FG&IT

100

YEARS INVESTING IN THE FUTURE

www.finsburygt.com

Finsbury Growth & Income Trust PLC ("the Company") was incorporated in Scotland as Scottish Cities Investment Trust Limited on 15 January 1926.

The new investment trust – one of the first to be launched since before the First World War – was created by four Scottish business figures, two based in Edinburgh and two in Dundee, hence the Company's name.

The Company's first Chairman, William Hanna, a Chartered Accountant, was based in the Scottish capital as was Edward Maitland Campbell, WS (Writer to the Signet – a senior lawyer).

Based in the Perthshire city of Dundee were Charles Walker, a wealthy manufacturer describing himself as a Jute Spinner and, lastly, a stockbroker with the memorable name of Arthur ffoulkes Marjoribanks Guild.

The four founders between them had a range of relevant experience spanning the legal, accountancy and stockbroking professions, aided by Walker's network of contacts in Scottish industry.

Hanna was a member of The Honourable Company of Archers, the Sovereign's bodyguard in Scotland and had been awarded the OBE in 1919 following his army service in the First World War. Guild also had a distinguished war record, having been awarded the DSO as well as being Mentioned in Despatches while serving with the Black Watch.

In addition to running his Edinburgh legal practice Campbell, who had been educated at Fettes and Cambridge, was active in local Liberal politics and periodically wrote for the Economist. Textile baron Walker's contemporary press coverage, on the other hand, seems to have concentrated on his tendency towards receiving tickets for speeding while driving through the Perthshire countryside. It was through their personal and professional connections that the group was able to raise the sum of £50,000 by private subscription prior to the formal Incorporation of the Company. The Dundee Courier of 26 December 1925 (a normal working day in Scotland at the time, despite being it being a Saturday and Boxing Day) reported the pending launch. *"It is to be called Scottish Cities Investment Trust, Limited",* the paper's financial columns noted, *"...the present issue of £50,000 in £10 shares – three-fifths Preference and two-fifths Ordinary – has, it is understood, already been oversubscribed".*

A further £10,000 in shares was offered for public subscription following the formal Incorporation of the Company on 15 January 1926. The Company's registered office was listed at 16 Charlotte Square, Edinburgh, the location of the main offices of Shepherd & Wedderburn, its legal advisers at launch.

The Directors were to be provided with a sum equivalent to 0.5% of the Company's total assets with which to pay *"their remuneration, the office rent, the Secretary's or Manager's salary, and clerical assistance in this country".*

Portobello beach, Edinburgh

Investment opportunity

In 1926, the Scottish economy had barely begun to recover from the after-effects of the First World War, with high unemployment and with heavy industry still in decline. Less than four months after Scottish Cities' launch, the UK was brought to a near standstill by the General Strike of May 1926.

It cannot have been easy, therefore, to look past the domestic economic malaise and identify investment opportunities. The way to do it, the founders decided, was to diversify across regions, industries and asset classes. The specific investments were not revealed to shareholders, on the basis that they could become unsettled by price fluctuations and that disclosure gave unnecessary information to competitors.

The four Scots knew that some investors simply wanted a better fixed rate of return than that available from savings accounts while maintaining the safety of their capital. Others were prepared to take on a measure of risk to grow their capital. Consequently, Scottish Cities issued both Ordinary and Preference shares, the latter bearing a 5% fixed annual interest rate for the risk averse.

The launch proved successful. A series of issues of both Ordinary and Preference shares followed over the next three years, as well as the addition of gearing through £100,000 of 5% Terminal Debenture stock issued in early 1928.

At the Company's second Annual General Meeting (AGM), Chairman William Hanna was able to report that the past year "had again been a favourable one for investment trust companies. The Company might be said to be in a good position". He moved that a 3% final dividend be paid on the Ordinary stock which, taking the interim dividend into account, made a total of 5½% for the year. This habit of quoting ordinary dividends as a percentage of nominal (par) value would continue right through until the 1970s, before being stated in pence per share as is modern practice. A full 5% dividend had also been paid on the Preferred stock. The Company, in short, was off to a good start.

By 1927 markets were rising sharply, especially in the United States where investment euphoria bordering on frenzy was starting to develop. In the UK, an investment trust launch boom was also in full swing. Such was investor demand that the 1928 Laing & Cruickshank Investment Trust Yearbook, first published the previous year, had to add a "Stop Press" supplement listing 21 new companies formed before it could be published.

Investors' money continued to pour in as markets soared. *"It was difficult to compare revenue figures with the previous year",* William Hanna told shareholders in July 1929*, "owing to the considerable increase in the amount of funds with which they had to deal".*

The timing would prove unfortunate. The Wall Street Crash, arguably the greatest market crisis of all time, was only weeks away.

1920s

The Wall Street Crash

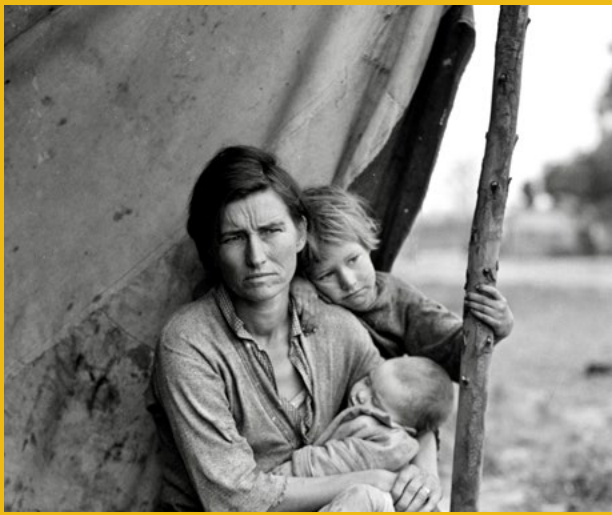
By the summer of 1929 the Dow Jones Industrial Index had passed 380, having been slightly above 100 in 1924. Among US investors, the stampede to climb onboard, often with borrowed money, had become extreme.

Back in the measured confines of 16 Charlotte Square, Edinburgh, passions had remained more controlled. While priority was still being placed upon income generation, the portfolio was dominated by fixed income securities. There had been no late rush into the latest fashionable stocks.

