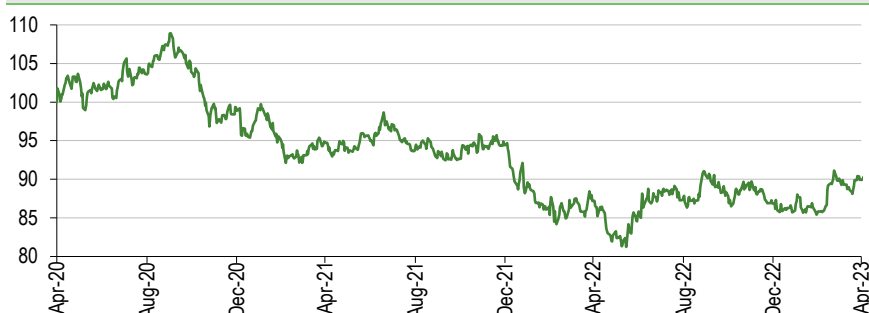


# Finsbury Growth & Income Trust

## Performance getting back on track

Finsbury Growth & Income Trust (FGT) has been managed by Nick Train since the beginning of 2001. Data from the company show that since then to the end of March 2023, the fund has outperformed the broad UK market by 4.3pp per year. Having experienced a difficult relative performance period due to shifts in market leadership, FGT's results are getting back on track. The manager emphasises that he has continued to adhere to his long-term strategy of investing in high-quality growth companies that can thrive regardless of the economic cycle. Portfolio turnover is extremely low at around 3%, demonstrating that Train really does invest with a long-term perspective; the last new additions to the fund were Fevertree Drinks (Fever-Tree) and Experian in early 2020.

### Improved NAV performance versus the benchmark in recent months



Source: Refinitiv, Edison Investment Research

## The analyst's view

Train is encouraged that FGT's performance has turned a corner, having lagged the benchmark in 2021 and 2022. It is important to emphasise that over the last two years the manager 'stuck to his knitting' rather than trying to chase performance by changing his process or the structure of the trust's portfolio.

The fund is very concentrated, with around 20 holdings across just five of the 11 market sectors, and is based on four themes: digital winners, luxury/premium products, beloved/trusted brands and market proxies. In 2022, 94% of the portfolio was made up of companies that increased their dividends, while 85% undertook share repurchases.

Despite a difficult couple of years, FGT's absolute returns are very respectable. Over the last decade, its annual NAV and share price total returns of 10.1% and 9.5% are well ahead of the 6.2% annual total return of the broad UK market. The trust also stacks up well versus its peers in the UK Equity Income sector, with its NAV total returns ranking first or third out of 20 funds over the last one and five years and over the last decade.

The manager stresses the importance of 'having skin in the game' by aligning his interests with those of other shareholders. He has continued to increase his holding in 2023; Train now owns c 5.1m shares, which is equivalent to c 2.4% of the fund.

## Investment trusts UK equities

22 May 2023

|                     |                |
|---------------------|----------------|
| <b>Price</b>        | <b>904p</b>    |
| <b>Market cap</b>   | <b>£1,878m</b> |
| <b>Total assets</b> | <b>£2,143m</b> |

|                                    |                  |
|------------------------------------|------------------|
| NAV*                               | 941.7p           |
| Discount to NAV                    | 4.0%             |
| *Including income. At 18 May 2023. |                  |
| Yield                              | 2.0%             |
| Ordinary shares in issue           | 207.7m           |
| Code/ISIN                          | FGT/GB0007816068 |
| Primary exchange                   | LSE              |
| AIC sector                         | UK Equity Income |
| 52-week high/low                   | 920.0p 734.0p    |
| NAV* high/low                      | 967.8p 791.7p    |
| *Including income.                 |                  |
| Net gearing*                       | 1.7%             |
| *At 30 April 2023.                 |                  |

### Fund objective

Finsbury Growth & Income Trust's investment objective is to achieve capital and income growth and provide shareholders with a total return above that of the broad UK market index. It invests principally in the securities of companies either listed in the UK or otherwise incorporated, domiciled or having significant business operations within the UK, while up to a maximum of 20% of the portfolio, at the time of acquisition, may be invested in companies not meeting these criteria.

### Bull points

- Very strong long-term absolute and relative performance versus the broad UK market.
- Disciplined strategy, with the manager investing with a very long-term perspective.
- Progressive dividend policy.

### Bear points

- The highly concentrated portfolio means that a single company's share price weakness can negatively affect the whole fund's performance.
- Key person risk: the manager has built up FGT's long-term record over the last 22+ years.
- Despite attractive valuations, UK shares remain out of favour with global investors.

### Analyst

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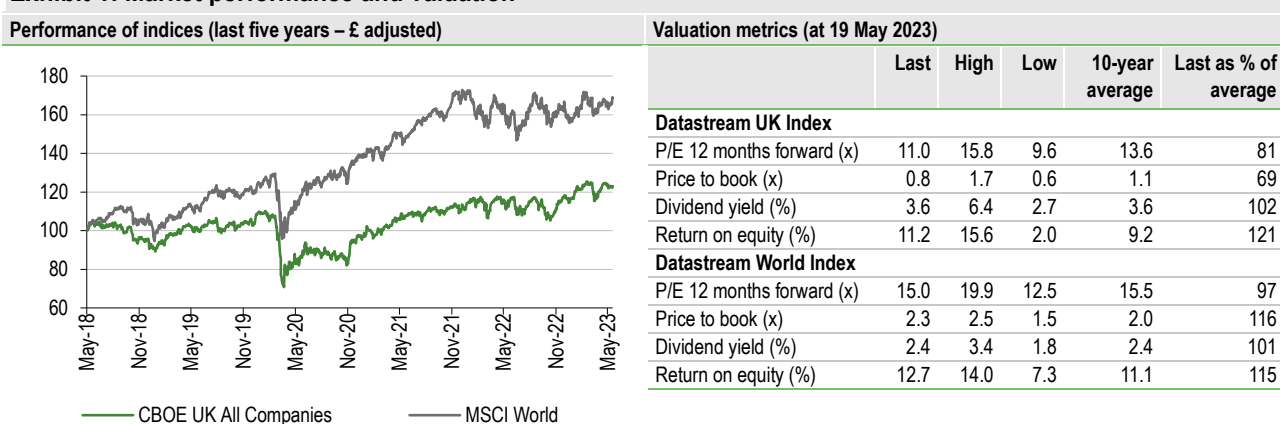
**Finsbury Growth & Income Trust is a research client of Edison Investment Research Limited**

## Market outlook: Change in sentiment would be helpful

Although UK shares fared relatively better than the world market during a very volatile 2022, over the last five years there has been a significant performance gap and the UK has lagged (Exhibit 1, left-hand side). There have been significant outflows from the UK market, particularly since the June 2016 Brexit vote and they have continued in 2023. While global investors may be concerned about the composition of the broad UK market index (more than 22% in financials, c 15% in consumer staples and just 1% in technology), the UK stock market does not equate to the UK economy. Most of the revenues of the larger domestic companies are generated overseas and the UK is home to a range of leading worldwide businesses.

UK shares look attractively valued on both an absolute and relative basis (Exhibit 1, right-hand side). The Datastream UK Index is trading on an 11.0x forward P/E multiple, which is a 19% discount to its 10-year average and a 27% discount to the Datastream World Index. If inflation continues to moderate and the UK avoids a recession, there could be a greater appreciation for the high-quality UK companies that offer prospects for both capital and income growth. This could result in a cessation of outflows and lead to a re-rating of the UK stock market, especially given its current inexpensive valuation.

**Exhibit 1: Market performance and valuation**



Source: Refinitiv, Edison Investment Research

## The fund manager: Nick Train

### The manager's view: Long-term successful strategy

Train is once again thankful for FGT shareholders' patience following an infrequent, two-year, back-to-back period of underperformance, which occurred in 2021 and 2022. He describes it as a 'disagreeable experience' and is pleased that the trust's performance 'has perked up'; however, the manager explains that is not due to any change in strategy. FGT's portfolio turnover remains extremely low at around 3% per year and it has been more than three years since the latest new names, Experian and Fever-Tree, were added to the fund in early 2020; Train describes these companies as 'archetypal holdings for our strategy'. FGT's portfolio remains highly concentrated with around 20 holdings; hence the manager's comment 'it really matters what we concentrate on'.

Investment firm Lindsell Train was appointed as investment manager at the end of 2000. Train explains that since then FGT's share price total return (8.5x) has outperformed that of the US bellwether S&P 500 Index (5.7x total return in sterling terms), and suggests that 'sometimes, perhaps often, the investment approach/principles are as important to investment returns as geographic allocation'. The manager comments that the trust's strategy has generated globally

competitive returns despite the UK market being lacklustre and out of favour. He opines that 'contrary to popular perceptions, there are some truly outstanding companies listed in the UK'. Train provides some examples of these businesses that are in FGT's portfolio.

**RELX** provides proprietary data sets and algorithms, and the manager believes it is one of the finest growth businesses available worldwide that happens to be listed in the UK. Since the start of 2000 to 24 April 2023, the company generated a total return of 10.8x compared with the technology-heavy NASDAQ Composite Index's 4.8x total return; this constitutes 'serious long-term value creation' says Train. Having invested in RELX over the last 20 years, the manager notes that he cannot remember a time when there were no concerns about technology disrupting the company's business. Current threats from artificial intelligence (AI) are envisaged, but like prior technologies Train believes these concerns will prove groundless. He says that AI has been described as 'like taking advice from an ill-informed drunk uncle; RELX has serious users, and they will not use ill-informed information'. The manager suggests that AI is actually contributing to the company's accelerated growth. RELX is one of the largest UK-listed businesses, and 'the best decades could be ahead of, rather than behind the company', adds Train.

The manager explains that **London Stock Exchange Group (LSE)** outperformed the NASDAQ Composite Index from the end of 2011 to the end of March 2023, rising by 12.3x versus 6.6x. LSE is more than 300 years old, leading Train to comment that you do not have to invest in novelty businesses to generate attractive returns. In December 2022, Microsoft announced a strategic joint venture with LSE, taking a meaningful stake, and is now the company's fifth-largest shareholder with a 4%+ holding. The manager says that this development is part of an observable trend for US and other global investors to take larger stakes in UK companies. Examples in the portfolio include Diageo, where two of its largest shareholders are Bill Gates (co-founder of Microsoft) and Berkshire Hathaway (industry veteran Warren Buffett has been the company's chairman and CEO since 1965). Bill Gates is also one of Heineken's largest shareholders.

