

Finsbury Growth & Income Trust

Adding to positive performance track record

Finsbury Growth & Income Trust (FGT) is managed by Nick Train, who runs a concentrated portfolio of primarily UK equities, aiming to generate long-term capital and income growth. A key feature is the trust's low portfolio turnover – initiating a new holding or a complete disposal of a position happens very infrequently. FGT is invested in just four out of 10 sectors of its benchmark FTSE All-Share index. Shareholders have benefited from the manager's focused, long-term investment approach, with the trust having significantly outperformed its benchmark over the last one, three, five and 10 years. Train remains optimistic on the outlook for FGT's portfolio companies and has been taking advantage of individual share price pullbacks, adding to some of his largest positions, such as Burberry.

12 months ending	Share price (%)	NAV (%)	FTSE All-Share (%)	FTSE 350 (%)	MSCI World (%)
30/04/14	12.6	12.7	10.5	10.3	8.1
30/04/15	19.6	18.7	7.5	7.5	18.7
30/04/16	2.2	2.4	(5.7)	(5.9)	1.1
30/04/17	22.1	21.9	20.1	20.0	30.6
30/04/18	11.1	12.6	8.2	8.1	6.9

Source: Thomson Datastream. Note: All % on a total return basis in GBP.

Investment strategy: Very stock-specific approach

Train employs a bottom-up approach to stock selection, seeking companies that can grow over the long term, with low capital intensity, that generate high returns and cash flow. He rarely initiates new positions, but does so when he is able to identify attractive companies that are trading below their estimated intrinsic worth. Essentially, the manager aims to buy quality companies that he can "hold forever". FGT's portfolio is made up of companies producing branded consumer goods; own media/software intellectual property; or provide retail financial services. At end-March 2018, there was a modest 2.0% level of gearing.

Market outlook: More focus on stock selection

Both UK and overseas equities have rallied strongly over the last two years, supported by improving corporate earnings, but also due to higher equity valuations. On a forward P/E multiple basis, UK shares are now trading at more than a 10% premium to their 10-year average. Against this backdrop and with higher levels of stock market volatility compared to the subdued levels in 2017, investors may be rewarded by considering a fund with a concentrated, high-conviction approach that has a strong performance track record.

Valuation: Trading close to NAV

FGT's current 0.4% share price premium to cum-income NAV is broadly in line with the average premiums of the last one, three and five years (range of 0.5% to 0.6%). The board actively manages the premium, regularly issuing shares to satisfy unfulfilled buy orders in the market. FGT has a progressive dividend policy, aiming to grow annual dividends at a rate higher than UK inflation. Based on its current share price, the trust has a dividend yield of 1.9%.

Investment trusts

10 May 2018

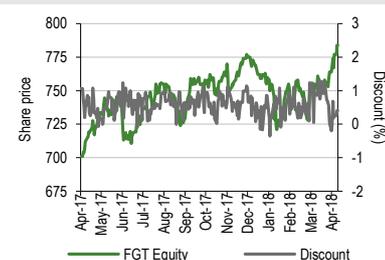
Price 784.0p
Market cap £1,309m
AUM £1,340m

NAV* 779.8p
 Premium to NAV 0.5%
 NAV** 780.8p
 Premium to NAV 0.4%

*Excluding income. **Including income. As at 8 May 2018.

Yield 1.9%
 Ordinary shares in issue 167.0m
 Code FGT
 Primary exchange LSE
 AIC sector UK Equity Income
 Benchmark FTSE All-Share

Share price/discount performance



Three-year performance vs index



52-week high/low 784.0p 710.5p
 NAV** high/low 780.8p 706.4p

**Including income.

Gearing

Gross* 2.0%
 Net* 2.0%

*As at 31 March 2018.

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Exhibit 1: Trust at a glance

Investment objective and fund background

FGT's investment objective is to achieve capital and income growth and provide shareholders with a total return above that of the FTSE All-Share Index. It invests principally in the securities of UK-quoted companies, but up to a maximum of 20% at the time of acquisition can be invested in non-UK-quoted companies. FTSE 100 companies normally represent 50-100% of the portfolio, with at least 70% usually invested in FTSE 350 companies.

