

Finsbury Growth & Income Trust

Another good year for FGT

2013 was another strong year for Finsbury Growth & Income Trust (FGT) building on its successful long-term record; over the year NAV total return was 35.1% versus the FTSE All-Share benchmark return of 20.8% (10 years 292.3% versus 131.6%). Investor demand has seen the trust issue £70.3m of new shares during the year to manage the premium to NAV (average during the year 1.3%). This has provided cash flow to gradually increase holdings in the trust's media and telecom investments, while allowing weightings in FGT's more market-sensitive financial sector investments, strong performers over the past year, to naturally reduce.

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* (%)
31/12/10	34.6	29.1	14.5	14.4	12.2
31/12/11	4.1	3.8	(3.5)	(3.2)	(1.8)
31/12/12	25.4	23.6	12.3	12.0	10.2
31/12/13	35.0	35.1	20.8	20.5	18.5

Note: *Twelve-month rolling discrete performance.

Strategy: Undervalued quality UK-listed companies

FGT invests in large and medium-sized companies listed primarily in the UK. The manager seeks to identify companies that can be long-term winners across economic cycles; typically these will have strong franchises and 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 is focused, currently consisting of 25 holdings. Generally, at least 50% of the portfolio will be invested in FTSE 100 stocks (currently 68.8%), with at least 70% invested in the FTSE 350 (currently 95.7%). FGT's strategy is to be permanently geared and is expected to be in the range of between 5% and 25% of net assets. Net gearing is currently 4.3% reflecting recent share issuance.

Outlook: Sentiment improving, valuations expanding

The UK equity market performed strongly during 2013 but volatility, particularly in reaction to talk of tapering, highlights that considerable uncertainty remains. Looking to 2014, there is evidence to suggest the economic outlook is improving and press reports suggest an emerging consensus that the UK stock market will rise modestly during the year. FGT's focus on quality companies has historically provided resilience in a challenging economic environment, while the substantial allocation to consumer-related stocks should benefit as employment recovers. The trust's market related financial holdings would be more vulnerable to a market set-back, but the weighting is coming down as new funds are largely deployed elsewhere.

Valuation: Persistently trading at a modest premium

Reflecting continued strong demand for its shares, FGT has issued 15.2m shares (raising £70.3m) during the last year. The current premium of 0.6% compares to its three-year average of 0.5%. For existing holders this share issuance should stimulate liquidity and spread fixed costs over a larger asset base.

Investment trusts

21 January 2014

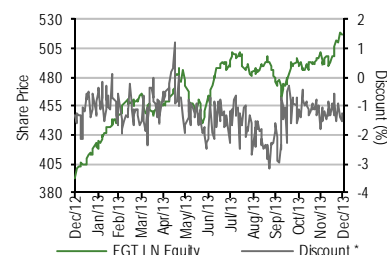
Price 524p
Market cap* £462m
AUM £480m

NAV* 520.75p
 Premium to NAV 0.6%
 NAV** 522.26p
 Premium to NAV 0.3%
 Yield 2.0%

*Adjusted for debt at market value and excluding income, as at 20 January 2014. **Adjusted for debt at market value, including income, as at 20 January 2014.

Ordinary shares in issue 86.4m
 Code FGT
 Primary exchange LSE
 AIC sector UK Equity Income

Share price/discount performance



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

Three-year cumulative perf. graph



52-week high/low 524p 413.63p
 NAV* high/low 520.75p 407.98p

*Adjusted for debt at market value, excluding income.

Gearing

Gross 4.6%
 Net 4.3%

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[Edison profile page](#)

Exhibit 1: Trust at a glance
Investment objective and fund background

FGT's investment objective is to achieve capital and income growth and provide shareholders with a total return above that of the FTSE All-Share index. It invests principally in the securities of UK-quoted companies, but up to a maximum of 20% 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.