Despite this, none could avoid the effects of a crash so severe, to quote investment historian George Glasgow, that *"circumstances arose which mostly, if temporarily, defeated the efficacy of the 'distribution of risk' principle in its geographical element, for the whole world went wrong at the same time"*.

Unlike more established investment trusts, Scottish Cities had little time to build up a store of reserves from which to draw in times of need. Yet, despite the presence of structural gearing, the Company survived.

1930s



The depression years

During the depression years of the early 1930s, the Company introduced a series of measures to stay afloat. Dividends on the Ordinary shares were suspended in 1932 and payments on the Preference shares were halved in 1934. The Debentures were partially repaid and the Directors and Company Secretary took voluntary pay cuts.

As to capital values, the opaque accounting practices of the day make exact performance calculations difficult. It is estimated that what would today be called net asset value (NAV) fell by perhaps 70% from its peak.

By the middle of the 1930s, matters had begun to improve. The Company had pulled through one of the most testing phases in financial history and begun to rebuild.

In 1937, the Company's annual report reported gross assets of some £787,000, including £225,000 of Preference shares and £42,000 of Terminal Debentures. Arrears on the cumulative Preference share had been repaid, allowing dividends on the Ordinary share to restart, albeit at the modest level of 1½%.

Into the 1940s

War ahead

In the background, the storm clouds of war were gathering. *"The effects of the Government's rearmament programme…"*, William Hanna stated at the 1937 AGM, *"…has already made itself felt in industries in general … coal, iron, steel and shipbuilding are all expected to show larger profits and are expected to continue for some years to come"*.

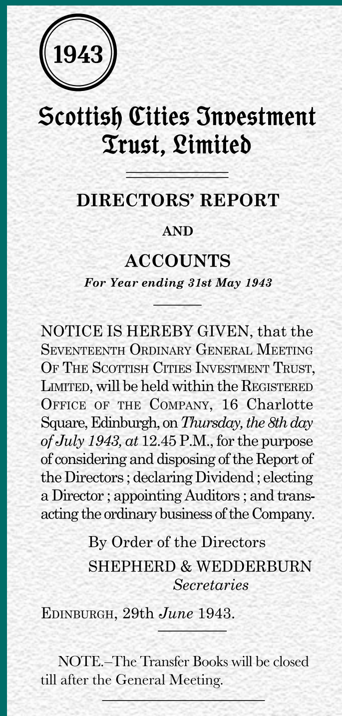
Within less than two years this burst of optimism had been consigned to history. Numerous attempts at peace talks broke down and, following the invasion of Poland in 1939, Great Britain was back at war.

Both Edinburgh and Dundee were the target of German raids during the early stages of conflict, requiring Directors, Company staff and local residents to descend into air raid shelters every time a warning was sounded.

In the early years of the war, financial markets were in a state of torpor, a situation finally conveyed to investors via the briefest of comments in the 1942 annual report. This stated that *"owing to continuing abnormal conditions, it is not, in the opinion of the Directors, possible to make a reliable valuation of the Company's investments this year"*.

Eventually, the tide of the war turned, liquidity returned to markets, and it became clear that at some distant stage, though no one knew quite when, the fighting would end.

The cities of Edinburgh and Dundee were the target of German air raids during the war.



1943

Scottish Cities Investment Trust, Limited

DIRECTORS' REPORT

AND

ACCOUNTS

For Year ending 31st May 1943

NOTICE IS HEREBY GIVEN, that the Seventeenth Ordinary General Meeting Of The Scottish Cities Investment Trust, Limited, will be held within the Registered Office of the Company, 16 Charlotte Square, Edinburgh, on *Thursday, the 8th day of July 1943, at* 12.45 P.M., for the purpose of considering and disposing of the Report of the Directors ; declaring Dividend ; electing a Director ; appointing Auditors ; and transacting the ordinary business of the Company.

By Order of the Directors

SHEPHERD & WEDDERBURN

Secretaries

Edinburgh, 29th *June* 1943.

NOTE.–The Transfer Books will be closed till after the General Meeting.

Wartime paper shortages led to the 1943 Annual Report being printed on a single sheet of paper, folded several times. The front cover above is shown at its actual size.

Move into equities

Partly as a result of tax change between the wars, whereby dividends were considered as franked income, on which corporation tax need not be paid, the shift towards equity investments, as opposed to fixed income securities, had begun. In a rare disclosure of portfolio information, it was revealed that by 1944, 10% of the portfolio was invested in bonds, 19% in preference shares and no less than 71% in equities, with substantially all of it invested in the British Empire.

The first changes to the Company's original 1926 board took place during the war. Edward Maitland retired in 1943 owing to ill-health. William Hanna died the following year, being replaced as Director and Chairman by Reginald M Guild, WS, of Shepherd & Wedderburn, who already had worked with the Company over many years. He was also Arthur Guild's brother. Edward Maitland was replaced by another senior lawyer, Ian MacGillivray, WS, in 1945.

The Second World War ended in Europe in May 1945 and three months later in the Far East. The Company had only just pulled through. Nevertheless, its Preference shareholders had continued to receive their dividend payments throughout the conflict. Ordinary shareholders could be grateful that their holdings had survived both the depression and the war, but they had not received a dividend since 1939.

Even by mid-1946, the Directors continued *"to regret that they are not yet able to recommend a payment of a dividend on the Ordinary stock"*. Capital values had nonetheless started to improve. In the reporting methodology of the day, the accounts that year reported *"an appreciation of 1.94% on the figure at which the Investments stand in the Balance Sheet. A year ago, there was a depreciation of 11.83%"*. In today's parlance, that meant NAV had increased by around 14% from their battered levels towards the end of the war.

The modest capital uplift was a start. The payment of Ordinary dividends resumed in 1947, initially at the modest rate of 1.5% but distributions increased swiftly as economic conditions improved. By July 1953, Reginald Guild was able to tell shareholders that *"for the eleventh year in succession, the gross revenues of the Trust have shown an increase on the previous year … and dividends on the Ordinary stock totalling 11% have already been paid".*

In most respects, the future looked brighter than it had for many years. But an outside bidder, Rea Brothers, had acquired a significant stake. Its representatives then turned up at the 1953 AGM, determined to gain control. The visitors included two powerful City figures: Lord Rea, Chairman of the eponymous banking firm and his Managing Director, Walter Salomon.