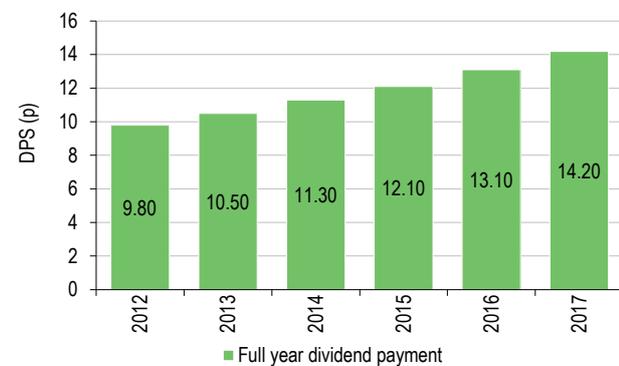
Recent developments

- 14 March 2018: Announcement of first interim dividend of 7.2p (+5.9% year-on-year).
- 31 January 2018: Announcement that John Allard and Vanessa Renwick have retired as independent non-executive directors, with immediate effect.
- 14 December 2017: 12-month results to 30 September 2017. NAV TR +13.7% versus benchmark TR +11.9%. Share price TR +14.2%.
- 26 October 2017: Appointment of Kate Cornish-Bowden and Lorna Tilbian as independent non-executive directors, with immediate effect.

Forthcoming		Capital structure		Fund details	
AGM	January 2019	Ongoing charges	0.71%	Group	Frostrow Capital
Interim results	May 2018	Net gearing	2.0%	Manager	Lindsell Train
Year end	30 September	Annual mgmt fee	Tiered (see page 7)	Address	25 Southampton Buildings, London, WC2A 1AL
Dividend paid	May, November	Performance fee	None	Phone	+44 (0)20 3008 4910
Launch date	January 1926	Trust life	Indefinite	Website	www.finsburygt.com
Continuation vote	None	Loan facilities	£75m (see page 7)		

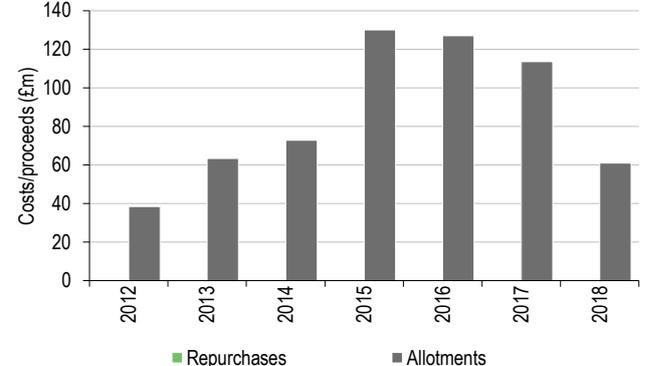
Dividend policy and history (financial years)

Two dividends paid annually in May and November. The dividend is expected to rise over the longer term.

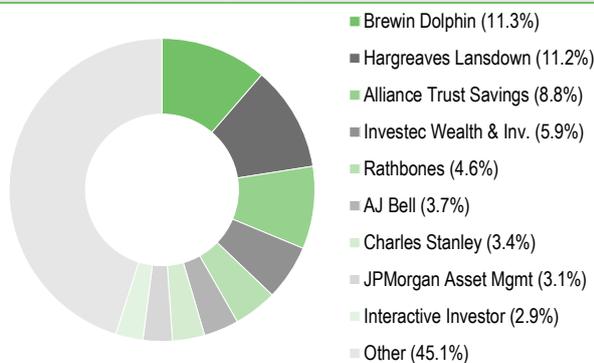


Share buyback policy and history (financial years)

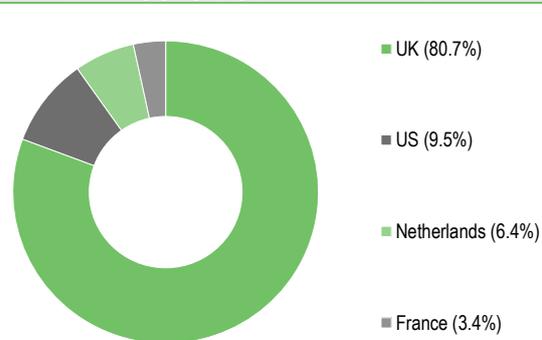
Renewed annually, the trust has the authority to purchase up to 14.99% and allow up to 10% of issued share capital.



