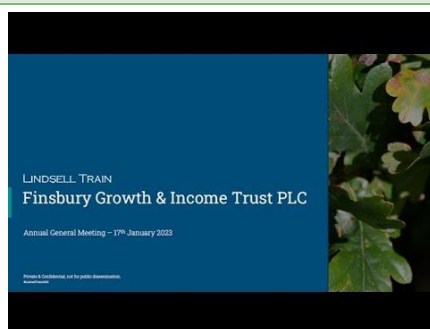


Finsbury Growth & Income Trust

Confidence in long-term successful strategy

Finsbury Growth & Income Trust (FGT) has been managed by Nick Train for more than two decades. The trust's 2021 and 2022 underperformance should be put into perspective, as during his tenure, the manager has outperformed FGT's UK benchmark in 18 out of 22 years. Train is adhering to his long-term strategy of investing in high-quality companies that can grow regardless of the economic cycle, have high returns and low capital intensity, and can generate strong cash flows to support dividend growth. The trust's historical annual portfolio turnover is around 3%, illustrating that the manager really does have a long-term perspective. FGT's standing within the AIC UK Equity Income sector is commendable, with its NAV total return ranking first out of 20 funds over the last decade and third over the last five years, while its shorter-term rankings are also improving.

FGT's AGM held on 17 January 2023



Source: FGT

The analyst's view

Although Train is disappointed with FGT's performance over the last two years, he nevertheless must be encouraged by the trust's longer-term record. Over the last decade, FGT's 10.8% and 10.2% annual NAV and share price total returns respectively are considerably ahead of the broad UK market's 6.6% annual total return. The manager has courage in his own convictions as evidenced by the trust's concentrated portfolio of around 20 holdings based around four themes: digital winners, luxury & premium goods, eternal brands and private wealth managers. Train is confident that FGT's absolute and relative performance can improve without changing his long-term strategy or the structure of the trust's portfolio. The last new holding in the fund, data analytics and credit rating company Experian, was purchased more than two years ago.

Scope for a narrower discount

There is scope for FGT to be afforded a higher valuation once its relative performance further improves, as typically its shares traded close to NAV (in normal market conditions). Its 5.0% discount compares with a 0.4–5.2% range of average discounts over the last one, three, five and 10 years. FGT's board employs a progressive distribution policy; over the last five years its dividend has compounded at an annual rate of c 5.0%. The trust offers a 2.1% dividend yield.

Investment trusts
UK equities

27 January 2023

Price 864p
Market cap £1,824m
Total assets £2,063m

NAV* 909.3p
Discount to NAV 5.0%

*Including income. At 25 January 2023.

Yield 2.1%

Ordinary shares in issue 211.1m

Code/ISIN FGT/GB0007816068

Primary exchange LSE

AIC sector UK Equity Income

52-week high/low 882.0p 734.0p

NAV* high/low 923.5p 791.7p

*Including income

Net gearing* 1.9%

*At 31 December 2022.

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

- FGT is experiencing a difficult period of absolute and relative performance.
- 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.

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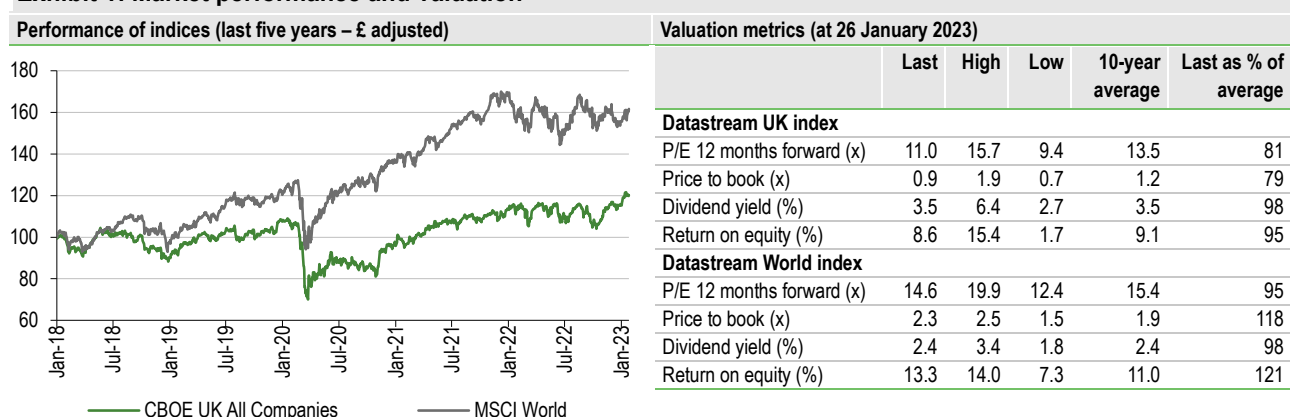
Finsbury Growth & Income Trust is a research client of Edison Investment Research Limited

Market outlook: Backdrop likely to remain uncertain

As shown in Exhibit 1 (left-hand side), a difficult macroeconomic backdrop in 2022 caused above-average levels of stock market volatility. Uncertainty has continued into 2023, and the consensus view is for a slowdown in global growth, with some countries at risk of entering a recession. Corporate margins are under pressure from rising input costs, including labour, muted demand given elevated living costs, and higher interest rates as central banks try to combat above-target levels of inflation.

UK stocks have lagged the performance of the global market over the last five years, although in recent quarters, the UK has benefited from its very modest weighting to technology companies, which have performed relatively poorly in a rising interest rate environment. It should be remembered that the UK stock market does not equate to the UK economy as the majority of revenues of the larger domestic companies are generated overseas; the UK is home to a range of leading worldwide businesses that may be underappreciated by global investors. Illustrated in Exhibit 1 in the table below, on a forward P/E multiple basis, the Datastream UK Index is trading at a c 25% discount to the Datastream World Index and a not-insignificant c 20% discount to its 10-year average. Perhaps now is an opportune time to consider an allocation to high-quality, reasonably valued UK companies with long-term growth potential and pricing power that can navigate the current backdrop of higher input costs and an uncertain demand outlook.

Exhibit 1: Market performance and valuation



Source: Refinitiv, Edison Investment Research

The fund manager: Nick Train

The manager's view: Focus on firms with inflation protection

Train starts his AGM presentation by thanking FGT's investors for their patience, which has been called upon given that 2022 was the second-consecutive year that the trust underperformed its benchmark. FGT's share price is below the all-time high point achieved in Q319 and the manager states that the trust's investment performance is not satisfactory; he sincerely hopes that things turn for the better soon. Train does not believe that changes to the portfolio are needed to see better share price returns.

It has been more than two years since the manager added a new name to FGT's portfolio; Experian is a multinational data analytics and consumer credit reporting company. He continues to apply teachings from the two world-renowned Berkshire Hathaway investors: Warren Buffett – 'Time is the friend of the wonderful company and the enemy of the mediocre company' and Charlie Munger – 'You don't make money when you buy, and you don't make money when you sell. You make money

when you wait.' Train approaches the challenge of successful investing by holding a portfolio of 'wonderful' companies and waiting. He says that one is 'prone to find that over time wonderful things happen to your wealth'.

The manager remains very optimistic about FGT's prospects. His conviction is based on the belief that the trust's portfolio is populated with, at the very least, 'very robust companies' and that the majority are 'truly wonderful companies'. Train suggests that 2022 was a challenging year for the global economy. However, 94% by value of FGT's portfolio is made up of companies that raised their dividends in 2022, including double-digit increases from some of FGT's largest and most strategic holdings such as Burberry Group, London Stock Exchange Group, Mondelēz International and RELX. The manager notes that, more importantly, 85% of the portfolio is made up of companies that also repurchased shares or paid a special dividend in 2022, on top of increasing their regular dividends. He says that only robust companies can do both and FGT's portfolio is largely made up of these very strong businesses.

Anecdotes about portfolio companies

Train loves relaying stories about the businesses he is invested in, as he says these are confirmation that FGT's portfolio companies are getting stronger each year. In December 2022, London Stock Exchange announced a joint venture with Microsoft, which will buy around a 4% stake in the company. On the morning of the announcement, the manager received an email from one of FGT's shareholders, which said 'massive'. Train says that the joint venture is a massive endorsement of London Stock Exchange's strategy and of the calibre of its assets, especially its data assets. He believes that the deal makes London Stock Exchange a stronger company.