Train believes that **Burberry Group** is a rare company with a global resilient luxury brand. Interbrand is the world's leading brand consultancy. Eight out of its 100 most valuable brands in 2022 were luxury brands, one of which was Burberry, which, according to the manager, is an example of the value of heritage brands. Illustrating the company's impressive pricing power, in 1879 it invented gabardine, which was used during the first world war; in 1916, a trench coat cost three guineas, whereas now a modern version costs £1,790. Train comments that there is so much negativity surrounding Burberry. However, when the company listed its shares in 2002, its annual revenues were c £500m versus an estimated £3bn for 2023, while since the initial public offering, Burberry's shares have generated a 17.4x total return versus 4.3x for the All-Share Index.

The manager reports that **Fever-Tree's** US growth slowed in 2022, due to difficulties sourcing some of its input products. However, the company still has a very impressive US sales growth trajectory of c 32% per year between 2015 and 2023e. Train considers that it is better to take a margin hit from higher input costs while continuing to introduce Fever-Tree's products to as many Americans as possible. He highlights that competitor Canada Dry has admitted that there is no ginger in its ginger ale, while Fever-Tree uses natural ingredients. The manager believes that Fever-Tree will be one of the UK's great brands. One of its directors, Jeff Popkin, successfully built up the Red Bull franchise; he bought around \$400k of Fever-Tree stock at the October 2022 share price nadir.

Train concludes by emphasising the benefits of buying and holding a good company, even if it is listed in the UK. He also provides two quotes from industry veteran Charlie Munger of Berkshire Hathaway: 'it is much harder to have common sense than is generally thought'; and 'there is no better teacher than history in determining the future. There are answers worth billions of dollars in a history book'.

## Current portfolio positioning

At 30 April 2023, FGT's top 10 holdings made up 84.3% of the fund, which was a modest increase compared with 83.2% 12 months earlier; nine positions were common to both periods. A notable change year-on-year is a 3.6pp higher weighting in Burberry Group.

**Exhibit 2: Top 10 holdings (at 30 April 2023)**

| Company                        | Country     | Sector                 | Portfolio weight % |                |
|--------------------------------|-------------|------------------------|--------------------|----------------|
|                                |             |                        | 30 April 2023      | 30 April 2022* |
| RELX                           | UK          | Consumer discretionary | 12.2               | 12.5           |
| Diageo                         | UK          | Consumer staples       | 10.7               | 12.7           |
| London Stock Exchange Group    | UK          | Financials             | 10.6               | 10.1           |
| Burberry Group                 | UK          | Consumer discretionary | 10.0               | 6.4            |
| Unilever                       | UK          | Consumer staples       | 9.0                | 8.0            |
| Mondelēz International         | US          | Consumer staples       | 7.3                | 9.9            |
| Sage Group                     | UK          | Technology             | 6.4                | 6.0            |
| Experian                       | UK          | Industrials            | 6.3                | 5.2            |
| Schroders                      | UK          | Financials             | 6.2                | 6.7            |
| Heineken                       | Netherlands | Consumer staples       | 5.6                | N/A            |
| <b>Top 10 (% of portfolio)</b> |             |                        | <b>84.3</b>        | <b>83.2</b>    |

Source: FGT, Edison Investment Research. Note: \*N/A where not in April 2022 top 10.

FGT only has exposure to five industry sectors (Exhibit 3). Areas where it has a zero weighting make up c 38% of the benchmark; the largest of which are healthcare and energy, which each represent more than 11% of the index. The trust's largest overweight positions are consumer staples (+25.1pp) and consumer discretionary (+13.0pp). Over the 12 months to end April 2023, the largest changes are a lower weighting in consumer staples (-4.2pp) and a higher allocation to consumer discretionary stocks (+3.5pp).

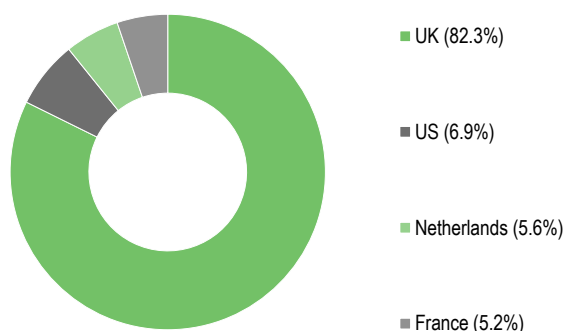
Train describes FGT's portfolio as a 'collection of exceptional businesses'. At the end of March 2023, its exposures were 41% digital winners, 31% luxury/premium products, 21% beloved/trusted brands with pricing power and 7% market proxies. While the majority of the fund is UK companies, there are three stocks that make up FGT's c 18% overseas exposure: Mondelēz International (c 7%, US), Heineken (c 6%, the Netherlands) and Rémy Cointreau (c 5%, France).

