

8 September 2011

## Finsbury Growth & Income Trust

12 Months Ending	Total Share Return* (%)	Total NAV Return* (%)	Total Return FTSE All-Share* (%)	Total Return FTSE 350 Index* (%)	Total Return MSCI UK Index* (%)
07/09/08	(24.1)	(19.8)	(13.1)	(12.7)	(12.6)
07/09/09	2.4	1.5	(1.2)	(1.1)	(1.2)
07/09/10	35.6	29.9	13.7	13.8	13.0
07/09/11	12.0	9.3	2.2	2.1	1.9

Note: \*12 month rolling discrete performance.

### Investment summary: A distinctive style and a compelling long-term track record

Finsbury Growth & Income Trust (FGT) has put in a good performance during the past 12 months, outperforming its benchmark, the FTSE All-Share Index, by 7.1% and 9.8% in terms of NAV total return and price total return respectively. The fund has an experienced management team and uses a bottom-up strategy to identify what the manager considers to be undervalued UK-listed companies. FGT is mandated to be permanently geared to enhance returns over the longer term. Net gearing is currently 7.0% but can range between 5% and 20% of net assets.

### Investment strategy: Undervalued quality UK-listed companies

FGT is UK focused fund that primarily invests in larger and medium-sized companies listed on the UK equity markets. The manager subscribes to the Buffet doctrine and only invests in companies that are expected to consistently weather macroeconomic cycles. These will have strong business franchises and sound management, will be acquired when deemed underpriced and held with great conviction over the longer term. Managed using a bottom-up approach, FGT maintains a focused portfolio of 25-30 stocks, with low turnover, and aims to have an above-average dividend yield. Between 50% and 100% is invested in FTSE 100 stocks. At least 70% invested in FTSE 350 stocks. FGT's portfolio is not strongly correlated with any benchmark.

### Sector outlook: Muddling through

The manager maintains a long-term positive outlook on the UK economy. However, the investment approach looks to identify long-term latent value and, as such, is in part decoupled from the UK economic outlook. The manager expects that, despite recent difficulties, the world will ultimately muddle through the current malaise and that, under this scenario, good quality companies will still provide satisfactory returns.

### Valuation: FGT on premium rating

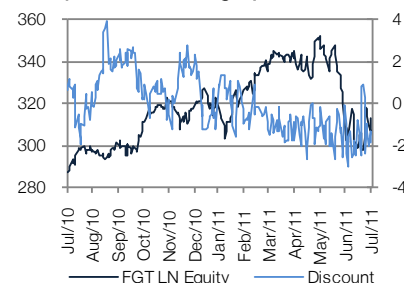
The board's policy of using buybacks to maintain the discount at around the 5% level has proven to be effective and offers investors confidence that they will be able to enter and exit the trust at valuations around this level. FGT's current premium of 3.3% reflects a stronger rating than its three- and five-year discount averages of 2.3% and 2.0% respectively. It remains comparable, so we believe FGT may be of interest to investors looking for long-term value plays on the UK economy.

Price	313.0p
Market Cap	£177.6m
AUM	£190.9m
NAV	302.87p*
Premium to NAV	3.3%*
NAV	306.74p**
Premium to NAV	2.0%**
Yield	2.8%

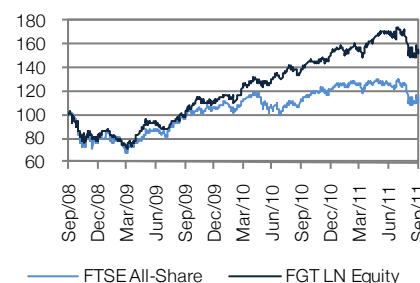
\* Adjusted for debt at market value and excluding income, as at 6 September 2011.

\*\* Adjusted for debt at market value, including income, as at 6 September 2011.

#### Share price/discount graph



#### 3-year cumulative performance graph



#### Share details

Code	FGT
Listing	FULL
AIC Sector	UK Growth & Income
Shares in issue	56.7m

#### Price

52 week	High	Low
Price	351.63p	287.50p
NAV*	347.95p	289.42p

\* Adjusted for debt at market value and excluding income.

