EDISON

Finsbury Growth & Income Trust

Hopeful for better relative UK market performance

Investment trusts
UK equities

27 May 2022

Finsbury Growth & Income Trust (FGT) is managed by Nick Train, one of the founding partners of boutique investment firm Lindsell Train. While he is disappointed by the fund's underperformance over the last 18 months, the manager emphasises that when things improve, it will not be due to a change in strategy or in the top positions, which all have multi-year holding periods. Train believes that there is potential for a relative catch-up by UK stocks given their significant underperformance compared with US and global indices, and the fact that the UK is home to a number of leading worldwide businesses that trade at a discount to their global peers.

Presentation at Frostrow conference (May 2022)

Source: FGT

The analyst's view

Despite a period of relative underperformance, FGT has delivered attractive absolute NAV and share price total returns of 12.3% pa and 11.5% pa, respectively, over the last decade versus 7.2% pa for the benchmark. The trust offers investors a concentrated portfolio of 22 names based around four themes: digital winners (c 40% of the portfolio), luxury & premium goods (c 30%), eternal brands (c 21%) and private wealth managers (c 9%). Train employs a very disciplined buy-and-hold strategy (portfolio turnover of c 4% pa) focusing on high-quality companies that he believes have superior long-term earnings and dividend growth potential due to their unique brands and franchises. There are three overseas businesses represented in the portfolio: Mondelēz International (US), Rémy Cointreau (France) and Heineken (the Netherlands).

An opportune time to consider FGT?

Typically, over the last decade, FGT's shares have generally traded close to the fund's NAV (in normal market conditions) helped by an active programme of share issuance and repurchases. However, following an 18-month period of relative underperformance, the trust's shares are currently trading at a 6.3% discount to cum-income NAV. This may be an opportune time for investors to revisit a fund that has a clearly defined strategy of investing in high-quality growth stocks, especially given the manager's very creditable long-term history of outperformance versus the broad UK and other developed markets.

NOT INTENDED FOR PERSONS IN THE EEA

Price		**783p**
Market cap		**£1,738m**
AUM		**£1,918m**
NAV*		835.7p
Discount to NAV		6.3%
*Including income. As at 19 May 2022.		
Yield		2.2%
Ordinary shares in issue		221.9m
Code/ISIN		FGT/GB0007816068
Primary exchange		LSE
AIC sector		UK Equity Income
52-week high/low	930.0p	756.0p
NAV* high/low	968.7p	798.5p
*Including income		
Net gearing*		1.4%
*As at 30 April 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

- Going through a tough period of performance due to a change in market leadership.
- 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 more than 20 years.

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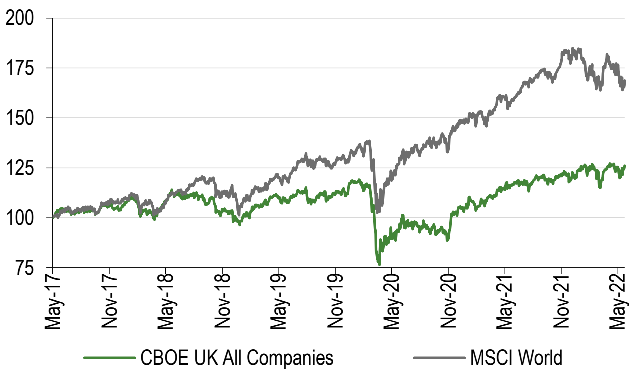
Finsbury Growth & Income Trust is a research client of Edison Investment Research Limited

Market outlook: Tread carefully

The global investment backdrop appears to be particularly uncertain in 2022 as market participants are having to grapple with rampant inflation (a new phenomenon for many investors), rising interest rates, war in Ukraine and the threat of recession as consumer real incomes are squeezed. The significant underperformance of UK versus global equities over the last five years is shown in Exhibit 1 (left-hand side), and UK shares remain relatively attractively valued. On a forward P/E multiple basis, the Datastream UK Index is trading at a c 22% discount to the Datastream World Index (Exhibit 1, right-hand side), which may mean that the UK market is poised for a relative catch-up given the 10-year historic average of c 12%. Due to its low weighting to technology stocks, the UK has escaped the brutal sell-off in this sector, which has been negatively affected by higher investor risk aversion and rising interest rates, which reduce the present value of growth companies' long-term cash flows. The uncertain backdrop and stock market volatility could well continue for some time, so investors may benefit from taking a cautious approach and focusing on high-quality, reasonably valued companies with attractive long-term growth profiles that can navigate an environment of rising input costs.

