

FINSBURY GROWTH & INCOME TRUST

April 2009

Portfolio Update

As the first quarter ends, we find we have three more or less urgent observations about the portfolio.

Lloyds Banking Group

FGIT retains a material exposure to Lloyds, with a 2.2% weight in the ordinary and a further 4.0% in two preference shares.

We are mortified by the (unrealized) loss of value suffered by shareholders in these instruments. However, there are signs that the worst is past.

Lloyds ord are trading at 75p. This is an important price, because it is above 38.4p. What we mean is that Lloyds stock is nearly double the already announced price at which its shareholders will be offered new ordinary shares, arising from the government's conversion of its own preference shares in the bank. With such a premium it seems highly likely that shareholders will take up their entitlement to this further £4bn of equity. If so, Lloyds will be confirmed with a Tier 1 ratio of 14%, getting on for bomb-proof, surely and, critically, the government stake in the bank will be unchanged, at 43%, still short of full control. This escape from de facto nationalisation would likely improve the rating, we think.

One day Lloyds will be valued at 2.0x book value again. Current fully diluted book, adjusted for the government's asset protection scheme, is over £1 per share. Pre-provision profits at Lloyds are c£13bn a year, compared to today's market capitalization of £11bn. If the bank survives, which we acknowledge is still not certain, but more so after this month's developments, its book value will grow quickly and its stock is likely still very cheap.

Meanwhile, two Lloyds bank preference shares have gone "xd" in 2009 and one of them, the 6.475% has already paid its dividend. It seems that the bank intends to service its preferred obligations through this difficult period, a decision which we can assume was taken with the blessing of HMG. Lloyds will wish to tap the bond and preference markets in the future and knows that if it passes its preferred dividends these markets will be closed to it. Can Lloyds afford its preference dividends today? Probably not. Will it abandon them? Only when all hope is gone.

The prefs we own, which have not yet gone "xd" in 2009, offer a net dividend yield of over 20%. They are an important source of income for FGIT. Looking forward, surviving banks must expect the FSA's new, stringent rules on bank capital adequacy to be enforced. At this point the security of Lloyds preferred dividends will be very markedly higher than before. The FSA will ensure that banks are run more for depositors and holders of their senior debt than for ordinary shareholders. In such circumstances why shouldn't the prefs yield 10%? Their price would double.

Dividends

As the 2009 results season progresses we find that, to date, only one FGIT portfolio constituent has cut its dividend - Lloyds, whose final has been replaced by a measly scrip issue. Elsewhere, another 78% of the portfolio by NAV, has reported dividends with, of these, 5% maintaining and 73% increasing distributions. Highlights were the double digit hikes from Fidessa, Reed, Shell and Unilever.

We know there are no grounds for complacency and that dividends remain at risk if the economy worsens. In particular, we recognize the Marston dividend is not safe, given that company's indebtedness. Nonetheless, at our recent meeting with its chairman we were left in no doubt of the Marston's commitment to its payout, which costs £35m pa, a relatively small sum, compared, say, to EBITDA of £205m.

There are forecasts suggesting that UK dividends could fall 30% in 2009/10. We hope they are wrong. But so far, we find FGIT's experience to be encouraging. As it ought to be, given our investment approach focused on cash generative businesses. Over 40% of the portfolio is invested in just four stocks - A G Barr, Cadbury, Diageo and Unilever. Whatever you think about the short term prospects for price performance from this quartet, their dividends look reassuringly secure.

TMT

Over 30% of FGIT's NAV is made up of B2B media and software companies - including Fidessa, Pearson, Reed, Sage and Thomson Reuters. For what it's worth this represents something like a 10x "overweight" to these two sectors. This is a very distinctive commitment, relative to other strategies. It is also, in our opinion, full of value and opportunity.

Non-cyclical, steady growth is an exceptionally attractive and rare corporate characteristic today. Any company that can demonstrate it is likely to be materially undervalued. We expect such growth to be found amongst companies exposed to the two most powerful industry trends of this generation - namely the Emerging Markets and the Internet. So, while we believe that Cadbury, for instance, is given little credit for the fact that 37% of its sales derive from Developing Economies and are growing rapidly, we also believe investors have not given sufficient consideration to the beneficial impact of the Internet on professional publishers.

The proof of this proposition, in our eyes, is that their shares are outperforming. Fidessa, Pearson, Sage and Thomson Reuters are actually up so far in 2009 - because their businesses are growing in a way that offers sanctuary from the broad economic cycle. After an 8-year bear market these shares are still cheap and unloved.

Investment Manager:	Nick Train
	Lindsell Train Limited
Manager, Administrator and Company Secretary:	Frostrow Capital LLP
Denominated Currency:	Sterling
Year End:	30th September
Dividend:	
<i>Interim:</i>	Ex-Date - June Payable - June
<i>Final:</i>	Ex-Date - November Payable - January
Benchmark:	FTSE All Share Index (net dividends reinvested)
Investment Trust Sector:	UK Growth & Income
The Board:	A Townsend (Chair) John Allard Neil Collins David Hunt Vanessa Renwick Giles Warman
ISIN:	GB0007816068

FINSBURY GROWTH & INCOME TRUST

All data as at January 24th 2008

Investment Manager:

Lindsell Train Limited

2 Queen Anne's Gate Buildings

Dartmouth Street

London SW1H 9BP

Phone: +44 20 7227 8200

Fax: +44 20 7227 8299

Email: info@LindsellTrain.com

Manager:

Frostrow Capital LLP

25 Southampton Buildings

London WC2A 1AL

Phone: +44 20 3008 4910

Web: www.Frostrow.com

Lindsell Train is authorised and regulated by the Financial Services Authority.

Fact sheets can be found on the Trust's website at www.finsburygt.com

Risk Warning

This factsheet is intended for use by shareholders of the Finsbury Growth and Income Trust and/or persons who are authorised by the UK Financial Services Authority or those who are permitted to receive such information in the UK. Any opinion expressed whether in general or both on the performance of individual securities and in a wider economic context represents Lindsell Train's views at the time of preparation. They are subject to change without notice and should not be construed as investment advice or investment recommendation. Past performance is not a guide to future performance and may not be repeated. The value of investments and income from them can go down as well as up and you may not get back the amount originally invested. Finsbury Growth and Income Trust is an investment trust company listed on the London Stock Exchange. Investment trusts have the ability to borrow to invest which is commonly referred to as gearing. Companies with higher gearing are subject to higher risks and therefore the investment value may change substantially. The net asset value ("NAV") per share and its performance of an investment trust may not be the same as its market share price per share and performance.