The manager highlights his biggest disappointment/embarrassment in 2022. When it was added to FGT's portfolio, Fevertree Drinks' (Fever-Tree) share price had declined by 60%. Train thought he was very clever when he started accumulating shares in the company; however, they have continued to fall. The manager says that what happens next is what matters, but 2022 was a challenging year for Fever-Tree. A sharp increase in logistics and bottling costs, especially in the US, hurt the company's profitability. However, Train says that it is important not to lose sight of Fever-Tree's underlying US business momentum; sales in the country increased by an estimated 25% in 2022, and annual consumption of its products has grown by c 30% since 2015. The manager says that Fever-Tree's brand is getting stronger, which he considers is significant. One of the company's non-executive directors is Jeff Popkin, a US citizen who helped build the Red Bull brand in the US. In September 2022, around the low point in Fever-Tree's share price, Popkin bought c \$400k of the company's stock. Train hopes that Fever-Tree can continue to grow in the US and expand into other countries.

The importance of inflation protection

Madeline Wright, a deputy fund manager at Lindsell Train, discusses inflation and its negative effects on the value of people's investments. While the deputy is not making predictions about the level of inflation going forward, she says that a significant part of the value that a company can generate is its ability to protect its asset values from inflation, while continuing to grow its business. Wright highlights that in the 50 years to 2022, prices have risen 7x in the US, 14x in the UK and 3x in Japan, despite its deflationary forces. The price of a Rolling Stones concert ticket rose from \$6.50 in 1972 to \$556 in 2021; it is the same band, so has generated serious inflation protection. This evergreen content is very valuable, comments the deputy, likening it to the potential of one of FGT's holdings, Manchester United.

Wright notes that Heineken has been in the trust's portfolio for more than a decade. She says that it is a resilient brand with pricing power underpinning the company's growth. In the US, it was the first imported beer post prohibition in 1933. Since then, the price of Heineken's beer has increased by

18x compared to US inflation at 11x. Two other examples of FGT's portfolio brands that have outpaced US inflation are Johnnie Walker whisky and Rémy Martin cognac, whose prices have risen by 21x over the same period. The holders of these three brands, Heineken, Diageo and Rémy Cointreau, make up more than 20% of the fund. Heineken's business is protected by its premium brand. The company's volumes are growing both organically and via acquisitions, and between 1989 and 2021 its revenues increased by 9x and its operating margin expanded by more than 50%. From October 1989 to end-2022, Heineken's shares generated a total return of 54x compared with 12x for the MSCI World index. The deputy suggests that Heineken is a good example of Buffett's observation about good companies growing over time. She questions whether the company's growth can continue, but Heineken's last reported quarter saw premium beer volumes increase by 15% y-o-y and overall pricing by 13%, so the future looks bright.

Pricing power and its ability to protect asset values and support growth is considered in all categories of consumer stocks. Wright focuses on Burberry, which makes up more than 8% of FGT's portfolio. In 1916, a Burberry trench coat cost three guineas, which compares to the current price of £1,790; this has easily beaten the rate of UK inflation over the period. In the 20 years since the company listed, it has expanded across the globe with revenues increasing by more than 5x and operating profits by more than 6x. The deputy considers that Burberry's success can continue in the future. She says that inflation protection is also relevant for increasing the value of companies that help their customers to understand and process volumes of data.

Wright considers that RELX has a unique and valuable collection of scientific, legal and risk data. In 1950, the global volume of medical research was doubling every 50 years; however, by 2020 it was doubling every 73 days. RELX's migration to higher-value/higher-margin decision tools and analytics is another form of price protection, which is also apparent at Experian and London Stock Exchange. The company has moved from being a publisher to an analytics provider. Between 2000 and 2022, its subscription revenue increased from 39% to 58% of the total, its print revenues have declined from 64% to 6% and its operating margin has increased by 45%. More than 50% of RELX's revenues are from high-value decision tools and analytics. Its products are sticky, mission critical and deeply embedded in customers' workflows. Its business renewal rate exceeds 90% and the higher number of tools provides upselling potential to existing customers, and opportunities for attracting new customers.

Train says that Guinness is a very important brand for FGT. It is the second-biggest brand owned by the trust's second-largest holding, Diageo. Since 1900, the price of a pint of plain Guinness has significantly outpaced the increase in the gold price, illustrating another example of inflation proofing in FGT's portfolio that extraordinary brands can offer. He says that Guinness is a rare and very valuable asset.