Shareholder base (as at 30 April 2018)



Portfolio exposure by geography (as at 31 March 2018)



Top 10 holdings (as at 31 March 2018)

Company	Country	Sector	Portfolio weight %	
			31 March 2018	31 March 2017*
Unilever	UK	Consumer goods	9.5	10.2
Diageo	UK	Consumer goods	9.4	9.6
London Stock Exchange	UK	Financials	8.8	7.9
RELX**	UK	Consumer services	8.6	9.7
Hargreaves Lansdown	UK	Financials	7.6	6.2
Burberry Group	UK	Consumer goods	6.8	7.3
Heineken	Netherlands	Consumer goods	6.4	6.3
Schroders	UK	Financials	5.8	6.1
Mondelēz International	US	Consumer goods	5.6	4.9
Sage Group	UK	Technology	5.4	5.3
Top 10			73.9	73.5

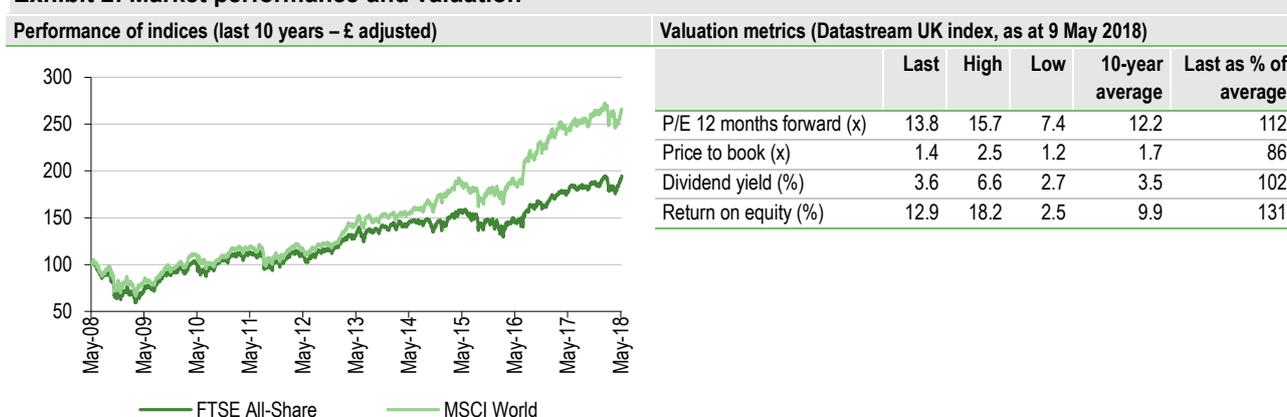
Source: Finsbury Growth & Income Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in March 2017 top 10. **Formerly Reed Elsevier.

Market outlook: More selectivity warranted?

As shown in Exhibit 2 (LHS), both UK and global equities have generated particularly strong returns over the last couple of years. This is due to both robust corporate earnings growth and an upward revaluation of equities. Illustrated in the table below, on a forward earnings multiple basis, UK equities are trading towards the high end of their 10-year range and more than 10% higher than the average of the last decade.

In 2017, stock market volatility, as measured by the US VIX index, was particularly low at around half the long-term average. Volatility has increased in 2018 year to date, returning to more normal historical levels. This current investment backdrop of above-average equity valuations and higher levels of volatility may favour managers with a high-conviction, stock-specific approach, that have a proven ability to outperform the market.

Exhibit 2: Market performance and valuation



Source: Thomson Datastream, Edison Investment Research

Fund profile: Concentrated, mainly UK equity exposure

FGT was launched in January 1926 and since 2000 has been managed by Nick Train, a founding partner of specialist investment company Lindsell Train Investment Management. He has more than 35 years of investment experience. The manager aims to generate long-term growth in capital and income from a concentrated portfolio of primarily UK equities, although up to 20% (at the time of investment) may be invested in companies listed overseas. At end-March 2018, UK exposure was c 80%, with the remaining exposure spread between the US, the Netherlands and France.

FGT generally has 25 to 30 holdings with a minimum position size of 1%, unless they are in the process of being built or disposed of. Typically, 50-100% of the portfolio will be invested in FTSE 100 companies, and comparable companies listed on overseas stock exchanges, and at least 70% will be invested in FTSE 350 companies or their overseas equivalents. Gearing of up to 25% of NAV is permitted; at end-March 2018 it was 2.0%. The manager believes that a modest level of gearing should add value over the long term. Up to 10% of the portfolio may be held in cash, although Train prefers to remain fully invested.

