment objective remains unchanged and the appointment of the new investment manager is intended to improve the Trust's investment capability while remaining true to its underlying investment philosophy.

Which other managers pitched to manage the Trust?

19 managers submitted initial proposals. This was narrowed down to six after which a competitive pitch process, which included Ninety One, was held in conjunction with Stanhope Consulting.

Who is Stanhope Consulting?

Stanhope Consulting is the investment advisory division of Stanhope Capital LLP. The Stanhope group as a whole oversees £10 billion of investment assets on both a discretionary and advisory basis. Stanhope Consulting provides investment advisory services to a range of clients, including charities, universities and other institutions, with assets under advice valued at some £3.9 billion as at the end of June 2020.

Is this a sensible time to make a manager change, Coronavirus and recession pending?

The Board is sensitive to market conditions, but its duty is to manage the Trust in the best interest of Shareholders, despite the market turbulence. The Trust has a long-term investment objective, and therefore the Board believes that the current market turbulence should not make it delay a decision.

What is the outlook for dividends?

Temple Bar's commitment to maintaining an attractive and rising dividend remains unchanged. However, the Covid-19 pandemic has presented challenges. The pandemic has impacted almost every single sector of the UK economy and dividend-paying companies have found this environment extremely challenging with many announcing or enacting cuts in pay-outs. Temple Bar's portfolio under Ninety One's management was particularly badly affected. Against this background, we warned earlier this year that we may not be able to maintain the level of dividend.

The Board understands that income from dividends is an extremely important factor for shareholders and this has been a key consideration in its decision to appoint RWC as the Board wants to ensure it has the strongest likelihood of maintaining and growing the dividend going forward.

Having reviewed with RWC the Board has decided that the dividend will be reset to a sustainable level of 38.5 pence per ordinary share to allow for steady income growth.

The Board believes that in order to continue to provide a growing dividend, this is a necessary step. Shareholders have benefited from the shelter that a closed-ended structure has given them during current dividend conditions as Reserves will be used in 2020 and 2021 to support this level of dividend.

Temple Bar remains committed to offering its Shareholders a fair charging structure and, after this manager change, Temple Bar will continue to offer Shareholders cost-effective access to one of the last remaining value investment trusts and a portfolio of stocks trading at significant discounts to their intrinsic value.

Value strategies have had a torrid time. Why has the Board chosen to pursue the strategy?

We took an incredibly thorough approach to the process of selecting new managers and a large part of that was about assessing whether Temple Bar's value investing strategy remains the most suitable strategy for Shareholders going forward. An independent third party, Stanhope Consulting, provided us with an independent and thorough review of value investing with a particular focus on the UK including both historical analysis and assessing whether it is a sustainable strategy given the context of the pandemic and climate change. The analysis, coupled with feedback from shareholders, led the Board to conclude that this is not a time to abandon a value style bias.

It is true that value has been out of favour for an extended period with investor interest having pushed Growth valuations ever higher. The valuation differential between the two styles is now at extreme levels and the board believes that the potential for value stocks to benefit from a re-rating is growing in likelihood. We, therefore, believe that appointing the new manager now will increase the Trust's potential participation in any such opportunity.

Do RWC share the same views as the board on this?

Given the current disparity between valuation of growth and value stocks, the investment team at RWC believe that value stocks present a good long-term investment opportunity.

What do you mean by sustainable value?

The Board believes that any investment made for the long-term must be in businesses that are run in-line with sustainable principles and this is how it has instructed RWC to run the investment portfolio of Temple Bar. The objective of investing for income and capital growth remains unchanged. By "sustainable value" we mean we will seek to find a subset of value stocks where there is a business model that is sustainable in all senses for the longer term, i.e. the manager will invest in companies which it believes will be profitable in 5 or 10 years' time even against the background of global pandemics and climate change.

This is an approach RWC has adopted for many years, they feel the sustainable aspect is key to long-term investing, as highlighted in the selection/research process.

You have moved from value to sustainable value, Is this greenwashing?

The Board fully believes that in order to deliver to Shareholders against the investment objectives of growth in income and capital over the long-term, the sustainability of the investee companies is crucial to its long-term success.

The RWC investment team believe that sustainable companies need to deeply consider ESG factors in their approach and therefore these are at the core of their investment process, and that has played a significant factor in their success and excellent track record.

Important Information: