Edison investment research

23 March 2012

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* (%)
22/03/09	(27.6)	(27.3)	(28.0)	(27.7)	(27.2)
22/03/10	70.6	68.9	54.4	54.1	53.2
22/03/11	22.4	15.5	7.0	6.8	5.5
22/03/12	16.9	14.5	5.0	5.1	5.3

Note: *12 month rolling discrete performance.

Investment summary: 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 9.5% and 11.9% in terms of NAV total return and price total return respectively. The fund has an experienced investment management team and uses a bottom-up strategy to invest in quality companies that are then held for the long term. FGT maintains a focused portfolio of 25-30 stocks, with low turnover, is moderately geared, and aims to have an above-average dividend yield.

Investment strategy: Undervalued quality UK-listed companies

FGT is a UK focused fund that invests in larger and medium-sized companies listed primarily on the UK equity markets. The manager subscribes to the Buffet doctrine and looks for long-term winners able to withstand economic down cycles. Typically these will have strong business franchises and sound management, will be acquired when deemed underpriced and held with great conviction over the longer term (average annual portfolio turnover is just over 6%). The portfolio currently consists of 26 holdings. Between 50% and 100% of the portfolio is invested in FTSE 100 stocks and at least 70% invested in FTSE 350 stocks. FGT's portfolio is not strongly correlated with any benchmark. FGT is mandated to be permanently geared. Net gearing is currently 5.4%, but can range between 5% and 20% of net assets.

Sector outlook: Insulated from economic headwinds

Lindsell Train's (the investment manager) stock picking approach looks to provide FGT with a portfolio of quality companies to be held over the long term. The current economic environment is a headwind to business but, by design, FGT's portfolio should be relatively resilient to harsh economic conditions.

Valuation: FGT remains on premium rating

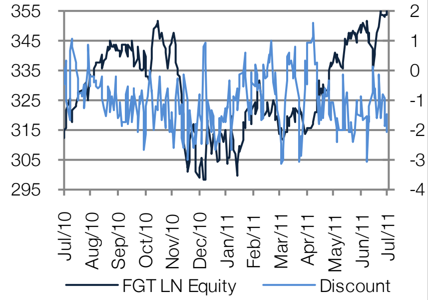
FGT's discount management policy (repurchasing shares at discounts above 5% and issuing new shares at a 0.5% premium) continues to be effective and offers investors confidence that they will be able to enter and exit at valuations around this level. FGT's current premium of 1.9% reflects a stronger rating than its three- and five-year discount averages of 1.5% and 2.0% respectively, but remains comparable. As such, we believe FGT may be of interest to investors looking for long-term value plays on the UK.

Price	355.0p
Market Cap	£223.4m
AUM	£234.5m
NAV	348.34p*
Premium to NAV	1.9%*
NAV	350.97p**
Premium to NAV	1.1%**
Yield	2.6%

** Adjusted for debt at market value and excluding income, as at 21 March 2012.*

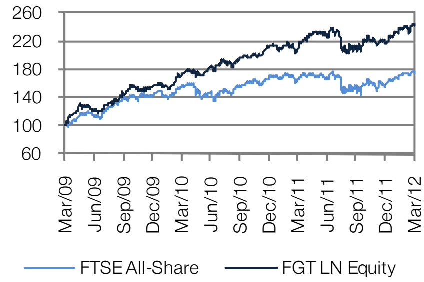
*** Adjusted for debt at market value, including income, as at 21 March 2012.*

Share price/discount graph



** Positive values indicate a discount; negative values indicate a premium.*

3-year cumulative performance graph



Share details

Code	FGT
Listing	FULL
AIC Sector	UK Growth & Income
Shares in issue	62.9m

Price

52 week	High	Low
Price	355.00p	298.13p
NAV*	350.87p	292.26p

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

Gross gearing	6.7%
Net gearing	5.4%

Analysts

Matthew Read +44 (0)20 3077 5758

Martyn King +44 (0)20 3077 5745

investmenttrusts@edisoninvestmentresearch.co.uk

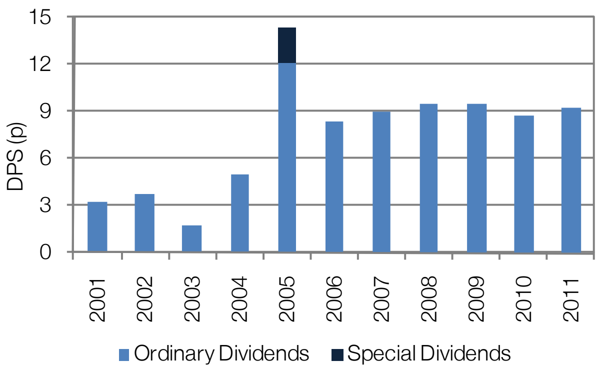
Finsbury Growth & Income Trust is a research client of Edison Investment Research Limited