Not only were major changes afoot, but the Company's quiet existence at the heart of the Scottish investment community would never be the same again.

1950s

The eventful 1953 AGM

As the Daily Express of 24 July 1953 put it, *"Three Rolls Royces swept into Edinburgh's Charlotte Square at 12.25 this afternoon carrying City banker Walter Salomon and his friends to win their battle for control of the £800,000 Scottish Cities Investment Trust ... it took them until 5.10 to do so"*.

After opening the meeting, Reginald Guild reminded shareholders that, on 21 February 1953, the Company had received an unconditional offer from Rea Brothers. The offer had been set at £141 per £100 stock, a substantial premium over the prevailing share price of £98. Unsurprisingly, a large number of shareholders had accepted.

What the bidders *"had failed to ascertain"*, Guild said, perhaps with relief, *"was that the Preference stock also carried voting rights at all general meetings ... the votes apparently controlled by Rea Brothers are only 40% of the total"*.

At first sight, the bid had failed. In reality, the stake accumulated by Rea Brothers put it in a position of significant influence, for example, with regard to the composition of the board. After the formal business of the meeting had been completed, a two-hour adjournment was announced.

By the early evening, a way forward had been agreed. Sir Wilfred Ayre, a Scottish industrialist with connections to Rea Brothers, was to become Chairman. Two other new Directors, the Hon Thomas Hazelrigg and Dennis Poore, described as a cousin of the Duke of Hamilton, were also appointed. Reginald Guild was to step down as Chairman but remain a Director. Charles Walker, by now in his seventies, also stood down.

"Nothing like that had ever happened in the quiet world of investment trusting", the Express's writer Alexander Thomas said. *"At end of it all, Salomon and Guild shook hands. Salomon's convoy of Rolls Royces drove off. Mr Guild walked away in a crumpled mac to catch the train home"*.

Scottish Cities was about to move ahead under the aegis of Rea Brothers, which effectively became the Company's management company.

Three Rolls Royces swept into Edinburgh's Charlotte Square

1950s

Rea Brothers

As Nigel Watson describes in his book, 'A History of Rea Brothers', (James & James, 1994), the Reas were a wealthy Liverpool family who had made their money from shipping. They formed a small banking business in London in 1919 but, by 1950, the business was being run by its company secretary, a man close to retirement, while the current generation of the family showed little interest. This came to the ears of Walter Salomon through a separate deal. He was not slow to act.

Walter Salomon was born in 1906 into a Hamburg banking family. As World War Two approached, he became involved with helping refugees escape Germany. By 1938, with the Gestapo looking for him, he left Hamburg for London, his wife Kate soon following.

Salomon established an office in Finsbury Square but was detained as a foreign alien in 1939, eventually obtaining his release the following year. This did not hold him back for long. His business prospered after the war, notably owing to his ability to spot undervalued businesses and unlock their wealth.

Salomon's interest in Rea Brothers in 1950 was a case in point. Having spotted that its export subsidiary was up for sale, he quickly established that an offer for the bank itself might also be considered.

With the assistance of accountant Anthony Burnley and solicitor Christopher Clarke, a deal was put together. Walter Salomon & Co was acquired by Rea Brothers and Salomon acquired a majority of the shares in Rea Brothers. Philip (Lord) Rea remained Chairman while Walter Salomon became Managing Director. Salomon had found a fast track to acquiring and operating an established City merchant bank.

Over the years that followed, Salomon identified a number of undervalued investment trusts and industrial companies. During the 1950s, Rea Brothers gained control of several, including Scottish & Mercantile (now Hansa Investment Company) and Lancashire & London, as well as Scottish Cities. The firm also built holdings in other trading companies, most prominently Ocean Wilsons, a South American port operator that remains associated with Hansa.

Hamburg, 1900's

Into the 1960s

The Earl of Dartmouth

Over the next decade, Scottish Cities grew strongly. Between 1953 and 1965, the Company's gross assets increased every year without a break, from £824,000 to £3,914,966, while dividends per Ordinary share rose from 2.8% to 18.0%.

By now, another important figure in the Company's history had entered the scene. Viscount Lewisham, later The Earl of Dartmouth, joined the board in 1958 and succeeded Sir Wilfred Ayre as Chairman five years later. He would remain in the Chair for the next 28 years. Born Gerald Legge, he was one of a generation which left school and went straight to war. He served in Italy as a Captain with the Coldstream Guards and was Mentioned in Despatches. After the war, he trained as an accountant and became a Director of Rea Brothers in 1958.

The ten years from 1965 were to prove testing not just for the Company but for the entire investment trust sector. The first blow to fall was the 1965 Finance Act, which introduced corporation tax, capital gains tax (CGT) and the reduction of double taxation relief on overseas investments. Worse, mind-boggling extra paperwork was now required to log every portfolio transaction as a CGT 'event', creating a serious headache for fund managers and accountants alike.

1970s

1970s oil shocks

These legislative headwinds were soon followed by the ‘oil shocks’ of the early 1970s, industrial unrest and the three-day week, in combination causing the deepest turndown since the Wall Street Crash.

Over these volatile years, Scottish Cities suffered sharp reductions in value, falling from a peak of £8.1 million in mid-1969 to a low of £3.3 million in 1974.

Few episodes better illustrate the daily challenges faced by investment managers than the rapid rebound that followed. Reportedly triggered by a buying programme initiated after a lunch for insurance fund managers at Prudential’s High Holborn headquarters in early 1975, the UK market doubled in a matter of months and continued to rise. Those who had capitulated on equities missed that rally, while those who had stayed invested saw their patience rewarded.

