EDISON

Finsbury Growth & Income Trust

Consistent long-term outperformance

Finsbury Growth & Income Trust (FGT) maintains a relatively concentrated portfolio of 25-30 stocks, with a focus on well-managed businesses with strong franchises. FGT has an experienced management team, which uses a bottom-up strategy to select positions that are held for the long term (turnover is just over 6% per year). It is moderately geared, aims to provide an above-average dividend yield, and its strong record of outperformance has continued during the last year. During the last 10 years, FGT has outperformed its benchmark, the FTSE All-Share, by 159.6% and 227.7% in terms of NAV and share price total return respectively.

12 months ending	Total share price return* (%)	Total NAV return* (%)	Total return FTSE All-Share Index* (%)	Total return FTSE 350 Index* (%)	Total return MSCI UK Index* (%)
30/04/10	41.6	43.0	36.6	36.6	35.6
30/04/11	30.0	24.0	13.7	13.6	12.9
30/04/12	5.6	5.0	(2.0)	(2.0)	(1.8)
30/04/13	34.4	35.3	17.8	17.7	16.6

Note: *Twelve-month rolling discrete performance.

Investment strategy: Undervalued quality UK-listed companies

FGT invests in large- and medium-sized companies listed primarily on the UK equity markets. The manager subscribes to the Buffett 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 with patience when deemed to be 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; at least 70% invested in FTSE 350 stocks. FGT is mandated to be permanently geared. Net gearing is currently 5.7%, but can range between 5% and 20% of net assets.

Outlook: Insulated from economic headwinds

The stock picking approach of Lindsell Train, the investment manager, looks to provide FGT with a portfolio of quality companies to be held over the long term. By design, FGT's portfolio should be relatively resilient to harsh economic conditions. The economic outlook has shown signs of improvement recently and currently the portfolio has a substantial allocation to consumer-related stocks, which should benefit as employment recovers and the pressure on real incomes abates.

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 is currently trading at a premium of 0.9% (average premium over three years is 0.6%; average discount over five years is 1.3%). FGT continues to issue new shares. This should benefit existing holders by stimulating liquidity and reduce ongoing charges by spreading fixed costs over a larger asset base.

Investment trusts

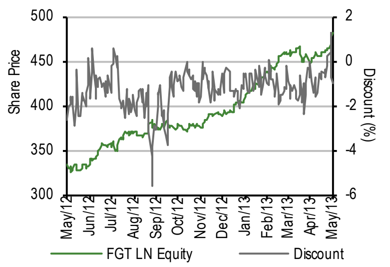
20 May 2013

Price	**481p**
Market cap*	**£375m**
AUM	**£393m**
NAV*	476.53p
Premium to NAV	0.9%
NAV**	478.69p
Premium to NAV	0.5%
Yield	2.1%

**Adjusted for debt at market value and excluding income, as at 6 May 2013. **Adjusted for debt at market value, including income, as at 6 May 2013.*

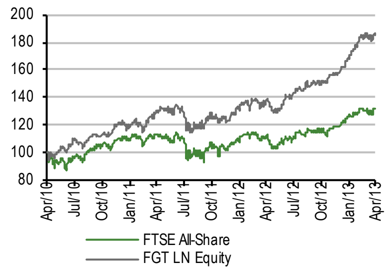
Ordinary shares in issue	77.9m
Code	FGT
Primary exchange	LSE
AIC sector	UK Growth & Income

Share price/discount performance



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

Three-year cumulative perf. graph



52-week high/low	481p	325.5p
NAV* high/low	476.43p	319.88p

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

Gearing

Gross	5.7%
Net	5.7%

Analysts

Matthew Read +44 (0)20 3077 5758

Andrew Mitchell +44 (0)20 3077 5700

investmenttrusts@edisongroup.com

Edison profile page

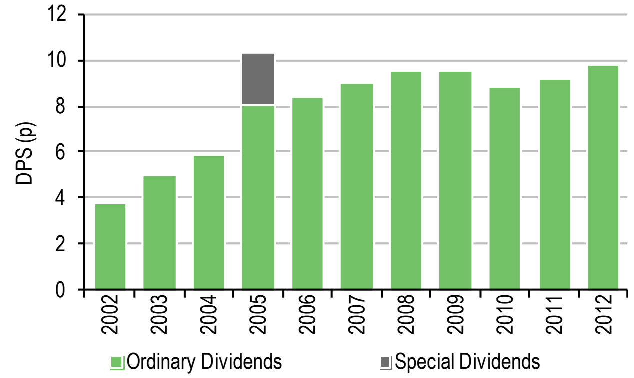
Finsbury Growth & Income Trust is a research client of Edison Investment Research Limited