Exhibit 1: Market performance and valuation

Performance of indices (last five years – £ adjusted)



Valuation metrics (at 26 May 2022)

	Last	High	Low	10-year average	Last as % of average
Datastream UK index					
P/E 12 months forward (x)	11.2	15.7	9.4	13.4	83
Price to book (x)	1.0	1.9	0.7	1.2	79
Dividend yield (%)	3.7	6.4	2.7	3.5	106
Return on equity (%)	10.1	14.8	0.8	8.9	113
Datastream World index					
P/E 12 months forward (x)	14.2	20.0	10.6	15.3	93
Price to book (x)	2.3	2.6	1.4	1.9	119
Dividend yield (%)	2.3	3.4	1.8	2.4	94
Return on equity (%)	13.8	14.0	7.2	10.8	127

Source: Refinitiv, Edison Investment Research

The fund manager: Nick Train

The manager's view: Potential for relative UK outperformance

Train says that FGT's performance over the last 18 months 'has not met his expectations' and he is 'sorry for that'; he sincerely hopes that the trust's performance will improve soon. When this occurs, the manager says that it will not be due to a change in strategy or the company's top holdings. Train is keen to remind investors of the four investment tenets that he has employed when managing FGT over the 'last 22 years and counting':

- A concentrated portfolio – currently 22 holdings with the top 10 representing more than 80% of the fund.
- Low portfolio turnover – long-term average of around 4.0% pa.
- A handful of industrial/thematic ideas that have generated 'wonderful returns for patient investors'.
- A sincere attempt to invest in what are considered to be, according to Lindsell Train's analysis, 'outstanding businesses'. Although the manager admits that sometimes he makes a mistake about the calibre of a business, which makes him 'very sad'.

Focusing on FGT's weighted average return metrics, the manager highlights that the fund's return on capital is 15.5% and its return on equity is 29.0%. He explains that, over the short term, there is little correlation between the level of a company's returns and its share price performance. Within FGT's portfolio, the company with the highest return on capital is Hargreaves Lansdown (50%); however, according to Train, its share price has been 'diabolical' over the last two years; he believes that, over time, there should be a convergence between a company's high, sustainable capital returns and its share price.

The manager bemoans the performance of the UK stock market, which has generated a capital return of +29.2% between 31 December 1999 and 31 March 2022, which he says is 'woefully lower' than the capital return of the S&P 500 Index (+279.2%) and the MSCI World Index (+164.3%) over this period. Train does not know if the UK will be the best performing developed market going forward, but he considers it plausible that after a long period of disaffection by both global asset allocators and domestic retail investors, the UK can perform relatively better. He considers that there are mispriced assets within the UK stock market, citing the following examples. Burberry Group is trading on a 13x forward P/E multiple compared with 29x for Italy-based Moncler, while Hargreaves Lansdown is trading on 15x compared with 22x for US-based Charles Schwab. The enterprise value of Schroders versus its assets under management (which have grown by 10% pa over the last five years) is 0.9% compared with 1.9% at US-based T. Rowe Price, while Sage Group's enterprise value/revenues is 4.0x compared with 10.0x for US-based Intuit and 14.5x for New Zealand-based Xero. The manager suggests that Sage is making progress; getting closer to its competitors than the valuation differentials imply. While the last 18 months have been disappointing for Train, he comments that he is a 'bit proud' of his 20+ year record of managing FGT and over this time he has also outperformed the S&P 500. The manager opines that 'someone will make a lot of money by investing in beaten-up, unloved UK companies' and hopes that he will participate in this anticipated recovery.