Putting successful decisions into perspective

Train questions how much wealth is at stake in getting investment decisions right. The manager highlights the best-performing subsector in the UK market between 1900 and 2015. A £1 investment in alcoholic beverages in 1900 would have grown to more than £240k, which is very much higher than a £1 investment in the UK market, which would have grown to c £30k – an example of the powerful combination of inflation protection and secular growth. Train also notes that since 1 January 2000, the capital value of the broad UK market has grown by around 30%, the MSCI World index (in pounds sterling terms) by c 2.5x and Diageo by c 7.0x; the company 'keeps on walking', he adds. The manager wishes our new monarch well and he believes that the stability of the UK monarchy has created value for UK investors over time. Over the 70 years of Queen Elizabeth II's reign, he says, the value of UK equities increased by 2,500x versus inflation at just 20x, which the manager finds deeply reassuring. Despite the current pessimism around the UK economy and stock market, Train believes that sound UK companies can continue to protect savers' capital against inflation and generate wealth for investors.

Current portfolio positioning

At 31 December 2022, FGT's top 10 holdings made up 82.9% of the fund, which was a modest increase compared with 81.3% 12 months earlier; nine positions were common to both periods.

Exhibit 2: Top 10 holdings (at 31 December 2022)

Company	Country	Sector	Portfolio weight %	
			31 December 2022	31 December 2021*
RELX	UK	Consumer discretionary	11.5	12.1
Diageo	UK	Consumer staples	11.5	12.5
London Stock Exchange Group	UK	Financials	9.6	8.0
Unilever	UK	Consumer staples	9.4	7.9
Burberry Group	UK	Consumer discretionary	8.6	6.8
Mondelēz International	US	Consumer staples	7.8	8.9
Experian	UK	Industrials	6.5	N/A
Sage Group	UK	Technology	6.4	6.6
Schroders	UK	Financials	6.4	7.7
Rémy Cointreau	France	Consumer staples	5.2	5.9
Top 10 (% of portfolio)			82.9	81.3

Source: FGT, Edison Investment Research. Note: *N/A where not in December 2021 top 10.

FGT has no exposure to six industry sectors, which together make up c 40% of the benchmark. These include healthcare and energy, which each represent more than 11% of the index. As shown in Exhibit 3, the trust's largest overweight positions are consumer staples (+26.2pp) and consumer discretionary (+12.7pp). Over the 12 months to end-December 2022, the largest changes are a higher weighting in consumer discretionary (+7.7pp), which was more than offset by a lower weighting to consumer staples stocks (-8.8pp).

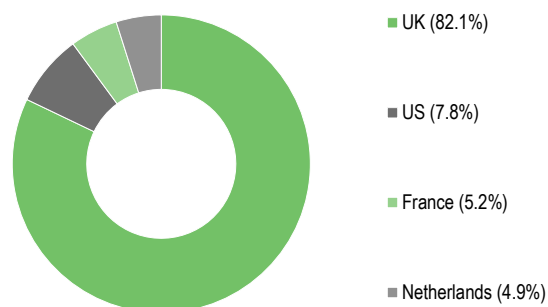
There are three stocks that make up FGT's c 18% overseas exposure: Mondelēz International (US), Rémy Cointreau (France) and Heineken (the Netherlands).

Exhibit 3: Portfolio sector exposure versus benchmark

% unless stated	31 Dec 2022	Benchmark	Active weight (pp)
Consumer staples	42.2	16.0	26.2
Consumer discretionary	23.1	10.4	12.7
Financials	21.8	22.4	(0.6)
Industrials	6.5	10.8	(4.3)
Technology	6.4	1.3	5.1
Telecommunications	0.0	1.5	(1.5)
Real estate	0.0	2.6	(2.6)
Utilities	0.0	3.5	(3.5)
Basic materials	0.0	8.9	(8.9)
Energy	0.0	11.2	(11.2)
Healthcare	0.0	11.6	(11.6)
	100.0	100.0	

