

# Finsbury Growth & Income Trust PLC



Portfolio Manager

Nick Train

LINDSELL TRAIN



Fund Information as at 28 February 2017

www.finsburygt.com

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## Investment Objective and Benchmark Index

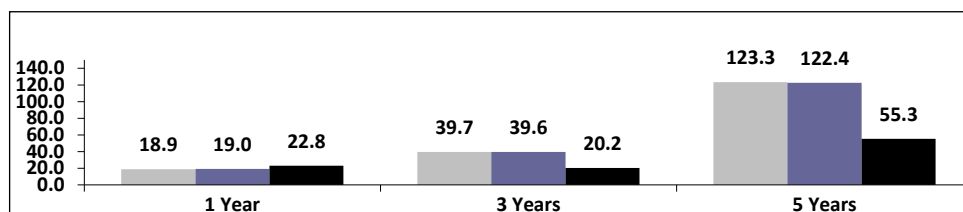
Finsbury Growth & Income Trust PLC invests principally in the securities of UK listed companies with the objective of achieving capital and income growth and providing a total return in excess of that of its benchmark, the FTSE All-Share Index (net dividends reinvested).

## Cumulative Performance (%)

Trust: Finsbury Growth & Income Trust PLC – NAV (total return)

Trust: Finsbury Growth & Income Trust PLC – Share Price (total return)

Index: FTSE All-Share Index (net dividends reinvested) \*



## Discrete Performance – Calendar Years (%)

Percentage Growth	2012	2013	2014	2015	2016	YTD
NAV	23.6	35.1	6.9	11.7	12.5	5.5
Share Price	25.4	35.1	5.9	12.4	12.6	5.2
Index *	12.3	20.8	1.2	1.0	16.8	2.8

Source: Morningstar. Past performance is not a guide to future performance.

\* Index source: FTSE International Limited ("FTSE") © FTSE 2017

## Commentary

In February, the NAV was up 5.2% on a total return basis, the share price was up 5.4% while the index was up 3.1%.

Kraft Heinz' (KHC) approach to Unilever (ULVR) was a significant event for our portfolios. The size of the proposed transaction was a wake-up call for corporations all over the world - and their investors. In these monthly notes we have repeatedly pointed to the growing scale of global M&A activity. 2015 was by far the biggest year for M&A in history and 2016 the second - at just short of \$5 trillion, admittedly down c12% on the previous year. But even I would not have regarded ULVR as a likely merger or takeover candidate. Not just because of its, in our opinion, more than satisfactory business record, but because the ticket - well over £100 billion - seemed implausibly high, even in an era of low interest rates. In the light of KHC's willingness to engage - you now have to ask: Is any company too big to be bought?

On this issue of scale consider the following recent quote from Baillie Gifford's James Anderson. "Aren't market capitalisations for the leading companies absurdly small?" He means global companies and he is right. Globalisation and digital technology have changed the upper boundaries for what constitutes "big". The way we think about it is that most companies categorised as "big" are actually rather "small" compared to the opportunities that have opened up for them.

And again on this point of global reach, we think it important to consider Kraft's motivation - both public and implied. Of course there was probable profit margin uplift from the proposed combination. KHC's high 20% profit margin seems unsustainably high to us, but ULVR's in the mid teens can likely be enhanced, as indeed is confirmed in ULVR's response to the proposal. But this is relatively trivial stuff. Far more germane for KHC shareholders, we suspect, was the fact that it is predominantly a continent-locked North American business, 70%+ of revenues. And, crucially, only 10% derive from Emerging Markets. But, as ULVR CEO Paul Polman put it memorably a couple of years ago - Emerging Markets are where all the people are. It's ULVR's unique market positions in India, Indonesia, Brazil etc that were the real prize here

Another consideration is valuation. Buffett and 3G, arguably the most successful private equity concern of the last decade, have just placed a £40 sighting shot on ULVR's equity. Who knows how much more would have been tabled to close a transaction? That £40 is 20% above ULVR's average price over the last year. And it's pretty much double the price it was five years ago. Think about how much ULVR equity has changed hands over the last five years - on, in hindsight, spurious concerns about valuation. All we can say is that obviously special companies like ULVR (look at the dividend history) are very rare and very valuable. Of course there must be a price that is too high for it, but that is unlikely to be so while the earnings yield is in touch with 5% or a P/E of 20x.

