

Finsbury Growth & Income Trust (“FGIT”) Lloyds Preference Shares

We received confirmation on the 23rd November that we will not be able to convert FGIT’s Lloyds preference shares into new Lloyds ECN’s. We therefore retain these securities. There are two ramifications, which we discuss for shareholders of FGIT below.

1. There will be a measurable diminution of FGIT’s distributable income, as a result of the EU’s required suspension of LLOY preference dividends for the two years commencing January 2010. The combined annual dividend from the pref holdings amounts to £757,500. This equates to some 1.4p per FGIT share (51.6m shares in issue), representing c15% of FGIT’s full dividend of 9.5p for the financial year to September 2009.

We have the flexibility within the portfolio to recover some of the revenue shortfall and have retained reserves that could be available for distribution. Nonetheless it seems unlikely that we will be able to make up for the full loss of an income stream that was effectively paying 15%pa at the most recent price.

What we can assure shareholders is that we will not take risks with the calibre of the portfolio in an attempt to maintain the dividend at all costs.

2. At their current price of c0.64p the prefs still represent a not trivial 4% of FGIT’s NAV. This should alert shareholders to and certainly reminds us of, what has been a very poor allocation of their capital over the many years we have held these securities. What we regarded as perhaps the least risky asset in the portfolio has turned out to be one of the worst performers. We have learned a lesson.

However, it is important to look forward, recognizing that past price declines are already in the NAV. The key question today is whether the LLOY pref can be a good investment from here. In our opinion, assuming that LLOY is a gradually healing institution, the prefs are cheap. The bank has indicated that it intends to pay a nominal dividend as soon as it is allowed by the EU, in early 2012. However, before it can pay even 0.5p of ordinary dividend it must resume our preference dividends in full, or 9.25p. If LLOY returns to the dividend lists in 2012 we wonder what will be the correct price for the 9.25% pref. Is par, or £1.00, too optimistic? Here the prefs would still offer a yield of over 9.0% net. The capital gain to this price, over the next 24 months would be 56%.

We cannot recommend investing in the prefs to brand new holders. However, for those who already own LLOY ord and are contemplating taking up their rights, it is worth thinking through the risk/rewards. The dominant provider of retail banking services into a substantial developed world economy ought to be able to generate steady returns and the prospect of a steady 15% income return is likely to be attractive.

Nick Train, Director, Lindsell Train Ltd

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