Source: FGT, Edison Investment Research

Exhibit 4: Geographic exposure at 31 December 2022



Source: FGT, Edison Investment Research

Performance: Commendable longer-term results

Exhibit 5: Five-year discrete performance data

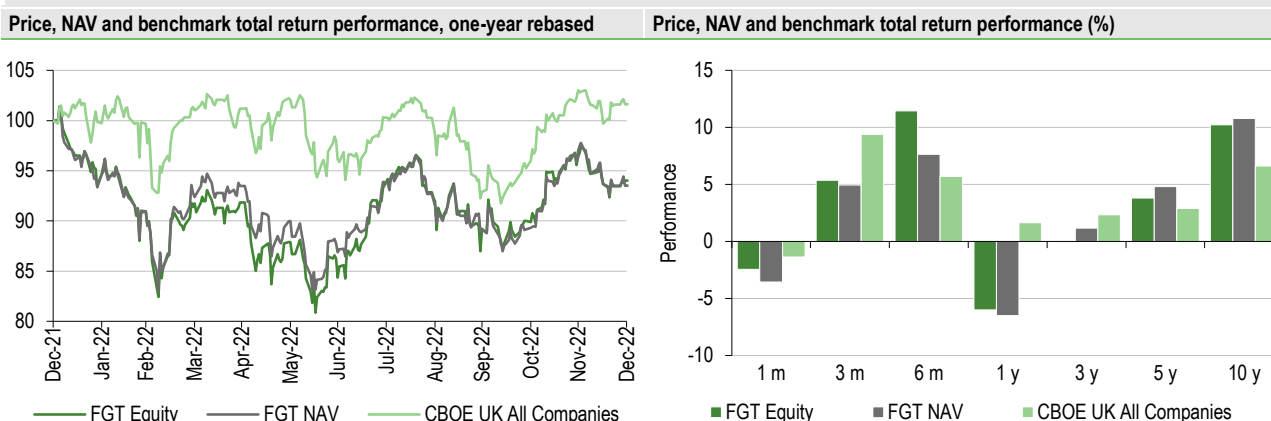
12 months ending	Share price (%)	NAV (%)	CBOE UK All Companies (%)	CBOE UK 350 (%)	MSCI World (%)
31/12/18	(0.9)	(0.8)	(9.8)	(9.8)	(2.5)
31/12/19	21.8	23.1	19.3	19.3	23.4
31/12/20	(0.7)	(2.0)	(10.9)	(10.9)	12.9
31/12/21	6.9	13.0	18.4	18.3	23.5
31/12/22	(6.0)	(6.5)	1.6	1.7	(7.4)

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

The manager stresses the importance of ‘having skin in the game’ by aligning his interests with those of other shareholders. As reported on 25 January 2023, Train now owns c 4.9m of FGT’s shares, which is equivalent to c 2.3% of the fund. This is the whole of his personal investment in Lindsell Train’s UK equity strategy and is a significant portion of his total assets.

In the 22 calendar years that Train has been managing FGT, he has outperformed the benchmark in 18 of them. Data from the company show that over his tenure, the trust has generated an annual share price total return of 9.2%, compared with the benchmark’s 5.0% annual total return.

Exhibit 6: Investment trust performance to 31 December 2022



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

During FY22 (ending 30 September) FGT’s NAV and share price total returns of -5.8% and -5.6%, respectively, trailed the benchmark’s -4.7% total return. The trust outperformed in the second half of the financial year, but this was insufficient to offset the first half’s underperformance.

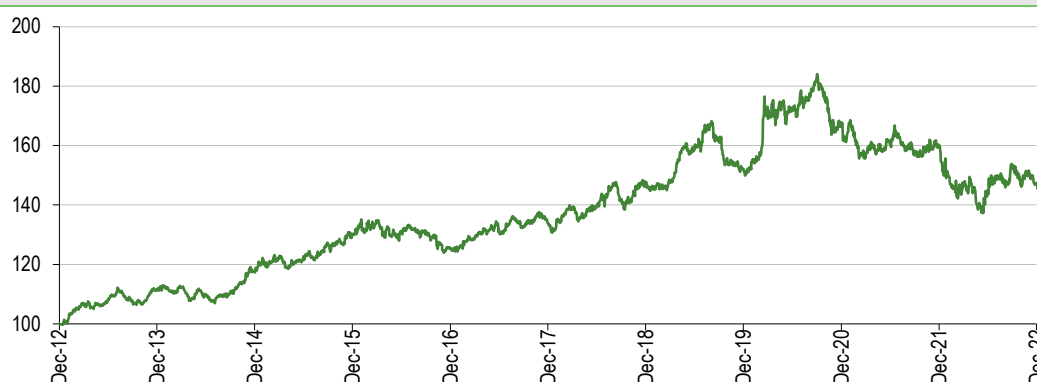
Train explains that the best contributors to FGT’s FY22 returns include Diageo, Heineken, Mondelēz and Sage. He notes that these are well-regarded companies with reputations for generating predictable cash flows from brands or business franchises that are likely to remain robust in all but the worst economic circumstances. The manager also highlights the relative strength in the share prices of two large portfolio holdings that announced changes in senior management, namely Burberry and Unilever; shareholders may be anticipating changes in business strategies or ownership. Positions that were detrimental to FGT’s FY22 performance include the holdings in domestic UK wealth management companies Hargreaves Lansdown and Schroders. Despite growing their businesses, measured by higher customer numbers or assets under management, sentiment towards the UK wealth management industry and the UK stock market remains poor.