Fuel ration books

Margaret Thatcher comes to power

Into the 1980s

25-year record

It may not have felt like it for shareholders who had endured the woes of the 1970s, but the Company's long-term performance was a matter of note. *"Since 1953"*, Lord Dartmouth said in 1977, *"when the present managers of the Trust took over, the dividend is nearly 17½ times the dividend in respect of 1953. The net asset value has also shown a very satisfactory increase. In 1953, it was equivalent to 9p per stock unit and as at 30 September 1977 was 245p per stock unit, 27 times the net asset value of 25 years ago".*

As the 1980s approached, the election of a Conservative government under Margaret Thatcher led to the sweeping away of exchange controls and a series of tax reforms. Soon the heady 'eighties' boom years were in full swing, accompanied by soaring markets, only temporarily arrested by the 'Black Monday' crash.

For many investment trusts – especially those which had maintained what would now be considered eyebrow-raising levels of gearing – these proved to be halcyon years, with share prices and net assets typically multiplying in value.

The Company's performance figures were no exception. Over the ten years to 30 September 1989, the NAV per share rose from 291p to 910p, while adjusted annual dividends increased from 10p to 24p.

In 1985, Sir Walter Salomon retired as Chairman of Rea Brothers and formed Finsbury Asset Management to continue his management of the investment trusts which together owned 75% of the bank. Consequently, Finsbury Holding Company was appointed manager of Scottish Cities on 1 December 1985. This was the point at which the name Finsbury first became associated with the Company, though its name remained unchanged until 1992.

The investment policy under these revised arrangements was *"to invest principally in the shares of larger British companies, while maintaining our investments in a small number of long-term special situations"*.

Salomon died in 1987, having been involved with the Company for more than 30 years. He had also devoted a great deal of time to Young Enterprise, a national movement he founded in 1963 to promote entrepreneurship and financial literacy to the nation's youth. He received a Knighthood in 1982 recognising this achievement.

Sir Walter's position in the bank was taken up by his son William, who remains active in the investment trust sector.

1990s

Anglo Scandinavian Bid

By 1990, Lord Dartmouth had been Chairman for 27 years and a Director for five before that. Such tenures were not untypical of the era but would now be frowned upon under governance guidelines designed to ensure regular board rotation. His decades of experience would be brought to bear in first rebuffing and then helping to reverse the acquisitive attentions of the recently formed Anglo Scandinavian Investment Trust.

Anglo Scandinavian was launched in 1989 with the unambiguous objective of *"investing primarily in other quoted investment trusts"*. Within little more than twelve months of its launch, Anglo Scandinavian had acquired stakes in several of the trusts managed by Finsbury Asset Management, including Scottish Cities. Matters quickly came to head in 1990 when it made a formal bid for one of the other Finsbury trusts.

The board of Scottish Cities decided to make a rival bid for Anglo Scandinavian itself. The offer was hotly contested but ultimately successful, helped by Scottish Cities' purchase of a 12% stake in Anglo Scandinavian through a New York-based broker. The seller subsequently admitted that, had he known who the buyer was, he would not have sold.

In July 1991, Michael Reeve, former Managing Director of Greyhound Bank, succeeded Lord Dartmouth as Chairman and would see the acquisition of Anglo Scandinavian through to its formal completion. Of his predecessor, the incoming Chairman said somewhat laconically, *"served on the Board of your Company for thirty-three years, during which its value grew by almost as many times"*.

On 29 April 1992, the Company's name was changed from Scottish Cities Investment Trust to Finsbury Growth, to reflect its objectives, activities and the name of its investment managers.

By autumn 1992, the gross assets of the Company had increased to a new high of £49.1 million. With the last bull market of the twentieth century now in full swing, this figure had reached £80.0 million by the same point in 1995.

1990s

Managerial changes

The holding company of Finsbury Asset Management Limited was acquired by Rea Brothers in 1995. In the wake of this, the following year's accounts listed a named fund manager for the first time – Malcolm (Max) King, formerly a risk arbitrage analyst with LF Rothschild.

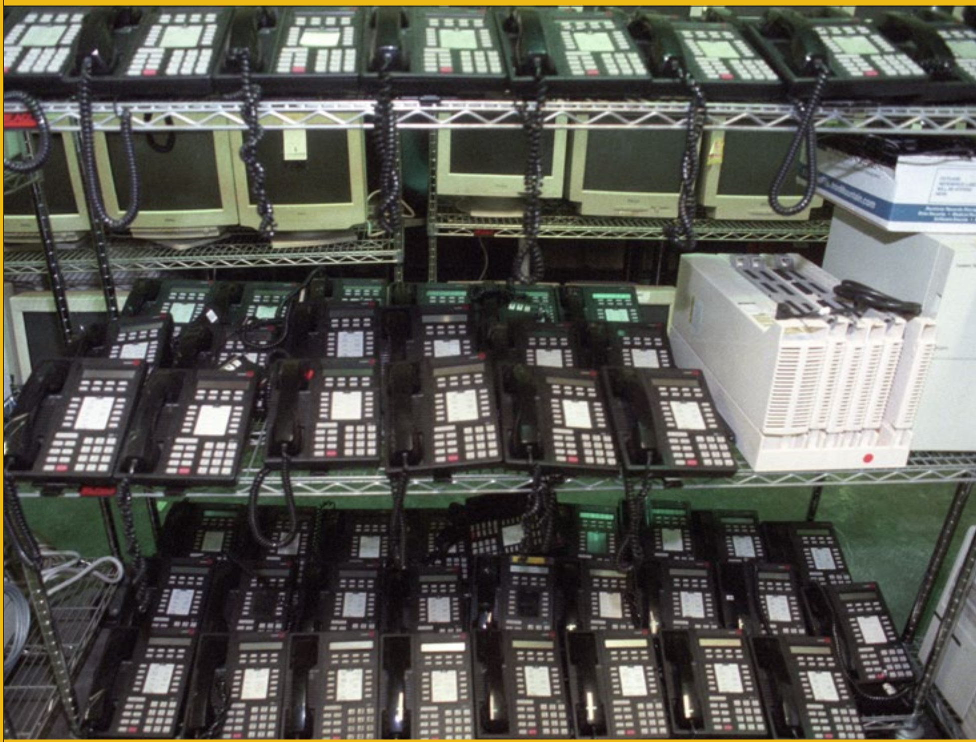
Two years later, it was announced that Rea Brothers had formed a joint venture with Apax Partners, to be called Apax Finsbury Investment Management. Responsibility for managing the Company's assets at this point passed to Mark Tyndall, previously Head of UK Equities at Ivory & Sime.