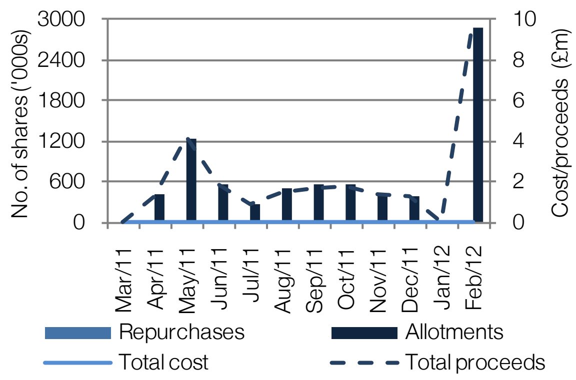
Exhibit 1: Trust at a glance

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.	21 March 2012: Interim dividend of 4.6pm declared in respect of the year ending 30 September 2012. 14 March 2012: Monthly factsheet released. 6 March 2012: Nick Train acquired 5,000 ordinary shares in FGT.

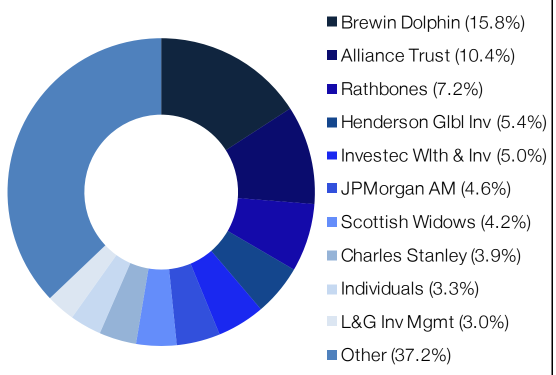
Forthcoming		Capital structure		Fund details	
AGM	January 2013	Total expense ratio	1.0%	Group	Frostrow Capital LLP
Preliminary results	December 2012	Net Gearing	5.4%	Manager	Lindsell Train
Year end	30 September	Annual mgmt fee	See pg 7	Address	25 Southampton Buildings London, WC2A 1AL
Dividend paid	May, 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.

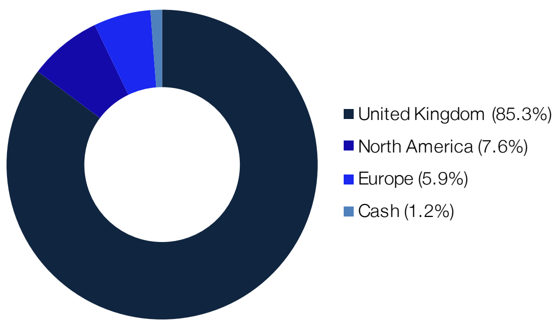




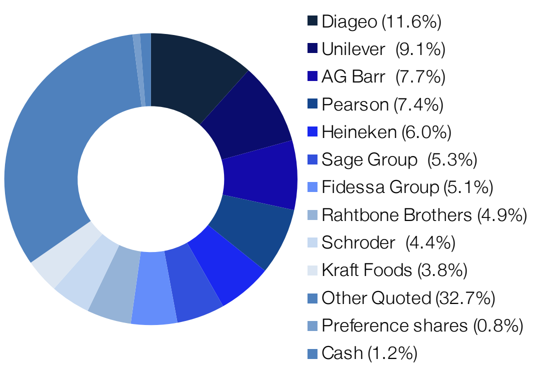
Shareholder base (as at 29 February 2012)



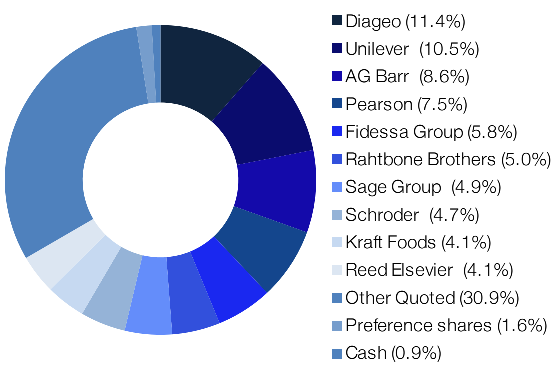
Geographic distribution of portfolio (as at 29 February 2012)