#### Analyst

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## Exhibit 1: Trust at a glance

Investment objective and fund background				Developments last quarter	
FGT's investment objective is to achieve capital and income growth and provide shareholders with a total return in excess of that of the FTSE All-Share Index. FGT invests principally in the securities of UK quoted companies. Up to a maximum of 20%, at the time of acquisition, can be invested in quoted companies worldwide. FTSE 100 companies normally represent between 50% and 100% of the portfolio with at least 70% usually invested in FTSE 350 companies.				3 August 2011: Blocklisting interim review – 3.3m shares issued between 1 February and 3 August 2011. 28 July 2011: Interim management statement released.	
Forthcoming		Capital structure		Fund details	
AGM	January 2012	Total expense ratio	1.0%	Group	Frostrow Capital LLP
Preliminary results	December 2011	Net Gearing	7.0%	Manager	Nick Train
Year end	30 September	Annual mgmt fee	See pg 7	Address	25 Southampton Buildings London, WC2A 1AL
Dividend paid	May, October	Performance fee	See pg 7		
Launch date	1926	Trust life	Indefinite	Phone	020 3008 4910
Wind-up date	None	Loan facilities	See pg 7	Website	www.finsburygt.com
Dividend policy and history				Share buyback policy and history	
Two dividends annually, paid in May and October. The dividend is expected to rise over the longer term.				Renewed annually, the trust has authority to purchase up to 14.99%, and allot up to 10% of issued share capital.	
<p>DPS (p)</p> <p>■ Ordinary Dividends ■ Special Dividends</p>				<p>No. of shares ('000s)</p> <p>Cost/proceeds (£m)</p> <p>■ Repurchases ■ Allotments — Total cost — Total proceeds</p>	
Shareholder base (as at 31 July 2011)				Geographic distribution of portfolio (as at 31 July 2011)	
<p>■ Brewin Dolphin (15.1%) ■ Alliance Trust (11.3%) ■ Rathbones (7.5%) ■ Investec WM (5.8%) ■ Henderson Gbl (5.3%) ■ JPMorgan AM (4.9%) ■ Charles Stanley (4.0%) ■ Individuals (3.5%) ■ L&amp;G Inc Mgmt (3.3%) ■ UBS Wealth Mgmt (3.3%) ■ Other (36.1%)</p>				<p>■ United Kingdom (90.7%) ■ United States (8.4%) ■ Cash (0.9%)</p>	
Portfolio composition (as at 31 July 2011)				Portfolio composition (as at 31 January 2011)	
<p>■ Diageo (10.6%) ■ Unilever (9.3%) ■ AG Barr (9.2%) ■ Pearson (7.5%) ■ Fidessa Group (6.2%) ■ Sage Group (5.2%) ■ Rahtbone Brothers (5.0%) ■ Schroder (4.8%) ■ Reed Elsevier (4.2%) ■ Kraft Foods (3.8%) ■ Other Equities (32.0%) ■ Preference Shares (1.3%) ■ Cash (0.9%)</p>				<p>■ Diageo (10.7%) ■ AG Barr (9.2%) ■ Unilever (9.0%) ■ Pearson (7.1%) ■ Fidessa Group (5.7%) ■ Rathbone Brothers (5.6%) ■ Sage Group (5.6%) ■ Schroder (5.5%) ■ Reed Elsevier (4.5%) ■ Kraft Foods (3.8%) ■ Other Equities 31.6%) ■ Preference Shares (1.6%) ■ Cash (0.1%)</p>	