In later years, both fund managers would become influential City figures – Mark Tyndall as co-founder of Artemis and Max King, as a senior investment manager at Investec.

In August 1999, the Company's managerial hierarchy changed yet again, with Rea Brothers acquired by Close Brothers. In a faint early sign, perhaps, of boardroom concerns regarding performance, a new variable fee arrangement was put in place. While the base fee remained 0.75% of gross assets, a 0.02% adjustment was now to be applied for each 1% of annual outperformance or underperformance of the FTSE All-Share Index.

In the background, the TMT (Technology, Media and Telecommunications) boom – accurately described at the time by Warren Buffett, to widespread ridicule, as a bubble – was developing at an alarming pace. Soon, investors in large numbers were casting aside traditional 'blue-chip' holdings with real assets and dividends for internet stocks with no track record, profits or even revenues. The result, as one contemporary investment trust chairman put it, was that *"many traditional UK companies have effectively been in a bear market, despite satisfactory trading results"*.

The stretched valuations of the dotcom boom began to be recognised as the noughties got under way. Taken with a stream of negative news relating to the global economy and falling corporate earnings, a wave of selling ensued, investor confidence collapsed and the long bear market of 2000-2003 began.



1990s

The London Stock Exchange

Unfortunately, the Company's own performance had begun to tail off before markets had peaked. Over the year to 30 September 1999, Michael Reeve noted, *"the net asset value of the Ordinary shares increased by 16.6% whereas in the same period the FTSE All-Share Index rose by 20.5%"*. This was a second year of underperformance, after a negative year in 1998.

The middle months of 2000 proved volatile as the final flourish of the internet boom was played out. In the boardroom, meanwhile, Anthony Townsend, William Salomon's brother-in-law, who had long been involved with the Company as a senior executive at Rea Brothers , a stockbroker who had worked in the sector for more than 30 years. Warman's background and long experience would prove to be crucial factors as the Company set its course for the future.

In 2000, John Allard, who had previously been a fund manager at M&G for more than 20 years, also joined the Board as did the Company's first female Director, ex-UBS Warburg corporate finance specialist, Vanessa Renwick.

The time had come, the Chairman and Board decided, to start with a 'clean sheet' and conduct a thorough review of the Company's objectives, strategy and managerial arrangements.

2000s

Appointment of Lindsell Train

During these discussions, Giles Warman informed his boardroom colleagues that not only was a new investment management company called Lindsell Train in the process of being formed, but that he had personally done business with one of its co-founders, Nick Train, whom he held in the highest regard as an investment manager.

After preliminary discussions, it was agreed that Nick Train and his business partner, Michael Lindsell, should be invited to make a formal presentation to the Board. As Nick Train recalls, "Giles Warman, who was on the board of Finsbury, knew me and indeed had broked to me for many years. After initial meetings, Michael [Lindsell] and I put together our first ever investment pitch. As part of our presentation, we proposed a revised charging structure, which would not only reduce the base fee from 0.75% [of gross assets] to 0.65% but would be levied on the market capitalisation of the trust and not on its net – or God forbid – on its gross assets". If applied, the move would have the effect not only of reducing the overall costs of management but of effectively penalising the manager should the shares' discount to NAV widen.

Train also made it clear from the outset which influences would drive his investment methodology. Expanded upon in the Company's subsequent annual reports, Train cited three quotations which, in combination, would drive his approach over the years ahead.

1 *"Stocks are simple. All you do is buy shares in a great business for less than the business is intrinsically worth, with managers of the highest integrity and ability. Then you own these shares forever".* Warren Buffett

2 *"Some merged, some went out of business, some got smaller". Michael Bloomberg, referring to the 339 constituents of the 1981 S&P 500 Index that had failed to retain this status by 1998. Statistically, most companies fail as investments. The FTSE 100 Index was first calculated in 1984. Of its original members, only 30 remain. The moral is to be cynical about most investment propositions. Investors tend not to be optimistic about running long term winners. "The strong get stronger" – this is the economic effect that we are seeking to exploit.*

3 *"It is a mistake to think one limits one's risk by spreading too much between enterprises about which one know little and has no reason for special confidence".* John Maynard Keynes

"We are seeking", Train said*, "to earn exceptional returns for the Company by exploiting other investors' unwillingness, or inability, to ascribe full strategic value to the companies that meet our selection criteria. The three quotations [above] define our thinking".*

Before founding Lindsell Train, Nick Train had been Head of Global Equities at M&G Investment Management. Before that he spent 17 years at GT Management where his final role was as Chief Investment Officer for Pan-Europe, having built long investment track records in both UK and Global equities. Nick has a degree in Modern History from the University of Oxford.

2000s

After much deliberation, the Board decided to proceed with the appointment of Lindsell Train Limited as the Company's Investment Adviser, a decision that came into effect on 11 December 2000.

As Nick Train remembers, *"Not only was this a big deal for us, given that Finsbury was our first external client, but it has proved to be the one of the most enjoyable and rewarding phases of my career … I can hardly believe that it has now spanned almost a quarter of a century"*.

While the managerial change was being implemented, markets continued to plunge, leading, as Michael Reeve put it in September 2001, *"to a destruction of value from which your Company has not escaped … although [our new manager's] prompt action in realising some £60 million of investments shortly after their appointment has done much to limit damage to the portfolio"*.

The vicious bear market finally ended on 12 March 2003, by which stage the FTSE All-Share Index had more than halved from its September 2000 peak. It was scant consolation for shareholders to be told in late 2002 that the loss in NAV of around 18.3% since the previous year was less than that of the benchmark.

2000s

New broom

More importantly, the portfolio had taken on a very different shape, with a concentrated portfolio of 31 high conviction stocks, from 68 the year before. Train's mantra of selecting the few companies that met his investment criteria then holding them 'forever' was about to be put to the test. The next phase of the Company's life had begun.