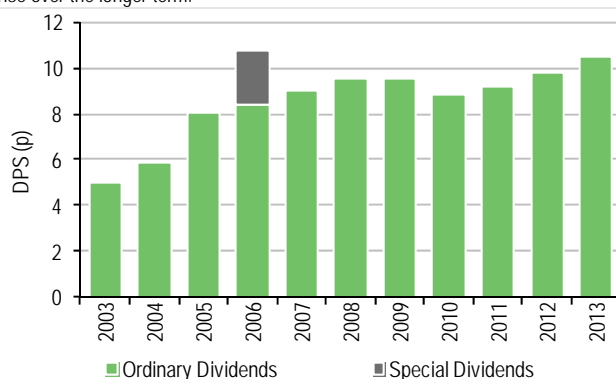
Recent developments

7 January 2014: Nick Train (fund manager) purchased 30k shares (total holding 246k shares).
 7 January 2014: John Allard (director) purchased 673 shares (total holding 27k shares).
 1 October 2013: Second interim dividend for year ended 30 September 2013 declared at 5.7p per share. Total dividend for year 10.5p per share.

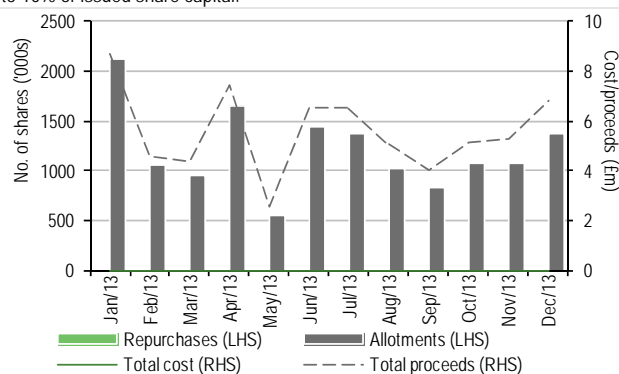
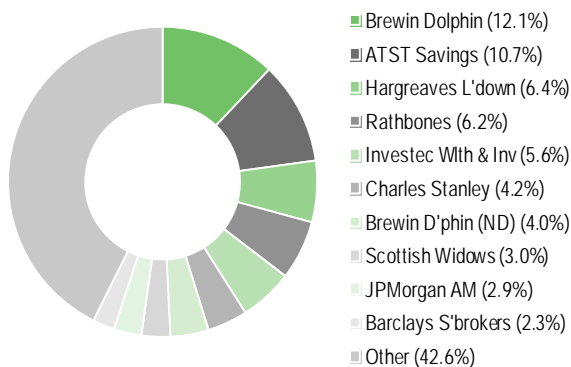
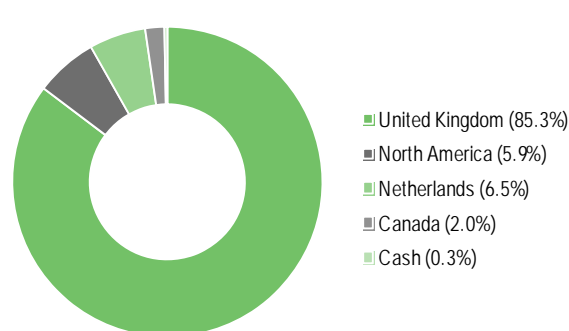
Forthcoming		Capital structure		Fund details	
AGM	January 2014	Ongoing charges	0.8%	Group	Frostrow Capital LLP
Preliminary results	May 2014	Net gearing	4.3%	Manager	Lindsell Train
Year end	30 September	Annual mgmt fee	£70k + 0.6% market cap	Address	25 Southampton Buildings, London, WC2A 1AL, UK
Dividend paid	May, October	Performance fee	15% above RPI + 6%	Phone	+44 (0)20 3008 4910
Launch date	January 1926	Trust life	Indefinite	Website	www.finsburygt.com
Continuation vote	None	Loan facilities	Up to £50m revolving		

Dividend policy and history

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


Share buyback policy and history

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 31 December 2013)

Distribution of portfolio (as at 31 December 2013)

Top 10 holdings (as at 31 December 2013)

Company	Country	Sector	Portfolio weight %	
			31 December 2013	30 June 2013
Diageo	UK	Beverages/Distillers & Vintners	8.6	9.6
Unilever	UK	Food Producers/Food Products	8.5	9.1
Pearson	UK	Media/Publishing	7.8	7.5
Heineken	Netherlands	Beverages/Brewery	6.5	7.3
Daily Mail & General Trust	UK	Media/Publishing	6.1	5.8
Reed Elsevier	UK	Media/Publishing	5.7	5.5
Schroders	UK	Financial Services/Asset Managers	5.6	5.3
London Stock Exchange	UK	Financial Services/Investment Services	5.5	5.1
Fidessa	UK	Software & Computer Services/Software	5.3	4.9
A.G. Barr	UK	Beverages/Soft Drinks	5.3	4.6
Top 10			64.9	64.7
Cash			0.3	0.8

