Finsbury Growth & Income Trust

Looking forward to improved relative performance

Investment trusts
UK equities

15 February 2024

Price		**847.0p**
Market cap		**£1,634m**
Total assets		**£1,786m**
NAV*		907.4p
Discount to NAV		6.7%
*Including income. At 13 February 2024.		
Yield		2.2%
Ordinary shares in issue		192.9m
Code/ISIN		FGT/GB0007816068
Primary exchange		LSE
AIC sector		UK Equity Income
52-week high/low	920.0p	792.0p
NAV* high/low	968.7p	835.3p
*Including income.		
Net gearing*		1.9%
*At 31 January 2024.		

Finsbury Growth & Income Trust (FGT) has been managed by Nick Train since the beginning of 2001 and in 2019 Madeline Wright was appointed as the trust's deputy portfolio manager. Despite an impressive long-term record – during Train's tenure to the end of 2023, FGT's NAV generated a 9.0% annual total return versus the UK market's 5.1% annual total return – there have now been three consecutive years of underperformance. The managers will continue to employ the long-term successful strategy of running a concentrated fund, investing in quality growth businesses, with high returns and low capital intensity, which can thrive throughout the economic cycle. Train and Wright believe that the market will reward FGT's shareholders over time. Portfolio names change infrequently in keeping with the fund's very low turnover, but in September 2023, property platform Rightmove entered the portfolio; this was the first new holding since 2020.

Video with managers Train and Wright (13 February 2024)

Source: FGT

Why consider FGT?

FGT is a specialist, primarily UK, equity trust with a highly concentrated portfolio of around 20 names, across just five of the 11 market sectors. Holdings are high-quality businesses with high returns on equity (average of 26% at the end of FY23). In FY23, most portfolio companies increased their dividends, while more than 75% of the portfolio by value repurchased shares or paid a special dividend.

Train highlights the global bull market in technology and luxury goods stocks. While the UK has been out of favour with investors, the manager believes that there are sufficient opportunities in UK-listed companies to benefit from these two trends, which make up 75% of FGT's portfolio. In 2023, the four largest positive contributors to the trust's performance (RELX, Sage Group, London Stock Exchange Group and Experian) are all data companies, which are well positioned to benefit from the growth in artificial intelligence (AI).

While Train and Wright are very disappointed with FGT's underperformance in recent years, readers should remember that the trust has outperformed its benchmark over the long term by a considerable margin. The trust is a member of the AIC UK Equity Income sector; its NAV total returns rank first out of 20 funds over the last 10 years. Train also has plenty of 'skin in the game' as he currently owns 2.8% of the company and regularly adds to his investment.

Fund objective

Finsbury Growth & Income Trust's investment objective is to achieve capital and income growth and provide shareholders with a total return above that of the broad UK market index. It invests principally in the securities of companies either listed in the UK or otherwise incorporated, domiciled or having significant business operations within the UK, while up to a maximum of 20% of the portfolio, at the time of acquisition, may be invested in companies not meeting these criteria.

Bull points

- Very strong long-term absolute and relative performance versus the broad UK market.
- Disciplined strategy, with the managers investing with a very long-term perspective.
- The discount is at the wider end of the three-year range, which may offer a favourable entry point.

Bear points

- The highly concentrated portfolio means that a single company's share price weakness can negatively affect the whole fund's performance.
- Key person risk: Train has built up FGT's long-term record over the last 24+ years.
- Despite attractive valuations, UK shares remain out of favour with global investors.

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FGT: Highly concentrated portfolio of quality names

FGT has a concentrated high-conviction portfolio with around 20 holdings. At the end of 2023, each of the top three positions made up more than 10% of the fund, while around 85% was held in the top 10 names. Regarding the available domestic opportunity set, Train says that there are sufficient world-class businesses in the UK, and they are trading at lower valuations than their global peers; hence, the managers' focus on investing in UK companies. FGT has a few non-UK holdings, but their exposure has declined over the last six months as the managers are finding much better value in UK businesses.

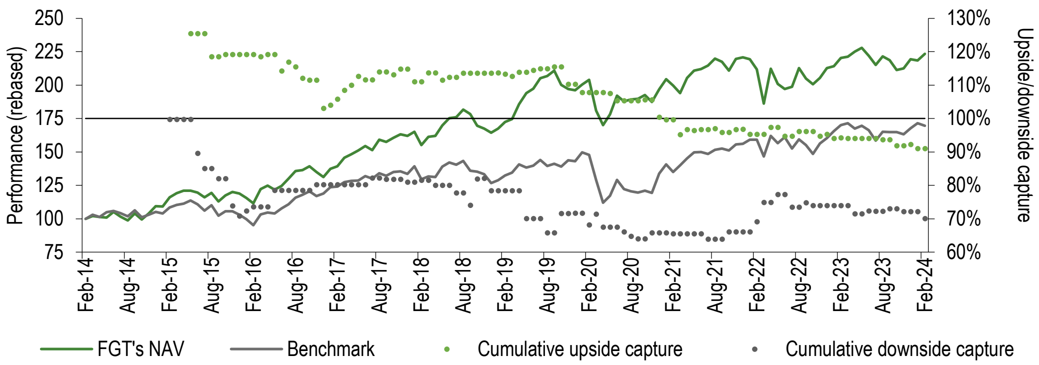
One of FGT's distinguishing characteristics is its low portfolio turnover, which is less than 5% per year. As a result, new positions and complete disposals are rare. Prior to 2023, the latest additions to the portfolio were Fevertree Drinks and Experian in early 2020. However, in September 2023, the managers started a position in Rightmove, which is the UK's leading property portal; it is a well-established business as 85% of its online traffic is directly to its website rather than via search engines. Train and Wright believe the company has the opportunity to take advantage of its high-quality proprietary data, enabling it to deliver more paid-for tools and services and create more value for its customers.