Exhibit 7: 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	(1.1)	(3.7)	5.4	(7.5)	(6.9)	4.5	39.6
NAV relative to CBOE UK All Companies	(2.2)	(4.1)	1.8	(8.0)	(3.4)	9.6	46.8
Price relative to CBOE UK 350	(1.1)	(3.7)	5.4	(7.6)	(6.9)	4.5	41.0
NAV relative to CBOE UK 350	(2.2)	(4.1)	1.8	(8.1)	(3.4)	9.6	48.2
Price relative to MSCI World	2.9	3.3	6.9	1.5	(22.7)	(22.5)	(20.4)
NAV relative to MSCI World	1.7	2.9	3.3	0.9	(19.8)	(18.7)	(16.3)

Source: Refinitiv, Edison Investment Research. Note: Data to end-December 2022. Geometric calculation.

As shown in Exhibit 8, FGT has suffered a period of relative underperformance since early October 2020, which has negatively affected its longer-term performance record. Nevertheless, the trust has outperformed the broad UK market over the last five and 10 years in both NAV and share price terms. Over the last decade, FGT has generated annual NAV and share price total returns of 10.8% and 10.2% respectively, which compares with a 6.6% annual UK market total return.

Exhibit 8: NAV total return performance relative to benchmark over 10 years


Source: Refinitiv, Edison Investment Research

Peer group comparison

Exhibit 9: Peer group at 23 January 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	1,826.5	(0.2)	6.7	32.0	172.5	(5.4)	0.6	No	102	2.1
abrdn Equity Income Trust	166.3	(1.2)	(1.8)	(5.0)	68.3	(3.5)	0.9	No	114	6.5
BlackRock Income and Growth	40.5	4.1	9.6	17.8	93.8	(9.6)	1.2	No	103	3.7
Chelverton UK Dividend Trust	39.5	(13.9)	1.2	(5.2)	139.8	4.5	2.0	No	146	6.2
City of London	2,029.2	3.8	8.2	18.5	97.6	2.0	0.4	No	107	4.7
CT UK Capital and Income	327.3	(4.7)	(1.5)	13.3	92.5	(1.9)	0.6	No	107	3.8
CT UK High Income Units	105.8	(2.7)	(2.1)	5.2	64.7	(10.7)	1.0	No	102	5.0
Diverse Income Trust	331.0	(12.1)	11.0	13.7	132.3	(5.2)	1.1	No	100	4.2
Dunedin Income Growth	435.9	(1.6)	4.4	24.6	86.0	(3.4)	0.6	No	106	4.4
Edinburgh Investment	1,114.6	1.9	10.7	10.5	97.1	(7.6)	0.5	No	109	3.8
Invesco Select UK Equity	114.8	(3.9)	11.2	18.7	135.2	(12.7)	0.7	No	100	4.1
JPMorgan Claverhouse	419.8	(3.2)	2.3	10.7	100.2	(4.7)	0.7	No	108	4.6
Law Debenture Corporation	1,044.1	(2.6)	25.4	35.7	146.3	2.1	0.5	No	112	3.6
Lowland	333.0	(6.2)	1.0	0.1	75.6	(10.2)	0.6	No	112	4.9
Merchants Trust	821.3	1.6	20.4	35.0	111.7	0.7	0.6	No	111	4.7
Murray Income Trust	984.3	(0.9)	5.8	27.3	97.9	(7.8)	0.5	No	108	4.3
Schroder Income Growth	218.1	5.8	11.2	21.5	111.3	(0.0)	0.7	No	113	4.2
Shires Income	82.4	(2.8)	5.8	17.3	105.0	(0.6)	1.0	No	122	5.2
Temple Bar	746.0	(1.0)	(3.5)	6.5	70.5	(6.2)	0.5	No	108	3.5
Troy Income & Growth	193.1	(6.1)	(7.1)	6.7	77.7	(2.0)	0.9	No	102	2.8
Simple average (20 funds)	568.7	(2.3)	5.9	15.2	103.8	(4.1)	0.8		110	4.3
Trust rank in peer group	2	6	9	3	1	13	9		17	20