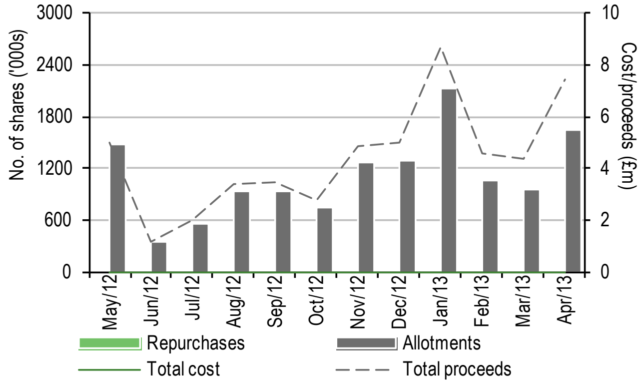
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
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% can be invested in non-UK-quoted companies at acquisition. FTSE 100 companies normally represent 50-100% of the portfolio, with at least 70% usually invested in FTSE 350 companies.	16 April 2013: John Allard (director) and spouse purchased 4,000 shares. April 2013: FGT allotted 1.6m shares raising £7.4m. 17 April 2013: Nick Train (fund manager) and spouse purchased 6,093 shares.

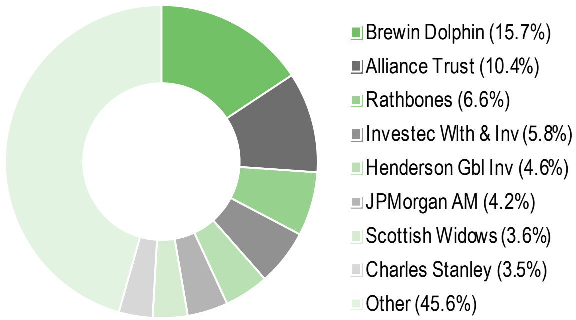
Forthcoming		Capital structure		Fund details	
AGM	January 2013	Ongoing charges	0.9%	Group	Frostrow Capital LLP
Preliminary results	December 2012	Net gearing	5.7%	Manager	Lindsell Train
Year end	30 September	Annual mgmt fee	£70k + 0.6% market cap	Address	25 Southampton Buildings, London, WC2A 1AL, UK
Dividend paid	May, October	Performance fee	15% above RPI + 6%		
Launch date	January 1926	Trust life	Indefinite	Phone	+44 (0)20 3008 4910
Continuation vote	None	Loan facilities	£20m revolving	Website	www.finsburygt.com

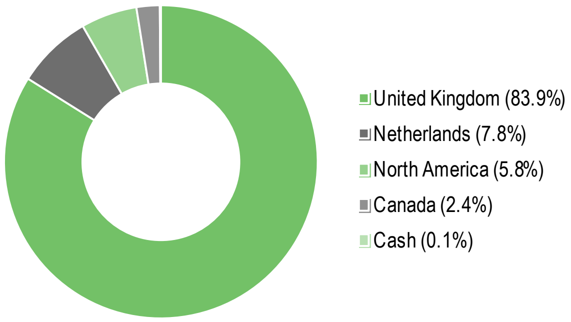
Dividend policy and history	Share buyback policy and history
Two dividends annually, paid in May and October. The dividend is expected to rise over the longer term.	Renewed annually, the trust has authority to purchase up to 14.99% and allot up to 10% of issued share capital.