FGT's upside/downside analysis

FGT's cumulative upside/downside capture over the last decade is shown in Exhibit 1. The trust's upside capture of 91% suggests that during periods when the UK market is rising, FGT will modestly underperform. It is interesting to note that before the start of 2021, which was the time when UK inflation started to rise, the trust's capture rate was above 100%, indicating that FGT was likely to outperform in a rising market.

The trust's defensive nature is illustrated by its downside capture rate of 70%, which indicates that FGT is likely to outperform by a meaningful amount during periods of UK stock price weakness; the downside capture rate has consistently been less than 100% over most of the last decade.

Exhibit 1: FGT's upside/downside capture



Source: Refinitiv, Edison Investment Research. Note: Cumulative upside/downside capture calculated as the geometric average NAV total return (TR) of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside indicates that the fund's TR was in line with the reference index's during months with positive/negative returns. Data points for the initial 12 months have been omitted in the exhibit due to the limited number of observations used to calculate the cumulative upside/downside capture ratios.

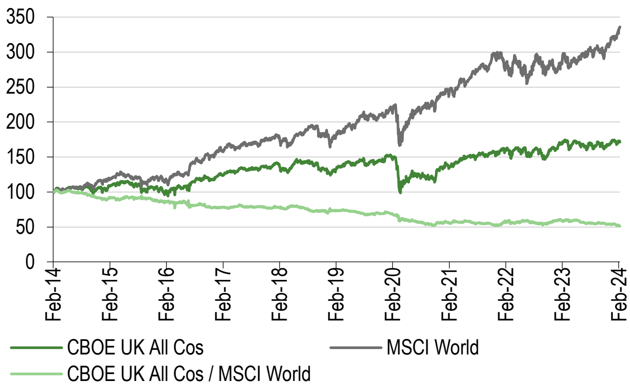
UK market is attractively valued

The UK market has been out of favour with global investors for a very long time. This is clearly illustrated in Exhibit 2 (left-hand side) with the UK delivering around 50% less than the world market over the last decade. Investors cite several reasons, including the UK's lack of exposure to technology stocks, the decision to leave the European Union and political uncertainty. While these facts are undeniable, the UK remains home to many quality businesses ranging from major multinational companies down to innovative domestic growth firms. Also, as shown below, UK stocks are attractively valued, which could lead to an uptick in M&A; historically, this type of environment has been supportive for the performance of the UK market.

Looking at Datastream indices in Exhibit 2 (right-hand side), the UK market stands out in terms of its relatively low valuations. Its forward P/E multiple is around 47% and 33% lower than those of the US and world markets respectively, while the price-to-book differentials are even wider. The UK also offers a meaningfully higher dividend yield than both the US and world markets.

Exhibit 2: Market performance and valuation

Performance of indices (last 10 years – £ adjusted)



Valuation metrics of Datastream indices (at 13 February 2024)

	Last	High	Low	10-year average	Last as % of average
P/E 12m forward (x)					
UK	11.0	15.8	9.6	13.4	82
US	20.6	23.5	14.1	18.1	114
World	16.5	19.9	12.5	15.6	105
Price-to-book (x)					
UK	0.8	1.7	0.7	1.1	72
US	4.5	4.6	2.3	3.3	139
World	2.3	2.3	1.4	1.9	120
Dividend yield (%)					
UK	3.7	6.4	2.7	3.6	104
US	1.4	2.7	1.2	1.9	77
World	2.2	3.4	1.8	2.4	93

Source: Refinitiv, Edison Investment Research

Update from Train at FGT's 23 January 2024 AGM

The manager comments that this was his 24th presentation at an FGT AGM. He is proud of his long tenure and long-term track record during this period with the trust's annual NAV total return of 9.0% versus the UK market's 5.1% annual total return. However, he goes on to explain that 2023 was the third consecutive year of underperformance versus the benchmark: -5.3pp in 2021, -6.8pp in 2022 and -2.1pp in 2023. He acknowledges that this performance 'is not good enough'.

Train is hoping that 2024 will be a stellar year of outperformance, explaining that he and Wright will stick to their guns as Train's investment approach has worked for most of the last 24 years. He says that when he started his career 43 years ago at GT Management and attended his first ever investment meeting, one of GT's founders, Richard Thornton, shared his four-point plan for successful equity investment: identify a great idea; invest as much in this as you can afford; double the size of the holding; and then tell everyone about it. This advice still resonates with Train, who comments that great ideas are rare and investors tend not to back their ideas to the hilt; instead, they 'diworsify' by adding lower-conviction holdings to their portfolios.