**Exhibit 3: Portfolio sector exposure versus benchmark**

| % unless stated        | 30 April 2023 | Benchmark    | Active weight (pp) |
|------------------------|---------------|--------------|--------------------|
| Consumer staples       | 40.7          | 15.6         | 25.1               |
| Consumer discretionary | 24.7          | 11.8         | 13.0               |
| Financials             | 21.9          | 22.3         | (0.4)              |
| Technology             | 6.4           | 1.1          | 5.3                |
| Industrials            | 6.3           | 11.4         | (5.1)              |
| Telecommunications     | 0.0           | 1.6          | (1.6)              |
| Real estate            | 0.0           | 2.6          | (2.6)              |
| Utilities              | 0.0           | 3.7          | (3.7)              |
| Basic materials        | 0.0           | 7.2          | (7.2)              |
| Energy                 | 0.0           | 11.4         | (11.4)             |
| Healthcare             | 0.0           | 11.6         | (11.6)             |
|                        | <b>100.0</b>  | <b>100.0</b> |                    |

Source: FGT, Edison Investment Research

**Exhibit 4: Geographic exposure at 31 March 2023**



Source: FGT, Edison Investment Research

## Performance: Getting back on track

Since Train took over the management of FGT at the beginning of 2001, the fund has outperformed its benchmark in the majority of calendar years, and 2021 and 2022 were only the second back-to-back years of underperformance. Data from the company show that during Train's tenure to

31 March 2023, FGT has generated an average annual share price total return of 9.4%, which is 4.3pp higher than the benchmark's 5.1% average annual total return.

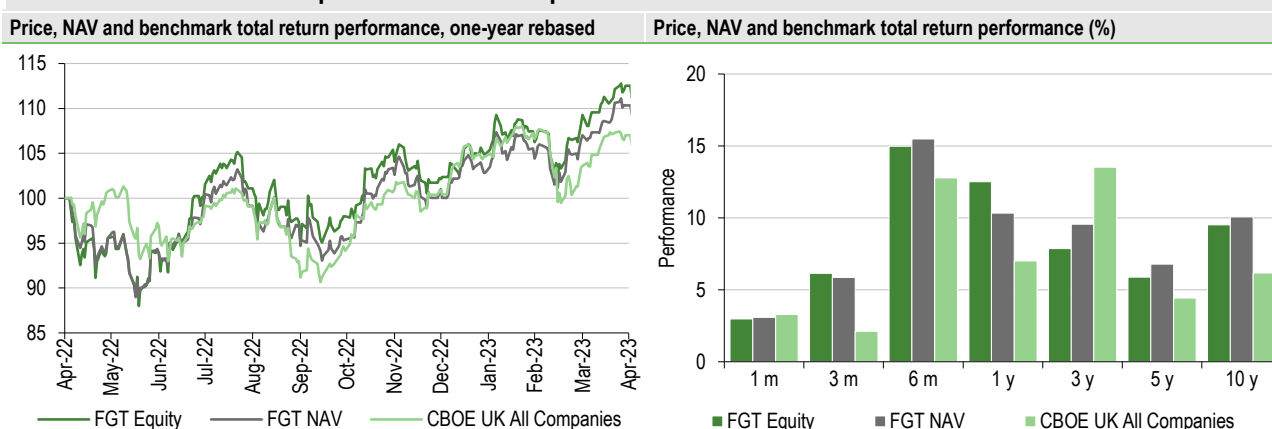
#### Exhibit 5: Five-year discrete performance data

| 12 months ending | Share price (%) | NAV (%) | CBOE UK All Companies (%) | CBOE UK 350 (%) | MSCI World (%) |
|------------------|-----------------|---------|---------------------------|-----------------|----------------|
| 30/04/19         | 17.1            | 16.3    | 2.5                       | 2.5             | 13.1           |
| 30/04/20         | (9.4)           | (9.2)   | (17.2)                    | (17.1)          | (0.2)          |
| 30/04/21         | 19.3            | 18.7    | 25.3                      | 25.1            | 33.0           |
| 30/04/22         | (6.5)           | 0.4     | 9.1                       | 9.1             | 6.9            |
| 30/04/23         | 12.5            | 10.3    | 7.0                       | 7.1             | 3.6            |

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

FGT recently released its H123 results (to end March). Its NAV and share price total returns of +12.3% and +12.5% respectively compare to the benchmark's +12.3% total return. The largest positive contributors to the fund's performance were Burberry Group, RELX and Schroders, while the largest detractors were Diageo, Hargreaves Lansdown and Rémy Cointreau.

#### Exhibit 6: Investment trust performance to 30 April 2023



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

FGT's relative returns are shown in Exhibits 7 and 8. The trust's performance is improving following a difficult period between October 2020 and June 2022, when investors generally favoured inexpensive cyclical stocks and growth stocks de-rated in a rising interest rate environment. The trust has now outperformed its benchmark over the last one, five and 10 years, while lagging over the last three years.