Portfolio composition (as at 29 February 2012)



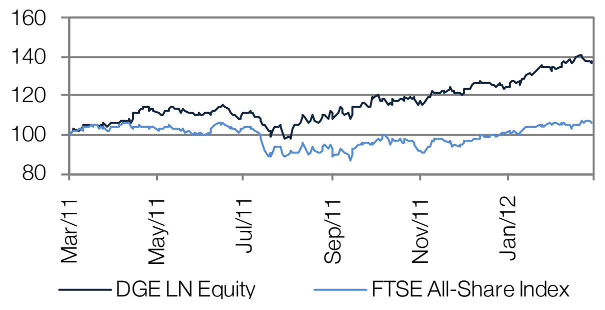
Portfolio composition (as at 31 August 2011)



Source: Finsbury Growth & Income Trust, Edison Investment Research

Exhibit 2: Trust holdings at a glance

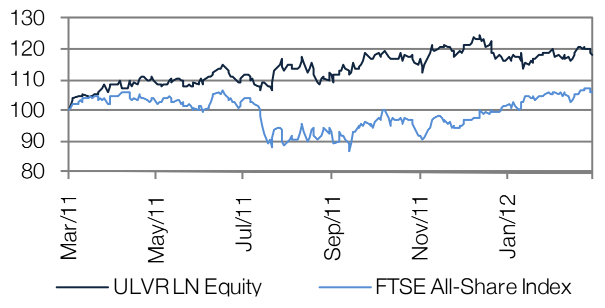
Diageo | **Code: DGE LN** | **Market Cap: £38,174.0m**



Div Yield (trailing 12 mths)	2.72%
Industry/Sector	Beverages-Wine/Spirits
Listing	UK – FULL
Website	www.diageo.com

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&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.

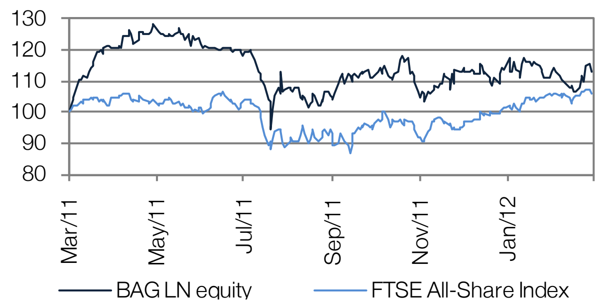
Unilever | **Code: ULVR LN** | **Market Cap: £62,997.0m**



Div Yield (trailing 12 mths)	3.77%
Industry/Sector	Food-Miscellaneous/Diversified
Listing	UK – FULL
Website	www.unilever.com

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 has operations in over 100 countries and sales in 180 countries.

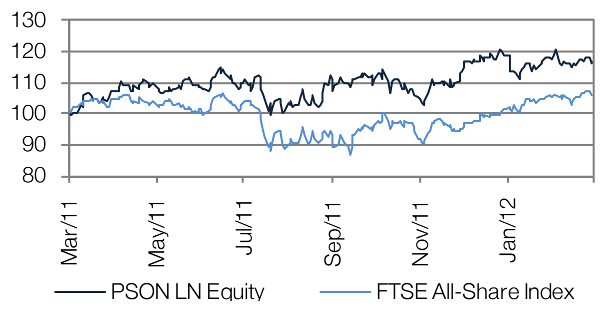
A G Barr | **Code: BAG LN** | **Market Cap: £474.1m**



Div Yield (trailing 12 mths)	2.13%
Industry/Sector	Beverages-Non-alcoholic
Listing	UK – FULL
Website	www.agbarr.co.uk

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.

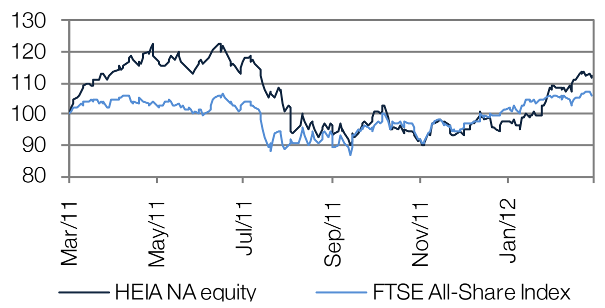
Pearson | **Code: PSON LN** | **Market Cap: £9,832.5m**



Div Yield (trailing 12 mths)	3.49%
Industry/Sector	Multimedia
Listing	UK – FULL
Website	www.pearson.com

The manager considers Pearson, which is structured around three key lines (Education, Penguin Books and Financial publishing), has a collection of media brands with 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 and a 50% stake in The Economist.