Source: Morningstar, Edison Investment Research. Note: *Performance data to 20 January 2023 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

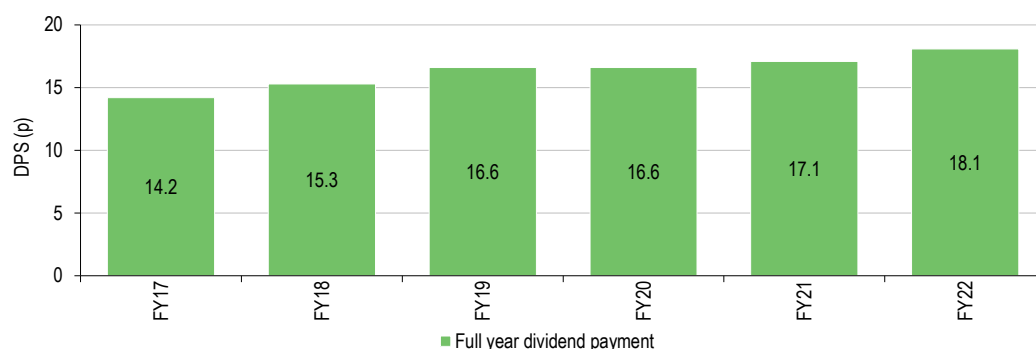
FGT is the second-largest fund in the 20-strong AIC UK Equity Income sector. The trust's important differentiating feature is its highly concentrated portfolio spread over just five of the 11 industry sectors: consumer discretionary, consumer staples, financials, industrials and technology. FGT's NAV total returns are above average over all periods shown, ranking sixth over the last year, ninth over three years, third over five years and first over the last decade, with a meaningful 26.2pp higher return than the second-ranked fund and 68.7pp above the sector mean.

On 23 January 2023, FGT was trading at a 5.4% discount, which was modestly wider than the sector average (three funds were trading at a premium). It has a competitive ongoing charge and a lower-than-average level of gearing. Given the trust's focus on capital growth, it has the lowest dividend yield, less than half the sector mean.

Dividends: Growing annual distributions

FGT's board employs a progressive policy, aiming to grow the trust's 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. The trust pays semi-annual interim dividends in May and November. In FY22, FGT's revenue return per share of 20.6p was 13.8% higher than 18.1p in FY21. The 18.1p FY22 annual dividend (1.1x covered) grew 5.8% y-o-y. Over the last five years, FGT's annual distribution has compounded at an annual rate of c 5.0%. At the end of FY22, FGT had revenue reserves of c £55.9m, which is equivalent to c 1.4x the last annual dividend. Based on its current share price, the trust offers a 2.1% dividend yield.

