

Finsbury Growth & Income Trust

Optimistic on prospects for quality UK companies

Finsbury Growth & Income Trust (FGT) has been managed for the last 21 years by Nick Train, one of the founding partners of boutique investment firm Lindsell Train. He is disappointed by the trust's underperformance versus its UK benchmark in 2021, which was primarily due to a significant change in market leadership from growth to value stocks. However, the manager is encouraged that, in aggregate, UK stocks are performing better compared with global equities. He believes that there are 'many truly outstanding companies quoted on the London stock market that are at least as good as their global peers, if not better, and that those UK-quoted companies in many cases are meaningfully more-lowly valued than their global peers'. As a result, he is optimistic that FGT can continue to generate attractive total returns for shareholders in the coming years.

Video from FGT's AGM on 9 February 2022



FINSBURY GROWTH & INCOME TRUST



9th February 2022

Source: FGT

The analyst's view

While FGT delivered a below-market total return in 2021, this should be put into context. Train has lagged the broad UK market in just five of the 21 years he has been managing the trust. Over the last decade, FGT has generated absolute net asset value (NAV) and share price total returns of 13.0% pa and 12.3% pa versus 7.3% pa for the benchmark. This has been achieved by following a very disciplined buy-and-hold strategy focusing on selected high-quality companies that he believes have superior long-term earnings and dividend growth potential due to their unique brands and franchises. There are four themes represented in the trust's concentrated portfolio: digital winners (c 39% of the portfolio), luxury & premium goods (c 30%), eternal brands (c 22%) and private wealth managers (c 9%).

Scope for a narrower discount

Reflecting a period of relative underperformance, FGT's shares are currently trading at a 4.5% discount to cum-income NAV; historically, the trust has traded close to NAV (in normal market conditions) helped by an active programme of share issuance and repurchases. There is scope for a narrower discount if investors once again favour the high-quality growth stocks that are represented in FGT's portfolio. Given the manager's positive long-term track record, now may be an opportune time to revisit this well-established UK investment trust.

Investment trusts
UK equities

21 February 2022

Price 847.0p
Market cap £1,898m
AUM £2,025m

NAV* 886.8p

Discount to NAV 4.5%

*Including income. As at 17 February 2022.

Yield 2.0%

Ordinary shares in issue 224.0m

Code/ISIN FGT/GB0007816068

Primary exchange LSE

AIC sector UK Equity Income

52-week high/low 930.0p 837.0p

NAV* high/low 968.7p 846.9p

*Including income

Net gearing* 1.0%

*As at 31 January 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

- Tough period of performance in 2021 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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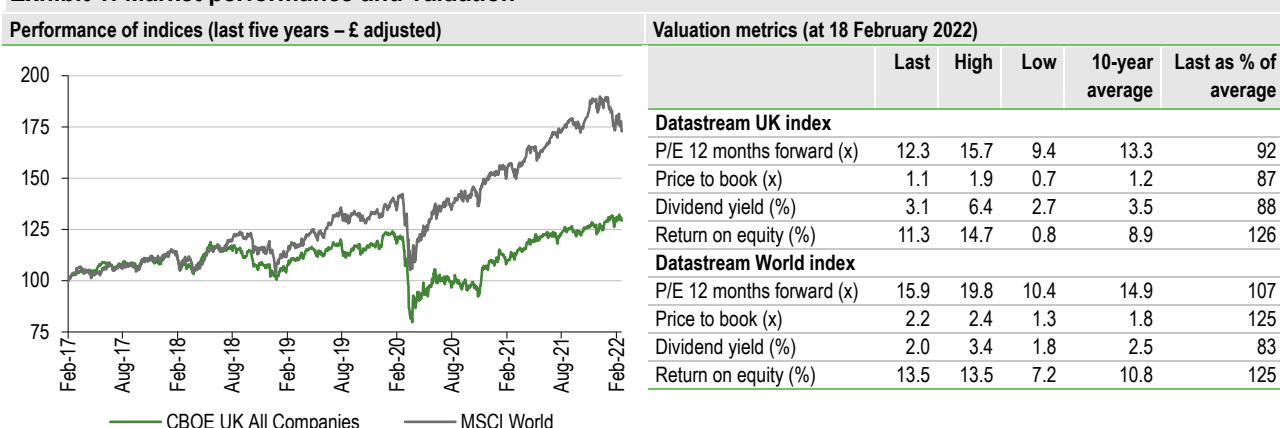
Finsbury Growth & Income Trust is a research client of Edison Investment Research Limited