Current portfolio positioning

Exhibit 2: Top 10 holdings (as at 30 April 2022)

			Portfolio weight %	
Company	**Country**	**Sector**	**30 April 2022**	**30 April 2021***
Diageo	UK	Consumer staples	12.7	10.8
RELX	UK	Consumer discretionary	12.5	9.8
London Stock Exchange Group	UK	Financials	10.1	8.6
Mondelēz International	US	Consumer staples	9.9	8.3
Unilever	UK	Consumer staples	8.0	8.8
Schroders	UK	Financials	6.7	8.2
Burberry Group	UK	Consumer discretionary	6.4	8.0
Sage Group	UK	Technology	6.0	5.1
Rémy Cointreau	France	Consumer staples	5.7	N/A
Experian	UK	Industrials	5.2	N/A
Top 10 (% of portfolio)			**83.2**	**79.3**

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

At end-April 2022, FGT's top 10 holdings made up 83.2% of the portfolio, which was a higher concentration compared with 79.3% a year before; eight positions were common to both periods. In the 12 months to end-April 2022, the largest changes in the trust's sector exposure were lower weightings in consumer staples (-4.6pp) and financials (-2.7pp), with higher weightings in consumer discretionary (+3.3pp) and industrials (+3.1%).

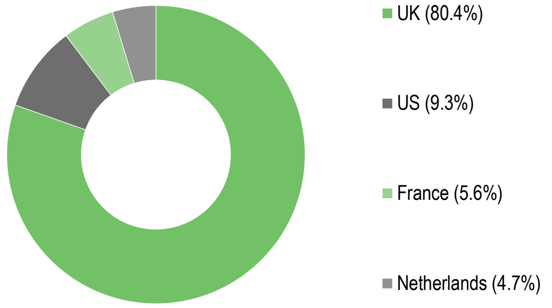
There are four broad themes represented within FGT's portfolio, which Train believes are highly likely to make money for the trust's shareholders in future years: digital winners (c 40% of the portfolio), luxury & premium goods (c 30%), eternal brands (c 21%) and private wealth managers (c 9%). The manager suggests that he will not be able to meet his performance aspirations unless he invests in digital winning/transformational companies or businesses providing luxury, premium or aspirational brands; hence, these two 'buckets' make up the majority of the fund. He notes that within the private wealth management arena, the recent takeover bid for Brewin Dolphin by the Royal Bank of Canada demonstrates the scale of the opportunities available in this sector. FGT holds positions in two strategic established wealth managers: Rathbones and Schroders.

Exhibit 3: Portfolio sector exposure versus benchmark

% unless stated	30 April 2022	Benchmark	Active weight (pp)
Consumer staples	44.9	15.2	29.7
Financials	22.7	21.8	0.9
Consumer discretionary	21.2	10.6	10.6
Technology	6.0	1.4	4.7
Industrials	5.2	11.8	(6.6)
Telecommunications	0.0	2.1	(2.1)
Real estate	0.0	3.2	(3.2)
Utilities	0.0	3.7	(3.7)
Basic materials	0.0	8.4	(8.4)
Energy	0.0	10.3	(10.3)
Healthcare	0.0	11.6	(11.6)
	100.0	**100.0**	

Source: FGT, Edison Investment Research

Exhibit 4: Geographic exposure at 31 March 2022



Source: FGT, Edison Investment Research

Train points to the 'outstanding calibre' of FGT's portfolio companies. He comments on the trust's top five holdings, which together make up more than 50% of the portfolio, and refers to them as 'amazing companies' that demonstrate the essence of his investment approach.

Diageo – Train sincerely hopes that this is a core holding in everyone's mandate. He describes the company as the 'world's best alcoholic beverage company' and cannot think of another firm that offers a higher level of inflation protection. The manager believes that Diageo provides access to secular growth opportunities (similar to portfolio companies Fever-Tree and Rémy Cointreau, which is the only way in the public markets that investors can gain exposure to premium cognac); there is a global trend towards the consumption of less, but higher-quality alcohol. Diageo's largest profit pool is in the United States, but there, spirit-buying households spend just $1 per day; hence, the company believes that it has a long growth runway.

RELX – the manager says this is not just an 'outstanding London-listed' company but would be an 'outstanding business quoted anywhere in the world'. He describes it as 'an irreplaceable digital booth for a number of global industries'. As an example, Train says that the US auto (car) industry would be unable to function without RELX, as 85% of its auto insurance policies use RELX's LexisNexis Risk Solutions product.