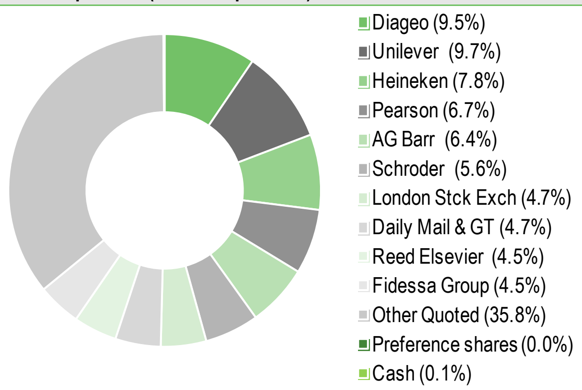


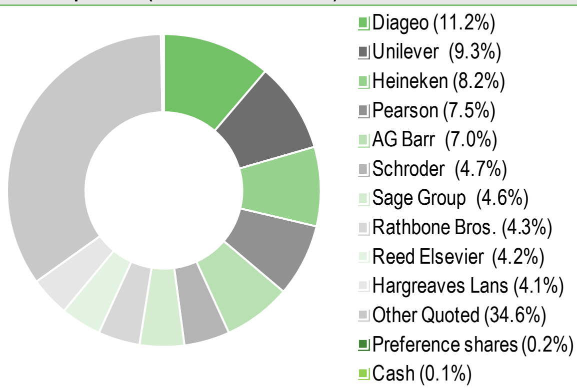
Shareholder base (as at 30 April 2013)	Distribution of portfolio (as at 30 April 2013)





Portfolio composition (as at 30 April 2013)	Portfolio composition (as at 31 October 2012)

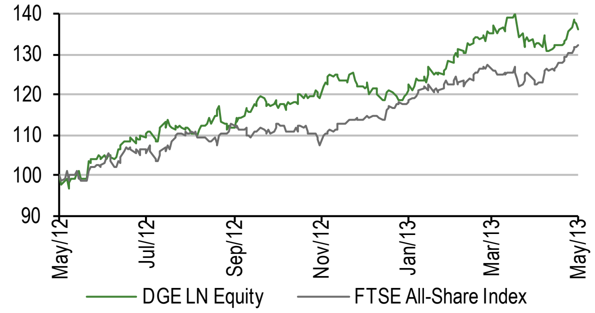




Source: Finsbury Growth & Income Trust, Edison Investment Research

Exhibit 2: Top five holdings at a glance

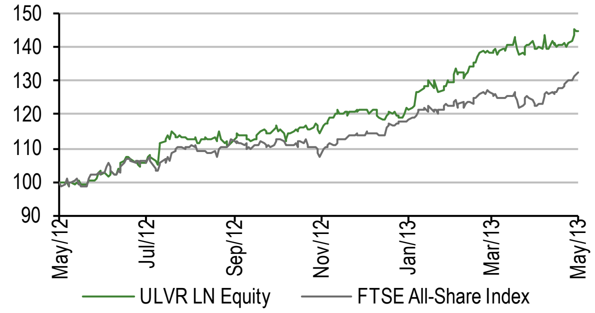
Diageo	Code: DGE LN	Market cap: £50,903m



Div yield (trail. 12 months)	2.22%
Industry/Sector	Beverages – wine/spirits
Listing	LSE – Premium listing
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. Diageo has put in a strong performance during the last year, and, reflecting this, no new DGE stock has been purchased for FGT's portfolio during the last three months. The manager considers that Diageo has a credible strategy for growing its emerging markets business and that it has made material progress in developing its emerging market business and distribution network.

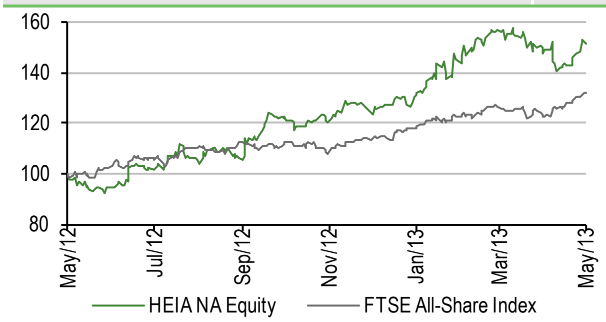
Unilever	Code: ULVR LN	Market cap: £83,989m



Div yield (trail. 12 months)	2.87%
Industry/Sector	Food – misc/diversified
Listing	LSE – Main market
Website	www.unilever.com

Unilever is a British-Dutch consumer goods company. 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. The manager is pleased with Q1 dividend growth (15% year-on-year) and is comfortable with the price paid (30x earnings) to increase its stake in Hindustan Lever.