Managers' comments on FGT's 2023 performance

Train highlights that the largest negative contributors to FGT's 2023 performance were Burberry Group and Diageo (both -2.4pp). These businesses have grown in the 21st century and the manager considers that both companies remain relevant. Burberry listed in in the UK in 2003 and since then its earnings per share have increased four times, while over this period Diageo's earnings have grown by three times. Train contends that across the globe people with growing wealth are spending on luxury products and fine liquors, which he expects to continue, and Diageo is well positioned to benefit from this megatrend. In 2023, the company experienced a cyclical blip during a period of higher interest rates and higher costs; however, it has 30% operating margins and a 50% ROE, so growth is very accretive to the bottom line, says the manager. He considers Burberry's and Diageo's share price weakness (particularly Diageo's) to be a buying opportunity.

Wright focuses on FGT's highest positive 2023 performance contributors, all of which are UK-listed data companies with strong long-term total returns: RELX (+4.2pp); Sage Group (+3.9pp); London Stock Exchange Group (+3.2pp); and Experian (+1.6pp). Since the inception of the top 100 UK index 40 years ago, RELX has been the top performing stock; £100 invested in this company 40 years ago has grown to more than £35,000, illustrating the benefit of having a long-term perspective. RELX, Sage and London Stock Exchange are large long-term portfolio holdings, while Experian was added in 2020, having listed in the UK in 2006.

FGT's exposure to digital winners

Wright explains that AI enhances problem solving, making sense of data faster and more efficiently; the ability to leverage AI is a competitive advantage, providing new products to sell to customers. The manager considers that FGT's top performance contributors are all great examples of AI beneficiaries; she stresses they are AI beneficiaries rather than AI plays, as these companies already have very successful businesses. Wright highlights that there are a further two companies in the portfolio that can be considered 'digital winners', Hargreaves Lansdown and Rightmove. These six holdings combined make up around 53% of the fund compared to around 7.5% of the benchmark. The manager says all the six 'digital winners' have caches of unique data, whose value can be enhanced by using AI. Data sourced from Bank of America show that four of the six companies meet all the perceived credentials for AI success: a market-leading data set; an industry leading position; global operation; targeted R&D; recurring revenues based on workflows not transactions; and business-to-business rather than business-to-consumer operations. The exceptions are Hargreaves Lansdown and Rightmove, which are not global businesses, while Hargreaves Lansdown has a business-to-consumer model.

Wright shares some company-specific facts. RELX adds 1.7m new legal documents to its database every day and has been investing in AI for the last 10 years. Sage Group is the largest provider of accounting software for small and medium-sized enterprises. Its largest market is the United States (40%) and it has an AI partnership with Microsoft. London Stock Exchange Group is the largest provider of real-time market data, the value of which is illustrated by Microsoft buying a 4% stake in the company. Experian is the world's largest credit bureau, with credit information on 1.4 billion individuals and 191 million businesses. Hargreaves Lansdown has the largest customer base in its industry with 393 million digital visits from engaged users. It also has significant cash on its balance sheet, which provides optionality. Rightmove has 85% share of industry traffic, with the largest and the most detailed data set.

Current portfolio positioning

Exhibit 3: Top 10 holdings (at 31 January 2024)

			Portfolio weight %	
Company	**Country**	**Sector**	**31 January 2024**	**31 January 2023***
RELX	UK	Consumer discretionary	12.5	11.7
London Stock Exchange Group	UK	Financials	12.0	9.7
Experian	UK	Industrials	11.1	6.7
Sage Group	UK	Technology	10.2	6.5
Diageo	UK	Consumer staples	10.1	10.8
Unilever	UK	Consumer staples	8.5	8.9
Mondelēz International	US	Consumer staples	5.7	6.8
Burberry Group	UK	Consumer discretionary	5.5	10.1
Schroders	UK	Financials	5.5	6.7
Heineken	Netherlands	Consumer staples	3.5	N/A
Top 10 (% of portfolio)			**84.6**	**83.3**

Source: FGT, Edison Investment Research. Note: *N/A where not in January 2023 top 10.

At the end of January 2024, FGT's top 10 holdings made up 84.6% of the fund, which was higher than 83.3% a year earlier; nine positions were common to both periods.

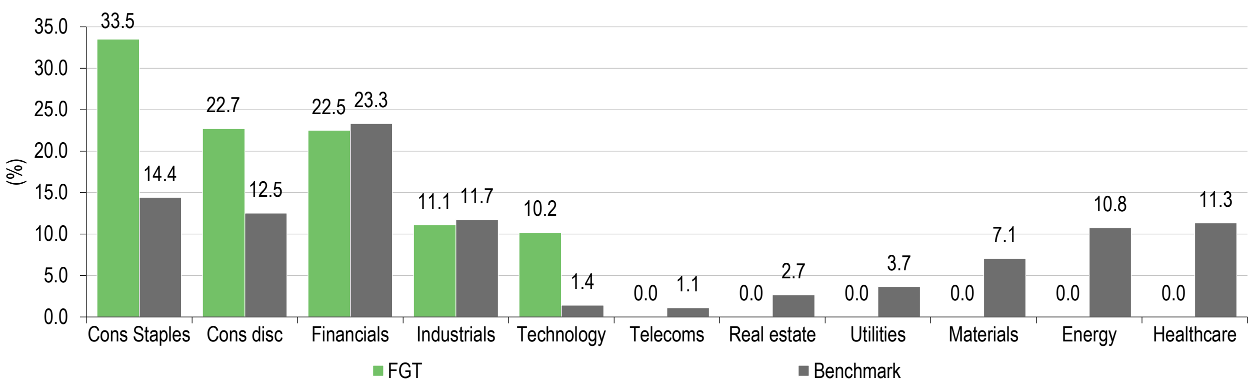
Exhibit 4: Portfolio sector exposure versus benchmark (% unless stated)