While the manager adopts an unconstrained investment approach, FGT is benchmarked against the FTSE All-Share index for comparison purposes. The trust has a very strong performance track record, outperforming the benchmark over the last one, three, five and 10 years. Due to capital appreciation and regular investor inflows, the size of the trust has grown rapidly in recent years and assets under management are now c £1.3bn. Train regularly invests his own money in FGT, ensuring that all shareholders' interests are aligned.

The fund manager: Nick Train

The manager's view: Retaining an optimistic outlook

Train discussed the increase in stock market volatility so far in 2018, saying that there are several companies he has been following for a long time and considered buying, which have fallen by 10-20% over the last year. While he considers these moves important, he notes there are key holdings in the portfolio that have also fallen by a similar amount, such as Unilever and Diageo, so Train suggests that he may well add to these positions rather than initiate a new holding. Given the very long holding period of FGT's investments, the manager says that the entry point arguably should not matter. However, given his value bias, he still prefers to initiate a position in a company that is distinctly out of favour, or where its share price has been weak for a prolonged period, such as when he purchased Rémy Cointreau in 2015.

The manager says that the volume of global mergers and acquisitions (M&A) remains high by historical standards, which he views as supportive for stock markets. Indeed, two of FGT's holdings have been bid for, at meaningful premiums to their pre-bid share prices: Dr Pepper Snapple Group by US coffee specialist Keurig Green Mountain; and Fidessa by Ion, a financial software group backed by US private equity firm Carlyle. Train considers both bids are a disappointment, given he will be losing two holdings that he describes as having been "magnificent investments". However, receiving the proceeds from a takeover bid does give him the opportunity to add to other selected portfolio holdings whose share prices have pulled back, such as Burberry, Sage and Unilever.

As a long-term, optimistic investor in primarily UK companies, Train is disappointed that the UK is no longer seen globally as one of the leading stock markets. He says that anecdotally, investors are reducing their UK exposure, but given the improving performance of some of its large firms, such as the major oil companies, perhaps there will be higher future demand for UK equities.

Asset allocation

Investment process: Investing with a very long-term focus

Similar to the renowned US investor Warren Buffett, Train aims to buy great businesses that have high quality management teams, to pay less than their perceived intrinsic worth and to own shares in those companies forever. He seeks firms with the following attributes:

- durability – companies that can grow over the long term, through different business cycles;
- high return on equity – companies that can generate consistent annual earnings growth; and
- low capital intensity/high free cash flow generation – companies that do not have to invest a lot of capital to generate strong cash earnings.

FGT's portfolio is very concentrated, with c 25 holdings, and average annual turnover is less than 5% pa. Manchester United was the latest addition to the fund (2017); the previous two new holdings were Rémy Cointreau (2015) and Heineken (2011). The most recent complete sales were Kraft Heinz (2018), Thomson Reuters (2016) and Marston's (2013). FGT tends to invest in very well-established firms – the average age of portfolio companies is c 150 years and nearly half have high family ownership. Investments are concentrated in sectors where the manager believes the companies have long-term competitive advantages, such as global branded consumer goods, owners of media/software intellectual property, and retail financial services. Examples include Diageo, which is the world's number one spirits and dark beer producer; Heineken, the leading international beer brand; Mondelēz, the largest global chocolate company; Pearson, the world's number one educational publisher; and Hargreaves Lansdown, the UK's leading investment services platform.

Current portfolio positioning

At end-March 2018, FGT's top 10 positions made up 73.9% of the portfolio, which was broadly in line with 73.5% a year earlier; all 10 companies were common to both periods. The largest holding in the portfolio continues to be Unilever, which the manager describes as the world's number one emerging markets fast-moving consumer goods (FMCG) company. It has grown its dividend at an average annual rate of 8% over the last 54 years.

In terms of changes in sector exposure over the last 12 months, there have been modest increases in financials (+1.8pp) and technology (+0.8pp), with lower consumer exposure: goods (-2.1pp) and services (-0.5pp), although these two sectors continue to dominate FGT's portfolio (nearly two-thirds combined). The structure of the portfolio in terms of geographic exposure is broadly similar compared with 12 months ago, with c 80% UK and c 20% overseas exposure.