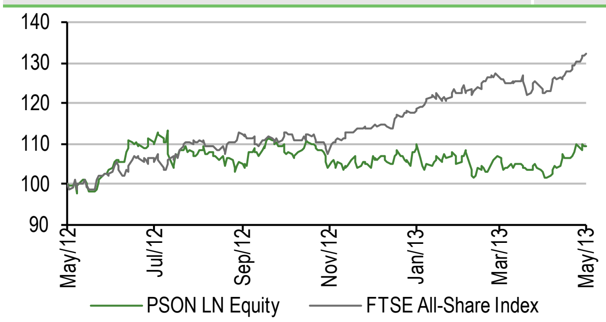
Heineken	Code: HEIA. NA	Market cap: €32,919m (£27,788m)



Div yield (trail. 12 months)	1.56%
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 the purchase of Asia Pacific Breweries in September 2012 was a very positive development. Like Diageo, the manager considers that Heineken has a very credible emerging market growth strategy and has made material progress in developing its emerging markets business and distribution network.

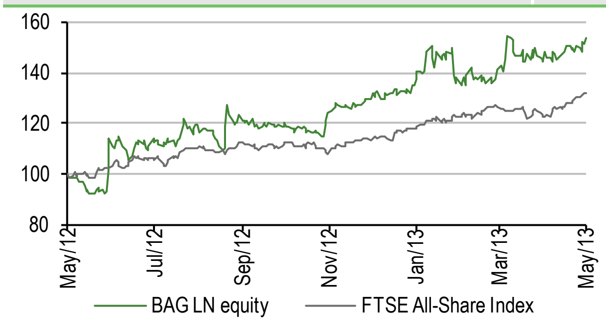
Pearson	Code: PSON LN	Market cap: £9,826m



Div yield (trail. 12 months)	3.74%
Industry/Sector	Multimedia
Listing	LSE – Premium listing
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. The manager considers that, as the world's largest provider of educational materials, Pearson is well positioned to benefit from the shift to digital provision, which is expected to improve profitability over the longer term.

AG Barr	Code: BAG LN	Market cap: £667m



Div yield (trail. 12 months)	1.75%
Industry/Sector	Beverages – non-alcoholic
Listing	LSE – Premium listing
Website	www.agbarr.co.uk

AG Barr is engaged in the manufacture, distribution and retailing of soft drinks. Organised around two business segments, carbonates and 'still drinks and water', its 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 AG Barr has been a fantastic investment for FGT, which has quintupled in value since 2001. The manager is positive about the proposed merger with Britivic and considers that it offered good terms to AG Barr. The deal has been referred to the competition commission, whose findings are expected this month.

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

Fund profile: Low turnover, long-term value play

FGT was launched in 1926 and Nick Train, co-founder of Lindsell Train, has managed the portfolio 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 year since December 2001, when the manager finished rebalancing the portfolio). During the 10 years to 30 April 2013, FGT has outperformed its benchmark, the FTSE All-Share, by 159.6% in terms of NAV total return and 227.7% in terms of share price total return.

Equity outlook: Inflation hedge; positive for consumers

The calendar year to date has seen a positive equity market performance, with the trust's benchmark index, the FTSE All-Share up 12%, reflecting a continued switch by investors from risk aversion to return-seeking against the backdrop of quantitative easing and very low 'risk-free' returns. Investors, in our view, are therefore currently left facing poor returns from low-risk fixed income investments, higher equity valuations than previously and uncertainty over the economic (and political) outlook in a number of regions. Economic indicators in Europe remain weak and while the US still appears to be on a faster growth track, economic metrics are mixed.

How to balance these considerations? While there must be a danger of an equity market correction following the period of strength and given the global macro risks, there seems a reasonable case for equities as a 'least bad' option. To put this in context, the FTSE All-Share is trading at an historic P/E of 14.4x, which is broadly in line with its 10-year average of 13.8x, but at the upper end of its recent trading range during the last 12 months, as illustrated in Exhibit 3. Furthermore, the average yield on the FTSE All-Share (3.4%) compares well with current 10-year UK government bond yields of 1.8% and deposit rates, and while the risk may currently be modest, equities should fare better than bonds in the event of a significant increase in inflation. The yield on FGT's underlying portfolio is 3.0% by comparison.