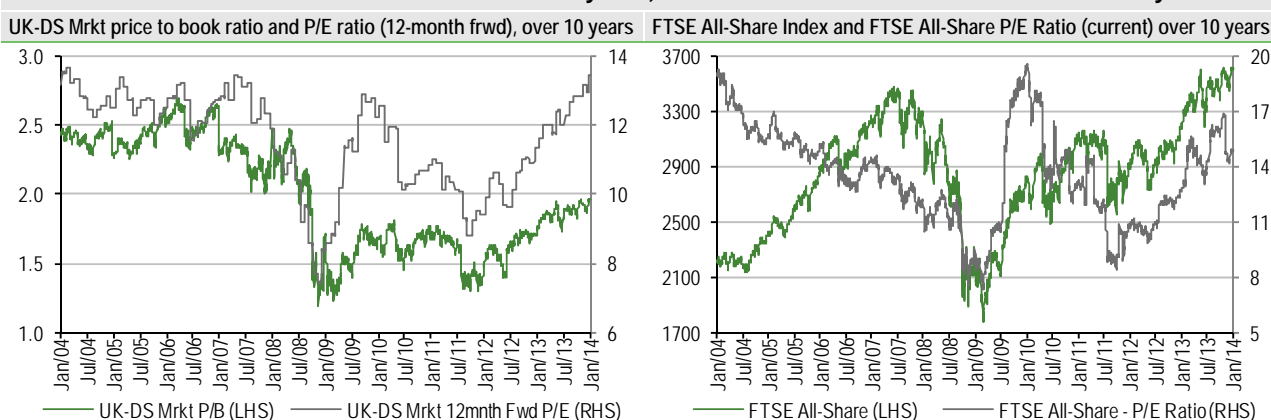
Source: Finsbury Growth & Income Trust, Edison Investment Research.

Outlook: Sentiment improving, valuations expanding

The environment of low interest rates and loose monetary policy that has prevailed since the financial crisis initially proved very beneficial to investors in fixed-interest securities. However, against the backdrop of quantitative easing and very low 'risk-free' returns, investors have increasingly turned to equities, which offered attractive and growing levels of income with an opportunity for capital appreciation. The UK equity market performed strongly during 2013, with the FTSE All-Share up 11.4% over six months and 20.8% over 12 months in total return terms. Volatility during 2013, particularly in reaction to talk of tapering, highlights that considerable uncertainty remains. However, there is evidence to suggest the economic outlook is improving and press reports suggest there is a consensus among commentators that the UK stock market will rise modestly during 2014.

As illustrated in Exhibit 2, price rises have recently outpaced earnings increases, so that equities are not as cheap as they have been previously and, following a period of strength, the market may be more vulnerable to a correction. However, to provide some context, the FTSE All-Share is trading at an historic P/E of 14.9x. This is above its 10-year average of 13.6x, but still below its 12 month high of 16.9x, as illustrated in Exhibit 2. The onset of tapering has meant that UK government bond yields have risen (10-year gilt yield 2.96%) reducing the yield premium offered by equities (FTSE All-Share average yield 3.3%). However, many investors will still see the potential for superior performance if there is a significant rise in inflation as a key argument in favour of equity exposure. A further consideration is FGT's substantial exposure to consumer stocks. While 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 2: UK-DS Market valuation metrics over 10 years, FTSE All-Share Index and P/E ratio over 10 years



Source: Thomson Datastream

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. He takes a long-term approach to value creation, which has resulted in very low portfolio turnover (turnover has averaged just over 6% per year since December 2001, when the manager finished rebalancing the portfolio).

The fund manager: Nick Train

The manager's view: Time to commit long-term equity capital

The manager acknowledges recent expansion of valuations. In fact, valuation uplift (combined with an assessment of the stock's liquidity) saw FGT take the unusual step of selling out of a position, in

Marstons during August (the stock was up c 70% over the previous 12 months – see page 5). Despite expanding multiples, the manager believes that, for investors able to take a longer-term view, this remains an environment in which opportunities for long-term growth from selected equities will abound. In his opinion, the driver is technological change, creating new industries, companies and opportunities for existing companies at an increasing rate. Moreover, the world's population continues to grow and more and more people are being lifted out of poverty into consuming classes. He also believes that equities, more generally, are attractive compared with other major asset classes and that the risks to the real value of government bonds and cash is high and likely to be subject to financial repression.