Heineken | **Code: HEIA NA** | **Market Cap: €24,010.7m**



Div Yield (trailing 12 mths)	1.99%
Industry/Sector	Beverages/Brewery
Listing	Euronext Amsterdam
Website	www.heinekeninternational.com

Heineken NV is an international brewer with a very extensive portfolio of global beer brands. The group sells over 200 beers and ciders, which include international premium, regional, local and speciality brands. The manager considers that Heineken is highly profitable, very cash generative and that, having followed the stock for some time, FGT has been able to build its position at very attractive prices following August's rout.

Source: Thomson Datastream, Edison Investment Research

Fund profile: Low turnover, long-term value play

FGT was launched in 1926 and Nick Train, co-founder of the investment manager Lindsell Train Limited, has managed the portfolio of FGT since December 2000. The manager takes a value-oriented investment approach with a long time horizon and low portfolio turnover (turnover has averaged just over 6% per annum since December 2001 when the manager finished rebalancing the portfolio). During the 10 years to 19 March 2012, FGT has outperformed its benchmark, the FTSE All-Share, by 70.8% in terms of NAV total return and 110.4% in terms of share price total return.

The fund manager: Nick Train

Manager's view: Portfolio resilient to economic headwinds

The manager maintains a long-term positive outlook on the global economy. The current economic environment is a headwind to business but, by design, FGT's portfolio should be relatively resilient to harsh economic conditions, given that Lindsell Train's stock picking approach looks to provide FGT with a portfolio of quality companies, which have strong cash flow generation, to be held over the long term.

Asset allocation

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?" 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. The manager considers this screen removes 95% of all companies.
2) FGT runs a concentrated portfolio. This is a reflection of the first tenet as well as the requirement that, as a long-term investor, the manager looks for particularly attractive entry points in terms of valuations. 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 that 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 the 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 that is radically different in its composition to the broader market.

Overview: Highly focused UK equity portfolio

FGT has 24 equity investments and two preference share holdings. The top 10 equity holdings account for 65.3% of the portfolio, preference shares 0.8%, cash 1.2%, with the remaining 14 equity investments accounting for 32.2%. 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.

Heineken: Refreshing the portfolio that other stocks cannot reach

One new name added to FGT's portfolio during the last six months is Heineken, first purchased in August 2011, which now accounts for 6.0% of the portfolio. This is the first time, under Lindsell Train's management, that the trust has purchased a non-benchmark stock. The manager reports that this decision was not taken lightly but that the company is highly profitable, very cash generative and the depressed markets of August 2011 provided FGT with a very attractive entry point. With its strong global consumer brands Heineken fits with FGT'S investment strategy joining other consumer stocks such as Diageo, A.G. Barr, Unilever and Kraft Foods.

Underweights: Non-consumer sectors

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

Overweights: Consumer sectors

FGT has substantial overweights in consumer goods, consumer services and technology with allocations c 3.3x, 3.3x and 8.6x those of the benchmark. FGT is also marginally overweight financials.

Exhibit 3: Sector allocations, as at 29 February 2012

	Trust Weight (%)	Benchmark Weight (%)	Trust Active Weight (%)	Trust Weight/ Benchmark Weight
Consumer goods	43.2	13.4	29.8	3.22
Consumer services	28.6	8.9	19.7	3.21
Technology	10.2	1.2	9.0	8.48
Financials	16.1	14.9	1.2	1.08
Utilities	0.0	3.8	(3.8)	0.00
Telecommunications	0.0	5.3	(5.3)	0.00
Industrials	0.0	6.5	(6.5)	0.00
Healthcare	0.0	6.5	(6.5)	0.00
Basic materials	0.0	16.5	(16.5)	0.00
Oil & gas	0.0	23.0	(23.0)	0.00
Preference shares	0.8	0.0	0.8	N/A
Cash	1.2	0.0	1.20	N/A
Total	**100.0**	**100.0**	**0.0**	