Between the managerial appointment of Lindsell Train in late 2000 and the onset of Covid restrictions in March 2020, the NAV total return of the Company's investment portfolio beat that of its index time and again, often by a significant margin. The table below shows that there were only three years out of the twenty in which in the Company did not better its benchmark – a remarkable achievement.

FGT Total Return Performance Record, 30/09/2001 to 30/09/2025

to 30 September	% Change FGT NAV TR	% Change FTSE All-Share TR
2001	-25.4	-22.7
2002	-18.3	-20.8
2003	16.9	16.7
2004	26.0	15.7
2005	31.5	24.9
2006	21.2	14.7
2007	6.9	12.2
2008	-31.4	-22.3
2009	24.0	10.8
2010	21.2	14.7
2011	5.8	-4.4
2012	21.1	17.3
2013	31.6	18.9
2014	8.9	6.1
2015	12.0	-2.3
2016	10.0	3.5
2017	13.7	11.9
2018	13.1	5.9
2019	2.9	-1.8
2020	-7.7	-16.6
2021	10.6	27.9
2022	-5.8	-4.0
2023	7.2	13.8
2024	8.2	13.4
2025	-0.1	16.2

Past performance is not a reliable indicator of future results.

2000s

Change of Company name

Certain key decisions were made along the way. In 2003, an increase in income received from the portfolio allowed annual distributions to shareholders to be raised to 5.0p, having been 3.75p in 2002. The increase was "*a reflection*", the annual report noted, "*of the style adopted by our Investment Adviser*". With the shares now yielding 3.3%, the time had to come to review the Company's name, which was changed to Finsbury Growth & Income Trust with effect from 11 May 2004.

To give greater emphasis to income, the investment objective was amended at the same time. Meanwhile, as part of the change – and undoubtedly a contributory factor to the Company's fortunes, with the bull market in full flow – the Board decided to permit gearing of up to 20%.

Last but not least, the Company's discount control policy, which until now had been applied on an ad hoc basis, was formalised in 2004. From then on, shares would be bought back at a discount of 5% to NAV. The shares would be retained in treasury and reissued either at a premium to NAV or at a discount less than the discount at which they had been bought back.

By the end of 2005, gross assets had grown to £137 million (£114 million net), both figures almost doubling since 2002. Since the managerial change, the discount to NAV of around 16% had not just been eliminated but replaced by a modest premium, allowing the Company to issue new shares without diluting existing shareholders.

Appointment of Frostrow Capital

The next key event in the Company's life was the appointment of Frostrow Capital in 2007. Formed earlier that year by members of the Close Bros team that had long supported the Company and led by founding partners Alastair Smith and Grant Challis, Frostrow effectively 'broke the mould' of the traditional investment management company. Its mission was to provide listed investment companies with every support function except portfolio management itself.

The model allowed boards to select the very best investment manager they could find, while relying on Frostrow for administration, secretarial, marketing and distribution services. This had the potential to deliver significant cost savings and efficiency improvements.

In the case of Finsbury Growth & Income, these functions had already been separated following the appointment of Lindsell Train. This enabled a seamless transition – the Company became an ideal first customer, with the same experienced team continuing to deliver its service from the new firm. Nearly two decades on, Frostrow now supports more than £8.5 billion of London-listed investment assets.

2000s

The global financial crisis

Anthony Townsend assumed the role of Chairman in January 2008, the same month that Neil Collins – former City Editor of the Daily Telegraph for nearly 20 years – joined the Board. By this point, gross assets had reached a new high of £189 million (£166 million net), marking five consecutive years of both positive NAV growth and outperformance of the FTSE All-Share Index. It soon became clear that this positive run was about to end.

Signs that all was not well with the banks had appeared as early as August 2007, when BNP Paribas suspended three funds with exposure to the US 'sub-prime' market. A month later, it emerged that the UK's Northern Rock had requested emergency support from the Bank of England.

These early troubles turned out to be the tip of the iceberg. The pressure intensified, with further bank casualties on both sides of the Atlantic, culminating with Lehman Brothers filing for bankruptcy in September 2008. Only widespread, massive and globally-coordinated government intervention prevented a global depression similar to the one the Company had endured – and survived – in the 1930s.

As the crisis deepened, inevitably, the Company's progress slowed and then dramatically reversed. A NAV total return of -31.4% for the year to 30 November 2008 – the only down figure since 2001 – was behind its benchmark's -22.3% total return. This result, the Chairman's Report noted the same year, *"was not helped by the level of gearing held in a falling market, together with disappointing contributions by regional brewers and financials".*

2010s

Recovery

2009, in Nick Train's words, turned out to be *"a most disagreeable white-knuckle ride"*, during which the tide eventually turned. By the middle of the year, coordinated stimulus packages began to have a stabilising effect. Not for the first time in the Company's history, the recovery, when it came, was dramatic.

The FTSE All-Share Index rose by almost 50% over the nine months from March 2009, marking the beginning of a ten-year upward trend for the Company that continued until the onset of Covid. The falls in the first half of the financial year were more than eliminated by the sharp recovery in the second, resulting in a healthy total return of 24.0% over the twelve months to 30 September 2009, compared with 10.8% from the index.

"Overall", Anthony Townsend said with classic British understatement as the worst investment crisis since 1929 slipped into the rear-view mirror, *"the more buoyant market conditions have provided a welcome contrast to those experienced in 2008"*.

Giles Warman

Giles Warman, who had been a Director since 1989, died suddenly in 2013. Such had been his positive influence on the Company and its Board that a full-page tribute was paid to him in that year's annual report. He had played an important role in the takeover of Anglo Scandinavian, been instrumental in selecting Lindsell Train and was a key proponent of the discount control measures put in place.

"Always willing to challenge the status quo, often to the considerable benefit of the Company", the tribute noted, *"he was a much admired and respected colleague"*.

In 2015, Simon Hayes, Chief Executive of Peel Hunt, joined the Board – the first new appointment for seven years. He was followed two years later by Kate Cornish-Bowden, former fund manager for Morgan Stanley, and by Lorna Tilbian, formerly an Executive Director at Deutsche Numis.