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. He 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, he looks for companies with strong cash generation, defensive earnings and strong franchises, which will allow companies to increase dividends over the long term.

When adding a new FTSE 100 stock, the manager looks to build a minimum position of between 4% and 6% of FGT's NAV. Mid-cap stocks (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.

Overview: Highly focused UK equity portfolio

As at 31 December 2013, FGT had 25 quoted equity investments and one preference share holding (Celtic – 0.01% of total assets). The top 10 equity holdings account for 64.9% of the portfolio, cash 0.3%, with the remaining 15 equity investments 34.8%. As displayed in Exhibit 3, FGT's asset allocations can vary significantly from those of the benchmark, reflecting the actively managed nature of the trust. While FGT invests primarily in UK-listed stocks, analysis of its concentrated portfolio shows there is substantial geographical diversification in terms of revenue streams. While not material, FGT has a small unquoted holding (0.1% of the portfolio) in Frostrow Capital LLP as well as an investment (0.7% of the portfolio) in The Lindsell Train Investment Trust. Both investment decisions were taken by the board and are not within the manager's jurisdiction.

Exhibit 3: Sector allocations as at 31 December 2013

	Portfolio weight (%)	Benchmark weight (%)	Trust active weight (%)	Trust weight/benchmark weight
Consumer goods	37.5	14.4	23.1	2.60
Consumer services	31.0	10.8	20.2	2.87
Technology	10.2	1.4	8.8	7.29
Financials	21.0	20.4	0.6	1.03
Utilities	0.0	2.9	(2.9)	0.00
Telecommunications	0.0	6.2	(6.2)	0.00
Healthcare	0.0	6.2	(6.2)	0.00
Industrials	0.0	8.8	(8.8)	0.00
Basic materials	0.0	11.2	(11.2)	0.00
Oil & gas	0.0	17.7	(17.7)	0.00
Preference shares	0.0	0.0	0.0	N/A
Cash	0.3	0.0	0.3	N/A
	100.0	100.0	0.0	

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

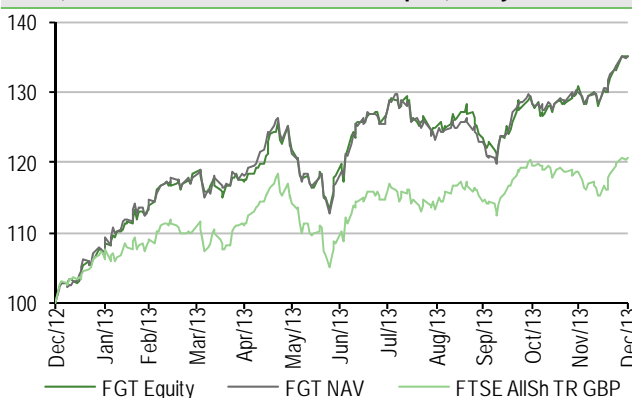
Recent activity and current portfolio positioning

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. If it has, the manager looks to exit a position in its entirety when conditions are appropriate. The most recent example is the sale of Marston's in August, as it had reached Lindsell Train's 'long term estimate of strategic value'. At the time, Lindsell Train's portfolios collectively owned 5% of Marston's and the opportunity to sell was taken whilst there was strong appetite for the stock. No new names have been added to the portfolio in the last 12 months. The last addition was Heineken in August 2011. FGT's raised £70.3m in new issuance during 2013 (2012: £45m). In allocating new capital, the manager does not add to existing holdings pro-rata, instead adding where he sees the most value. He advises that, during the last year, c 70% of new funds have been allocated to media and technology companies, c 25% to consumer branded goods and c 5% to market related financials. This has allowed FGT's weighting to more market-sensitive financial sector investments, strong performers over the past year, to naturally reduce. FGT has a zero allocation to the 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. As Exhibit 3 illustrates, FGT's portfolio has a radically different allocation to its FTSE All-Share benchmark.