Exhibit 3: Portfolio sector exposure vs FTSE All-Share index (% unless stated)						
	Portfolio end-March 2018	Portfolio end-March 2017	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
Consumer goods	45.8	47.9	(2.1)	14.8	31.0	3.1
Financials	25.6	23.8	1.8	27.1	(1.5)	0.9
Consumer services	19.7	20.2	(0.5)	11.3	8.4	1.7
Technology	8.9	8.1	0.8	0.9	8.0	9.9
Utilities	0.0	0.0	0.0	2.7	(2.7)	0.0
Telecommunications	0.0	0.0	0.0	3.3	(3.3)	0.0
Basic materials	0.0	0.0	0.0	7.7	(7.7)	0.0
Healthcare	0.0	0.0	0.0	8.6	(8.6)	0.0
Industrials	0.0	0.0	0.0	10.8	(10.8)	0.0
Oil & gas	0.0	0.0	0.0	12.8	(12.8)	0.0
	100.0	100.0		100.0		

Source: Finsbury Growth & Income Trust, Edison Investment Research

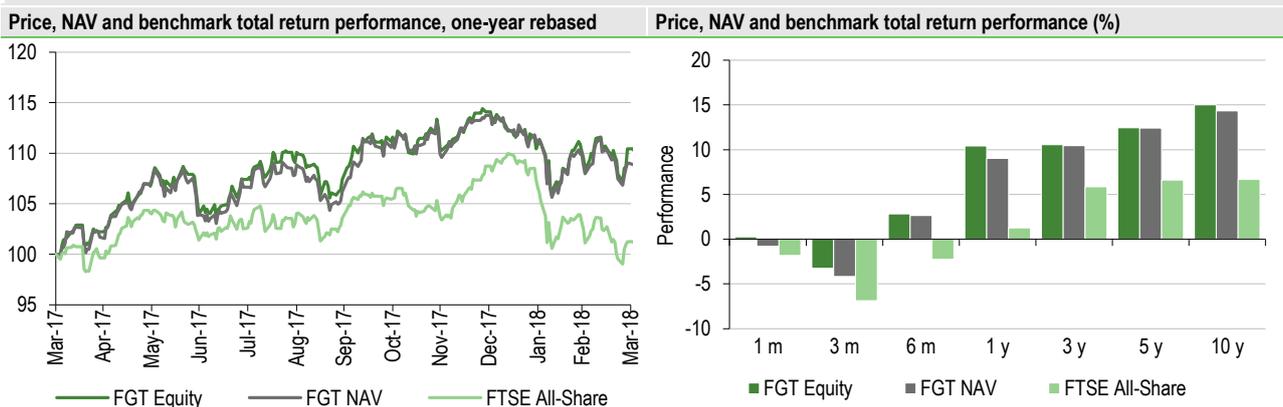
The manager says that FGT's total return of more than 20% in 2017 highlighted the importance within the portfolio of themes, which he expects to continue to generate shareholder value. The first theme is consumer brands that are great products. The best-performing stock in the portfolio in 2017 was Rémy Cointreau (+53%), which owns Rémy Martin, a world-leading producer of premium cognac. It has been observed that as global wealth increases, there is an increase in premium cognac consumption, meaning Rémy Cointreau is well positioned to continue to grow its revenues and earnings. Train says that there are plenty of companies in FGT's portfolio that he believes have brands that are undervalued, including the trust's newest holding in Manchester United, and A.G. Barr, the maker of the highly recognisable soft drink IRN-BRU, among others.

The second key portfolio theme is companies that are taking advantage of digital technology, such as online investment platform Hargreaves Lansdown, which was FGT's largest single contributor to performance in 2017. The company continues to grow faster than its competitors, both in terms of gathering assets and increasing its number of customers. Train says that economies of scale make Hargreaves Lansdown tough to compete against and although its shares are not currently cheap, he believes the company is undervalued compared to its potential value over the next five to 10 years. The manager and his colleagues spend a lot of their time considering how companies are using digital technology to enhance their business performance. While Pearson's shares have underperformed the UK stock market in recent years, Train says that he is pleased that he did not sell the position, as the shares have rallied meaningfully from the low point in Q317. He says that the jury is still out as to whether Pearson has been successful in responding to the technology pressures it has faced. However, recent trading statements have been more encouraging than those released a couple of years ago. The company is working hard to put its digital products and services into the hands of US educators and students. Train says that getting its US educational business right is critical in terms of increasing Pearson's profitability and there is a huge benefit if a successful US business model can subsequently be exported around the globe.