Exhibit 10: Dividend history since FY17

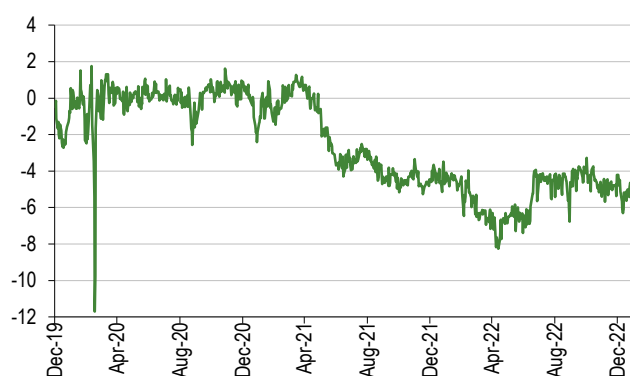


Source: Bloomberg, Edison Investment Research

Valuation: Improved performance may narrow discount

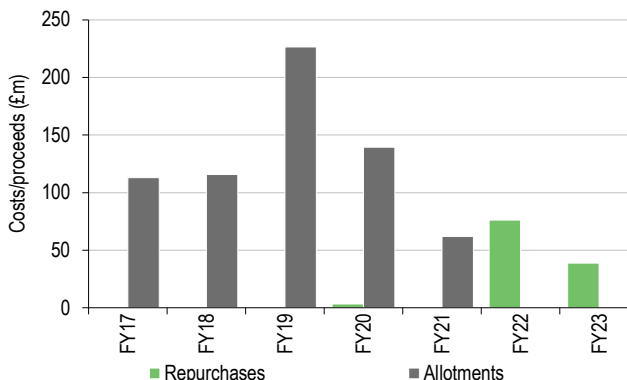
FGT's shares historically traded close to NAV; however, coinciding with a period of relative underperformance, the trust now trades at a discount. The 5.0% share price discount to cumulative NAV compares with the 3.3–8.3% range of discounts over the last 12 months. Over the last one, three, five and 10 years the trust traded at average discounts of 5.2%, 2.6%, 1.4% and 0.4% respectively. There is potential for FGT's valuation to improve if its relative performance returns to its historical form.

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 £76.0m.

Fund profile: Concentrated, high-conviction portfolio

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 15% of its NAV, at the time of investment, in a single issuer (excluding the holding in Frostrow 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 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

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 Frostrow Capital). Historical portfolio turnover of 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-December 2022, FGT's active share was 85.6% (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 that 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

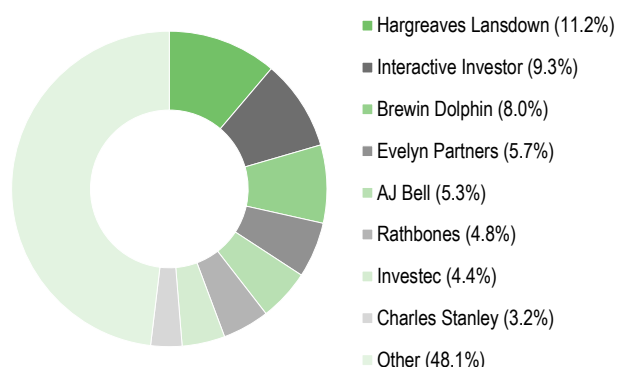
At end-FY22, FGT had a three-year secured, fixed-term £50m multi-currency revolving credit facility with Scotiabank Europe, of which £36.7m was drawn down. On 4 October 2022, the facility expired and was rolled over for a further three years and increased to £60m with the option of an additional £40m. Train employs modest levels of gearing as FGT's concentrated fund already brings an element of risk. At end-December 2022, FGT's net gearing was 1.9%.

Fees and charges

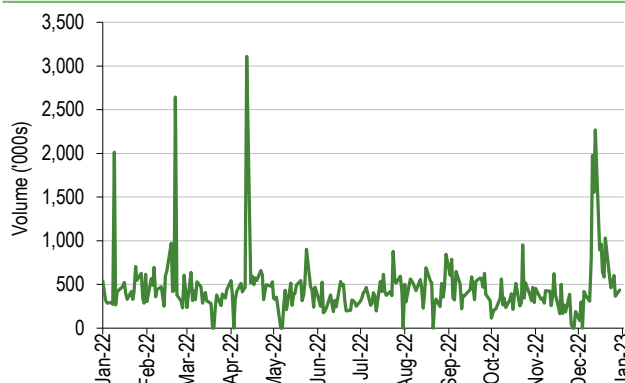
Since 1 October 2021, FGT's management fees and finance costs are allocated 75% to the capital account and 25% to the revenue account, reflecting the board's view about FGT's longer-term allocation of total returns between capital and income. Lindsell Train receives an annual fee of 0.450% of FGT's market 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 FY22, the trust's ongoing charges were 0.60%, which is a 2bp reduction from 0.62% in FY21.

Capital structure

FGT is a conventional investment trust with one class of share; there are currently 211.1m ordinary shares outstanding. Its average daily trading volume over the last 12 months was c 465k shares.

Exhibit 13: Major shareholders


Source: FGT. Note: At 31 December 2022.

Exhibit 14: Average daily volume


Source: Refinitiv. Note: 12 months to 26 January 2022.

The board

There is a new director on FGT's board; Pars Purewal was appointed on 28 November 2022 and elected by shareholders at the January 2023 AGM. He has broad investment sector experience 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, 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.

From 1 October the directors' fees increased as follows: chairman +£1k to £41k; chair of the audit committee +£1k to £33; 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 Comish-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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