A further consideration is FGT's substantial exposure to consumer stocks. Whilst the recovery is likely to be slow, we feel it is not unreasonable to expect that consumer spending will benefit, over the longer term, as employment continues to recover and the recent pressure on real incomes abates.

Exhibit 3: FTSE All-Share P/E over 10 years

Source: Thomson Datastream

The fund manager: Nick Train

The manager's view: Portfolio resilient to economic headwinds

The manager acknowledges that the outlook for the UK and the global economy has improved recently, but expects that growth will be slow and there will be further setbacks along the road to recovery. However, the manager maintains that this will not ultimately determine whether FGT's portfolio can provide long-term outperformance for shareholders. The manager firmly maintains the view that he is best able to exploit the opportunity in equity investment by seeking to identify companies that have the strength of franchise, and strength of management, to be able to benefit from secular growth trends and technological advance. These same attributes will allow such companies to prosper in good times, while also providing support to profitability, cash flow and dividends in difficult times. Such stocks clearly exist; the challenge for any investor is to identify and stick with them. It is this process that the manager is very clearly focused on as a route to creating long-term portfolio returns. It is also reflected in FGT's low portfolio turnover (c 6.0% pa).

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:

- The manager attempts to invest only in businesses that are deemed to be really exceptional. A key filter question is, "How likely is a business to be very profitable in 20 years' time?" To meet this benchmark, 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 toward the consumer sectors, which historically have had some very durable brands.
- 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 significant positions.
- 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, he 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.
- 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, which 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.

Overview: Highly focused UK equity portfolio

FGT has 25 quoted equity investments. It also has one preference share holding, in Celtic, which represents 0.02% of total assets. The top 10 equity holdings account for 64.1% of the portfolio, cash 0.1%, with the remaining 15 equity investments accounting for 35.8%. As displayed in Exhibit 4, FGT's asset allocations can vary significantly from those of the benchmark index, reflecting the actively managed nature of the trust. It should also be noted that while FGT invests primarily in UK-listed stocks, analysis of FGT's concentrated portfolio shows there is substantial geographical diversification in terms of revenue streams.

FGT also has a small unquoted holding (represents 0.1% of the portfolio) in Frostrow Capital LLP, which provides for administration, secretarial and marketing services to FGT. The investment is valued at £470k on FGT's balance sheet and provided a return of £149,000 during the year to 30 September 2012. The decision to invest in this position was made by the board and is not within the investment manager's jurisdiction. However, the holding is not material and the manager reports that it has performed well and provided very good returns.

FGT also has a small investment in The Lindsell Train Investment Trust (LTI, also managed by FGT's manager). At 0.2% of FGT's portfolio, the investment is not a material concern, and, like the Frostrow Capital Investment, the decision to invest was made by the board and the position is outside the manager's jurisdiction. The investment was made at LTI's launch in January 2001 at 100p. The stock is currently priced at 326p.

Exhibit 4: Sector allocations as at 30 April 2013

	Portfolio weight (%)	Benchmark weight (%)	Trust active weight (%)	Trust weight/ benchmark weight
Consumer goods	41.8	15.6	26.2	2.68
Consumer services	30.1	9.9	20.2	3.04
Technology	8.4	1.4	7.0	6.00
Financials	19.7	19.8	(0.1)	0.99
Utilities	0.0	3.3	(3.3)	0.00
Telecommunications	0.0	5.4	(5.4)	0.00
Healthcare	0.0	6.3	(6.3)	0.00
Industrials	0.0	7.9	(7.9)	0.00
Basic materials	0.0	11.5	(11.5)	0.00
Oil & gas	0.0	18.9	(18.9)	0.00
Preference shares	0.0	0.0	0.0	N/A
Cash	0.1	0.0	0.1	N/A
	100.0	**100.0**	**0.0**	

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

Recent activity and current portfolio positioning

FGT follows a buy and hold strategy. The manager does not trade around the margins and sales are only made when an investment case has fundamentally changed. When this occurs, the manager looks to exit a position, in its entirety, when conditions are appropriate. The last such occurrence was FGT's sale of its Lloyds Bank preference shares in September 2012.