In the background, the 2009-2019 bull market, one of the longest in history, was forging ahead. The Company's performance was even better, with the value of several of Nick Train's core holdings in consumer brands multiplying several times over – companies such as AG Barr, the maker of the Scottish soft drink Irn Bru, Dr Pepper Snapple, Fuller Smith & Turner and Young & Co Brewery.

Train expanded upon this point in his Investment Adviser's Report for 2013. *"We continue to find inspiration"*, he said, *"in our stock selection from this recommendation made by my former, much-admired boss – Vivien Bazalgette. Vivien once told me, 'If a company's products taste good, buy the shares.' As Vivien recognised, consumer loyalty to a tasty product is reliable and highly profitable"*.

Other significant contributors to investment performance in this period included Diageo, Unilever, Hargreaves Lansdown, London Stock Exchange and Fidessa, a UK-based provider of financial software. By 30 September 2018, total net assets had reached £1.41 billion, having passed the billion-pound barrier in early 2017.

"£1,000 invested in our Company ten years ago", Anthony Townsend told shareholders twelve months later, *"would be worth £4,747. This compares with a figure of £2,210 if we had just tracked the Company's benchmark index, the FTSE All-Share Index"*.

Within weeks, the magnificent run had come to an end. The way in which it happened came as a shock to all.

2020s

The pandemic

In November 2019, the worst coronavirus ever reported, later dubbed Covid-19, was discovered in Wuhan, China. Such was the speed of its global spread that the World Health Organisation declared it a pandemic on 11 March 2020.

On 23 March 2020, Prime Minister Boris Johnson announced a UK-wide lockdown. With non-essential travel prohibited, non-vital businesses required to close and groups of more than two people banned, all meetings were now required to be held by video call. Such meetings were frequently dogged by frustrating connectivity problems as the new technology struggled to cope.

Company Secretaries, meanwhile, were on the one hand tasked with arranging AGMs but, on the other, forbidden to do so by law unless shareholders could physically attend. This impasse was rectified by temporary legislation in the form of The Corporate Insolvency and Governance Act, passed in June 2020.

The Act allowed the Company's 2021 AGM to go ahead by video call as Frostrow's Victoria Hale, Finsbury Growth & Income's Company Secretary, recalls. *"We had been incredibly fortunate to have held the previous AGM in person, just under a month before the UK went into lockdown. The 2021 AGM had to be held by Zoom. After a full rehearsal, the technology worked, luckily, and more than 50 shareholders attended virtually. It was certainly not the way we wished to say goodbye to Anthony after many years as Chairman!"*

"I hope", Anthony Townsend said later that year, in his final report as Chairman, *"that all shareholders and their families are managing through these difficult times. It has been an honour and privilege to chair this Company since January 2008 and watch it grow from £145 million to £1.8 billion over those years"*.

Incoming Chairman Simon Hayes and his new colleagues faced unfamiliar conditions as they settled into their new roles during the pandemic. Board appointments around this time included Sandra Kelly, former Finance Director of the Canal and River Trust, who became a Director in October 2019. James Ashton, Chief Executive of the Quoted Companies Alliance, and past City Editor of the Sunday Times joined the board the following year.

The final board appointment in the Company's first 100 years was made when Pars Purewal, a chartered accountant with a 38-year career at PricewaterhouseCoopers, joined the Board in November 2022.

2020s

After effects

The pandemic caused a sharp recession, marked by a fall in UK GDP of 19.4% in the second quarter of 2020, before rebounding 17.6% as the country reopened over the summer. The UK's Office for National Statistics later commented that *"this level of change in GDP has not been seen since measurements began in 1955"*.

It should have been little surprise, therefore, that the performance of an investment company with a tightly focused portfolio, 98% of which being accounted for by a mere 17 stocks, should vary from its benchmark over the years which followed the pandemic.

To have captured the upside from the post-Covid rally would have involved a dramatic and unwarranted shift from a portfolio dominated by these 'forever' holdings, to be temporarily replaced by certain areas of technology and commodities which, as it turned out, surged in value as the pandemic ended. As Simon Hayes pointed out at the time, *"The market has rewarded companies with prospects for rapid recovery from the effects of the pandemic as opposed to those businesses which we own: businesses that offer consistent growth"*.

Over the next five years to the end of the financial year to 30 September 2023, the Company underperformed the FTSE All-Share Index in each year.

"We remain supportive", Hayes continued, *"of Lindsell Train's investment approach, namely running a highly concentrated portfolio of high-quality businesses with high returns on equity, and believe that ultimately this will be reflected in the share prices of the companies we own and hence in the performance of the Company"*.

In Nick Train's own words, *"We know what the effects can be of owning fine businesses in size over long periods. ...Over 20 years [to 30 September 2023], Diageo's share price total return is up over sevenfold, LSEG thirty-fivefold, RELX ninefold and even Unilever is up sixfold. Concentration can cut both ways, as shareholders have experienced over the last three years, but if we can continue to hold and find new positions that can do for us what these have done over the next 20 years, then the Company certainly offers a differentiated and potentially rewarding portfolio and investment approach"*.

Pars Purewal
– Chairman

Having served nine years on the Board, Simon Hayes stood down at the January 2025 AGM, being replaced as Chairman by Pars Purewal. During his four years in the Chair, Hayes had seen the Company undergo a roller coaster ride, swinging from the highs of a raging bull market to the depths of Covid and on to the beginnings of the recovery which followed.

On his departure, he paid tribute to *"the hard work and professionalism of colleagues at Lindsell Train and Frostrow and the exemplary levels of commitment and engagement of my fellow Directors"*. His own contribution was acknowledged by his successor. *"We extend our heartfelt gratitude"*, Pars Purewal said, *"to Simon for his exceptional stewardship and significant contributions to the Company during his tenure as Chairman"*.

While relative underperformance against the FTSE All-Share Index has posed challenges in more recent years, the Company has continued to increase dividends, reinforcing its resilience in a volatile market environment. The Trust's disciplined focus on high-quality UK companies represents a strong foundation for future recovery, and the forthcoming continuation vote provides an opportunity to reaffirm shareholder support. The Company remains a dependable vehicle for investors seeking sustainable income and long-term exposure to the UK equity market, with its proven ability to generate dividends and maintain portfolio stability positioning it positively for the years ahead.