Performance: Long-term record of outperformance

Train is in his 18th year as manager of FGT and data issued by the company shows that over this period he has only underperformed the benchmark in three calendar years: by 4.3pp in 2016; 1.4pp in 2008; and a very modest 0.3pp in 2005. He has outperformed in all other years, including five years of double-digit outperformance: 10.7pp in 2015; 14.3pp in 2013; 11.3pp in 2012; 14.9pp in 2010; and 18.8pp in 2004. This is in spite of the trust's heavily concentrated portfolio, which is currently invested in just four sectors. On an annualised basis, between 2001 and 2018, the trust has delivered total returns of 10.1% pa compared to 5.1% pa for the benchmark.

Exhibit 4: Investment trust performance to 31 March 2018



Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

FGT's enviable performance track record is shown in Exhibits 4, 5 and 6. The trust has delivered average c 15% pa NAV and share price total returns over the last decade and has outperformed the benchmark FTSE All-Share index benchmark in both NAV and share price terms over all periods shown. Its NAV has outperformed by 7.7% over the last 12 months and by an average of c 4.5%, c 6.0% and c 10.0% over the last three, five and 10 years respectively.

Exhibit 5: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to FTSE All-Share	2.1	3.9	5.2	9.1	13.9	30.7	112.4
NAV relative to FTSE All-Share	1.1	2.9	5.0	7.7	13.6	30.5	100.1
Price relative to FTSE 350	2.1	4.0	5.3	9.3	14.4	31.5	113.8
NAV relative to FTSE 350	1.1	3.0	5.1	7.9	14.1	31.4	101.4
Price relative to MSCI World	4.3	1.5	3.0	8.5	(0.2)	1.7	52.2
NAV relative to MSCI World	3.2	0.5	2.8	7.1	(0.5)	1.6	43.3

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-March 2018. Geometric calculation.

Exhibit 6: NAV total return performance relative to benchmark over 10 years, rebased to 100

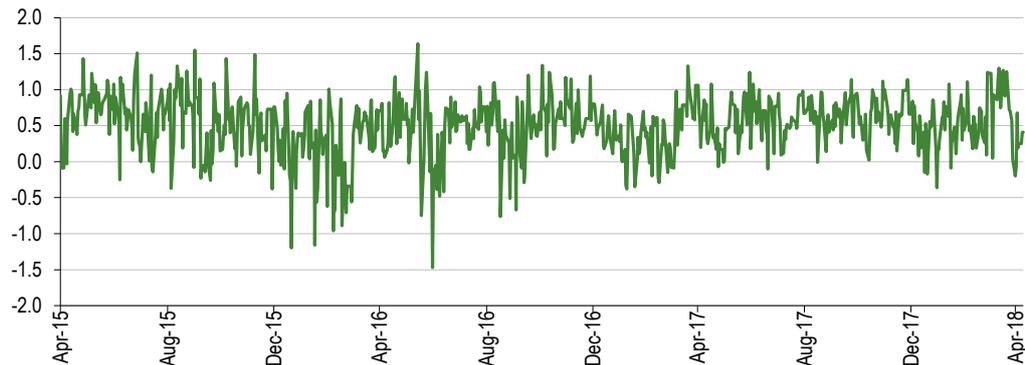


Source: Thomson Datastream, Edison Investment Research

Discount: Continues to trade close to NAV

FGT's shares trade closely in line with NAV. The current 0.4% share price premium to cum-income NAV compares to the range over the last 12 months of a 1.3% premium to a 0.4% discount. It is broadly in line with the average premiums of the last one, three and five years of 0.6%, 0.5% and 0.5% respectively. FGT's board actively manages the discount/premium, purchasing shares when the discount to ex-income NAV exceeds 5% and issuing shares when there are unfulfilled buy orders in the market. There have been no shares repurchased since FY10 and there is healthy ongoing demand for shares, evidenced by regular share issuance (Exhibit 1).