	Portfolio end-January 2024	Portfolio end-January 2023	Change (pp)	Active weight vs benchmark (pp)
Consumer staples	33.5	40.0	(6.5)	19.1
Consumer discretionary	22.7	24.7	(2.0)	10.2
Financials	22.5	22.2	0.3	(0.8)
Industrials	11.1	6.6	4.5	(0.6)
Technology	10.2	6.5	3.7	8.8
Telecommunications	0.0	0.0	0.0	(1.1)
Real estate	0.0	0.0	0.0	(2.7)
Utilities	0.0	0.0	0.0	(3.7)
Basic materials	0.0	0.0	0.0	(7.1)
Energy	0.0	0.0	0.0	(10.8)
Healthcare	0.0	0.0	0.0	(11.3)
Total	**100.0**	**100.0**		

Source: FGT, Edison Investment Research. Note: Excludes cash.

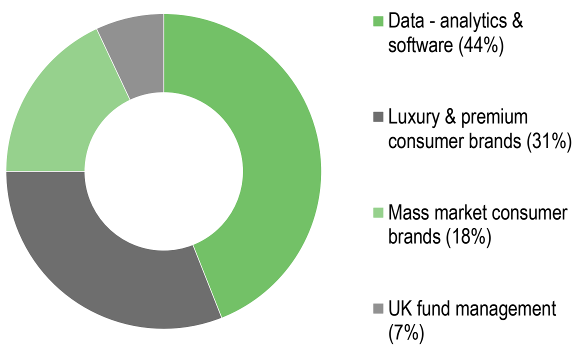
FGT's concentrated portfolio is spread across just five industry sectors (Exhibits 4 and 5); the remaining six sectors made up 36.7% of the benchmark at the end of January 2024. The trust's largest positive active weights were consumer staples (+19.1pp), consumer discretionary (+10.2pp) and technology (+8.8pp), while there were significant underweight exposures to healthcare (-11.3pp), energy (-10.8pp) and materials (-7.1pp). Over the 12 months to the end of January 2024, the largest changes in sector allocations were consumer staples (-6.5pp), industrials (+4.5pp) and technology (+3.7pp).

Exhibit 5: FGT and benchmark sector breakdowns at 31 January 2024



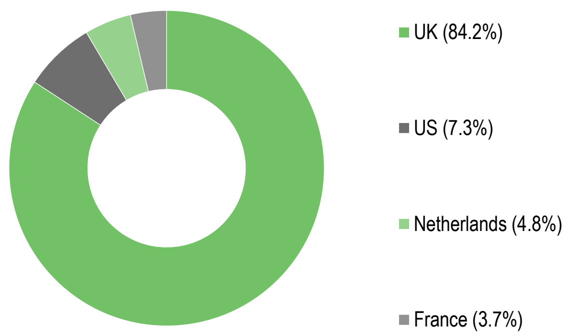
Source: FGT, Edison Investment Research

Exhibit 6: Product breakdown at 30 September 2023



Source: FGT, Edison Investment Research

Exhibit 7: Geographic exposure at 30 September 2023



Source: FGT, Edison Investment Research

FGT provided a thematic and geographic portfolio breakdown for the end of FY23 (30 September). At the end of FY23, 15.8% of the portfolio was invested in overseas businesses: US (7.3%, Mondelēz International); Netherlands (4.8%, Heineken); and France (3.7%, Rémy Cointreau).

Performance: Retains top position over the last decade

FGT is the second-largest fund in the relatively large 20-strong AIC UK Equity Income sector. The peers follow a range of different mandates. FGT has the most concentrated portfolio, with the lowest number of holdings and the highest percentage of its portfolio invested in its top 10 names, while it has exposure to just five of the 11 industry sectors. The largest weighting is around 34% in consumer staples stocks, and this is also FGT's largest active weight with around a 19% higher weighting than the benchmark.

Following a disappointing period of performance, the trust's relative record has slipped. FGT's NAV total return is below average over the last three years, ranking 13th. However, what should not be overlooked is that the trust has retained its crown with the highest NAV total return over the last decade. On 13 February 2024, FGT's discount was wider than the sector average, with just two funds trading at a premium. The trust has a competitive ongoing charge and the third lowest level of net gearing. FGT has the lowest dividend yield in the sector, which is unsurprising given its total return rather than income mandate.

