Finsbury Growth & Income Trust

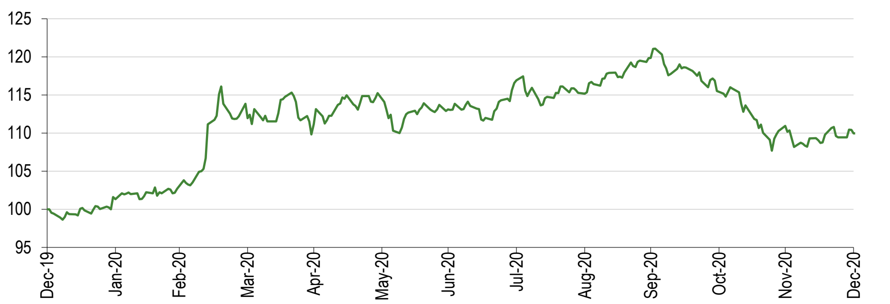
‘Perfectly rational to do nothing if you are unsure’

Investment trusts
UK equities

26 January 2021

Finsbury Growth & Income Trust (FGT) is celebrating its 20th anniversary under the management of Nick Train. While underperforming in recent months, the trust is ahead of the broad UK market over the last one, three, five and 10 years. Stock market volatility in 2020 afforded the manager an opportunity to add another new name to the fund, credit bureau Experian, which he considers a rare example of a globally significant UK company that is benefiting from the optimisation of its vast database. Train is sticking to his tried-and-tested process that incorporates three rules of thumb: ‘if a company’s products taste good, buy the shares; the world will never be bored of being informed or entertained; and the pros are always too cautious about the stock market’.

NAV ahead of UK market over volatile 12 months to end-December 2020



Source: Refinitiv, Edison Investment Research

The market opportunity

There is the potential for better relative performance by UK shares, which in aggregate have lagged the global market in recent years and are more attractively valued. While there is a high level of economic uncertainty due to the pandemic, Brexit and the trade deal negotiated with the EU and the rollout of the COVID-19 vaccine suggest there may be better times ahead; hence, global investors may benefit from an allocation to the UK.

Why consider investing in FGT?

- Concentrated portfolio of high-quality, primarily UK, companies, with a long-term record of outperformance, driven by consistent investment process.
- Strong absolute total returns – NAV +13.0% pa and share price +13.2% pa over the last 10 years.
- Progressive dividend policy and significant revenue reserves.

High demand leads to regular share issuance

FGT regularly trades close to NAV. The trust is currently trading at a 1.9% share price discount to cum-income NAV, which compares with a range of a 0.4% average premium to a 0.2% average discount over the last one, three, five and 10 years. FGT has a progressive dividend policy, although during FY20 the annual distribution was held steady due to portfolio companies’ dividend cuts as a result of the global pandemic. The trust currently offers a 1.9% yield.

NOT INTENDED FOR PERSONS IN THE EEA

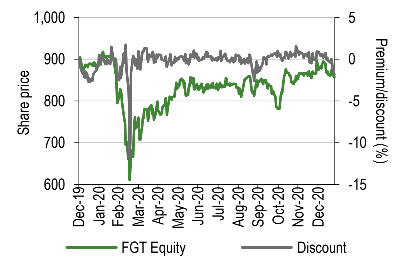
Price	**857.0p**
Market cap	**£1,915m**
AUM	**£1,978m**

NAV*	871.2p
Discount to NAV	1.6%
NAV**	873.2p
Discount to NAV	1.9%

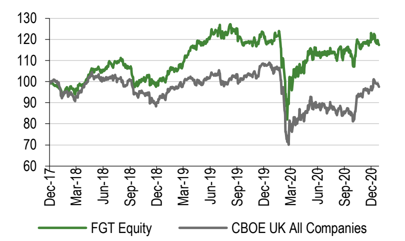
*Excluding income. **Including income. At 22 January 2021.

Yield	1.9%
Ordinary shares in issue	223.5m
Code	FGT
Primary exchange	LSE
AIC sector	UK Equity Income

Share price/discount performance



Three-year performance vs index



52-week high/low	925.0p	611.0p
NAV** high/low	916.7p	663.1p

**Including income.

Gearing

Net*	1.5%

*At 31 December 2020.