No new names have been added to the portfolio in the last 12 months. The last addition was Heineken in August 2011, which now represents 7.8% of the portfolio. This addition is of particular interest, as it was the first time that FGT purchased a non-benchmark stock under Lindsell Train's management. The manager considered Heineken to be highly profitable, very cash generative, and during the depressed markets of August 2011, FGT was offered a very attractive entry point. With its strong global consumer brands, Heineken fits with FGT's investment strategy and sits alongside its other consumer stocks, eg Diageo, AG Barr, Unilever and Kraft Foods. The manager considers there are another 10 to 15 names that meet FGT's quality criteria, but believes their current valuations are too full to precipitate an investment in the near term.

FGT's programme of share allotments has continued, with the trust raising £36.4m in new issuance during the last 12 months. However, in allocating new capital, the manager does not add to existing holdings on a pro-rata basis. Instead, the manager will add to positions where he sees the most value. The majority of the new money has been added to media and software companies. These include Pearson, Reed, Fidessa and Daily Mail and General Trust. The manager has been adding to Pearson, which has traded sideways during the last six months.

FGT's London Stock Exchange position has also been augmented during the last six months. While the acquisition of LCHClearnet changes the character of the business to some degree, the manager considers that the combined company still fits FGT's investment criteria. In his opinion, the regulator appears enthusiastic about the deal, which reflects a desire to see more transactional flows through a regulated exchange, and offers LSE a competitive advantage. The manager also considers that now is a good time to own a regulated exchange, which he believes will benefit from a rotation back into equities following a 10-year bull market in fixed income.

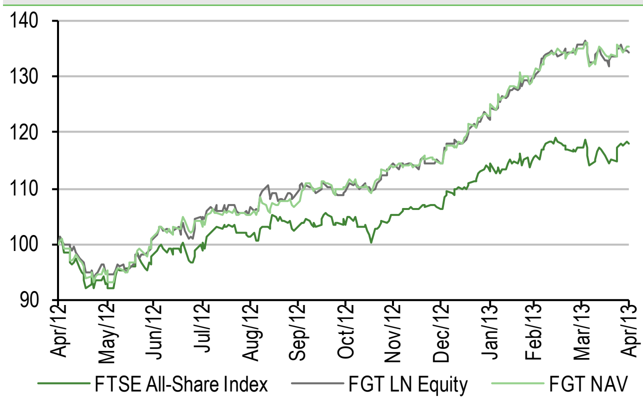
Following its strong performance in 2012, the manager considers Diageo to be more fully valued now, and has added little to the position during 2013. Similarly, Hargreaves Lansdown has had a strong run and the manager has added little to this position in the last three months.

FGT has a zero allocation to oil and gas, basic materials, industrials, healthcare, telecommunications and utilities sectors, which collectively represent c 53% of the index. It retains its substantial overweights in consumer goods, consumer services and technology, with allocations c 2.7x, 3.0x and 6.0x those of the benchmark. FGT is also marginally underweight financials. As Exhibit 5 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 defensive bias, relative to the benchmark, by underweighting cyclical and overweighting defensive sectors.

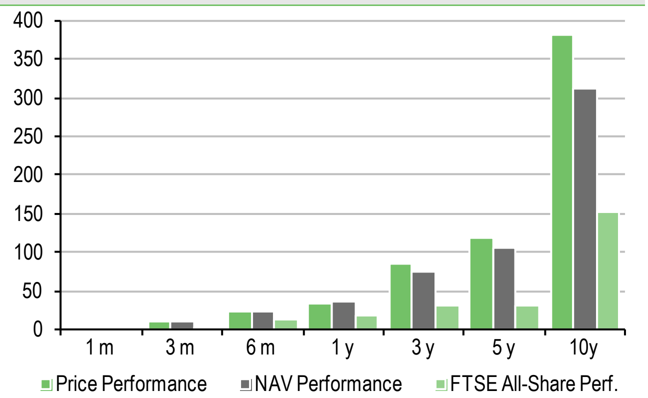
Performance: Consistent long-term outperformance

Exhibit 5: Investment trust performance

Price, NAV and benchmark total return perf, one year rebased



Price, NAV and benchmark total return performance (%)



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

As Exhibits 5 and 6 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 all the time periods three months and above. In reality, the concentrated nature of FGT's portfolio, in terms of both number of stocks and sector allocation, means that performance can suffer in the short term as a result of stock-specific or sector-specific events. The performance figures in Exhibit 5 clearly illustrate the effectiveness of the strategy over the long-term time horizons, which we consider to be more relevant in evaluating FGT's performance.