Exhibit 8: Peer group at 13 February 2024*

% 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	1,628.0	2.2	11.2	27.6	121.9	(7.1)	0.6	No	102	2.3
abrdn Equity Income Trust	135.2	(13.7)	1.1	(7.3)	13.1	(2.7)	0.9	No	114	8.1
BlackRock Income and Growth	36.4	(1.0)	20.0	28.0	73.8	(11.9)	1.3	No	106	4.1
Chelverton UK Dividend Trust	31.5	(16.1)	(6.7)	1.0	37.6	1.3	2.4	No	159	8.6
City of London	1,952.9	(0.0)	28.0	26.2	67.3	(0.6)	0.4	No	107	5.2
CT UK Capital and Income	312.5	3.8	18.9	27.1	77.6	(2.9)	0.7	No	107	4.0
CT UK High Income Units	107.4	2.0	7.5	19.8	46.7	(4.2)	1.0	No	112	4.9
Diverse Income Trust	258.0	(8.8)	(9.1)	12.4	49.5	(5.6)	1.1	No	100	5.0
Dunedin Income Growth	393.8	3.0	8.9	35.1	69.8	(9.5)	0.6	No	107	4.9
Edinburgh Investment	998.2	3.2	27.1	24.2	67.5	(9.9)	0.5	No	109	4.0
Invesco Select UK Equity	115.6	0.3	23.7	33.1	78.9	(4.9)	0.8	No	111	4.1
JPMorgan Claverhouse	373.9	(1.2)	13.5	22.3	58.9	(5.5)	0.7	No	109	5.3
Law Debenture Corporation	1,001.6	0.1	20.7	45.8	101.7	(2.4)	0.5	No	114	4.0
Lowland	308.0	(3.7)	15.1	13.1	35.1	(11.3)	0.6	No	113	5.5
Merchants Trust	771.3	(7.3)	27.4	37.2	66.3	0.6	0.6	No	112	5.3
Murray Income Trust	878.2	0.5	14.5	33.3	73.7	(8.4)	0.5	No	108	4.7
Schroder Income Growth	177.8	(5.7)	16.7	22.7	60.5	(9.6)	0.8	No	119	5.4
Shires Income	87.3	(5.5)	8.6	22.7	63.6	(11.3)	1.0	No	119	6.7
Temple Bar	655.1	(3.2)	25.3	12.0	41.5	(6.0)	0.5	No	111	4.2
Troy Income & Growth	163.2	4.1	9.6	12.9	64.5	(2.8)	1.0	No	101	3.0
Simple average (20 funds)	**519.3**	**(2.4)**	**14.1**	**22.5**	**63.5**	**(5.7)**	**0.8**		**112**	**5.0**
Trust rank in peer group	**2**	**5**	**13**	**7**	**1**	**13**	**7**		**18**	**20**

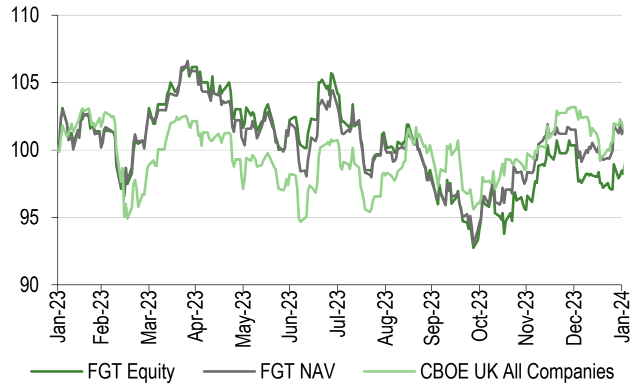
Source: Morningstar, Edison Investment Research. Note: *Performance data to 12 February 2024 based on ex-par NAV. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Despite the first three consecutive years of underperformance since Train took over the management of FGT at the beginning of 2001, the long-term record remains very commendable. Since inception to the end of FY23 (30 September), data from FGT show the trust has generated a +688.0% share price total return, which compares with the benchmark's +205.6% total return. In FY23, FGT's NAV and share price total returns of +7.2% and +7.5% respectively lagged the benchmark's +13.8% total return.

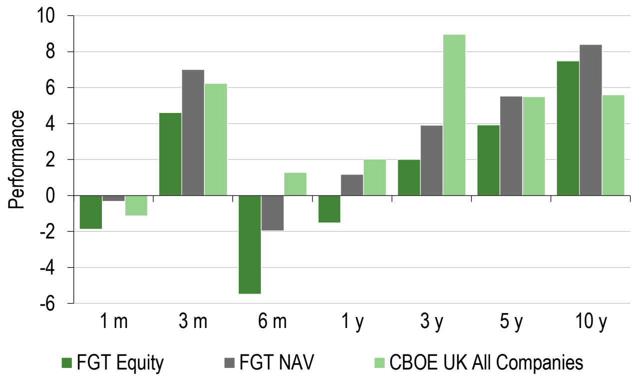
Train explains that over the last three years, not holding five large UK companies that have performed well but do not fit his investment criteria has been responsible for around two-thirds of the trust's underperformance. These are BP (+173% total return); Glencore (+255%); HSBC Holdings (+145%); Rio Tinto (+48%); and Shell (+203%). Some of the manager's highest-conviction positions have underperformed, including London Stock Exchange Group and Hargreaves Lansdown, while he has not held enough of the digital winners such as RELX and Sage Group, which have performed very strongly.