Source: Finsbury Growth &amp; Income Trust, Edison Investment Research

## Exhibit 2: Trust holdings at a glance

Diageo		Code: DGE LN	Market Cap: £30,749.6m
	Div Yield (trailing 12 mths)	3.68%	
	Industry/Sector	Beverages-Wine/Spirits	
	Listing	UK – FULL	
	Website	www.diageo.com	
<p>The manager considers Diageo is a unique collection of global drinks businesses, with excellent franchises, that offer good inflation protection. Its brands include Johnnie Walker, Crown Royal, J&amp;B, Buchanan's, Bushmills, Smirnoff, Ciroc, Baileys, Tanqueray and Guinness. The manager considers Diageo has been undervalued allowing FGT to build a position at dividend yields that are between 10% and 15% above the market average.</p>			
Unilever		Code: ULVR LN	Market Cap: £61,991.2m
	Div Yield (trailing 12 mths)	4.15%	
	Industry/Sector	Food-Miscellaneous/Diversified	
	Listing	UK – FULL	
	Website	www.unilever.com	
<p>The manager considers that Unilever provides exposure to a very extensive range of durable global consumer brands. Its Food brands include Flora, Bertolli, Blue Band, Rama, Heartbrand, Hellman's, Knorr, Lipton and Slim Fast. Home care includes Omo, Surf, Comfort and Cif. Personal care includes Axe, Dove, Lux, Pond's, Rexona and Sunsilk. Unilever's has operations in over 100 countries and sales in 180 countries.</p>			
A G Barr		Code: BAG LN	Market Cap: £448.4m
	Div Yield (trailing 12 mths)	2.47%	
	Industry/Sector	Beverages-Non-alcoholic	
	Listing	UK – FULL	
	Website	www.agbarr.co.uk	
<p>A G Barr (BAG) is engaged in the manufacture, distribution and retailing of soft drinks. It brands include IRN-BRU, Rubicon, Strathmore, Tizer, Simply, KA, D'N'B, St. Clement's, Findlays, Abbott's, Barr Brands, Vitsmart and Taut. The manager considers that BAG has been a fantastic investment for FGT, which has quintupled in value since 2001, against a backdrop of a challenging decade.</p>			
Pearson		Code: PSON LN	Market Cap: £8,927.8m
	Div Yield (trailing 12 mths)	4.03%	
	Industry/Sector	Multimedia	
	Listing	UK – FULL	
	Website	www.pearson.com	
<p>The manager considers Pearson, which is structured around three key lines: Education, Penguin Books and Financial publishing, has a collection of Media brands which have excellent long term durability. Education includes Longman, a mainstay of education text books in the UK which the manager considers has strong brand recognition, and financial publishing includes the Financial Times Group as well as a 50% stake in The Economist.</p>			
Fidessa		Code: FDSA LN	Market Cap: £594.9m
	Div Yield (trailing 12 mths)	5.42%	
	Industry/Sector	Applications Software	
	Listing	UK – FULL	
	Website	www.fidessa.com	
<p>Fidessa is a technology business which the manager considers has an exceptionally durable franchise. Fidessa provides software solutions to the investment banking industry. The manager considers that, with 85% of investment banks globally using its order management system, this is becoming the global standard. Fidessa's products are business critical to its clients, making them durable and making Fidessa's cash flows very predictable.</p>			

Source: Thomson Datastream, Edison Investment Research

## **Fund profile: Low turnover, long-term value play**

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FGT was launched in 1926 and Nick Train, co-founder of the investment manager Lindsell Train Limited, has led the management of FGT since December 2000. The manager takes a value-oriented investment approach with a long time horizon and low portfolio turnover (portfolio turnover has averaged just over 6% since December 2001 when the manager finished rebalancing the portfolio). During the 10 years to 7 September 2011, FGT has outperformed its benchmark, the FTSE All-Share index, by 56.3% in terms of NAV total return and 83.4% in terms of share price total return.

## **The fund manager: Nick Train**

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### **Manager's view: Positive on long-term UK economic outlook**

The manager maintains a long-term positive outlook on the UK economy. However, the investment approach looks to identify long-term latent value and, as such, is in part decoupled from the UK economic outlook. The manager expects that, despite recent difficulties, the world will ultimately muddle through the current malaise and that, under this scenario, good quality companies will still provide satisfactory returns.