We have bought more ULVR since the deal fell through - although are now constrained by portfolio concentration rules. The Board's response to the approach - of immediately promising a review to release more value more quickly for holders is intriguing. We can see how short term value could be created. But we can also see how long term value could be lost - if ULVR feels compelled to cut back on brand building or to hamstringing its balance sheet by taking on a lot of debt. So we need to be alert. Elsewhere the attractions and - we think - undervaluation of Diageo, Heineken and Mondelez in our portfolio have all been underlined.

## Biography

Nick Train began his career as an Investment Manager at GT Management in 1981, having graduated from Queen's College, Oxford with a second class honors in Modern History (1977-1980). He left GT in June 1998, after 17 years, on its acquisition by INVESCO. At his resignation he was a Director of GT Management (London), Investment Director of GT Unit Managers and Chief Investment Officer for Pan-Europe. He joined M&G in September 1998, as a Director of M&G Investment Management. In June 1999 he was appointed as Head of Global Equities at M&G. He left M&G in April 2000 to co-found Lindsell Train Limited. He is investment adviser to the Worshipful Company of Saddlers.

## Portfolio Manager Profile

Portfolio management services are provided by Lindsell Train Limited (Lindsell Train). Lindsell Train was formed in December 2000. However the principals, Michael Lindsell and Nick Train had worked together at GT Management from 1992 through to GT's takeover by INVESCO in 1998. Both Michael Lindsell and Nick Train went on to fulfill senior roles at INVESCO and M&G PLC respectively, where they continued to develop an in depth knowledge of investment processes and the world's stock markets. Their shared investment philosophy is to invest in durable, cash generative businesses that are under-priced on their valuation analysis. They believe such businesses are rare and are under-valued by most other investors most of the time. They apply this approach by choosing a concentrated portfolio of approximately 30 stocks with the intention of holding them for the medium to long term. Lindsell Train is authorised and regulated by the Financial Conduct Authority.

## Investment Policy

The Company has a concentrated portfolio of approximately 30 stocks with a low turnover, and aims to provide shareholders with a total return in excess of that of the FTSE All-Share Index. The Portfolio Manager uses a bottom-up stock picking approach and looks to invest in a universe of excellent listed companies that appear mostly undervalued. Up to 20% of the portfolio, at the time of acquisition, can be invested in quoted companies worldwide. The Company's policy is to invest no more than 15% of its gross assets in other listed investment companies (including listed investment trusts).

## Discount Control Mechanism

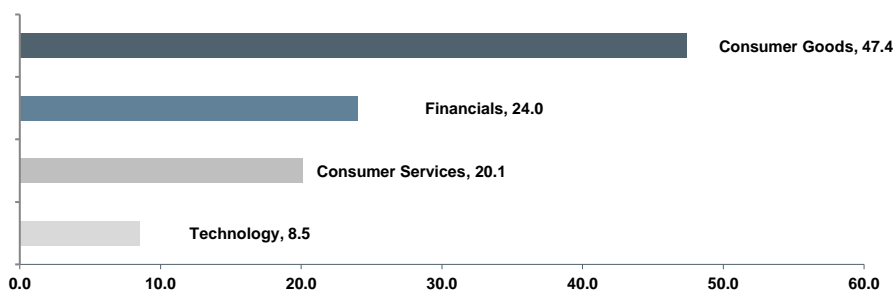
The Directors have adopted an active discount management policy to establish and support an improved rating in the Company's shares through the use of share buybacks, with a view to limiting the discount to NAV per share at which the shares trade to no more than 5%. Shares bought back may be held in treasury for reissue at later dates at no more than the discount at which they were purchased, and in any event at a discount no greater than 5% to the prevailing net asset value per share.

Finsbury Growth & Income Trust PLC conducts its affairs so that its shares can be recommended by independent financial advisers ("IFAs") to retail private investors. The shares are excluded from the Financial Conduct Authority's ("FCA's") restrictions which apply to non-mainstream investment products because they are shares in a UK-listed investment trust.

## Ten Largest Holdings as at 28 February 2017 (% of total investments)

Name	Sector	Total
Unilever	Consumer Goods	10.1
Diageo	Consumer Goods	9.7
RELX	Consumer Services	9.5
London Stock Exchange	Financials	7.8
Burberry Group	Consumer Goods	7.4
Hargreaves Lansdown	Financials	6.5
Schroders	Financials	6.3
Heineken	Consumer Goods	6.2
Sage Group	Technology	5.6
Mondelez Int.	Consumer Goods	4.7
<b>Total</b>		<b>73.8</b>

## Sector Breakdown as at 28 February 2017 (%)



## Share Price Total Return on £100 (£) as at 28 February 2017

1 year	119.0
3 years	139.6
5 years	222.4

Source: Morningstar. Past performance is not a guide to future performance.