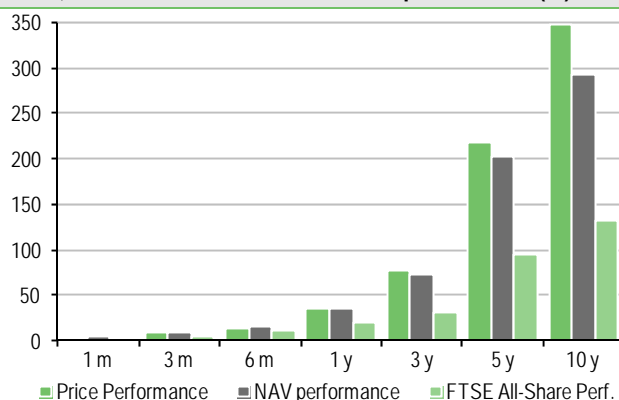
Performance: Consistent long-term outperformance

Exhibit 4: Investment trust performance to 31 December 2013

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 4, 5 and 6 illustrate, FGT has provided a consistent long-term performance, outperforming its benchmark, the FTSE All-Share index, in terms of both price and NAV over all periods provided. The manager advises that, during 2013, the largest contributors were the market-related financials (eg Schroder's, Hargreaves Lansdown and Rathbones) followed by media stocks (eg Daily Mail, Reed Elsevier and Fidessa); the consumer stocks (eg Unilever, Diageo and Heineken) underperformed the market. Because FGT maintains a concentrated portfolio with significantly different allocations to that of the FTSE All-Share (see Exhibit 3) performance can deviate substantially. However, Exhibit 6 illustrates the strategy's effectiveness over the long term.

Exhibit 5: Share price and NAV total return performance versus benchmarks (% points) to 31 December 2013

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to FTSE All-Share	1.5	3.9	3.0	14.2	45.3	122.1	215.9
NAV relative to FTSE All-Share	2.0	4.5	4.2	14.3	42.3	107.8	160.8
Price relative to FTSE 350 High Yield	1.5	3.9	3.2	14.5	45.7	123.6	215.4
NAV relative to FTSE 350 High Yield	2.0	4.5	4.4	14.6	42.7	109.2	160.3
Price relative to MSCI UK Index	1.7	4.3	4.2	16.6	48.0	133.5	232.5
NAV relative to MSCI UK Index	2.2	5.0	5.3	16.6	45.0	119.2	177.4

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

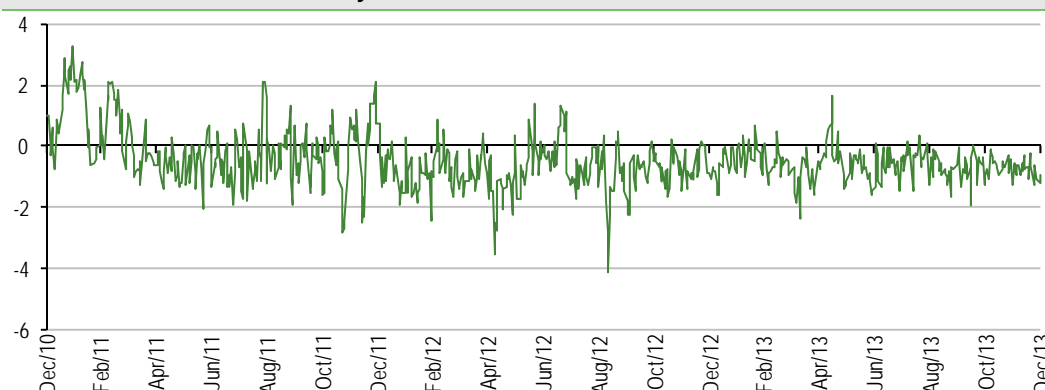
Exhibit 6: FGT NAV total return vs FTSE All-Share total return, over 10 years, rebased to 100



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

Discount: Persistently trading at a modest 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 0.7% premium. Reflecting its strong performance record, FGT has experienced strong demand

for its shares during the last three years and has issued 34.2m shares raising £137m since January 2011. No share repurchases have been made since April 2010. Exhibit 7, which shows the discount of the trust over the last three years, illustrates that FGT's discount maintenance policy has been effective with the trust predominantly persistently trading at a modest premium. The average premium over three years is 0.5% (one-year range: a discount of 1.7% to a premium of 2.4%). The last year has seen a 21.0% increase in the number of shares in issue. This should benefit existing holders by stimulating liquidity and reduce ongoing charges by spreading fixed costs over a larger asset base.

