Finsbury Growth & Income Trust PLC - 10 years of Nick Train

We are told that of the 531 investment trusts or investment companies in the Association of Investment Companies universe, only 65, or 12%, have had the same nominated manager for 10 years or more. As of end December 2010, Finsbury Growth & Income Trsut (FGT) joined that select band, because that date marks the tenth anniversary of Lindsell Train Limited's (LT) appointment as investment adviser. It may sound trite, but it is nonetheless true that we feel privileged to have been associated for so many years with this long-established and well-respected Trust - and very much hope that we will remain so for another decade, or longer. There is self-interest in that aspiration of course, but, in an era when investment managers swap funds almost as often as football managers swap clubs, we take great satisfaction from building a really long term performance record and hope that shareholders recognize the benefits of it.

Nonetheless, we know we must earn and re-earn this privilege to manage your capital. We are pleased, then, that the last two calendar years have proven relatively successful for the Company's investment strategy. In passing, it is here relevant to acknowledge how grateful we are to your Board for its support of LT through the two years preceding these, particularly 2007, when our relative performance was far from satisfactory. Board support over that period encouraged us to stick to our principles and positions – justifiably so, we believe.

Taking a longer perspective, over the ten years to the end of calendar 2010 since its appointment, LT's performance for the Company amounts to 6.8% pa (NAV total return, net dividends reinvested). This compares to the FT All Share's return over the same period of 3.7% pa. FGT's return is after allowance for all fees, of perhaps 1% pa – fees that the benchmark does not pay, implying that LT's investment approach has delivered an underlying performance some 4% pa above the market average. Such outperformance adds up over time – multiply our annual return and that of the All Share by 10 to get some sense of the gap that has opened up between the two.

In seeking to convey to shareholders how we have been able to deliver this – through a period, let us remind ourselves, that contained two very disagreeable bear markets – we find that a single word suffices. This one word, which more or less accounts for what success we've enjoyed over the period, this one word is: Baggers.

"Baggers" is a term devised by Peter Lynch, the legendary US investor who managed the biggest mutual fund in the world, Fidelity Magellan, for 13 years in the 1970s and 1980s. A bagger is a share that goes up a lot. Indeed, to qualify a share needs to at least double on its book cost since investment. Any share that doubles is always good news, but three-baggers or four-baggers – treblers or quadruplers are even more welcome. So far as Peter Lynch is concerned, the Holy Grail for investors is the mystical ten-bagger – that share which rises 1000% from its purchase price. For most of us mortals ten-baggers are discouragingly rare (although, amazingly, Lynch enjoyed over 100 of them during his tenure at Magellan).

Baggers are relevant for LT and hence for your Company because of the nature of our investment philosophy. As shareholders may recall, our approach calls for us to make long term commitments to a limited number (limited due to their scarcity) of exceptional companies – companies that own wonderful brands or business franchises. Now, it is all very well owning such shares for the proverbial long term, but this strategy is only vindicated if, over time, those shares go up and go up a lot. In short, LT needs baggers to succeed.

Happily, over the last ten years we have unearthed a fair few of them. Indeed, across all of LT's UK equity portfolios today there are 11 baggers – listed below, with their multiple of gain – AG Barr (5.0x), Burberry (4.0x), Dr Pepper (2.0x), Fidessa (2.5x), Fullers (3.0x), Hargreaves Lansdown (2.5x), Lindsell Train Investment Trust (2.0x), Schroders (2.0x), Thomson Reuters (3.5x) and Youngs (3.5x). All these are held in FGT and, in total represent 45% of the portfolio by number of holdings and 40% by value. Seven have been held since 2001, the first year of LT's stewardship. Their importance in driving long term returns is manifest.

The wonderful thing about baggers, as Peter Lynch demonstrated, is that there is no reason why they should cease to work for you, even after the first doubling or trebling. Good companies often carry right on being good companies – generating higher earnings over time, as a result of both business growth and, not to be underestimated, their ability to protect investors against the effects of inflation. We see no reason why, say, Burberry's rapidly expanding business on mainland China or Fidessa's lock on the dealing platforms of most leading global investment banks shouldn't go on becoming ever more valuable over time. And the fact that 16 of FGT's current 24 portfolio holdings have been in place since early 2002 demonstrates that you don't have to be an aggressive trader to earn satisfactory returns!

What really intrigues us, though, is what will be FGT's next baggers - its future winners. To become a bagger, a share must offer both undervaluation and a long term growth opportunity. We find several holdings with precisely these dual characteristics in your portfolio today. For instance, during 2010 we have been steadily building an investment in Daily Mail & General Trust (DMGT) - owner of the Daily Mail, of course, as well as other fine media properties. We analyse the shares to be cheap for two reasons. First, DMGT has a sizeable domestic UK business – and the general consensus is that the UK economy is palsied at best. Next, investors fret that the Internet will disintermediate newspapers, sending them toward the same oblivion as the town crier. We demur, on both counts. Pessimism about the UK is indeed intense amongst British investors, but if the Coalition's stated policies of holding long term interest rates at multi-year lows and cutting corporation tax are delivered upon, then there seems every prospect that the economy will do rather better than expected. Even if the UK just muddles through, many domestic UK companies are already undervalued – including not just DMGT, but the regional brewers in the portfolio, Fullers, Greene King, Marstons and Youngs. Next, we watch DMGT's success in developing its own Internet business, notably the heavy traffic that visits Mail Online every day. It seems to us that far from being a threat, the Internet is the engine that will drive DMGT's profits for years to come. Any shift in investors' perceptions of DMGT, from vulnerable "cyclical", as currently, to cash-generative "growth" company will offer serious bagging potential.

Or how about the possibility of Unilever doubling and doubling again? This is a big holding for your Fund and one that disappointed in 2010, actually falling by 1.5%. We are bemused by the lacklustre showing, with even Diageo, a reasonable comparator, up 9.0%. However, if Unilever's performance is instead being stored up for 2011 and beyond we will be mollified. The bull case for the company is simply stated – Unilever has a higher proportion of its sales arising in Emerging Markets than any of its peers, over 50%. Every day 160 million of its products are purchased somewhere on the planet, while the company estimates that 2 billion consumers use one of those products daily. Meanwhile, Unilever is targeting a doubling of its revenues over the next decade, with the Emerging Market share rising from 50 to 70%. From a current earnings yield of 7% and a dividend yield of 3.7% that growth in revenues is valued cheaply by other investors. It is worth noting that Unilever's shares have quintupled over the last 20 years, handsomely outperforming the FT All Share, which trebled over the same period. Over that period, though, Unilever's dividend more than sextupled – meaning its shares actually lagged its dividend growth. We expect the next twenty years to be even more "bagtastic" for Unilever shareholders.

Twenty years might sound like a long time, even for patient investors, however that span is consistent with both LT's investment process and with the preferred length of LT's track records. The longer the better!

More information on Finsbury Growth & Income Trust PLC can be found at:

www.finsburygt.com

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