## Standardised Discrete Performance (%)

Percentage Growth 12 Month Return	Feb 12- Feb 13	Feb 13- Feb 14	Feb 14- Feb 15	Feb 15- Feb 16	Feb 16- Feb 17
NAV	33.4	19.9	15.0	2.2	18.9
Share Price	32.4	20.3	14.9	2.1	19.0
Index	14.1	13.3	5.6	-7.3	22.8

## Awards

**Winner: What Investment Trust 2016**, Best UK Investment Trust  
**Winner: Moneywise, Investment Trust Of The Year Awards 2016, 2015**  
 Category: UK Equity Income  
**Winner: FT & Investors' Chronical Awards 2015**, Best Income Fund  
**Money Observer Rated Fund 2015**  
**Winner: Investment Week, Investment Company Of The Year Awards 2016, 2015**  
 Category: UK Equity Income

## Important Information

Finsbury Growth & Income Trust PLC (the "Company") is a UK investment trust listed on the London Stock Exchange and is a member of the Association of Investment Companies. As this Company may implement a gearing policy investors should be aware that the share price movement may be more volatile than movements in the price of underlying investments. Past performance is not a guide to future performance. The value of investments and the income from them may fall as well as rise and is not guaranteed. An investor may not get back the original amount invested. There can be no assurance that the Company's investment objective will be achieved and investment results may vary substantially over time. This document is for information purposes only and does not constitute an offer or invitation to purchase shares in the Company and has not been prepared in connection with any such offer or invitation. Investment Trust share prices may not fully reflect underlying net asset values. There may be a difference between the prices at which you may purchase ("the offer price") or sell ("the bid price") a share on the stock market which is known as "bid-offer" or "dealing" spread. This is set by the market makers and varies from share to share. This spread typically averages 1-2% each way on the mid-market price (the price halfway between the bid and offer prices), and can fluctuate and at times be higher than average. Net Asset Value per share is calculated in accordance with the guidelines of the Association of Investment Companies. Net assets are stated inclusive of income received. Any opinions on individual stocks are those of the Company's Investment Manager and no reliance should be given on any such views. Any research in this document has been procured and may have been acted upon by Lindsell Train Limited for its own purposes. The results are being made available to you only incidentally. The views expressed herein do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of Frostrow Capital LLP and no assurances are made as to their accuracy. Before investing in an investment company referred to in this advertorial, you should satisfy yourself as to its suitability and the risks involved, and you may wish to consult a financial adviser.

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## Fast Facts

As at 28 February 2017

<b>Launch Date</b>	1926
<b>Annual Management Fee</b> (payable by the company) †	
<b>Ongoing charges*</b>	0.7%
<b>Year / interim end</b>	30 September/ 31 March
<b>Capital Structure</b>	150,425,712 Ordinary shares of 25p

## Trust Characteristics

<b>Number of Holdings</b>	25
<b>Net Assets (£m)</b>	£1,024.4m
<b>Market Capitalisation (£m)</b>	£1,028.9m
<b>Dividend Per Share**</b>	13.1p
<b>Current Net Yield</b>	1.9%
<b>Gearing (AIC basis)</b>	3%

<b>Leverage***</b>	
<b>Gross &amp; Commitment</b>	103%
<b>Share Price (p)</b>	684.00
<b>NAV (p) (cum income)</b>	681.03
<b>Premium / (Discount) to NAV (p)</b>	0.4%

## Codes

<b>Sedol</b>	0781606
<b>ISIN</b>	GB0007816068
<b>Legal Entity Identifier</b>	213800NN4ZKX2LG1GQ40
<b>Bloomberg</b>	FGT LN
<b>Epic</b>	FGT

\*Calculated at the financial year end, includes management fees and all other operating expenses.

\*\*1st Interim paid 11 May 16 : (Year ended Sep 16) 6.1p

2nd Interim payable 11 Nov 16 : (Year ended Sep 16) 7.0p

\*\*\*The Board has set the leverage limit for both the Gross and the Commitment basis at 125% of the Company's Net Asset Value.

†Lindsell Train – 0.45% of the market capitalisation of the company that is equal to or less than £1 billion, 0.405% in excess of £1 billion.

Frostrow – 0.15% of the market capitalisation of the company that is equal to or less than £1 billion, 0.135% in excess of £1 billion. Frostrow also receives a fixed fee of £70,000 per annum but this will cease to be payable with effect from the 1<sup>st</sup> of October following the date at which the company's market capitalisation attains a level of £1 billion.

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