

Finsbury Growth & Income*

UK – Income Growth - Price 322.3p, Premium 0.3%, Market Cap £171m

- **This fund is managed by Nick Train of Lindsell Train who has a unique investment process, seeking to build a concentrated portfolio of “quality” UK companies that are held for the long term. He has now managed the fund for over ten years.**
- **There are only 24 holdings in the portfolio and investments are focused on Global Consumer Brands and Media and Technology, with key holdings in Diageo, Unilever, Fidessa and Pearson.**
- **Long term performance has been very good with the NAV up 86% compared with 44% for the FTSE All Share since Nick Train took over the fund’s management. Since the change in mandate in May 2004 to place greater emphasis on income, the NAV is up 113% compared with 81% for the FTSE All-Share. The fund has a yield of 2.7%, and the dividend is fully covered.**
- **Nick Train has a good track record and a clearly differentiated investment approach. Despite the disappointment of the 2010 dividend cut, we believe this fund remains well placed to generate attractive total returns over time. Furthermore, a commitment to buyback shares at a 5% discount provides support for the fund’s rating around that level.**

■ Background & Management

This company has a long history dating back to 1926, but since December 2000 the portfolio has been managed by Nick Train of Lindsell Train, a boutique management group. In May 2004, the investment mandate was changed to place a greater emphasis on income with an increased weighting to preference shares. At that time, the fund was reclassified from the UK Growth to the UK Income Growth Sector.

Nick Train previously worked at GT Management and then M&G. In April 2000, he set up Lindsell Train with Michael Lindsell, formerly a Japanese fund manager at GT, and together they run Lindsell Train IT (£46m market cap). Lindsell Train now manages around £1.3 billion, which includes a Global Media fund, an open-ended UK Income & Growth fund, a Global Equity fund and a Japanese Equities fund. While the fund’s portfolio is managed by Lindsell Train, administration/marketing services are the responsibility of Frostrow Capital.

■ Investment Process

Nick Train has a well defined investment philosophy which seeks to add value by establishing large holdings in a limited number of “quality” businesses, then maintaining these positions for long periods. The characteristics looked for are:

- **Durability** – companies that can prosper through business cycles for many years to come.
- **High return on equity** – companies with the ability to grow earnings year-in, year-out are favoured over those with rapid short term growth, but uncertain long term prospects.
- **Low capital intensity/high free cash flow generation** – companies that do not have to make heavy balance sheet investment to generate earnings growth.

The key stage of the investment process is to identify companies that meet these criteria as well as being in areas where the manager believes he has a competitive advantage in identifying “great businesses”: Branded Consumer Goods, Media and Retail Financial Services. This leads to very different sector weightings from the All Share benchmark but with limited resources, Nick Train feels that his efforts would be diluted by trying to cover the whole market.

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. This investment approach results in very low turnover, which was just 4% in the year to 31 December 2010. Typically, only one or two new holdings are added to the portfolio each year.

Nick Train has managed since December 2010

Weightings very different from All-Share

Very low turnover

■ Portfolio

The portfolio contains just 24 holdings with the top ten equity holdings accounting for over 66% of total assets. The largest single position is currently Diageo, and the top four holdings represent 36% of total assets.

Largest Equity Holdings

Company	Sector	% total assets
Diageo	Consumer Goods	10.7
A.G. Barr	Consumer Goods	9.2
Unilever	Consumer Goods	9.0
Pearson	Consumer Services	7.1
Fidessa	Technology	5.7
Rathbone Brothers	Financials	5.6
Sage	Technology	5.6
Schroders	Financials	5.5
Reed Elsevier	Consumer Services	4.5
Kraft Foods	Consumer Goods	3.8
Top 10		66.7

Source: The Company as at 31 January 2011

Sector Weightings

Reflecting the investment approach, the portfolio is heavily focused on a handful of industries:

- 38% of the equity portfolio is invested in **Consumer Goods** in companies with healthy balance sheets and strong brands. This includes Beverage/Brewery companies (**AG Barr, Marstons, Fullers, Young & Co**), and Global Branded Consumer companies (**Diageo, Kraft** and **Unilever**) that have growing exposure to Developing Markets. Despite still representing 9.2% of total assets, the holding in AG Barr was reduced during the year on valuation grounds and it had become so significant in the portfolio. Diageo and Unilever have underperformed over the last year, but the manager strongly believes in their long-term prospects, and considers them to have significant latent value.
- **Media & Technology** represents around 27% of the portfolio (compared with around 4% for the FTSE All Share) and includes companies with developing internet businesses, such as **Reed Elsevier, Thomson Reuters, Pearson, Fidessa** and **Sage**. The sector has performed well recently, but the manager believes these companies will continue to grow strongly, and that valuations still have room for uplifts.