2020s

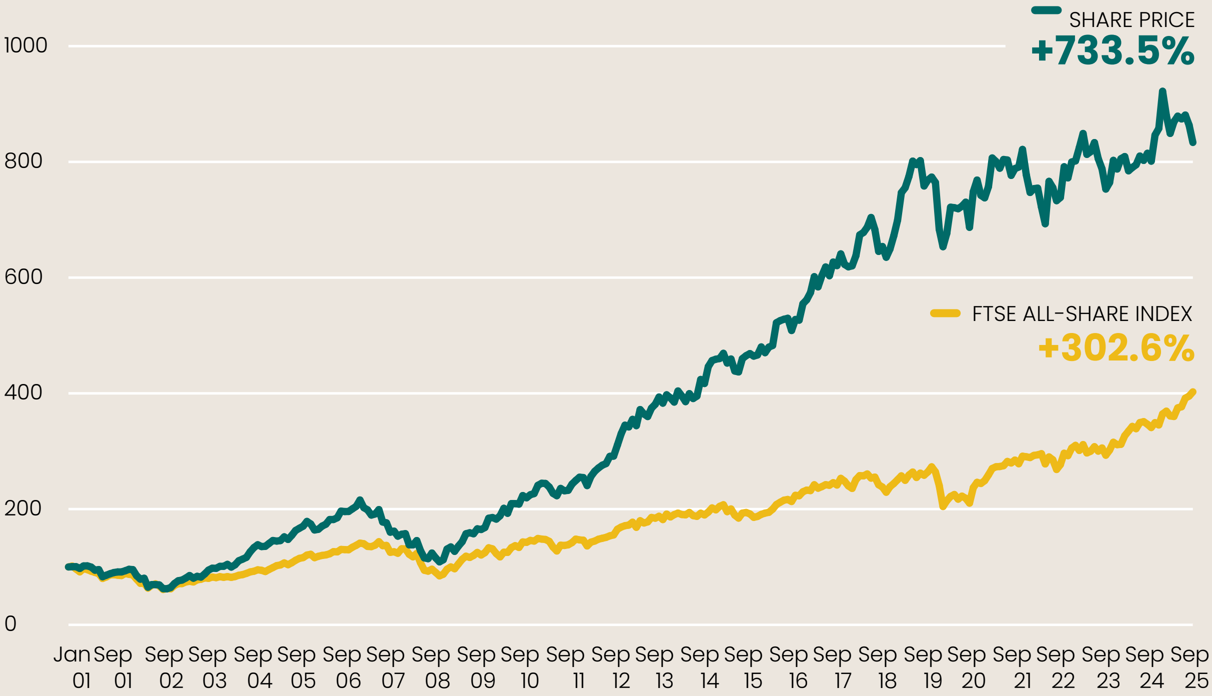
Spectacular long-term success

Notwithstanding the performance challenges of the last few years, the Company's performance since the appointment of Lindsell Train in late 2000 must be considered a spectacular success.

The chart below underpins this assertion with stark clarity. If an investor had bought £1,000 of shares in the Company at the point at which Lindsell Train assumed responsibility for the portfolio in late 2000, and reinvested any dividends received, by 30 September 2025, their investment would have a value of £8,335.*

This long-term investment return, trouncing the Company's FTSE All-Share Index benchmark over the same period, can now be assessed from a near 25-year perspective. It encompasses the brutal bear market of 2001-2003, the global financial crisis of 2007-2009 and the Covid pandemic of 2020-2021.

PERFORMANCE SINCE THE DATE OF APPOINTMENT OF LINDSELL TRAIN AS PORTFOLIO MANAGER TO 30 SEPTEMBER 2025



Source: Morningstar
Rebased to 100 as at 1 January 2001

Past performance is not a reliable indicator of future results.

Taking stock

The story of the Finsbury Growth & Income Trust's first 100 years is one of perseverance, adaptability, skilled boardroom direction and the successful quest for long-term investment excellence, all underpinned by the inherent strength of the investment trust structure.

To understand what has taken an investment proposition initially raising some £60,000 in 1926 through to the £1 billion titan that is the Company today is to understand that, however severe the market crises, wars and even pandemics that intervene, and however painful and persistent the dark days feel, the disciplined application of process will prevail.

Launched during the heady days of the "Roaring Twenties", in its first twenty years alone the Company faced the Wall Street Crash, the Great Depression and the Second World War. It survived them all, battered but unbowed and ready to grow once again.

At the time of its half-century in 1976, the Company had just emerged from yet another major challenge in the form of the 1970s oil shocks, during which the portfolio more than halved in value. From the lows of 1974 the Company would recover its losses and thrive once more, with gross assets more than trebling in the 1980s alone.

Growth continued through the turn of the Millennium, only for another painful correction as the internet bubble burst. Yet again, those who stayed the course saw their investment not just pull through but, under the new management of Lindsell Train, attain new heights – and then multiply in value again many times, overcoming the debilitating effects of the financial crisis and Covid along the way.

Moving to the present, Nick Train finds grounds for continued optimism. *"Lindsell Train has been portfolio adviser to FGT for nearly a quarter of a century. Even that long tenure does not qualify me to look as far ahead as another 100 years. However, when I look at the portfolio today, I am more enthused about its prospects than at any time this century. I have increased my holding because London Stock Exchange, Experian, Diageo, Sage and RELX (and I could go on), not only happen to be listed on the London market but are genuinely world-class companies with substantive growth opportunities in front of them. Finsbury Growth & Income holds those businesses in big quantities, and if our analysis of them is right, the impact on returns in the coming years will be very significant indeed. These businesses could readily still be important holdings in 2050 – with much, much higher market capitalisations than pertain today."*

Pars Purewal and his boardroom colleagues agree. With continued support from shareholders, Finsbury Growth & Income Trust can thrive for another 100 years, and beyond.

FG&IT 100 YEARS INVESTING IN THE FUTURE

For more information about Finsbury Growth & Income Trust PLC visit the website www.finsburygt.com

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