## **Asset allocation**

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### **Investment process: Bottom-up fundamental analysis**

FGT is managed using bottom-up fundamental analysis. The manager's approach to investing has been heavily influenced by the investment approach of Berkshire Hathaway. There are four key tenets to Lindsell Train's investment philosophy for managing FGT:

- 1) The manager attempts to invest only in what are deemed to be really exceptional businesses. A key filter question is, "How likely is a business to be very profitable in 20 years time?". The manager considers this screen removes 95% of all companies. To pass, a business must have something that truly differentiates it: either fantastic brands or exceptionally durable market franchises. As a result FGT's portfolio has a bias towards the consumer sectors which historically have had some very durable brands.
- 2) FGT runs a concentrated portfolio. This is a reflection of the first tenet as well as the requirement that these companies must be undervalued. However, the manager considers that when such opportunities arise, the logical conclusion is to build solid positions.
- 3) The manager takes a long-term strategic view of trust holdings and considers FGT's stakes as semi-permanent ownership positions in companies. The manager then expects returns to feed through as multiple gains on the original investment. The manager is not looking for the next 20% to 30% price shift. Instead the manager looks for businesses which have the potential to double, treble, quadruple, or more in price. The manager recognises that this will take time. Low turnover and thus low transaction costs are positive side effects of this policy.
- 4) The manager is very interested in capturing dividends and growth in dividends. As such, the manager looks for companies with strong cash generation, defensive earnings and strong franchises that will allow companies to increase dividends over the long term.

As a result the asset allocation is a relatively simple process. When adding a new FTSE 100 stock the manager would look to build a minimum position of between 4% and 6% of FGT's NAV. Mid cap stocks (ie sub £1bn market cap) receive an initial allocation of between 2% and 4% of FGT's NAV. Although rare, the manager will also consider small-cap stocks but, recognising liquidity constraints, the starting allocation would be limited to 1% of FGT's NAV. As a result, while FGT is benchmarked

against the FTSE All-Share, it has a portfolio which is radically different in its composition to the broader market.

## Overview: Highly focused UK equity portfolio

FGT has 24 equity investments and one preference share holding. The top 10 equity holdings account for 65.8% of the portfolio, preference shares 0.3%, cash 0.9%, with the remaining 14 equity investments accounting for 32.0%. As displayed in Exhibit 3, FGT's asset allocations can vary significantly from those of the benchmark index, reflecting the actively managed nature of the trust.

## Underweights: Non-consumer sectors

FGT is underweight oil & gas, basic materials, industrials, healthcare, telecommunications and utilities, as a result of having a zero allocation to these sectors. FGT is also marginally underweight financials.

## Overweights: Consumer sectors

FGT has substantial overweights in consumer goods, consumer services and technology with allocations c. 3.3x, 3.6x and 7.9x those of the benchmark.

**Exhibit 3: Sector allocations, as at 31 July 2011**

	Trust Weight (%)	Benchmark Weight (%)	Trust Active Weight (%)	Trust Weight/Benchmark Weight
Consumer goods	38.8	11.9	26.9	3.25
Consumer services	31.0	8.6	22.4	3.61
Technology	11.2	1.4	9.8	7.93
Financials	16.7	17.6	(0.9)	0.95
Utilities	0.0	3.6	(3.6)	0.00
Telecommunications	0.0	5.0	(5.0)	0.00
Healthcare	0.0	6.0	(6.0)	0.00
Industrials	0.0	6.2	(6.2)	0.00
Basic materials	0.0	18.9	(18.9)	0.00
Oil & gas	0.0	20.8	(20.8)	0.00
Preference shares	1.3	0.0	1.3	N/A
Cash	0.9	0.0	0.9	N/A
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	

Source: Finsbury Growth & Income Trust, FTSE, Edison Investment Research

## Current portfolio positioning: Substantially different to the All-Share

As Exhibit 3 illustrates, FGT's portfolio has a radically different allocation to that of its benchmark the FTSE All-Share. In addition, the manager has given FGT's portfolio a growth-oriented bias, relative to the benchmark, by underweighting defensive and overweighting cyclical sectors.

## Top holdings

**Exhibit 4: 10 largest equity holdings as at 31 July 2011**

Note: FTSE All-Share one-year performance to 7 September 2011 = +2.2%.