Exhibit 9: Investment trust performance to 31 January 2024

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



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

FGT's relative performance has not recovered from a particularly difficult time between October 2020 and June 2022. During this period, investors generally favoured inexpensive cyclical stocks and growth stocks de-rated in a rising interest rate environment. As shown in Exhibit 10, the trust's NAV has now underperformed the UK market over the last one and three years and is broadly in line over the last five years, although it still has commendable outperformance over the last decade.

Exhibit 10: 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 CBOE UK All Companies	(0.8)	(1.5)	(6.7)	(3.5)	(18.0)	(7.2)	19.3
NAV relative to CBOE UK All Companies	0.8	0.7	(3.2)	(0.8)	(13.3)	0.2	29.8
Price relative to CBOE UK 350	(0.8)	(1.5)	(6.7)	(3.5)	(18.0)	(7.1)	20.1
NAV relative to CBOE UK 350	0.8	0.8	(3.2)	(0.8)	(13.3)	0.2	30.8
Price relative to MSCI World	(3.2)	(5.6)	(11.4)	(13.4)	(23.1)	(33.2)	(37.0)
NAV relative to MSCI World	(1.6)	(3.4)	(8.1)	(11.0)	(18.7)	(28.0)	(31.4)

Source: Refinitiv, Edison Investment Research. Note: Data to end-January 2024. Geometric calculation.

Exhibit 11: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	CBOE UK All Companies (%)	CBOE UK 350 (%)	MSCI World (%)
31/01/20	17.7	17.2	10.5	10.5	18.2
31/01/21	(2.9)	(0.5)	(8.6)	(8.6)	11.4
31/01/22	4.8	7.7	19.3	19.2	19.8
31/01/23	2.9	3.0	6.3	6.4	1.4
31/01/24	(1.5)	1.2	2.0	2.0	13.7

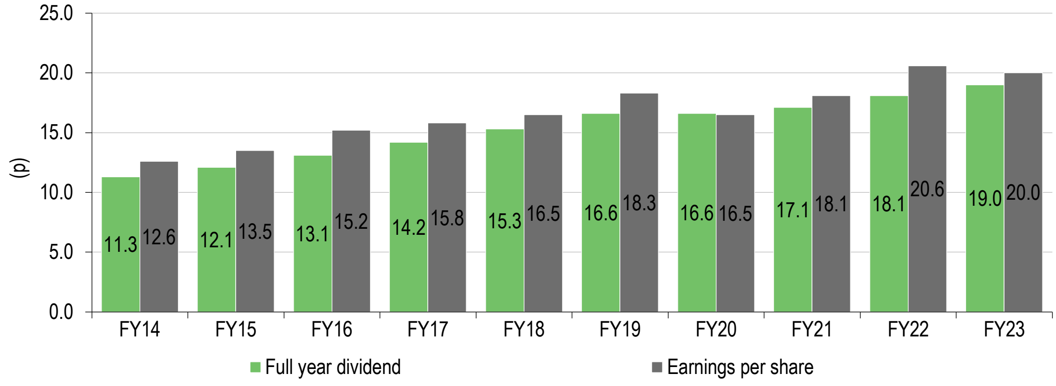
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

Dividends: Progressive distribution policy

FGT pays out two semi-annual interim dividends in May and November; if the second payment was a final rather than an interim dividend it would require shareholder approval at the trust's AGM, which is normally held in January. The board aims to increase or at least maintain the total distribution each year. In FY23, the trust's 20.0p per share revenue return was 2.9% lower year-on-year, while its 19.0p per share FY23 annual dividend (c 1.1x covered) was 5.0% higher than 18.1p per share in FY22.

At the end of FY23, FGT had revenue reserves of c £59.0m, which is equivalent to c 1.5x the last annual dividend. At the January 2024 AGM, shareholders approved the conversion of the trust's large c £1,100m non-distributable share premium account to a distributable reserve, which can be used to return cash to shareholders via dividends and share repurchases when required.