#### Exhibit 7: NAV total return performance relative to benchmark over 10 years



Source: Refinitiv, Edison Investment Research

**Exhibit 8: Share price and NAV total return performance, relative to indices (%)**

|                                         | One month | Three months | Six months | One year | Three years | Five years | 10 years |
|-----------------------------------------|-----------|--------------|------------|----------|-------------|------------|----------|
| Price relative to CBOE UK All Companies | (0.3)     | 3.9          | 1.9        | 5.1      | (14.2)      | 7.2        | 36.5     |
| NAV relative to CBOE UK All Companies   | (0.2)     | 3.7          | 2.4        | 3.1      | (10.1)      | 11.8       | 43.6     |
| Price relative to CBOE UK 350           | (0.3)     | 3.9          | 1.9        | 5.1      | (14.2)      | 7.1        | 37.6     |
| NAV relative to CBOE UK 350             | (0.2)     | 3.6          | 2.4        | 3.0      | (10.0)      | 11.8       | 44.7     |
| Price relative to MSCI World            | 2.8       | 5.7          | 11.5       | 8.6      | (14.8)      | (19.9)     | (17.5)   |
| NAV relative to MSCI World              | 2.9       | 5.4          | 12.0       | 6.5      | (10.7)      | (16.4)     | (13.2)   |

Source: Refinitiv, Edison Investment Research. Note: Data to end-April 2023. Geometric calculation.

## Peer group comparison

There are four funds in the 20-strong AIC UK Equity Income sector with market caps above £1bn; FGT is considerably larger than those ranking third and fourth. The trust is unique, having the most concentrated portfolio spread across just five of the 11 industry sectors ranging from consumer staples (c 40%), through consumer discretionary and financials, and down to industrials and technology (both c 6%). FGT's NAV total returns rank very highly over the last 12 months (first), the last five years (third) and the last decade (first), while sitting near the bottom of the pack over the last three years. On 19 May 2023, FGT's discount was broadly in line with the sector average, and just four funds were trading at a premium. The trust has a competitive ongoing charge and a considerably lower-than-average level of gearing. Given FGT's focus on capital growth, unsurprisingly it has the lowest dividend yield (2.0% compared with the 4.5% sector average).

**Exhibit 9: Peer group at 19 May 2023\***

| % unless stated                  | Market cap £m | NAV TR 1 year | NAV TR 3 year | NAV TR 5 year | NAV TR 10 year | Discount (ex-par) | Ongoing charge | Perf. fee | Net gearing | Dividend yield |
|----------------------------------|---------------|---------------|---------------|---------------|----------------|-------------------|----------------|-----------|-------------|----------------|
| Finsbury Growth & Income         | 1,877.6       | 14.2          | 23.6          | 30.1          | 142.3          | (3.8)             | 0.6            | No        | 102         | 2.0            |
| abrdn Equity Income Trust        | 157.7         | (6.6)         | 31.4          | (13.2)        | 37.5           | (0.4)             | 0.9            | No        | 112         | 6.8            |
| BlackRock Income and Growth      | 39.4          | 7.8           | 38.8          | 17.9          | 83.3           | (11.9)            | 1.2            | No        | 106         | 3.9            |
| Chelverton UK Dividend Trust     | 35.5          | (4.5)         | 73.1          | (8.8)         | 99.8           | (1.2)             | 2.0            | No        | 149         | 7.1            |
| City of London                   | 2,060.6       | 3.2           | 38.6          | 17.3          | 71.6           | 2.3               | 0.4            | No        | 107         | 5.1            |
| CT UK Capital and Income         | 330.2         | 5.7           | 44.8          | 12.5          | 78.6           | (2.2)             | 0.6            | No        | 107         | 3.8            |
| CT UK High Income Units          | 107.1         | 6.0           | 28.9          | 5.2           | 46.9           | (8.6)             | 1.0            | No        | 109         | 4.9            |
| Diverse Income Trust             | 313.2         | (13.0)        | 16.8          | 3.7           | 96.3           | (3.7)             | 1.1            | No        | 100         | 4.4            |
| Dunedin Income Growth            | 449.2         | 12.0          | 29.5          | 30.0          | 69.7           | (2.9)             | 0.6            | No        | 107         | 4.3            |
| Edinburgh Investment             | 1,114.9       | 8.7           | 52.2          | 12.4          | 70.6           | (7.0)             | 0.5            | No        | 107         | 3.8            |
| Invesco Select UK Equity         | 111.6         | 0.6           | 48.4          | 18.1          | 95.1           | (13.7)            | 0.7            | No        | 106         | 4.4            |
| JPMorgan Claverhouse             | 410.6         | 3.8           | 38.7          | 7.7           | 71.1           | (3.1)             | 0.7            | No        | 110         | 5.0            |
| Law Debenture Corporation        | 1,068.5       | 2.7           | 64.5          | 33.2          | 119.9          | 2.4               | 0.5            | No        | 114         | 3.5            |
| Lowland                          | 335.0         | 3.4           | 48.9          | (1.0)         | 56.5           | (8.4)             | 0.6            | No        | 114         | 4.9            |
| Merchants Trust                  | 833.5         | 1.2           | 69.4          | 26.9          | 79.8           | 1.6               | 0.6            | No        | 111         | 4.8            |
| Murray Income Trust              | 980.3         | 8.8           | 33.4          | 31.6          | 77.6           | (7.3)             | 0.5            | No        | 107         | 4.2            |
| Schroder Income Growth           | 215.3         | 4.3           | 48.6          | 17.0          | 85.2           | (0.1)             | 0.7            | No        | 111         | 4.3            |
| Shires Income                    | 81.6          | (0.1)         | 33.0          | 17.1          | 73.7           | 1.6               | 1.0            | No        | 122         | 5.2            |
| Temple Bar                       | 701.3         | 2.7           | 60.0          | 1.2           | 42.0           | (5.1)             | 0.5            | No        | 109         | 4.1            |
| Troy Income & Growth             | 185.5         | 1.9           | 11.8          | 9.8           | 62.2           | (1.3)             | 0.9            | No        | 102         | 2.8            |
| <b>Simple average (20 funds)</b> | <b>570.4</b>  | <b>3.1</b>    | <b>41.7</b>   | <b>13.4</b>   | <b>78.0</b>    | <b>(3.6)</b>      | <b>0.8</b>     |           | <b>111</b>  | <b>4.5</b>     |
| <b>Trust rank in peer group</b>  | <b>2</b>      | <b>1</b>      | <b>18</b>     | <b>3</b>      | <b>1</b>       | <b>13</b>         | <b>8</b>       |           | <b>18</b>   | <b>20</b>      |