Outside these core areas, there is also exposure of around 18% to **Financials**, through asset managers **Schroders** and **Rathbones, Hargreaves Lansdown** and a holding in **Lloyds** preference shares. He sees these as proxies for financial markets, and believes that the current low interest rate environment is providing the asset managers with a significant opportunity to grow assets. Unlike many other Income Growth funds, this fund has no exposure to **Utilities** or **Oil & Gas**.

Yield & Gearing

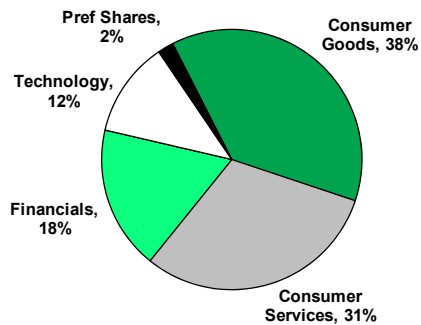
Yield of 2.7%

The fund currently has a yield of 2.7%. The dividend was cut from 9.5p per share to 8.8p per share in 2010, predominantly as a result of Lloyds ceasing to pay dividends on both its ordinary shares and preference shares. Prior to the cuts, Lloyd's securities made up approximately 7% of the fund's total assets. However special dividends paid by Fidessa in the 2010 and 2011 will allow the dividend to be fully covered at the revised level. Despite the dividend cuts by Lloyds, the majority of the remainder of the portfolio has increased dividend payment levels, including Burberry (+28%), Euromoney (+29%) and Hargreaves Landown (+18%). Over the last ten years, the portfolio has experienced weighted average annualised dividend growth of 11.7%. At 30 September 2010, the fund had revenue reserves of £4.3m, equivalent to 8.2p per share.

The fund currently has a £20m multicurrency revolving credit facility with Scotiabank which expires in October 2011. At 31 January, gearing was 7%.

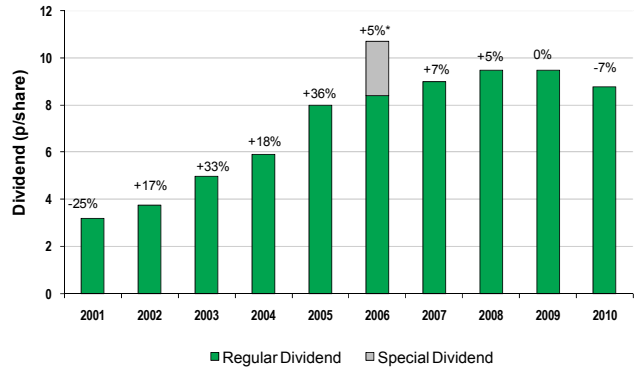
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Sector weightings



Source: Winterflood Securities, Company as at 31 January 2011

Dividend History and Growth under Lindsell Train



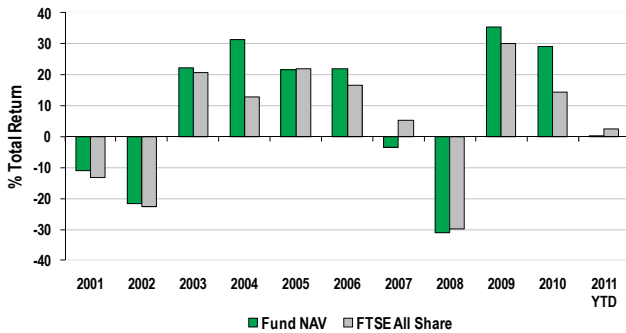
Source: Winterflood Securities, Thomson Reuters
* - Growth does not include special dividend