Market outlook: Potentially better relative performance

As shown in Exhibit 1 (left-hand side), the performance of UK equities compared with the global market has been very disappointing. This is partly due to the lack of major technology companies in the UK; until recently, this sector has been a major driver of stock market performance, over a multi-year period, particularly in the United States, which dominates world indices (c 60%). However, investor sentiment can change very quickly as demonstrated by the MSCI World Index rolling over in 2022, while the UK market has held up relatively better. Witness the greater than 25% fall in Meta Platform's (formerly Facebook) share price following a disappointing earnings report.

The investment backdrop has changed markedly; since the global financial crisis, equities have been supported by ultra-low interest rates and many market participants have not experienced an environment, like now, of high inflation and rising interest rates. This brings the potential for higher stock market volatility and may encourage global investors to turn their attention to regions that have lagged but are still home to a selection of high-quality businesses. The UK market fits this bill and remains relatively attractively valued. The Datastream UK index is currently trading on a forward earnings multiple of 12.3x, which is an 8% discount to its 10-year average. This valuation is considerably more attractive than that of the Datastream World index, with a forward P/E multiple of 15.9x, which is a 7% premium to its average over the last decade. Perhaps 2022 is a year when UK stocks will shine on a relative basis.

Exhibit 1: Market performance and valuation



Source: Refinitiv, Edison Investment Research

The fund manager: Nick Train

The manager's view: Encouraged by a stronger UK market

While Train was disappointed that FGT's NAV total return did not keep pace with its benchmark in 2021, he is nevertheless 'delighted' that the UK stock market delivered a strong performance after a lacklustre performance in recent years. To illustrate this, the manager highlights what £1 invested 20 years ago in a variety of stock markets, with dividends reinvested, would have generated. The broad UK market would have given you £3.37, which is significantly lower than the US S&P 500 and technology-heavy Nasdaq indices, which would have generated £6.62 and £10.63 respectively. As a comparison, £1 invested in FGT 20 years ago would have turned into £9.10. Train suggests that as the trust has outperformed the broad US stock market, then there must be some 'exceptional' UK-listed companies available in which to invest. He says that by concentrating a portfolio on these 'excellent world-class UK companies', it is possible, over time, to generate 'some pretty competitive returns'. The manager believes in this thesis, even more strongly now given the

UK has been 'such a dull market in recent years'. In addition, he considers that the 'excellent' companies in the UK appear undervalued compared to their global peers.

Train shares some anecdotes gleaned over the past year that he considers relevant and encouraging for FGT's shareholders:

The manager comments on Burberry's measures to ensure that its brand remains relevant with the younger generation, particularly young wealthy US consumers. In 2021, the company collaborated with US video games firm Mythical Games, to introduce non-fungible tokens into its video game. These are characters (all dressed in Burberry outfits) that consumers can buy and play with in the game; there are a limited number of them, so they have a value. The cost was \$300 per character and they sold out within 30 seconds; 'we thought that was smart and interesting' opines Train.

FGT's investment in Mondelēz International was inherited from its holding in Cadbury, which was taken over in 2010. The manager is intrigued to see that even though the Oreo biscuit brand is probably Mondelēz's largest and was introduced well over 100 years ago, it remains US Generation Z's consumers' favourite food brand. Train believes that brands with 'eternal characteristics' can attract new loyal customers from generation to generation. He suggests that brands including Oreo, Cadbury, Burberry and Unilever's Dove and Magnum ice cream are 'enormously valuable and value-creating brands'.

In 2021, the manager added to FGT's holding in London Stock Exchange Group (LSE) 'into a dismal share price performance last year'. Train says that 'once the dust had settled on the Refinitiv transaction', he believes that 'the LSE group is a much stronger company with better prospects than the old LSE'. The manager notes that Refinitiv's real-time data service is taken by 'essentially 100% of all financial institutions on the planet', while 'that service is a valuable pipe for the LSE's data as well'. LSE now has 17% of the open daily trading volume of the US government bond market and owns the world's biggest currency trading platform; these operations came with Refinitiv. Train says that 'when you look at the combination, there is just so much that can be done with this merged set of assets'. He considers LSE's share price weakness was 'a fantastic opportunity to take advantage of other peoples' scepticism'.