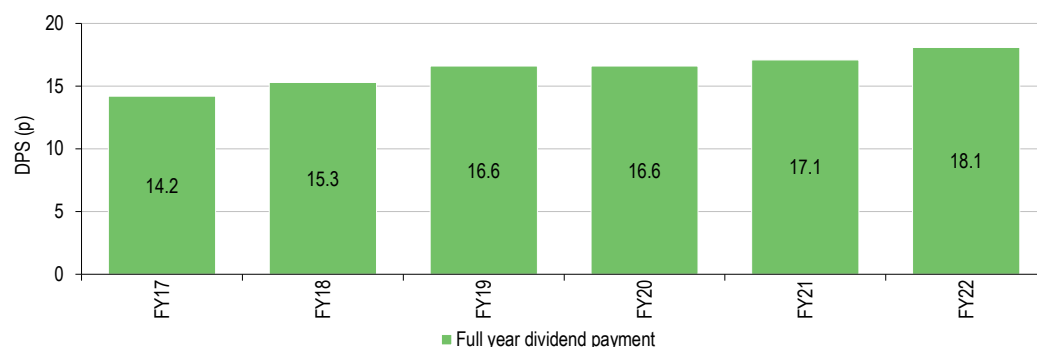
Source: Morningstar, Edison Investment Research. Note: \*Performance data to 18 May 2023 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

## Dividends: Progressive distribution policy

During Train's tenure, FGT's annual dividend has increased from 3.2p per share in FY01 to 18.1p per share in FY22, which represents a c 6% compound annual growth rate. The trust's board aims to grow the annual dividend at a rate above the level of UK inflation or, in periods of lower income receipts, to at least maintain the total distribution.

FGT pays semi-annual interim dividends in May and November. In FY22, the trust's 20.6p per share revenue return was 13.8% higher year-on-year, while its 18.1p per share FY22 annual dividend, which was 1.1x covered, was 5.8% higher than 17.1p per share in FY21. At the end of FY22, FGT had revenue reserves of c £55.9m, which is equivalent to c 1.4x the last annual dividend. So far in FY23, an interim dividend of 8.5p per share has been announced, which is 2.4% higher year-on-year.

**Exhibit 10: Dividend history since FY17**



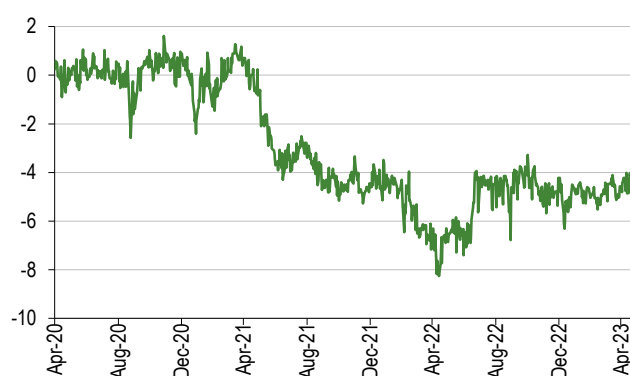
Source: Bloomberg, Edison Investment Research

## Valuation: Discount in a narrowing trend

Prior to Q221, FGT's shares typically traded close to NAV. However, since then, the trust's valuation has been more volatile, although the discount has narrowed over the past year, which corresponds to an improvement in FGT's relative performance.