■ Performance

Good long term track record

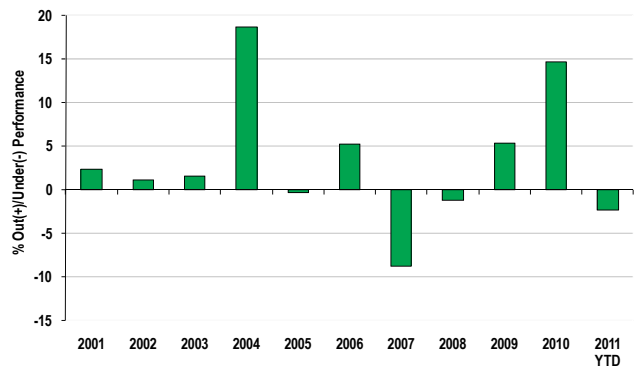
Since the appointment of Nick Train in December 2000, the fund has out-performed the FTSE All-Share, with the NAV up 86% in total return terms, compared with 45% for the index. A large amount of this out-performance came in 2004 when several holdings enjoyed re-ratings, and again in 2010, when the fund's NAV was up 29% on a total return basis, compared with 15% for the All Share. This performance was particularly impressive in 2010 considering the fund didn't hold any Resources exposure, a sector which drove the market's performance. Key contributors to the fund's performance were holdings in Technology and Media, as well as Financials such as Rathbone Brothers and Schroders.

Performance by Discrete Year



Source: Winterflood Securities, Company as at 31 January 2011

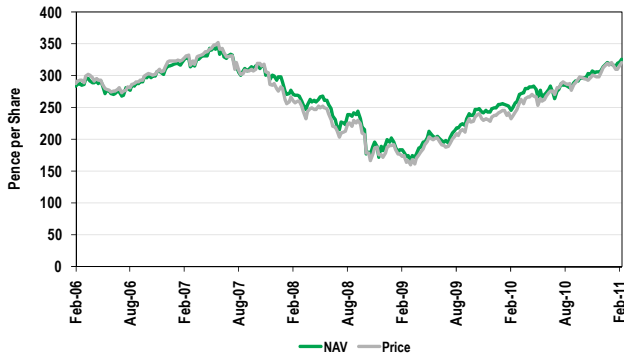
Relative Performance by Discrete Year



Source: Winterflood Securities, Thomson Reuters

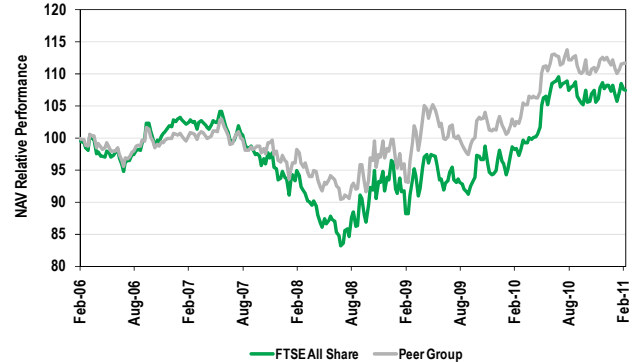
The fund underperformed through the period from mid 2007 to late 2008, predominantly as a result of holdings in financials, including Lloyds, HBOS, London Stock Exchange and Bradford & Bingley. The underperformance through that period was exacerbated by being geared throughout.