Hargreaves Lansdown, while no longer a top 10 holding, remains in the fund. At its full-year results meeting in August 2021, the company reported that since the start of the pandemic it has welcomed 375,000 new customers onto its platform. To put this into context, Hargreaves Lansdown took more than 30 years to get to its first 375,000 customers, and now today the total is 'probably about 1.6–1.7m'. The manager says this illustrates the company's ongoing rapid growth and how it continues 'to create value for its owners'.

Current portfolio positioning

Exhibit 2: Top 10 holdings (as at 31 January 2022)

Company	Country	Sector	Portfolio weight %	
			31 January 2022	31 January 2021*
RELX	UK	Consumer discretionary	11.8	9.9
Diageo	UK	Consumer staples	11.8	10.3
Mondelēz International	US	Consumer staples	9.4	8.0
London Stock Exchange Group	UK	Financials	8.9	10.7
Unilever	UK	Consumer staples	7.9	9.2
Schroders	UK	Financials	7.6	8.2
Burberry Group	UK	Consumer discretionary	7.3	7.1
Sage Group	UK	Technology	5.8	5.0
Rémy Cointreau	France	Consumer staples	5.3	N/A
Experian	UK	Industrials	5.1	N/A
Top 10 (% of portfolio)			80.9	80.0

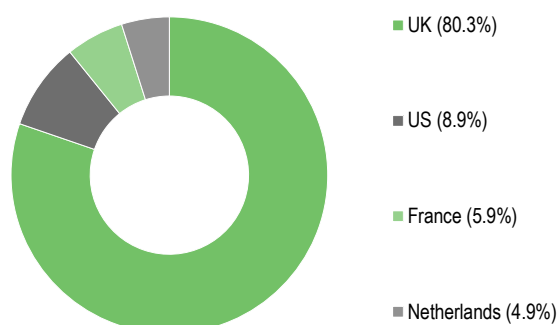
Source: FGT, Edison Investment Research Note: *N/A where not in January 2021 top 10.

At end-January 2022, FGT's top 10 holdings made up 80.9% of the portfolio, which was a modestly higher concentration versus 80.0% a year before; eight positions were common to both periods. There have been a few changes in the portfolio in recent months. In December 2021, the trust received shares in online car retailer Cazoo (which remain in FGT's portfolio) as part of the transaction to take Daily Mail and General Trust private; the proceeds of which were used to increase FGT's holdings in Experian and Fever-Tree. The longstanding, problematic position in Pearson has also been sold.

Exhibit 3: Portfolio sector exposure vs benchmark

% unless stated	31 January 2022	Benchmark	Active weight (pp)
Consumer staples	50.6	15.2	35.5
Financials	23.6	23.3	0.3
Consumer discretionary	14.9	11.6	3.3
Technology	5.8	1.5	4.3
Industrials	5.1	12.7	(7.6)
Telecommunications	0.0	2.3	(2.3)
Utilities	0.0	3.3	(3.3)
Real estate	0.0	3.3	(3.3)
Basic materials	0.0	7.7	(7.7)
Energy	0.0	9.3	(9.3)
Healthcare	0.0	9.9	(9.9)
	100.0	100.0	

Source: FGT, Edison Investment Research

Exhibit 4: Geographic exposure at 31 December 2021


Source: FGT, Edison Investment Research

Madeline Wright is a deputy portfolio manager at Lindsell Train, working closely with Train. She highlights FGT's relatively recent new positions in Experian and Fever-Tree. **Experian** is viewed as a 'digital winner'. It is a global credit bureau, with a huge, expanding, valuable store of unique data covering 1.3 billion people and 166m businesses across 44 countries. In the UK alone, Experian adds 750m records to its database every single month, and globally there have been 110m signups to its direct-to-consumer product, 41m of those in the US. The company processes the data points, makes sense of them with analytics, and then sells to customers in the form of a credit report. Renewal rates are very high at 90% as these credit reports are critical for assessing risk when lending; however, they are inexpensive at \$1–2 per report, so there is little incentive for industry price wars or for a new player to enter the market, while customers recognise that it makes no sense to risk using untrustworthy data just to save a few cents. Experian's existing databases are valuable on a standalone basis and the company is also pursuing a range of new applications. There is an active shift from simply selling data to selling data enhanced by decision tools; the company's decisioning segment has grown from 8% to 22% of revenues between 2015 and 2021 and should be an important growth driver going forward. Experian believes that it is at an early stage of unlocking the value of its database. In recent years the company's revenue growth has accelerated from 5% to 7% pa, it has upgraded its 2022 revenue growth forecasts and the consensus longer-term revenue growth estimates are 10% pa.