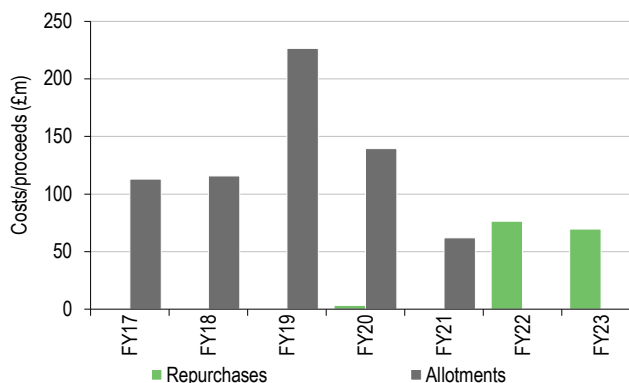
The 4.0% share price discount to cum-income NAV is at the narrow end of the 3.3% to 8.3% range of discounts over the last 12 months. Over the last one, three, five and 10 years the trust traded at average discounts of 5.1%, 3.0%, 1.7% and 0.6% respectively. Once FGT's relative performance is restored, there is potential for the trust to be afforded a higher valuation.

**Exhibit 11: Discount over three years (%)**



Source: Refinitiv, Edison Investment Research

**Exhibit 12: Buybacks and issuance**



Source: Morningstar, Edison Investment Research

Since 2004, FGT's board has actively managed the trust's discount/premium by repurchasing shares when the discount exceeds 5% and issuing shares at a small premium when there are unfulfilled buy orders in the market.

In FY22, no shares were issued, while c 9.3m shares were repurchased (c 4.1% of the share base) at an average discount of 5.5% and a cost of c £76.5m. So far in FY23, a further c 8.0m shares were repurchased (c 3.7% of the share base) at a cost of c £69.5m.

## Fund profile: Concentrated, high-conviction portfolio

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FGT was launched on 15 January 1926 and is listed on the Main Market of the London Stock Exchange. Boutique investment firm Lindsell Train was appointed as the trust's manager in December 2000, and since January 2001 the fund has been managed by one of its co-founders, Nick Train, who has more than 40 years of investment experience. He aims to achieve capital and income growth and a total return above that of the broad UK stock market from a concentrated portfolio of primarily UK companies.

The trust's policy is to invest principally in the securities of companies either listed in the UK or otherwise incorporated, domiciled or having significant business operations within the UK, while a maximum of 20% of the portfolio, at the time of acquisition, can be invested in companies not meeting these criteria. In practice, this means the holding in Manchester United, which is listed on the New York Stock Exchange but is essentially a UK business, is classified as within the UK by FGT rather than within the US. The trust's portfolio will normally comprise up to 30 investments. This level of concentration and the fund's overseas exposure mean performance can vary significantly from that of the benchmark. FGT's investment guidelines restrict it to a maximum of 15% of its NAV, at the time of investment, in a single issuer (excluding the holding in Frostraw Capital, which is the trust's Alternative Investment Fund Manager), and ordinarily, 50–100% of the fund will be invested in the largest 100 UK companies or comparable companies listed on overseas stock exchanges, and at least 70% will be invested in the largest 350 UK companies or their overseas equivalents. Up to 25% of gross assets may be invested in preference shares, bonds and other debt instruments, but they are generally not held, and no more than 10% of any one issue may be held. While up to 10% of gross assets may be in cash, the manager prefers to remain fully invested. Gearing of up to 25% of NAV is permitted.

## Investment process: Very long-term holding periods

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Train focuses on growth businesses with high-quality management teams that he believes are trading at a discount to their intrinsic value and can be held for the long term, thereby reducing the drag of transaction costs. FGT's concentrated portfolio currently has 19 holdings (excluding a position in Frostraw Capital). Historical portfolio turnover of c 3.0% per year implies a more than 30-year holding period. For reasons of prudence, once a position reaches 10% of the fund it is not added to and is actively reduced if it reaches 12.5%. At end April 2023, FGT's active share was 85.3% (a measure of how a fund differs from its benchmark, with 100% representing no commonality and 0% full index replication).

The manager seeks companies with the following attributes:

- durability – businesses that can grow over the long term, regardless of the economic cycle;
- a high return on equity; and
- low capital intensity and high cash flow generation that can support sustained dividend growth.

Train favours well-established firms (the average age of portfolio companies is c 150 years) and around half of FGT's portfolio companies have a large family ownership. Overseas holdings in the portfolio are businesses that cannot be accessed in the UK, such as Rémy Cointreau with its exposure to premium cognac. The manager highlights three rules of thumb used in selecting portfolio companies: if a company's products taste good, buy the shares (FGT's holdings include AG Barr, Diageo, Heineken, Mondelēz, Rémy Cointreau and Unilever); the world will never be bored of being informed or entertained (London Stock Exchange, RELX and Manchester United); and the professionals are always too cautious about the stock market, which creates opportunities for those investors with a more constructive view.

## FGT's approach to ESG

Lindsell Train invests for the very long term, which it characterises as responsible investing. Train is chairman of the company's ESG committee. He stresses the importance of this element of the investment process in terms of how capital is allocated. Given that Lindsell Train's managers invest with a 10+ year view, Train says it is crucial that they focus on companies that meet or are ahead of consumer/societal changing attitudes and behaviours, and has always encouraged companies to pre-empt and respond to any ESG-related issues. The managers have long-term partnerships with investee companies, often taking meaningful stakes, which encourages constructive dialogue. Discussions increasingly surround the risks and opportunities posed by ESG issues (including climate change). The managers have a series of ESG questions that they ask all investee companies and there are generally a half-dozen critical issues at each company that can be discussed at each engagement. FGT's board does not believe it is currently appropriate to set its own quantitative ESG targets for investee companies; however, ESG issues are discussed at every board meeting.