Exhibit 12: FGT's 10-year dividend and revenue history

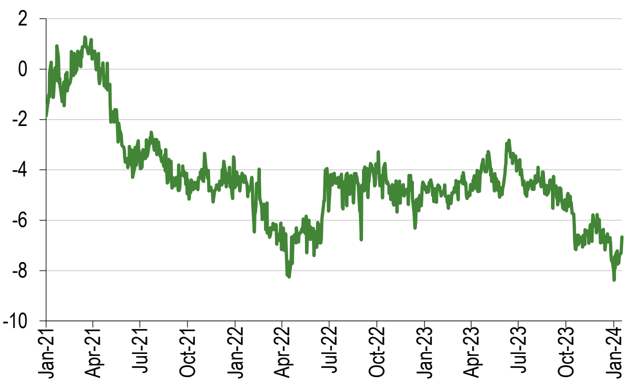


Source: FGT, Edison Investment Research

Discount: Towards widest part of three-year range

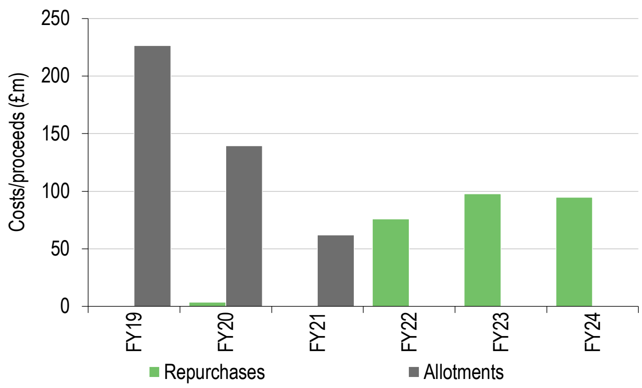
Before Q221, FGT's shares typically traded close to NAV. However, since then, the trust's valuation has been more volatile and the current discount is towards the wider end of the trust's three-year range. The 6.7% share price discount to cum-income NAV is wider than the average 5.1%, 4.3%, 2.6% and 1.0% average discounts over the last one, three, five and 10 years respectively. There is scope for FGT to be afforded a higher valuation once its relative performance gets back on track.

Exhibit 13: Discount over three years (%)



Source: Refinitiv, Edison Investment Research

Exhibit 14: Buybacks and issuance



Source: Morningstar, Edison Investment Research

Since 2004, FGT's board has actively managed the trust's discount/premium by repurchasing shares when the discount exceeds 5% and issuing shares at a small premium when there are unfulfilled buy orders in the market. In FY23, c 11.2m shares were repurchased (c 5.5% of the share base) at an average discount of 4.8% and a cost of c £97.7m. So far in FY24, a further c 11.6m shares were repurchased (c 5.7% of the share base) at a cost of c £96.3m.

Fund profile: Concentrated, high-conviction portfolio

FGT was launched on 15 January 1926 and is listed on the Main Market of the London Stock Exchange. Boutique investment firm Lindsell Train was appointed as the trust's manager in December 2000, and since January 2001 the fund has been managed by one of its co-founders, Nick Train, who has more than 40 years of investment experience. He aims to achieve capital and income growth and a total return above that of the broad UK stock market from a concentrated portfolio of primarily UK companies. In 2019, Madeline Wright was appointed as FGT's deputy manager, having joined Lindsell Train in 2012.

The trust's policy is to invest principally in the securities of companies either listed in the UK or otherwise incorporated, domiciled or having significant business operations within the UK, while a maximum of 20% of the portfolio, at the time of acquisition, can be invested in companies not meeting these criteria. In practice, this means the holding in Manchester United, which is listed on the New York Stock Exchange but is essentially a UK business, is classified as within the UK by FGT rather than within the US. The trust's portfolio will normally comprise up to 30 investments. This level of concentration and the fund's overseas exposure mean performance can vary significantly from that of the benchmark. FGT's investment guidelines restrict it to a maximum of 15% of its NAV, at the time of investment, in a single issuer (net assets exclude the holding in Frostrow Capital, which is the trust's Alternative Investment Fund Manager) and, ordinarily, 50–100% of the fund will be invested in the largest 100 UK companies or comparable companies listed on overseas stock exchanges, and at least 70% will be invested in the largest 350 UK companies or their overseas equivalents. Up to 25% of gross assets may be invested in preference shares, bonds and other debt instruments, but they are generally not held, and no more than 10% of any one issue may be held. While up to 10% of gross assets may be in cash, the manager prefers to remain fully invested. Gearing of up to 25% of NAV is permitted.

Investment process: Very long-term holding periods

The managers focus on growth businesses with high-quality management teams that they believe are trading at a discount to their intrinsic value and can be held for the long term, thereby reducing the drag of transaction costs. Historical portfolio turnover of c 3.0% per year implies a more than 30-year holding period. For reasons of prudence, once a position reaches 10% of the fund it is not added to and is actively reduced if it reaches 12.5%. At end-January 2024, FGT's active share was 84.7% (a measure of how a fund differs from its benchmark, with 100% representing no commonality and 0% full index replication).

Train and Wright seek companies with the following attributes:

- durability – businesses that can grow over the long term, regardless of the economic cycle;
- a high return on equity; and
- low capital intensity and high cash flow generation that can support sustained dividend growth.

The managers favour well-established firms (the average age of portfolio companies is c 150 years) and around half of FGT's portfolio companies have a large family ownership. Overseas holdings in the portfolio are businesses that cannot be accessed in the UK, such as Rémy Cointreau with its exposure to premium cognac. Train highlights three rules of thumb used in selecting portfolio companies: if a company's products taste good, buy the shares (FGT's holdings include AG Barr, Diageo, Heineken, Mondelēz, Rémy Cointreau and Unilever); the world will never be bored of being informed or entertained (London Stock Exchange, RELX and Manchester United); and the professionals are always too cautious about the stock market, which creates opportunities for those investors with a more constructive view.