Wright says that **Fever-Tree** is an example of how companies' careful handling of environmental, social and governance (ESG) factors can futureproof and enhance the value of premium consumer brands. Since launch 19 years ago, the firm has built the premium mixer category up from zero and carved out a market share of almost 45% of total UK mixers; it also has a substantial and growing presence in Europe and the US. For example, in 2021, both Fever-Tree's ginger beer and tonic became the number one selling brands in each respective category in the US. The company is also attractively viewed in terms of addressing the growing consumer demand for environmentally friendly and ethical products. Fever-Tree only uses glass, paper and aluminium packaging (no plastic). It also offers scope for further ESG improvements; for example, it plans to introduce a bottle-return system, something that is only possible with glass rather than plastic. The company has a history of building close and supportive relationships with its suppliers, many of whom are

small farmers with a single crop, be it quinine in the Congo or vanilla in Madagascar; this practice is attractive from both a quality assurance and ethical perspective. The manager says that Fever-Tree is continuing to provide quality products and is boosting its brand resonance with generations of more socially and environmentally aware consumers, which should be supportive for the company's future growth.

Performance: Long-term record of outperformance

Exhibit 5: Five-year discrete performance data

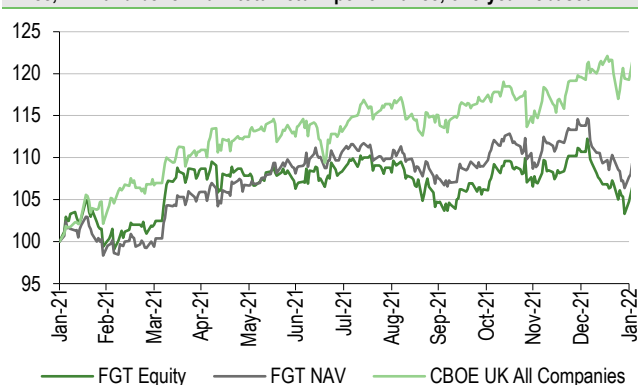
12 months ending	Share price (%)	NAV (%)	CBOE UK All Companies (%)	CBOE UK 350 (%)	MSCI World (%)
31/01/18	18.3	18.4	11.3	11.2	11.9
31/01/19	4.3	4.3	(3.9)	(3.9)	1.6
31/01/20	17.7	17.2	10.5	10.5	18.2
31/01/21	(2.9)	(0.5)	(8.6)	(8.6)	11.4
31/01/22	4.8	7.7	19.3	19.2	19.8

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

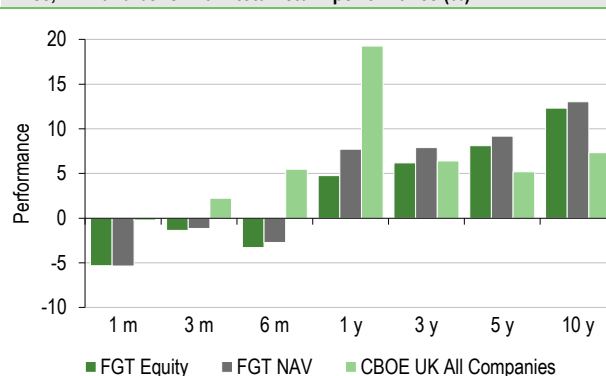
During 2021, FGT's NAV total return underperformed its benchmark's total return (+13.0% compared with +18.3%). The three companies with the highest share price total return were: Sage Group (+50.8%), Daily Mail & General Trust (+50.2% until it delisted in mid-December 2021) and Diageo (+43.4%), while the worst performing stocks were London Stock Exchange Group (-22.3%), Hargreaves Lansdown (-8.0%) and Unilever (-6.8%). Train notes that FGT's 'digital winners' worked well for the portfolio in 2021 such as RELX, which has outperformed the broad UK market every year since 2011, and Experian. He also highlights the trust's holding in spirits company Diageo, which he considers to be 'the best company of its type on the planet' with a long growth runway.

