

Recent News in the Investment Companies Sector

Finsbury Growth & Income Trust PLC

Developed Equity

Finsbury Growth & Income – 10 year anniversary

- Yesterday, Finsbury Growth & Income (FGT) held a lunch to celebrate the 10th anniversary of Nick Train's appointment as portfolio manager. Over the period from 2001-10, the fund delivered total NAV returns of 93.3% (6.8% p.a.), compared with 43.2% (3.7% p.a.) for the FTSE All Share. Nick's presentation was typically "punchy", highlighting his unique investment process, which involves building a concentrated portfolio of "quality" UK companies that have strong brands and/or powerful market franchises. This leads to very different sector weightings from the All Share benchmark, with a heavy emphasis on Branded Consumer Goods (Diageo, Unilever, AG Barr), Media (Pearson) and Financial Services (Fidessa, Schroders, Rathbones, Hargreaves Lansdown). FGT currently yields 2.8% and is trading on a discount of 1.6%.
- The company has a long history dating back to 1926, but Nick Train (formerly of GT Management and M&G) took over in December 2000 after founding Lindsell Train, a boutique management group which now has assets under management of £1.34bn, including FGT (£170m net assets) and Lindsell Train IT (£41m). In early 2004, FGT's investment mandate was changed to place greater emphasis on income. At that time, the fund was reclassified from the UK Growth to the UK Growth & Income Sector and the fund introduced a discount control mechanism, with a commitment to protect a discount of 5% through buybacks.
- Most of FGT's out-performance came in 2004 (18.8% ahead of the index), helped by the takeover of Glenmorangie, and in 2010 (14.0% ahead) when several holdings enjoyed re-ratings. However, it has not all been plain sailing as the fund underperformed in 2007-08, as a result of the company's exposure to Financials, including HBOS and Bradford & Bingley. In addition, the fund was forced to cut its dividend last year due to the loss of income from Lloyds Preference shares. Nevertheless, Nick's long term record is outstanding and some periods of relative underperformance are inevitable given the focused nature of the portfolio.
- The manager is valuation sensitive and looks to buy stocks which have a market price significantly below his estimate of the company's true worth using a DCF valuation. However, investments are made for the long term, with an expected average holding period of 5-10 years and little attention is paid to short term market movements. Holdings will only be sold if the fundamentals change significantly or the market price moves too far ahead of the manager's valuation. Nick highlights that he is seeking to hold a portfolio of "baggers", stock that have more than doubled from cost. At present 11 of the 24 holdings in the portfolio fit this criteria, including AG Barr 5x, Burberry 4x, Youngs 3.5x and Euromoney 3.5x.
- This investment approach results in extremely low turnover (some years close to zero excluding M&A activity). Typically, only one or two new holdings are added to the portfolio each year, with Daily Mail and Greene King being the only additions in 2010. In response to the question "*what do you do all day*", Nick Train responded by

quoting Peter Lynch: *“The hard part was holding onto the stock long enough to get the full benefit”*. This highlights Nick’s view that his portfolio has substantial growth potential and that having the patience to hold onto stocks is often as hard as identifying great businesses in the first place. Other quotes in Nick’s presentation that were used to illustrate his approach included:

- *“Whether we’re talking socks or stocks, I like buying quality merchandise when it is marked down”* – Warren Buffett
- *“If you want different investment performance you must invest differently”* – Sir John Templeton
- *“You must concentrate to get wealth, diversify to protect wealth”* - Ken Fisher

Note: all prices, NAVs and discounts as at close of business at 27 January 2011 unless otherwise stated

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