Holding	%	1 year total return price performance (%)	Performance relative to FTSE All-Share Index (%)
Diageo	10.6	17.1	14.9
Unilever	9.3	22.3	20.1
A. G. Barr	9.2	(9.3)	(11.5)
Pearson	7.5	15.2	13.0
Fidessa	6.2	18.9	16.7
Rathbone Brothers	5.2	28.3	26.1
Sage Group	5.0	5.0	2.8
Schroders	4.8	9.6	7.4
Reed Elsevier	4.2	(4.6)	(6.8)
Kraft Foods	3.8	14.0	11.8
<b>Total</b>	<b>65.8</b>		

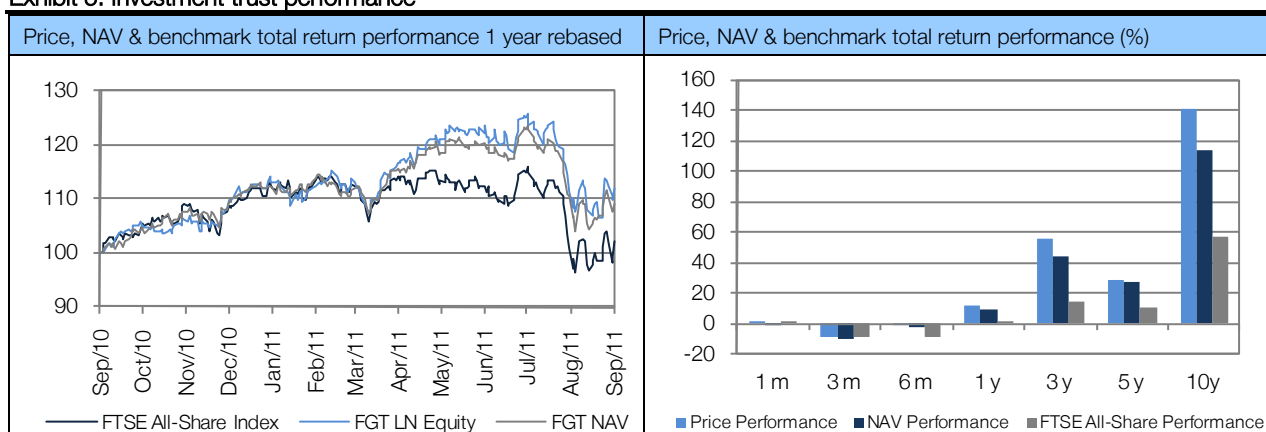
Source: Finsbury Growth & Income Trust, Thomson Datastream, Edison Investment Research

During the past 12 months the FTSE All-Share Index has risen 2.2%. As Exhibit 4 shows, eight of FGT's top 10 holdings have outperformed the FTSE All-Share during this period. Similarly, eight of FGT's top 10 holdings have outperformed both the FTSE 350 and MSCI UK Indices over the same.

## Recent performance: Consistent outperformance

As Exhibits 5 and 6 illustrate, FGT has given a consistent long-term performance, outperforming its benchmark, the FTSE All-Share index, over all of the time horizons provided with the exception of the one-month and three-month periods.

**Exhibit 5: Investment trust performance**



Source: Thomson Datastream, Edison Investment Research

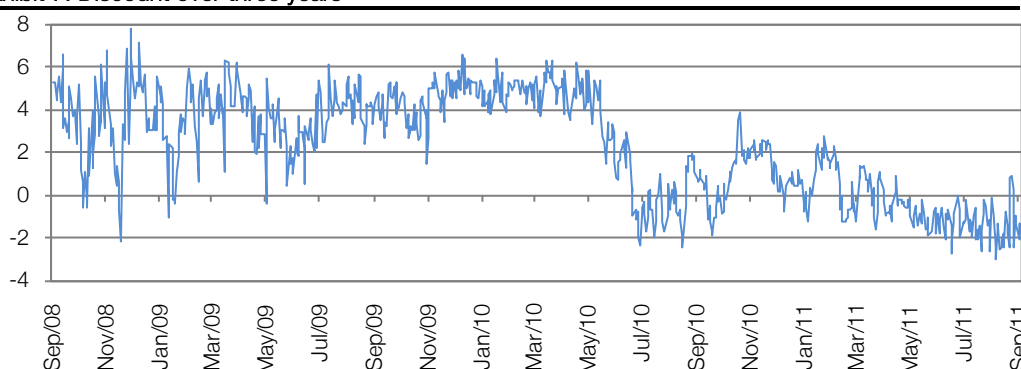
**Exhibit 6: Share price and NAV total return performance (sterling adjusted), relative to benchmarks**