Exhibit 6: Investment trust performance to 31 January 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	(5.1)	(3.5)	(8.3)	(12.2)	(0.6)	14.7	57.5
NAV relative to CBOE UK All Companies	(5.1)	(3.3)	(7.8)	(9.7)	4.3	20.5	67.7
Price relative to CBOE UK 350	(5.1)	(3.5)	(8.3)	(12.1)	(0.5)	14.8	59.9
NAV relative to CBOE UK 350	(5.1)	(3.3)	(7.8)	(9.7)	4.4	20.6	70.2
Price relative to MSCI World	(1.0)	(0.1)	(7.1)	(12.5)	(24.1)	(17.6)	(13.6)
NAV relative to MSCI World	(1.0)	0.1	(6.5)	(10.1)	(20.3)	(13.4)	(8.0)

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

FGT's long-term record of outperformance versus its benchmark remains intact; however, the trust's relative performance has taken a bit of a battering since early October 2020 (Exhibit 8) as investors have generally favoured cyclical and value stocks as economies have recovered following widespread pandemic lockdowns. The trust's NAV is modestly ahead of the broad UK market over

the last three years and more convincingly so over the last five and 10 years, while its share price has outperformed over the last five and 10 years. Growth stocks continued to come under significant pressure in January 2022, despite companies delivering strong results. Examples within FGT's portfolio that had strong earnings reports include: Fever-Tree (share price declined by 21.1% over the month), Sage Group (-15.5%), Experian (-15.2%) and Rémy Cointreau (-13.8%).

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



Source: Refinitiv, Edison Investment Research

Peer group comparison

There are 22 funds in the AIC UK Equity Income sector and in Exhibit 9 we show the largest 12 with market caps greater than £300m. FGT is differentiated from its peers by its very concentrated portfolio and exposure to just five out of 11 industry sectors: consumer discretionary, consumer staples, financials, industrials and technology. While this strategy has proved to be very successful over the long term, the high-quality growth stocks represented in the trust's portfolio have underperformed the broader UK market during a pronounced change in market leadership towards cyclical and value stocks. This has negatively affected FGT's relative performance; the trust's NAV total return now ranks 11th and eighth over the last one and three years respectively. However, its longer-term record remains intact as FGT ranks fourth over the last five years and second over the last decade (82.3pp above the mean). On 18 February 2022, FGT was trading at a 4.4% discount to NAV, which was wider than the selected peer group average. It has an average ongoing charge and a below-average level of gearing. Given the trust's focus on capital return rather than income, its 2.0% dividend yield is the lowest in the selected peer group (1.8pp below the mean).