London Stock Exchange Group (LSE) – the manager notes that over the last decade, an investment in this company would have generated a higher total return than a same-sized investment in Alphabet (Google's parent company). Train suggests that this is testament to the value of LSE's liquidity destinations, while its data is packaged and resold to almost every financial institution across the globe. In its recent earnings release, LSE's trading and banking operation (the historical Reuters terminal business) grew by 0.1% year-on-year; the manager says this is notable as it is many years since this business 'did anything else than shrink'. He suggests that this improvement illustrates the strategic logic of LSE's acquisition of Refinitiv and if the combined business continues to prosper, there is the potential for LSE's share price performance to exceed that of Alphabet's over the next 10 as well as the last 10 years.

Mondelēz International – the position entered FGT's portfolio as a result of it acquiring the trust's holding in Cadburys; Train says it has been a 'quiet winner'. Since Mondelēz's demerger from Kraft Foods in 2012, its share price has more than doubled and hit an all-time high earlier this year. In its recent quarterly earnings release, the company increased its dividend by 11% and affirmed that share repurchases would continue. In April 2022, Mondelēz announced the c $1.3bn acquisition of a Mexican confectionary business from Grupo Bimbo. According to the company, the deal will transform its operations in the high-priority Mexican market, accelerating growth and scale in its core snacking categories. The manager suggests that Mondelēz has steady predictable growth, and he is increasingly reassured about the value of the company's product portfolio.

Unilever – while the shares in this company have not performed well in recent years, the manager believes this remains an 'outstanding' quality business. Over the last 30 years, Unilever's shares have appreciated by c 7x compared with c 3x for the broad UK market, but Train acknowledges that what matters is how Unilever performs over the next 30 years. He is encouraged by the company's Q122 earnings release, which showed that the revenues of acquisitions made since 2017 grew by 14.8% year-on-year. Unilever constantly refreshes its portfolio, and the manager suggests that 'although the company has had poor press of late, maybe it is shrewder than it looks'. Recent negative headlines include its failed bid to acquire GlaxoSmithKline's consumer assets and margin pressure due to higher input costs.

Performance: Outperformance over the long term

Exhibit 5: Five-year discrete performance data

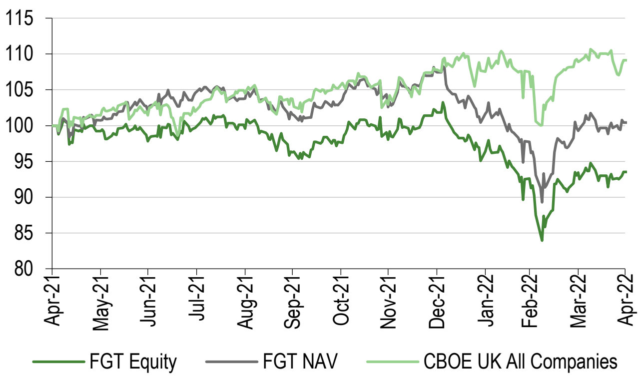
12 months ending	Share price (%)	NAV (%)	CBOE UK All Companies (%)	CBOE UK 350 (%)	MSCI World (%)
30/04/18	11.1	12.5	8.1	8.1	6.9
30/04/19	17.1	16.3	2.5	2.5	13.1
30/04/20	(9.4)	(9.2)	(17.2)	(17.1)	(0.2)
30/04/21	19.3	18.7	25.3	25.1	33.0
30/04/22	(6.5)	0.4	9.1	9.1	6.9

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

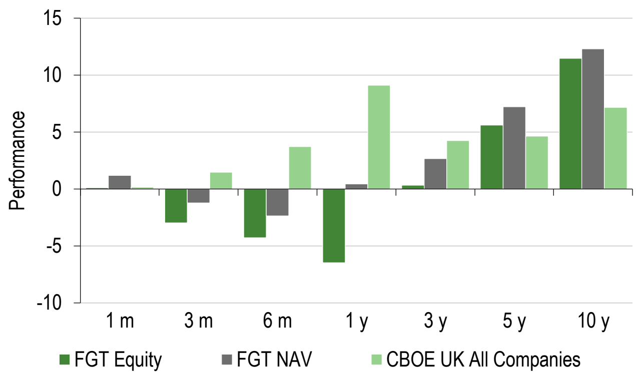
During H122 (ending 31 March) FGT's NAV and share price total returns of -2.2% and -3.0%, respectively, trailed the benchmark's +4.7% total return. Looking at the trust's top 10 holdings, the best performing stocks in H122 were Rémy Cointreau (share price +11.6%) and RELX (+11.0%), while the worst performers were Unilever (-13.7%) and Schroders (-10.1%).