	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Price relative to FTSE All-Share Index	(1.0)	(0.1)	8.3	9.8	40.7	18.0	83.4
NAV relative to FTSE All-Share Index	(2.7)	(0.2)	6.6	7.1	29.2	17.1	56.3
Price relative to FTSE 350 Index	(1.0)	(0.1)	8.3	9.9	40.6	17.5	82.8
NAV relative to FTSE 350 Index	(2.7)	(0.2)	6.6	7.1	29.1	16.5	55.8
Price relative to MSCI UK Index	(1.2)	(0.8)	8.1	10.1	41.8	19.2	92.6
NAV relative to MSCI UK Index	(2.9)	(0.9)	6.5	7.3	30.3	18.3	65.5

Source: Finsbury Growth & Income Trust, Thomson Datastream, Edison Investment Research

## Discount: Effective discount management policy

**Exhibit 7: Discount over three years**



Source: Thomson Datastream/Edison Investment Research

FGT has an active discount maintenance policy aimed at protecting shareholders from discount volatility. FGT actively repurchases shares when they are offered at a discount greater than 5.0% and reissues shares, from treasury, at a discount of less than 5.0%. Exhibit 7, which shows the discount of the trust over the last three years, illustrates that this policy has been effective. The discount volatility increased from September 2008 arguably reflecting the prevailing financial climate. However, the increase in volatility was comparatively mild, and relatively short lived, when compared to many investment trusts and was not accompanied by the general discount widening seen

elsewhere in the sector. As a reflection, FGT's average discount over the last three years is 2.4%. Repurchase activity was mild during 2008-2009 and, as illustrated in Exhibit 1, has been non-existent during the last twelve months with FGT frequently trading at a premium. In addition as FGT moved out to a premium, in May 2010, a substantial allotment was made and, as illustrated in Exhibit 1, FGT has undertaken a programme of allotments, during the last seven months, when the trust has been trading at a premium. The current premium of 3.3%, reflects a higher rating than its three-year and five year discount averages of 2.3% and 2.0% respectively.

## **Capital structure: Conventional, moderate gearing**

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FGT is a conventional trust, having only one class of share in issue – 25p ords. The trust's articles permit it to gear up to 25% of net assets and FGT has a £20m revolving credit facility with Scotiabank Europe for this purpose. The board considers that, over the long term, moderate gearing is value enhancing and has mandated that FGT be permanently geared. Should the gearing fall below 5% or rise above 20% of net assets, the manager must provide an explanation to the board. This band gives FGT sufficient flexibility in choosing its gearing policy and, to date, has remained within these boundaries. As at 31 July 2011, we calculate that FGT had gross gearing of 7.3% and net gearing of 7.0% of net assets.

Frostrow's management fee is equal to a fixed amount of £70,000 per year plus 0.15% per year of the company's market capitalisation calculated monthly and payable monthly in arrears. Lindsell Train receives a management fee of 0.45% per year of the company's market capitalisation also calculated monthly and payable monthly in arrears. The trust also pays a performance fee that is based on the annual increase in the Company's adjusted market capitalisation per share, subject to an absolute return hurdle, which is the sum of the increase in the Retail Price Index (RPI) in the year, plus a fixed return of 6%. Where a performance fee is payable, the investment manager (Lindsell Train) receives 85.0% and the manager (Frostrow Capital) receives 15.0% of the performance fee. The total performance fee payable in any one year is capped at 1.25% of FGT's market capitalisation with any surplus carried forward into the calculation of future years' fees. Similarly, any underperformance must be recovered before a performance fee can be accrued. For the year ended 30 September 2010, the RPI rose by 4.64%, providing an increase in the market capitalisation performance hurdle for the year of 10.64% above the 2009 performance hurdle. The 2010 performance hurdle was 455.04p per share versus FGT's actual market capitalisation per share of 293.18p. No performance fee was accrued for the year ended 30 September 2010. In addition, no performance fee was accrued during the 2009 year. The total expense ratio (TER) was 1.0% for the year ended 30 September 2010 (0.90% for the year ended 30 September 2009). As is illustrated in Exhibit 8, FGT's TER ranks 14th out of 18, when compared to its peers. The management contract can be terminated at one year's notice by either party. FGT does not have a fixed life and there is no specific mechanism to wind up the company.