Exhibit 9: Selected peer group at 18 February 2022*

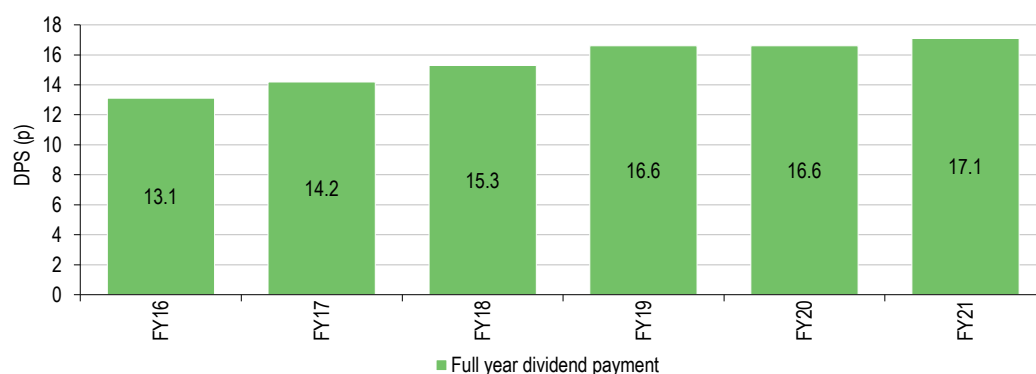
% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Finsbury Growth & Income	1,897.4	3.3	17.1	44.9	221.1	(4.4)	0.6	No	101	2.0
BMO Capital & Income	344.2	11.7	18.6	30.9	116.8	(0.8)	0.6	No	108	3.6
City of London	1,821.9	18.0	16.4	24.3	114.0	1.7	0.4	No	109	4.7
Diverse Income Trust	412.6	8.3	35.0	46.4	223.7	1.2	1.1	No	100	3.3
Dunedin Income Growth	444.5	(0.0)	23.3	32.9	105.8	1.7	0.6	No	109	4.3
Edinburgh Investment	1,091.0	15.0	13.8	12.8	107.2	(7.4)	0.4	No	105	3.8
JPMorgan Claverhouse	429.6	10.6	18.9	26.1	123.1	(0.8)	0.7	No	116	4.2
Law Debenture Corporation	990.9	15.8	38.2	53.6	176.8	2.7	0.6	No	113	3.4
Lowland	367.5	16.9	15.1	15.2	120.6	(5.0)	0.6	No	114	4.4
Merchants Trust	735.3	28.4	38.9	49.6	135.4	0.8	0.6	No	110	4.8
Murray Income Trust	1,003.7	9.0	26.1	37.6	118.4	(6.3)	0.5	No	109	3.8
Temple Bar	824.3	21.6	10.8	16.3	102.6	(1.7)	0.5	No	107	3.2
Average (12 funds)	863.6	13.2	22.7	32.6	138.8	(1.5)	0.6		108	3.8
Trust rank in selected peer group	1	11	8	4	2	9	9		11	12

Source: Morningstar, Edison Investment Research. Note: *Performance data to 17 February 2022 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 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 FY21, FGT's dividend of 17.1p per share was a 3.0% increase compared with 16.6p per share in FY20. Its revenue return was 18.1p per share meaning that the latest annual dividend 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 2.0% dividend yield.

Exhibit 10: Dividend history since FY16



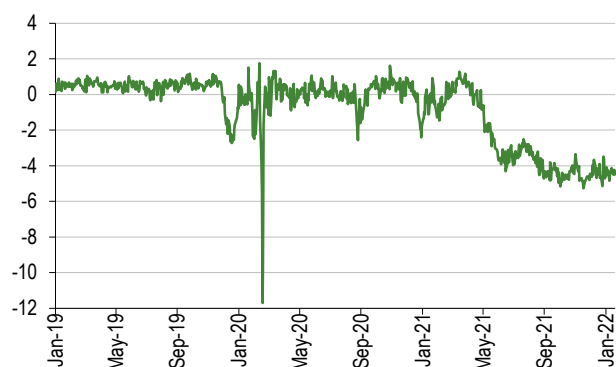
Source: Bloomberg, Edison Investment Research

Valuation: Discount reflecting recent performance

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. Since H121, FGT has been trading at a discount, which likely reflects the trust's relative underperformance in recent quarters. So far in FY22, there have been no shares issued, while c 1.0m have been repurchased at a cost of c £8.6m.

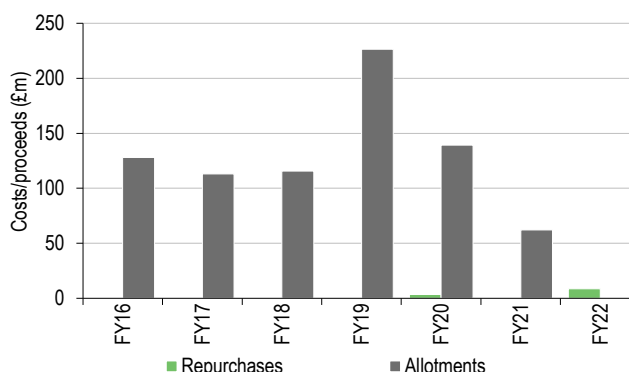
FGT's shares are currently trading at a 4.5% discount to cum-income NAV, which compares with a range of a 1.3% premium to a 5.3% discount over the last 12 months. Over the last one, three and five years the trust has traded at average discounts of 2.7%, 0.8% and 0.3% respectively, while over the last decade it has traded at an average premium of 0.1%.