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

Current portfolio positioning: Substantially different to the All-Share

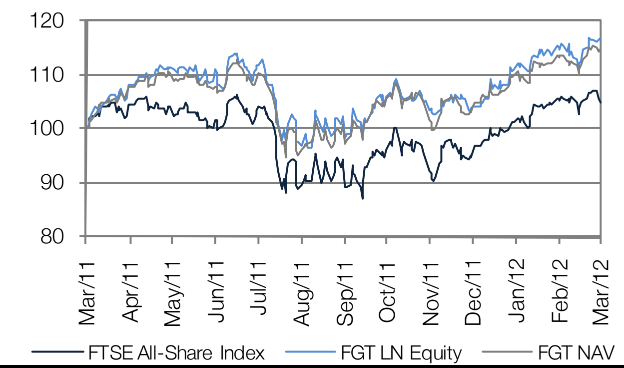
As Exhibit 3 illustrates, FGT's portfolio has a radically different allocation to that of its benchmark the FTSE All-Share. In addition, the manager has given FGT's portfolio a growth-oriented bias, relative to the benchmark, by underweighting defensive and overweighting cyclical sectors.

Recent performance: Consistent outperformance

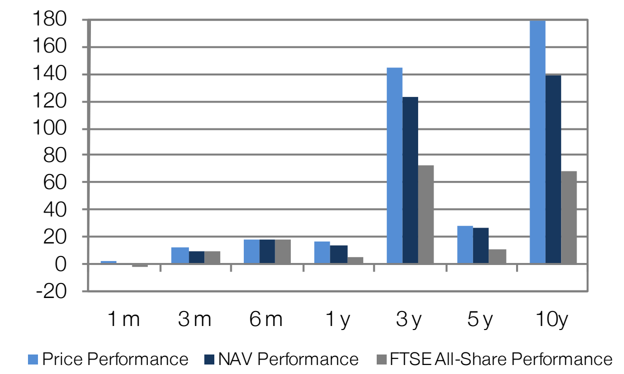
As Exhibits 4 and 5 illustrate, FGT has given a consistent long-term performance, outperforming its benchmark, the FTSE All-Share index, in terms of both price and NAV over the one-, three-, five - and 10-year periods. Near-term performance has been more mixed but has not deviated wildly from that of the benchmark. However, given the substantial sector deviations that FGT makes versus the benchmark, it is quite plausible that near-term performance can differ substantially from the benchmark. As such, we consider the longer-term horizons are more relevant to evaluating FGT.

Exhibit 4: Investment trust performance

Price, NAV & benchmark total return performance 1 year rebased



Price, NAV & benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research

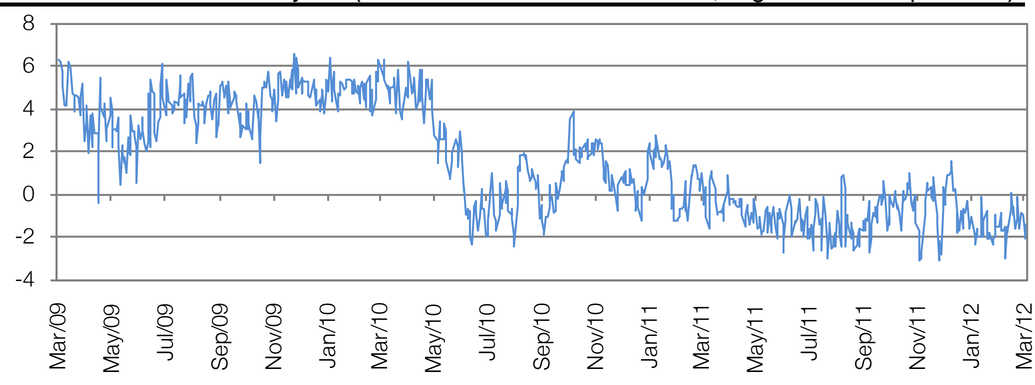
Exhibit 5: Share price and NAV total return performance (sterling adjusted), relative to benchmarks

	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Price relative to FTSE All-Share Index	2.4	2.9	0.8	11.9	70.9	17.8	110.4
NAV relative to FTSE All-Share Index	1.2	0.5	(0.2)	9.5	50.0	16.1	70.8
Price relative to FTSE 350 Index	2.5	3.0	0.7	11.9	71.4	17.0	110.0
NAV relative to FTSE 350 Index	1.3	0.7	(0.3)	9.4	50.6	15.3	70.4
Price relative to MSCI UK Index	2.7	4.1	0.7	11.6	74.1	17.8	122.0
NAV relative to MSCI UK Index	1.5	1.8	(0.3)	9.2	53.3	16.1	82.4

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

Discount: Effective discount management policy

Exhibit 6: Discount over three years (Positive values indicate a discount; negative values a premium.)