## **Dividend policy and record: Long-term progressive**

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The company seeks to provide shareholders with long-term growth in dividends and two dividend payments are made each year. A first interim dividend is paid in May (2011 = 4.4p) and a second interim, in lieu of a final, is paid in October (2011 = 4.4p). For the year ending 30 September 2010 FGT paid a total dividend for the year of 8.8p (2009 = 9.5p), which represents a 7.4% fall year-on-year in total dividends. This was primarily caused by a substantial reduction in the level of income received from FGT's Lloyds preference shares, however, the board remains committed to FGT's progressive dividend policy. Payment of dividends for the year ended 30 September 2009 and 2010



required FGT to dip into its revenue reserves to the tune of £187k and £170k respectively. As at 31 March 2011, we estimate that FGT had revenue reserves equal to 0.77x the 2010 dividend. Assuming similar growth in revenue reserves during the second half, we expect that FGT will be able to maintain the dividend for the year ending 30 September 2011 at the current level. In terms of expense allocation, transaction costs relating to the purchase and sale of investments and exchange gains/losses are charged to the capital account. Management fees and interest payable are charged one-third and two-thirds to the revenue and capital accounts, respectively. Performance fees are charged 100% to capital. This allocation reflects FGT's investment mandate, to provide both capital growth and income, and also reflects the board's expected long-term split of returns, in the form of capital gains and income from the company's portfolio. While this offers capital less protection than if management fees and interest were charged predominantly, or exclusively, to the revenue account, it gives FGT greater flexibility to smooth dividends.

## Peer group comparison

As Exhibit 8 illustrates, the AIC sector UK Growth and Income is a comprehensive peer group with 20 constituents (a sample is given below). Within this group, FGT ranks sixth over one year, second over three years and fourth over five years when considering share price total return.

**Exhibit 8: UK growth and income sector, as at 7 September 2011**

Company	Share price total return on £100			Total expense ratio	(Disc)/ Prem	Net gearing (100 = no gearing)	5 year dividend growth (%)	Div yield
	1 year	3 year	5 year					
<b>Sector average</b>	<b>110.1</b>	<b>129.1</b>	<b>121.6</b>	<b>0.76</b>	<b>0.5</b>	<b>114</b>	<b>3.7</b>	<b>4.6</b>
Finsbury Growth & Income	112.0	155.5	128.4	1.09	0.1	107	0.9	2.8
Dunedin Income Growth	107.8	125.1	112.4	0.66	(3.1)	110	2.6	5.0
Edinburgh Investment	112.3	145.6	134.3	0.66	2.9	122	2.0	4.7
F&C Capital & Income	103.8	115.2	111.7	0.91	2.0	107	5.8	4.2
Invesco Income Growth	108.8	122.1	117.1	1.08	(4.8)	111	3.4	4.8
Lowland	126.5	127.0	112.0	0.74	(5.1)	115	5.8	3.5
Merchants	102.3	118.9	101.8	0.64	2.7	125	2.7	6.3
Murray Income	109.0	131.7	118.2	0.81	1.3	111	3.3	4.6
Perpetual Income & Growth	114.4	134.0	131.2	1.09	0.2	120	8.6	4.0
Standard Life Equity Income	98.5	121.4	112.0	0.96	(3.8)	113	5.1	4.5
Troy Income & Growth	111.7	106.0	74.1	1.24	0.7	94	-17.8	3.7
Value & Income	116.9	137.4	107.1	1.02	(17.3)	146	2.6	4.2

Source: The Association of Investment Companies

## The board

All directors are non-executive and independent of the investment manager. They are: Anthony Townsend (chairman), John Allard, Neil Collins, David Hunt, Vanessa Renwick and Giles Warman. The average length of director service is 7.9 years.

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