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 £30m revolving credit facility – with the option of a further £20m – with Scotiabank Europe for this purpose. The board considers that over the long term, moderate gearing is value enhancing and FGT is generally expected to be geared between 5% and 25% of net assets. As at 31 December 2013, FGT had gross gearing of 4.6% and net gearing of 4.3%.

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%. 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 2013, the RPI rose by 3.15%, providing an increase in the market capitalisation performance hurdle for the year of 9.15% above the 2012 performance hurdle. The 2013 performance hurdle was 602.18p per share versus FGT's actual market capitalisation of 479.00p per share. No performance fee was accrued for the years ended 30 September 2009-13. The ongoing charges were 0.8% for the year ended 30 September 2013 (2012:0.9%). 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 (2013 = 5.7p). For the year ending 30 September 2013, FGT paid a total dividend for the year of 10.5p (2012 = 9.8p), which represents a 7.1% rise year-on-year in total dividends. As Exhibit 1 illustrates, FGT has a progressive dividend policy. The dividend, which has risen by 110% 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 (no longer an FGT holding).

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 10.2p per share as at 30 September 2013, we do not expect this to present a problem. Overall, we believe FGT is well positioned to maintain the dividend at 10.5p, and that a dividend increase for 2014 is not unlikely.

Peer group comparison

Exhibit 8: UK equity income sector, as at 20 January 2014

Company *	Share price total return on £100				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	NAV volatility one year	Price volatility one year
	One year	Three years	Five years	Ten years									
Finsbury Growth & Income	129.9	184.3	337.1	322.7	0.9	0.6	105.0	2.0	2.0	2.0	2.1	11.7	12.3
Dunedin Income Growth	119.0	148.5	244.4	145.4	0.6	(1.0)	106.0	1.4	4.0	1.3	1.3	12.3	16.1
Edinburgh Investment	118.0	155.6	231.3	198.2	0.7	(3.9)	117.0	2.3	3.9	1.9	1.5	12.3	15.2
F&C Capital & Income	115.6	134.8	198.3	127.5	0.7	1.1	106.0	2.8	3.5	1.8	1.7	10.7	16.8
Invesco Income Growth	119.9	163.4	243.8	177.4	1.0	(5.8)	111.0	2.4	3.5	2.2	1.8	11.2	13.8
Lowland	140.1	191.6	412.0	279.0	0.6	4.0	112.0	6.3	2.4	2.5	2.8	11.7	13.7
Merchants	134.3	150.6	254.0	171.1	0.7	1.0	117.0	1.1	4.6	1.5	2.0	12.4	15.4
Murray Income	115.7	142.8	224.4	170.7	0.8	(0.6)	106.0	2.1	3.9	1.8	1.4	11.9	14.9
Perpetual Income & Growth	131.2	171.5	248.7	252.1	0.9	0.2	117.0	6.8	3.1	2.7	2.3	11.4	13.3
Standard Life Equity Income	133.5	157.6	237.3	173.6	1.0	1.2	112.0	3.0	3.2	2.6	3.2	11.7	13.2
Troy Income & Growth	113.6	138.9	267.3	68.0	1.0	(1.3)	99.0	(6.0)	3.5	1.2	0.9	9.0	12.9
Sector weighted average	125.8	158.7	258.3	301.3	0.8	(0.3)	112.3	2.8	3.4	2.1	2.0	11.5	14.1
Finsbury Growth & Inc. Rank*	9	2	2	1	12	9	16	14	21	9	9	10	19
Number in group	22	21	21	21	22	22	22	22	22	22	22	22	22

Source: Morningstar. *Note: Ranked in descending size order.

The UK equity income sector currently has 22 constituents (Exhibit 8 illustrates a sample). In this peer group, FGT ranks 9th over one year, second over three and five years and first over 10 years when considering share price total return. In terms of risk-adjusted returns, FGT also has the ninth highest one-year Sharpe ratios for both price and NAV in its peer group.

The board

All directors are non-executive and independent of the manager. With year of appointment as director in brackets, they are Anthony Townsend (chairman - 2005), John Allard (2000), Neil Collins (2008), David Hunt (2006) and Vanessa Renwick (2000). Average length of service is 10.2 years.

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