Source: Thomson Datastream/Edison Investment Research

FGT has an active discount management policy aimed at protecting shareholders from discount volatility. FGT actively repurchases shares into treasury when they are offered at a discount greater than 5.0%. It reissues shares, from treasury, at a discount of less than 5.0% and issues new shares at a 0.5% premium. Exhibit 6, which shows the discount of the trust over the last three years, illustrates that this policy has been effective. FGT's discount volatility increased from September

2008 but the increase was comparatively mild, and short lived, when compared to many trusts and was not accompanied by the general widening seen elsewhere in the sector. As a reflection, FGT's average discount over the last three years is 1.5%. Repurchase activity has been non-existent for 20 months with FGT frequently trading at a premium. This has given FGT the opportunity to issue stock and, as illustrated in Exhibit 1, FGT has continued with its programme of allotments issuing 8.4m shares, and raising £28.2m, during the last 12 months. The current premium of 1.9 % reflects a higher rating than its three-year and five-year discount averages of 1.5% and 2.0% respectively.

Capital structure: Conventional, moderate gearing

FGT is a conventional trust, having only one class of share in issue – 25p ords. It can gear up to 25% of net assets and 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 29 February 2012, we calculate that FGT had gross gearing of 6.7% and net gearing of 5.4% 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 2011, the RPI rose by 5.59%, providing an increase in the market capitalisation performance hurdle for the year of 11.59% above the 2010 performance hurdle. The 2011 performance hurdle was 507.78p per share versus FGT's actual market capitalisation per share of 311.61p. No performance fee was accrued for the years ended 30 September 2009-11. The total expense ratio (TER) was 1.0% for the year ended 30 September 2011 (1.0% for the year ended 30 September 2010). 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

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 = 4.8p). For the year ending 30 September 2011 FGT paid a total dividend for the year of 9.2p (2010 = 8.8p), which represents a 5.4% rise year-on-year in total dividends. This partially reverses the 7.4% fall between 2009 and 2010 (9.5p to 8.8p) caused primarily by a substantial reduction in the level of income received from FGT's Lloyds preference shares and illustrates that 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, but the 2011 payment was fully covered (FGT earned 9.7p per share, paid out 9.2p, retained 0.5p thus increasing revenue reserves by £160k). As at 30 September 2011, FGT had revenue reserves equal to 8.6p per share. The manager reports strong dividend growth this year and so we expect that FGT will at least be able to maintain the dividend at 9.2p and that a dividend increase is not unlikely. 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. 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 7 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 third over one year, fourth over three years and fourth over five years when considering share price total return.

Exhibit 7: UK growth and income sector, as at 22 March 2012

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					
Sector average	**113.3**	**197.8**	**119.8**	**0.75**	**0.5**	**113**	**3.2**	**4.3**
Finsbury Growth & Income	116.9	244.2	128.3	1.09	1.6	105	0.9	2.7
Dunedin Income Growth	107.8	208.4	106.5	0.66	(4.5)	109	0.5	4.6
Edinburgh Investment	121.7	198.5	135.1	0.68	4.1	120	2.7	4.3
F&C Capital & Income	107.0	176.7	112.8	0.91	1.5	103	3.5	3.9
Invesco Income Growth	120.0	200.7	111.6	1.01	(4.5)	106	3.4	4.3
Lowland	116.9	258.0	101.9	0.62	(6.8)	115	3.6	3.1
Merchants	103.3	204.1	100.2	0.64	1.0	124	1.3	6.0
Murray Income	113.3	202.8	115.4	0.77	0.6	108	3.5	4.4
Perpetual Income & Growth	115.7	178.6	131.0	1.04	1.0	115	8.6	3.7
Standard Life Equity Income	104.4	160.9	109.5	0.98	(6.7)	109	3.5	4.3
Troy Income & Growth	116.5	311.2	70.5	1.24	1.8	95	(17.4)	3.6
Value & Income	105.2	242.2	91.0	0.92	(19.1)	129	3.1	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 8.4 years.

Edison Investment Research

Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk
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