Exhibit 6: Investment trust performance to 30 April 2022

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



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

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	(0.1)	(4.4)	(7.7)	(14.3)	(10.8)	4.8	48.3
NAV relative to CBOE UK All Companies	1.0	(2.6)	(5.8)	(8.0)	(4.4)	12.9	59.6
Price relative to CBOE UK 350	(0.1)	(4.4)	(7.7)	(14.3)	(10.7)	4.8	50.5
NAV relative to CBOE UK 350	1.0	(2.7)	(5.9)	(8.0)	(4.3)	13.0	62.0
Price relative to MSCI World	4.1	(1.2)	(1.4)	(12.5)	(28.8)	(23.4)	(16.7)
NAV relative to MSCI World	5.2	0.5	0.6	(6.0)	(23.7)	(17.5)	(10.3)

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

A period of relative underperformance since early October 2020 (Exhibit 8) has negatively affected FGT's long-term record. However, its performance remains ahead of that of its benchmark over the last five and 10 years in both NAV and share price terms. The manager stresses that he will continue with the trust's strategy of running a concentrated portfolio invested in 'outstanding companies', with positions held for the very long term as he believes that is the best way to generate attractive total returns for shareholders.

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

Source: Refinitiv, Edison Investment Research

Peer group comparison

Exhibit 9: Selected peer group at 26 May 2022*

% 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	1,737.6	(6.9)	0.1	27.0	218.2	(6.8)	0.6	No	101	2.2
BMO Capital & Income	340.7	(1.0)	9.1	17.7	124.1	(0.1)	0.6	No	107	3.6
City of London	1,925.1	11.1	16.4	19.6	131.3	2.4	0.4	No	108	4.6
Diverse Income Trust	377.3	(4.2)	29.0	29.2	222.9	(4.9)	1.1	No	100	3.6
Dunedin Income Growth	432.9	(5.4)	12.5	20.2	111.2	(0.3)	0.6	No	107	4.4
Edinburgh Investment	1,082.4	4.7	13.7	1.0	113.1	(7.5)	0.5	No	104	3.9
JPMorgan Claverhouse	430.5	(1.7)	11.0	16.8	139.8	(0.2)	0.7	No	113	4.5
Law Debenture Corporation	1,014.0	5.3	34.6	41.4	182.8	2.0	0.5	No	112	3.6
Lowland	335.0	(2.2)	9.1	2.6	123.5	(9.1)	0.6	No	114	4.9
Merchants Trust	767.9	14.1	40.1	41.5	155.8	1.0	0.6	No	109	4.7
Murray Income Trust	1,029.2	0.3	17.8	25.5	126.7	(3.0)	0.5	No	109	3.9
Temple Bar	777.8	3.4	5.5	7.1	99.1	(3.6)	0.5	No	108	3.5
Average (12 funds)	**854.2**	**1.5**	**16.6**	**20.8**	**145.7**	**(2.5)**	**0.6**		**108**	**4.0**
Trust rank in selected peer group	**2**	**12**	**12**	**4**	**2**	**10**	**10**		**11**	**12**

Source: Morningstar, Edison Investment Research. Note: *Performance data to 25 May 2022 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