5 Year Absolute Price & NAV Performance



Source: Winterflood Securities, Thomson Reuters

5 Year NAV Performance Relative



Source: Winterflood Securities, Thomson Reuters

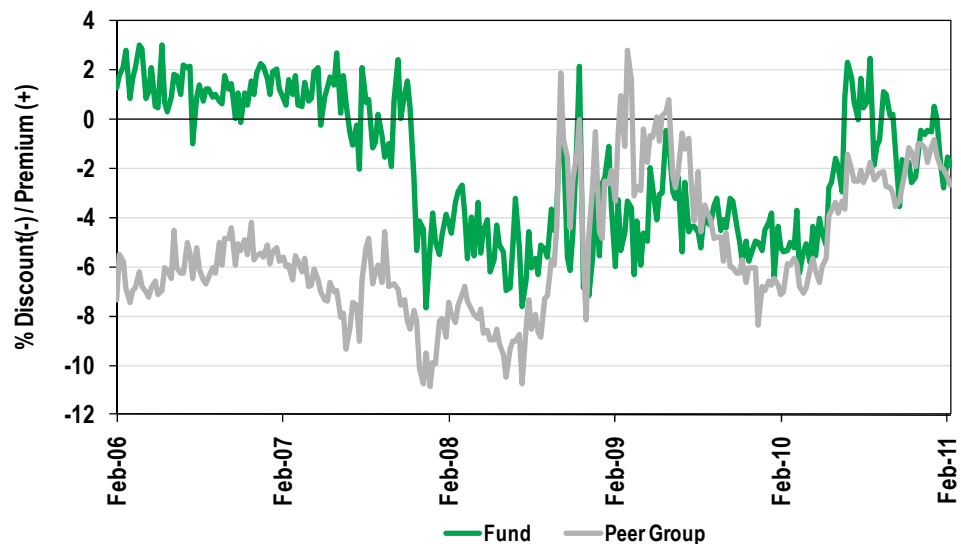
Active discount management policy

Discount History & Treasury Shares

This fund traded on a small premium between 2005 and 2007, and during that time issued both new shares and the shares it held in treasury to provide liquidity for buyers. In late 2007 however, the fund moved out to a discount again, trading mostly between asset value and a 5% discount. The fund's rating has been supported by a commitment to buyback shares at wider than a 5% discount, and since the start of 2008, the fund has bought back 5.6m shares (11% of shares in issue) at a cost of £12.8m.

This fund is able to issue shares from treasury at a discount, provided that it is at a discount no wider than 5%. In 2010 3.2m shares were issued from treasury and there are currently no shares in treasury.

5 Year Discount History



Source: Winterflood Securities, Thomson Reuters

Unique fund with
well-defined strategy

■ Winterflood View

We believe that Finsbury Growth & Income is a unique fund, with a well defined strategy clearly differentiated from other UK Income Growth vehicles. With a portfolio of only 24 companies, this fund is clearly not a closet index-tracker. Nick Train is influenced by the approach of Warren Buffett, and there are undoubtedly similarities given his long term investment horizon and the focus on strong brands/franchises. The fund is currently heavily weighted to consumer brands with Diageo and Unilever the largest holdings.

Given the investment approach, short term returns may be volatile, and should not be expected to be in line with the benchmark. However over longer time frames this fund has a proven record of strong performance. The dividend cut in 2010 was clearly a disappointment, however we believe this fund remains well placed to generate attractive total returns over time. In addition, the fund's commitment to buyback shares at a 5% discount provides support for the fund's rating at that level. As a result, we believe that the fund is an attractive vehicle for long-term investors.

** Finsbury Growth & Income is a corporate broking client of Winterflood Securities*

■ Appendix

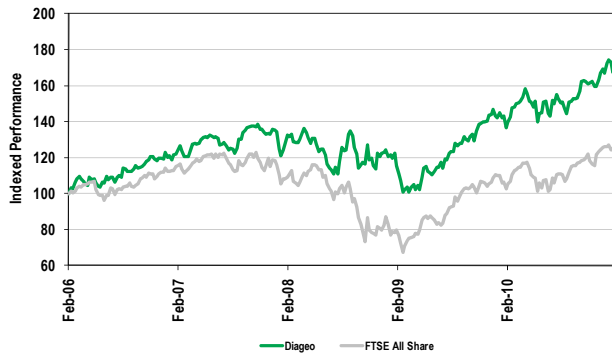
Income Growth Peer Group – NAV Performance

	Discount (%)	Mkt Cap (£m)	Yield (%)	Performance (%)				Rank			
				6m	1 Year	3 Years	5 Years	6m	1 Year	3 Years	5 Years
City of London	1.0	635	4.5	11.36	21	14.1	22	15	9	7	6
Dunedin Inc Gwth	-4.8	329	4.7	15.15	23.1	11.4	13.4	6	6	10	14
Edinburgh IT	-4.1	836	4.8	8.63	18	10.7	14	17	16	11	12
F&C Capital & Income #	1.2	193	3.8	12.63	18.3	8.58	15.5	8	15	14	11
Finsbury Growth & Income	0.7	171	2.7	12.55	31.7	33.1	34.9	9	2	2	2
Invesco Income Gwth	-7.6	114	4.6	11.77	20.6	10.5	18.8	12	11	12	8
JPM Elect - Managed Inc	-2.0	40	4.1	12.43	20.8	5.53	-0.91	10	10	16	16
Lowland	-3.1	229	3.1	28.16	43	20.5	24.3	1	1	5	5
Merchants	-4.5	425	5.5	16.53	26.7	11.7	11.7	3	3	9	15
Murray Income #	-1.5	413	4.4	13.57	23.1	13.5	16.6	7	6	8	10
Perpetual Income & Gwth	-1.2	531	3.9	11.57	20.4	18.5	25.8	13	12	6	4
Schroder Income Gwth	-2.6	140	4.5	11.48	18.8	24.2	21.2	14	14	3	7
Secs Trust of Scot	-5.9	112	4.2	15.6	26.6	10.5	13.5	4	4	12	13
Standard Life Equity Income	-2.8	119	3.8	17.1	24	20.8	27.4	2	5	4	3
Temple Bar	-1.5	522	3.8	15.53	20.3	43.7	37.2	5	13	1	1
Troy Income & Growth	-0.1	57	3.6	9.95	16.8	-20.1	-22.6	16	17	17	17
Value and Income	-22.9	87	4.0	11.88	22.5	7.76	18.8	11	8	15	8
Average	-3.6		4.1	13.9	23.3	14.4	17.2				
Weighted Average	-2.6		4.3	13.4	22.5	17.1	20.1				