Exhibit 7: Share price premium/discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

FGT is a conventional investment trust with one class of share. There are currently 167.0m ordinary shares outstanding. The trust has a £75m revolving credit facility with Scotiabank Europe, with an option to increase it by a further £25m and the facility expires in October 2019. If the £75m was fully drawn down, gearing would be c 6%, which compares to 2% at end-March 2018.

The board introduced a stepped fee structure, which has been in effect since 11 October 2016. Manager Lindsell Train is paid an annual management fee of 0.450% of FGT's market cap up to £1bn and 0.405% of market cap above £1bn. The manager is not entitled to a performance fee. Historically, annual management fees were a flat 0.450% of market cap. Frostrow Capital is FGT's Alternative Investment Fund Manager, providing company management, secretarial, administrative and marketing services. It receives an annual fee of 0.150% of the trust's market cap up to £1bn, and 0.135% of market cap above £1bn. Previously Frostrow's fees were fixed at £70,000 pa plus 0.15% of FGT's market cap. In FY17, ongoing charges of 0.71% were 3bp lower than in FY16.

Dividend policy and record

FGT pays dividends twice a year in May and October. The trust has a progressive dividend policy, aiming to grow annual dividends at a rate higher than UK inflation; over the last five years FGT's total distribution has compounded at an annual rate of 7.7% pa. The FY17 annual dividend of 14.2p was 1.1x covered by revenue and was 8.4% higher than 13.1p paid in FY16. FGT's dividend yield is lower than its peer group average, reflecting its focus on total return rather than income.

Peer group comparison

FGT is a member of the AIC UK Equity Income sector, a relatively large group of 24 funds with a variety of mandates. In Exhibit 8, we show the 12 largest trusts; FGT is the third-largest. The trust has a very strong performance record – its NAV total returns are first over one and three years (6.4pp and 17.7pp above average respectively), second over five years (34.4pp above average) and first out of 11 funds over 10 years (152.2pp above average). FGT is one of four trusts trading at a premium, its ongoing charge is average and, in common with most of the peers, no performance fee is payable. The trust has a modest level of gearing and, befitting its mandate to generate long-term growth in both capital and income, it has a below-average dividend yield.

Exhibit 8: Selected peer group as at 9 May 2018*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Finsbury Growth & Income	1,309.2	12.4	40.6	88.8	282.0	0.4	0.7	No	102	1.9
City of London	1,527.6	4.6	18.3	47.0	112.5	0.8	0.4	No	109	4.1
Diverse Income Trust	408.4	8.6	36.6	90.4		2.7	1.2	No	100	3.1
Dunedin Income Growth	384.2	3.2	14.4	30.9	75.6	(11.0)	0.6	No	114	4.7
Edinburgh Investment	1,356.0	(2.0)	15.3	53.7	123.1	(8.1)	0.6	No	109	3.4
F&C Capital & Income	341.2	11.2	37.2	59.8	100.8	1.4	0.6	No	100	3.2
JPMorgan Claverhouse	414.7	9.1	25.0	57.2	102.7	(2.5)	0.8	No	112	3.6
Lowland	420.1	5.8	24.9	60.6	160.2	(5.6)	0.6	Yes	112	3.3
Merchants Trust	567.6	11.8	19.5	43.1	89.1	(6.4)	0.6	No	122	4.8
Murray Income Trust	525.3	2.5	17.9	35.5	87.6	(7.4)	0.7	No	106	4.2
Perpetual Income & Growth	889.6	(2.5)	6.1	44.0	134.5	(9.3)	0.7	No	110	3.7
Temple Bar	885.4	6.9	18.9	41.5	159.9	(4.4)	0.5	No	100	3.2
Average (12 funds)	752.4	6.0	22.9	54.4	129.8	(4.1)	0.7		108	3.6
Trust rank in selected peer group	3	1	1	2	1	4	3		9	12

Source: Morningstar, Edison Investment Research. Note: *Performance data to 8 May 2018. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

There are six directors on FGT's board; all are non-executive and independent of the manager. The chairman is Anthony Townsend, who rejoined the board in February 2005 and assumed his current role in January 2008. The other five directors and their dates of appointment are: David Hunt (July 2006), Neil Collins (January 2008), Simon Hayes (June 2015), and Kate Cornish-Bowden and Lorna Tilbian (both October 2017).

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