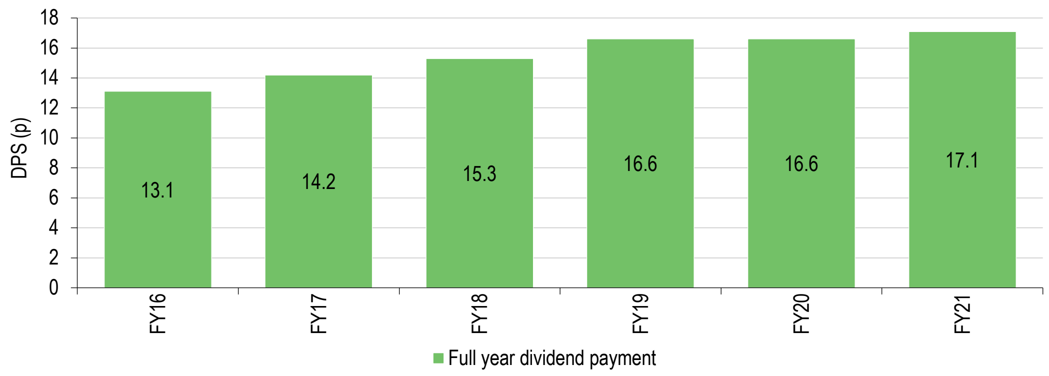
In Exhibit 9, we show the 12 largest out of the 22 funds in the AIC UK Equity Income sector. FGT has the second highest market cap, and the concentrated nature of its portfolio is an important differentiating feature. It has exposure to just five out of the 11 industry sectors: consumer discretionary, consumer staples, financials, industrials and technology. The trust's NAV total returns have typically ranked highly versus those of its peers. However, there has been a change in market leadership with investors favouring more cyclical and value names, which has caused FGT's relative rankings to decline over the medium term; it is the lowest performing fund in the selected peer group over the last 12 months and three years. Nevertheless, FGT retains its very creditable longer-term performance ranking fourth over five years (6.2pp above the mean) and second over the last decade, a not insignificant 72.5pp higher than the selected peer group average. On 26 May 2022, the trust was trading at a 6.8% discount to NAV, which was a lower valuation than the selected peer group average of a 2.5% discount (three funds were trading at a premium). It has an average ongoing charge and a below-average level of gearing. Unsurprisingly, given FGT's focus on capital return rather than income, its 2.2% dividend yield is the lowest in the group and 1.8pp below the mean.

Dividends: Progressive distribution policy

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 dividends in May and November. In H122, FGT's first interim dividend of 8.3p per share was a 3.8% increase compared with 8.0p per share in H121.

The FY21 annual dividend of 17.1p per share was 3.0% higher year-on-year and was c 1.1x covered. At the end of FY21, FGT had revenue reserves of c £49.2m, which is equivalent to c 1.3x the last annual distribution. Based on its current share price, the trust offers a 2.2% dividend yield.

Exhibit 10: Dividend history since FY16

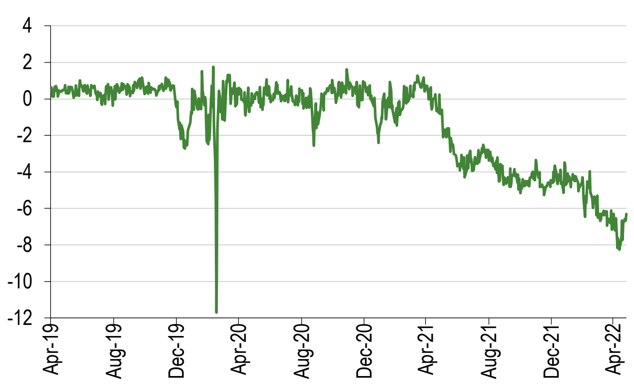


Source: Bloomberg, Edison Investment Research

Valuation: Scope for a narrower discount

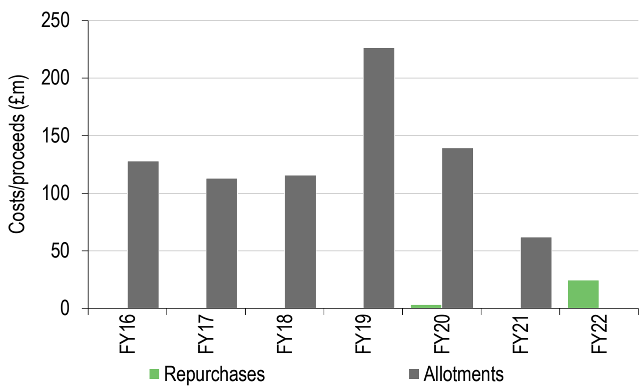
FGT's shares are currently trading at a 6.3% discount to cum-income NAV, which compares with a valuation range of a 0.7% premium to an 8.3% discount over the last 12 months. Over the last one, three and five years the trust has traded at average discounts of 4.1%, 1.4% and 0.6% respectively. There is potential for FGT to be afforded a higher valuation 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 FY21, c 7.2m shares were issued (c 3.3% of the share base) raising c £62.1m. So far in FY22, no shares have been issued, while c 3.0m have been repurchased (c 1.3% of the share base) at a cost of c £24.6m.