FGT's approach to ESG

Lindsell Train invests for the very long term, which it characterises as responsible investing. Train is chairman of the company's ESG committee. He stresses the importance of this element of the investment process in terms of how capital is allocated. Given that Lindsell Train's managers invest with a 10+ year view, Train says it is crucial that they focus on companies which meet or are ahead of consumer/societal changing attitudes and behaviours, and has always encouraged companies to pre-empt and respond to any ESG-related issues. Train and Wright have long-term partnerships with investee companies, often taking meaningful stakes, which encourages constructive dialogue. Discussions increasingly surround the risks and opportunities posed by ESG issues (including climate change). The managers have a series of ESG questions that they ask all investee companies and there are generally a half-dozen critical issues at each company that can be discussed at each engagement. FGT's board does not believe it is currently appropriate to set its own quantitative ESG targets for investee companies; however, ESG issues are discussed at every board meeting.

Lindsell Train's investment approach leads it to focus on certain sectors, while avoiding capital-intensive industries such as energy and materials and those that it judges are detrimental to society and may have regulatory or litigation risks that could negatively affect financial returns, including tobacco or weapons manufacturers. The firm actively votes on all investee company resolutions and votes against or abstains where dialogue has not proved effective. Lindsell Train is a signatory of the United Nations Principles for Responsible Investment. For more detailed information on FGT's approach to ESG, please visit its website.

Gearing

FGT has a three-year secured, fixed-term, £60m multi-currency revolving credit facility (plus an option of an additional £40m), with Scotiabank Europe that expires in October 2025. At the end of FY23, £36.7m was drawn down. The managers employ modest levels of gearing as the trust's concentrated fund already brings an element of risk.

At the end of January 2024, net gearing was 1.9%.

Fees and charges

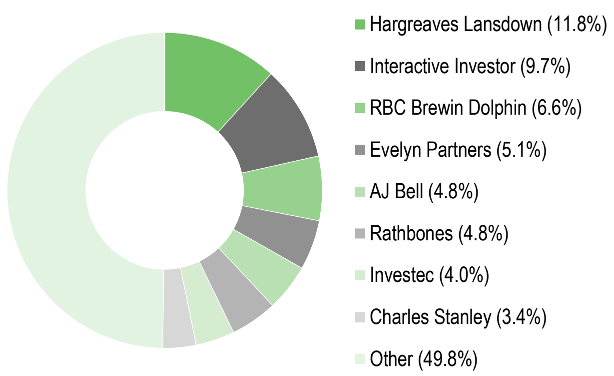
FGT's management fees and finance costs are allocated 75% to the capital account and 25% to the revenue account, reflecting the board's view about the trust's longer-term allocation of total returns between capital and income. Lindsell Train receives an annual fee of 0.450% of FGT's market cap up to £1bn, 0.405% between £1bn and £2bn and 0.360% above £2bn (no performance fee is payable). Frostrow Capital is the trust's Alternative Investment Fund Manager, providing company management, secretarial, administrative and marketing services, and receives an annual fee of 0.150% of FGT's market cap up to £1bn, 0.135% between £1bn and £2bn and 0.120% above £2bn. In FY23, the trust's ongoing charges were 0.61%, which is just 1bp higher than 0.60% in FY22.

Capital structure

FGT is a conventional investment trust with one class of share; there are currently 192.9m ordinary shares outstanding. At the end of FY23, FGT's shareholder base was broken down as follows: wealth managers and private banks (42.9%); retail shareholders (38.7%); institutional investors (14.3%); and other (4.1%).

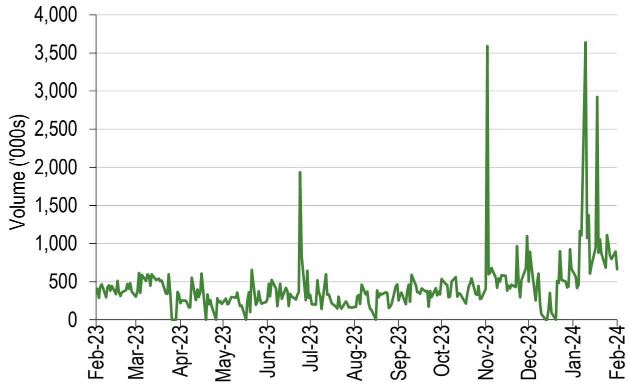
The trust's average daily trading volume over the last 12 months was c 440k shares.

Exhibit 15: Major shareholders



Source: FGT. Note: At 31 January 2024.

Exhibit 16: Average daily volume



Source: Refinitiv. Note: 12 months to 14 February 2024.

The board

Exhibit 17: FGT's board of directors in FY23

Board member	Date of appointment	Remuneration in FY23	Shareholdings at end-FY23
Simon Hayes (chairman since 17 February 2021)	29 June 2015	£41,000	175,000
Kate Cornish-Bowden	26 October 2017	£27,000	9,061
Lorna Tilbian	26 October 2017	£27,000	11,500
Sandra Kelly (senior independent director)*	9 October 2019	£33,000	8,096
James Ashton	14 October 2020	£27,000	1,047
Pars Purewal	28 November 2022	£22,812	Nil

Source: FGT. Note: *Sandra Kelly is chair of the audit committee.

In FY23, the total cost of the directors' remuneration was c £178k, which should rise to £192k in FY24 as Purewal will receive a full year's fee. The directors' fees will also increase as follows: chairman +£2k to £43k (+4.9%); chair of the audit committee +£2k to £35k (+6.1%); and other directors +£1.5k to £28.5k (+5.6%).