Exhibit 11: Discount over three years (%)



Source: Refinitiv, Edison Investment Research

Exhibit 12: Buybacks and issuance



Source: Morningstar, Edison Investment Research

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, and is classified as within the UK by FGT rather than within the US. At the end of 2021, the trust's geographic breakdown was: 80.3% UK, 8.9% US, 5.9% France and 4.9% 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 1.0% at end-January 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 10.0%, 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. 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 24 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-January 2022, FGT's active share was 86.5% (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.

There are four broad themes represented within the portfolio, which Train believes are 'highly likely to make money for FGT shareholders in future years': digital winners (c 39% of the portfolio), luxury & premium goods (c 30%), eternal brands (c 22%) and private wealth managers (c 9%). Combined, the first two segments make up the majority of FGT's portfolio and these are where the manager has been allocating the majority of additional capital over the last couple of years.

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](#).

One of the FGT's investee companies that Lindsell Train has engaged with is Burberry. Its customers are increasingly well informed about ESG issues, so it is important for the company to continue to innovate and offer high-quality products. There are initiatives and behaviours within Burberry showing its commitment to addressing a range of environmental and social concerns such as slave labour in supply chains, animal cruelty, water use, climate change and plastic pollution. In the response to the Xinjiang cotton scandal, the company has confirmed that it does not source any cotton from this region. In addition, Burberry is a signatory to the Better Cotton Initiative, which prevents the use of cotton from areas of conflict, or where growing the crop fails to meet sustainability best practices.

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. As at end-September 2021, just £36.7m was drawn down; the manager employs modest levels of debt as the portfolio's concentrated nature already brings an element of risk. At end-January 2022, FGT's net gearing was 1.0%.

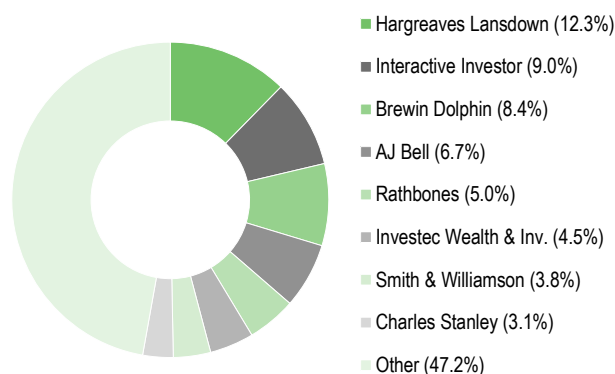
Fees and charges

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 FY21, the trust's ongoing charges of 0.62% were 2bp lower than 0.64% in FY20.

Capital structure

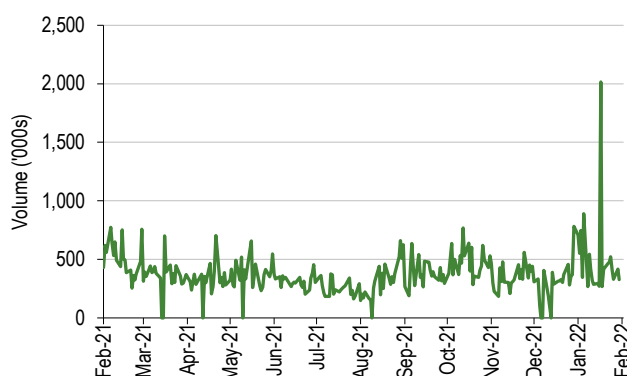
FGT is a conventional investment trust with one class of share; there are currently 224.0m ordinary shares outstanding. Its average daily trading volume over the last 12 months is c 385k shares.

Exhibit 13: Major shareholders



Source: FGT, as at 31 January 2022

Exhibit 14: Average daily volume



Source: Refinitiv. Note: 12 months to 18 February 2022.

The board

Exhibit 15: FGT's board of directors

Board member	Date of appointment	Remuneration in FY21	Shareholdings at end-FY21
Anthony Townsend (former chairman)	1 February 2005	£15,333	N/A
Simon Hayes (current chairman)	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



Anthony Townsend retired from the board at the 17 February 2021 AGM, having served as chairman since 30 January 2008 and was succeeded by Simon Hayes. The role of senior independent director moved from Simon Hayes to Sandra Kelly, who is also chair of the audit committee.

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