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 in excess of that of the broad UK stock market from a concentrated portfolio of primarily UK companies.

FGT'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. At the end of H122, the trust's geographic breakdown was: 80.4% UK, 9.3% US, 5.6% France and 4.7% the Netherlands.

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. He regularly employs a modest level of gearing (net gearing of 1.4% at end-April 2022) versus a maximum permitted 25% of NAV.

Data from FGT show that during Train's tenure of managing the fund, its NAV has compounded at an annual rate of 9.5%, which is considerably higher than the 5.2% pa return of the broad UK market; he has underperformed the trust's benchmark in just five out of 21 years (and is currently lagging the index so far in 2022). The manager has regularly stressed the importance of 'having skin in the game' by aligning his interests with those of other shareholders. At end-FY21, he held c 3.7m FGT shares (an increase of 17.7% year-on-year). This is the whole of his personal investment in Lindsell Train's UK equity strategy and is a significant portion of his total assets.

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 22 holdings. Historical portfolio turnover of 4.0% per year implies a 25-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 2022, FGT's active share was 86.3% (this is a measure of how a fund differs from its benchmark, with 100% representing no commonality and 0% representing 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

FGT has a three-year secured, fixed-term £50m multicurrency revolving credit facility with Scotiabank Europe at a rate of Libor +0.96%, which expires in October 2022. It also has an additional £50m facility if required; at 31 March 2022, £36.7m was drawn down. The manager employs modest levels of gearing as the portfolio's concentrated nature already brings an element of risk. At end-April 2022, FGT's net gearing was 1.4%.

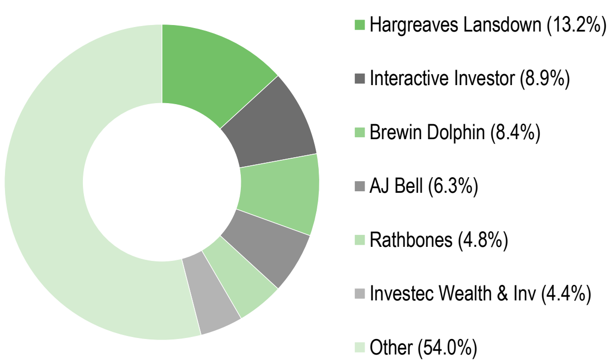
Fees and charges

Historically, FGT's management fees and finance costs were allocated 67% to the capital account and 33% to the revenue account. From 1 October 2021, the split changed to 75%:25% respectively, which reflects 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 H122, the trust's ongoing charges of 0.58% were 4bp lower than 0.62% in H121.

Capital structure

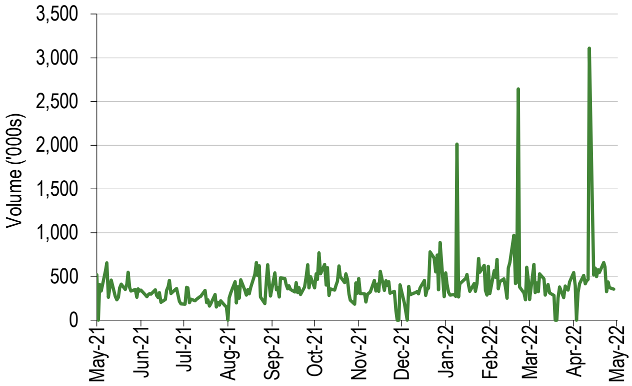
FGT is a conventional investment trust with one class of share; there are currently 221.9m ordinary shares outstanding. Its average daily trading volume over the last 12 months was c 413k shares.

Exhibit 13: Major shareholders



Source: FGT, as at 30 April 2022

Exhibit 14: Average daily volume



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

The board

Exhibit 15: FGT's board of directors

Board member	Date of appointment	Remuneration in FY21	Shareholdings at end-FY21
Simon Hayes (chairman since 17 February 2021)	29 June 2015	£34,377	100,000
Kate Cornish-Bowden	26 October 2017	£26,000	8,061
Lorna Tilbian	26 October 2017	£26,000	Nil
Sandra Kelly	9 October 2019	£32,000	5,822
James Ashton	14 October 2020	£25,133	1,008

Source: FGT

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