Lindsell Train's investment approach leads it to focus on certain sectors, while avoiding capital-intensive industries such as energy and materials and those that it judges are detrimental to society and may have regulatory or litigation risks that could negatively affect financial returns, including tobacco or weapons manufacturers. The firm actively votes on all investee company resolutions and votes against or abstains where dialogue has not proved effective. Lindsell Train is a signatory of the United Nations Principles for Responsible Investment. For more detailed information on FGT's approach to ESG, please visit its [website](#).

## Gearing

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Since 4 October 2022, FGT has had a three-year secured, fixed-term, £60m multi-currency revolving credit facility (plus an option of an additional £40m), with Scotiabank Europe. At end H123, £36.7m was drawn down. Train employs modest levels of gearing as the trust's concentrated fund already brings an element of risk.

## Fees and charges

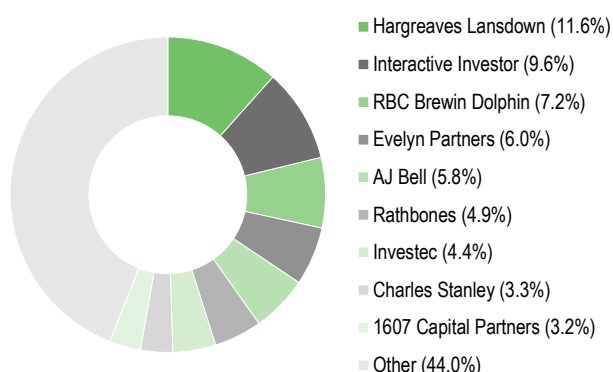
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FGT's management fees and finance costs are allocated 75% to the capital account and 25% to the revenue account, reflecting the board's view about the trust's longer-term allocation of total returns between capital and income. Lindsell Train receives an annual fee of 0.450% of FGT's market cap up to £1bn, 0.405% between £1bn and £2bn and 0.360% above £2bn (no performance fee is payable). Frostrow Capital is the trust's Alternative Investment Fund Manager, providing company management, secretarial, administrative and marketing services, and receives an annual fee of 0.150% of FGT's market cap up to £1bn, 0.135% between £1bn and £2bn and 0.120% above £2bn. In H123, the trust's ongoing charges were 0.61%, which is just 1bp higher than 0.60% in FY22.

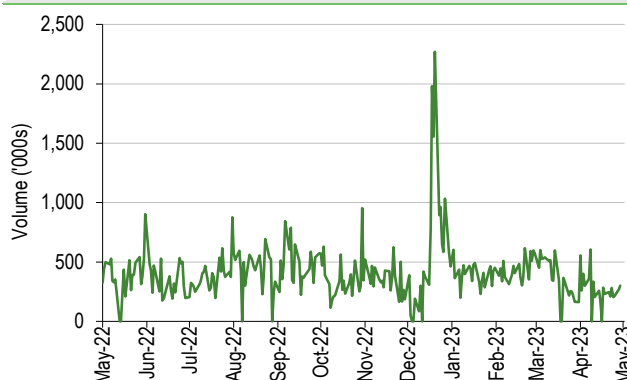
## Capital structure

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FGT is a conventional investment trust with one class of share; there are currently 207.7m ordinary shares outstanding. Its average daily trading volume over the last 12 months was c 420k shares.

**Exhibit 13: Major shareholders**


Source: FGT. Note: At 30 April 2023.

**Exhibit 14: Average daily volume**


Source: Refinitiv. Note: 12 months to 18 May 2023.

## The board

FGT's newest director, Pars Purewal, was elected by shareholders at the January 2023 AGM following his appointment on 28 November 2022. His broad investment sector experience was gained over a 38-year career at PricewaterhouseCoopers, including 25 years as a partner across the firm's audit and advisory, people, sales and UK asset management teams. Purewal is a fellow of the Institute of Chartered Accountants in England and Wales, a non-executive director of The Law Debenture Corporation and Temple Holdings and the chair of trustees for the Beyond Food Foundation. He was formerly on the boards of Brewin Dolphin Holdings and Federated Hermes.

On 1 October 2022, the directors' fees increased as follows: chairman +£1k to £41k; chair of the audit committee +£1k to £33k; and other directors +£1k to £27k.

**Exhibit 15: FGT's board of directors in FY22**

| Board member                                  | Date of appointment | Remuneration in FY22 | Shareholdings at end-FY22 |
|-----------------------------------------------|---------------------|----------------------|---------------------------|
| Simon Hayes (chairman since 17 February 2021) | 29 June 2015        | £40,000              | 150,000                   |
| Kate Cornish-Bowden                           | 26 October 2017     | £26,000              | 9,061                     |
| Lorna Tilbian                                 | 26 October 2017     | £26,000              | 11,500                    |
| Sandra Kelly (senior independent director)*   | 9 October 2019      | £32,000              | 8,096                     |
| James Ashton                                  | 14 October 2020     | £26,000              | 1,027                     |

Source: FGT. Note: \*Sandra Kelly is chair of the audit committee.

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