Source: Winterflood Securities, Thomson Reuters as at 16/2/2011

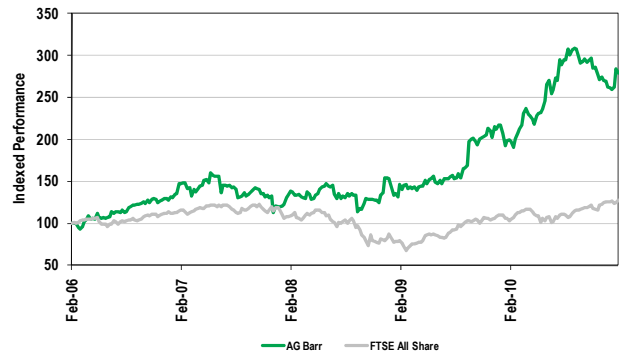
■ **Appendix - Share Price Performance of Key Portfolio Companies**

Diageo – 5 Year Share Price Performance TR



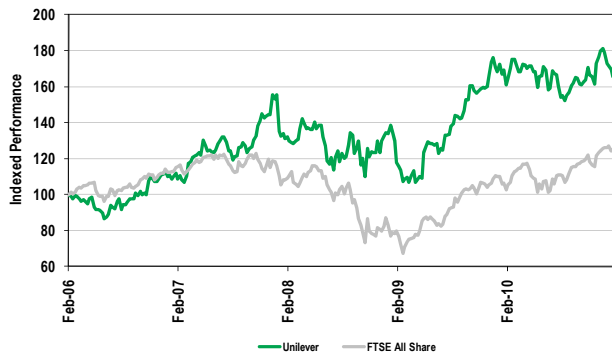
Source: Winterflood Securities, Thomson Reuters

AG Barr– 5 Year Share Price Performance TR



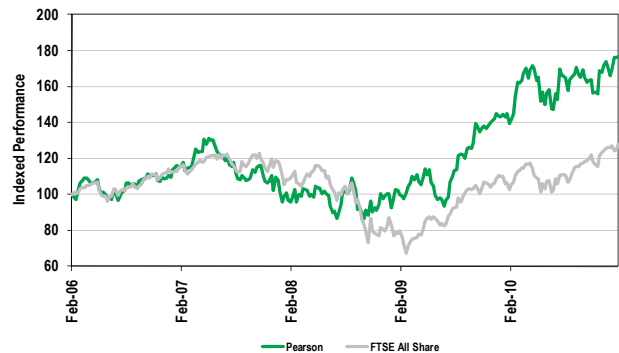
Source: Winterflood Securities, Thomson Reuters

Unilever – 5 Year Share Price Performance TR



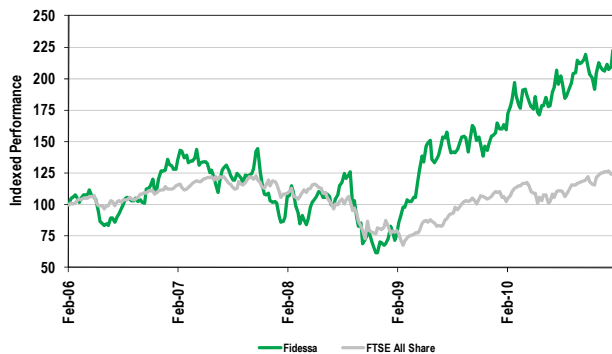
Source: Winterflood Securities, Thomson Reuters

Pearson – 5 Year Share Price Performance TR



Source: Winterflood Securities, Thomson Reuters

Fidessa – 5 Year Share Price Performance TR



Source: Winterflood Securities, Thomson Reuters

Rathbone Brothers – 5 Year Share Price Performance TR



Source: Winterflood Securities, Thomson Reuters