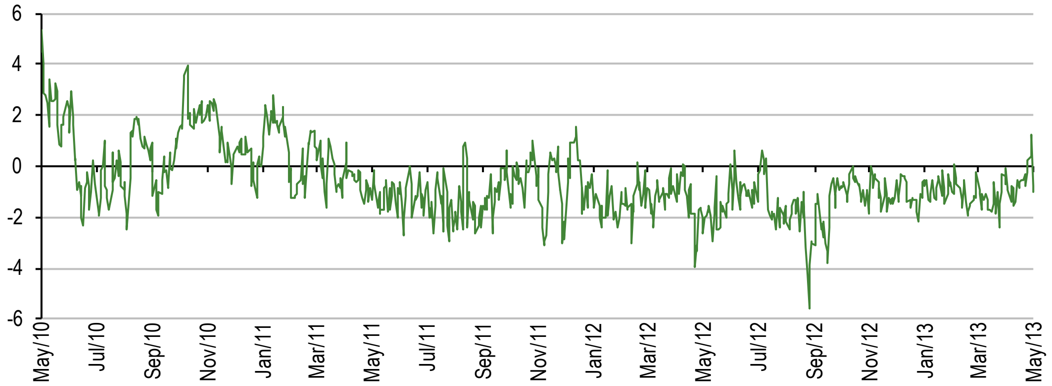
Exhibit 6: Share price and NAV total return performance, relative to benchmarks (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to FTSE All-Share	(1.5)	6.0	10.1	16.5	53.1	87.3	227.7
NAV relative to FTSE All-Share	(0.3)	6.3	10.0	17.5	44.9	74.9	159.6
Price relative to FTSE 350 High Yield	(1.5)	6.0	10.2	16.7	53.3	87.4	227.8
NAV relative to FTSE 350 High Yield	(0.3)	6.4	10.1	17.6	45.1	75.0	159.7
Price relative to MSCI UK Index	(1.5)	6.8	11.1	17.8	55.1	90.5	246.8
NAV relative to MSCI UK Index	(0.3)	7.1	11.0	18.7	46.9	78.2	178.7

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

Discount: Trading at a mild premium

Exhibit 7: Discount over three years



Source: Thomson Datastream, Edison Investment Research. *Note: Positive values indicate a discount; negative values indicate a premium.

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 7, which shows the discount of the trust over the last three years, illustrates that this policy has been effective. FGT's average premium, over the last three years, is 0.6%. Over the same, FGT has traded between a discount of 5.4% and a premium of 5.6%. With FGT predominantly trading at a premium for most of the period, there has been little need to use FGT's repurchase authority and no share repurchases have been made since April 2010. This has given FGT the opportunity to issue stock, and, as shown in Exhibit 1, it has continued with its programme of allotments, issuing 10.5m shares and raising £36.4m during the last 12 months. This represents a 19% increase in the number of shares in issue during the last 12 months and should benefit existing holders by stimulating liquidity and reduce ongoing charges by spreading fixed costs over a larger asset base. The current premium of 0.9% is comparable to an average premium of 0.6% over three years. Over the last five years, FGT has traded at an average discount of 1.3%.

Capital structure: Conventional, modest 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 should be permanently geared. If the gearing falls below 5% or rises 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 it has remained within these boundaries to date. As at 30 April 2012, we calculate that FGT had gross gearing of 5.7% and net gearing of 5.7% of net assets.

The annual management fee is split between Frostrow (responsible for administration, secretarial and marketing services) and Lindsell Train, the investment manager. Frostrow receives a fixed amount of £70,000 per year plus 0.15% of the company's market capitalisation per year, calculated monthly and payable monthly in arrears. Lindsell Train receives a management fee of 0.45% of the company's market capitalisation per year, also calculated monthly and payable monthly in arrears. The trust also pays a performance fee amounting to 15% of 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, Lindsell Train receives 85.0% and 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 2012, the RPI rose by 2.65%, providing an increase in the market capitalisation performance hurdle for the year of 8.65% above the 2011 performance hurdle. The 2012 performance hurdle was 551.70p per share versus FGT's actual market capitalisation of 375.91p per share. No performance fee was accrued for the years ended 30 September 2009-12. The ongoing charges were 0.9% for the year ended 30 September 2012 (1.0% for the year ended 30 September 2011). 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: Bi-annual, 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 (2013 = 4.8p) and a second interim, in lieu of a final, is paid in November (2012 = 5.2p). For the year ending 30 September 2012, FGT paid a total dividend for the year of 9.8p (2011 = 9.2p), which represents a 6.5% rise year-on-year in total dividends. As Exhibit 1 illustrates, FGT has a progressive dividend policy. The dividend, which has risen by 161% during the last 10 years, has been maintained or increased every year, with the exception of a 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 Bank preference shares. Payment of dividends for the years ended 30 September 2009 and 2010 required FGT to dip into its revenue reserves (by £187k and £170k respectively), but the 2011 and 2012 payments were fully covered.

It should be noted that while growing the shareholder base stimulates liquidity and reduces expenses by spreading fixed costs over a larger asset base, it has a short-term dilutive effect on revenue reserves. However, issuing at a premium is overall NAV enhancing, and as FGT had revenue reserves of 8.8p per share as at 30 September 2012, we do not expect this to present a problem. Overall, we believe FGT is well positioned to maintain the dividend at 9.8p, and that a dividend increase for 2013 is not unlikely. In addition, the manager is positive about Q1 dividend growth for the quoted corporate sector (c 6% y-o-y) and considers that companies are well positioned to continue to grow dividends. 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. 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

The AIC sector UK Growth and Income has 20 constituents (Exhibit 8 illustrates a sample). In this group, FGT ranks second over one and three years, and first over five years, when considering share price total return. In terms of risk-adjusted returns, FGT also has the second highest one-year Sharpe ratios for both price and NAV in its peer group.

Exhibit 8: UK growth and income sector, as at 17 May 2013

Company	Share price total return on £100 One year	Three years	Five years	Ongoing charges (%)	(Disc)/ prem.	Net gearing (100=no gearing)	Five-year dividend growth (%)	Div. yield	Sharpe ratio NAV One year	Sharpe ratio price One year
Sector average	**138.5**	**174.9**	**171.5**	**0.8**	**(0.3)**	**109.5**	**2.0**	**3.6**	**1.6**	**1.7**
Finsbury Growth & Income	**147.1**	**196.4**	**225.4**	**0.9**	**0.5**	**105.0**	**1.0**	**2.1**	**2.5**	**2.4**
Dunedin Income Growth	139.5	173.8	154.6	0.6	(0.4)	105.0	1.0	3.9	1.4	1.8
Edinburgh Investment	131.6	179.5	175.7	0.7	1.5	118.0	1.5	3.7	1.1	1.4
F&C Capital & Income	130.6	147.4	136.1	0.8	0.4	105.0	3.1	3.6	1.5	1.3
Invesco Income Growth	131.4	171.1	158.5	1.0	(7.1)	109.0	1.7	3.6	1.9	2.3
Lowland	145.9	221.2	185.5	0.7	1.6	112.0	3.8	2.7	2.0	2.3
Merchants	143.8	172.3	148.1	0.7	(2.9)	120.0	0.8	4.8	1.3	1.1
Murray Income	136.2	170.0	162.2	0.8	1.9	106.0	2.0	3.7	1.4	1.3
Perpetual Income & Growth	142.4	183.4	189.1	1.0	(0.5)	111.0	5.0	3.1	2.0	2.0
Standard Life Equity Income	143.0	161.5	154.0	1.0	(3.3)	95.0	3.1	3.5	1.5	1.7
Troy Income & Growth	126.3	155.1	114.1	1.2	1.6	97.0	(15.9)	3.5	1.3	1.3

Source: Morningstar

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 9.0 years.

Berlin +49 (0)30 2088 9525
Friedrichstrasse 95
10117 Berlin
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
245 Park Avenue, 39th Floor
10167, New York
US

Sydney +61 (0)2 9258 1162
Level 33, Australia Square
264 George St, Sydney
NSW 2000, Australia

Wellington +64 (0)4 8948 555
Level 15, 171 Featherston St
Wellington 6011
New Zealand