Analysts

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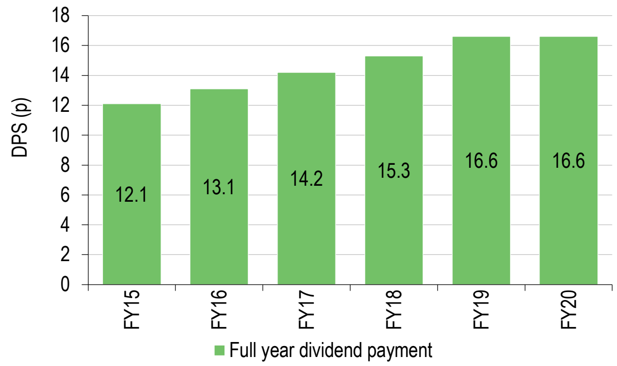
Finsbury Growth & Income Trust is a research client of Edison Investment Research Limited

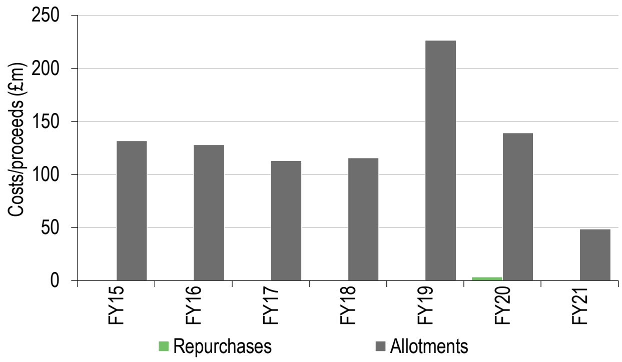
Exhibit 1: Trust at a glance

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 broad UK market index. It invests principally in the securities of companies either listed in the UK or otherwise incorporated, domiciled or having significant business operations within the UK, while up to a maximum of 20% of the portfolio, at the time of acquisition, may be invested in companies not meeting these criteria.	■ 16 December 2020: 12-month results to 30 September 2020. NAV TR -7.7% versus benchmark TR -16.6%. Share price TR -9.0%. ■ 15 October 2020: appointment of non-executive director James Ashton, effective 14 October 2020. ■ 15 September 2020: second interim dividend of 8.6p per share declared (unchanged year-on-year). ■ 12 May 2020: non-executive director David Hunt retired from the board with immediate effect.

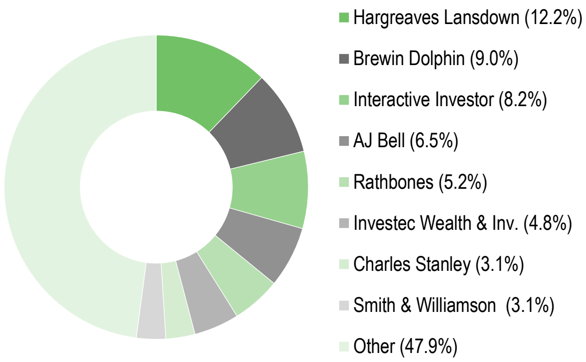
Forthcoming		Capital structure		Fund details	
AGM	February 2021	Ongoing charges	0.64% (FY20)	Group	Frostrow Capital
Interim results	May 2021	Net gearing	1.5%	Manager	Lindsell Train
Year end	30 September	Annual mgmt fee	Tiered (see page 9)	Address	25 Southampton Buildings,
Dividend paid	May, November	Performance fee	None		London, WC2A 1AL
Launch date	January 1926	Trust life	Indefinite	Phone	+44 (0)20 3008 4910
Continuation vote	None	Loan facilities	£50m (see page 9)	Website	www.finsburygt.com

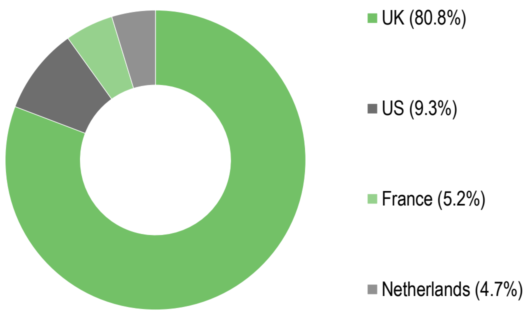
Dividend policy and history (financial years)	Share buyback policy and history (financial years)
Two dividends paid annually in May and November. The dividend is expected to rise over the longer term.	Renewed annually, the trust has the authority to purchase up to 14.99% and allot up to 10% of issued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





Shareholder base (at 31 December 2020)	Portfolio exposure by geography (at 30 September 2020)





Top 10 holdings (at 31 December 2020)

			Portfolio weight %	
Company	**Country**	**Sector**	**31 December 2020**	**31 December 2019***
London Stock Exchange	UK	Financials	11.0	11.1
Diageo	UK	Consumer goods	10.0	9.8
RELX	UK	Consumer services	9.7	10.0
Unilever	UK	Consumer goods	9.5	9.2
Mondelēz International	US	Consumer goods	8.5	8.3
Schroders	UK	Financials	7.9	8.1
Burberry Group	UK	Consumer goods	7.3	8.5
Hargreaves Lansdown	UK	Financials	6.0	7.3
Heineken	Netherlands	Consumer goods	5.2	5.0
Sage Group	UK	Technology	4.9	6.4
Top 10 (% of portfolio)			**80.0**	**83.7**

Source: FGT, Edison Investment Research, Morningstar. Note: *N/A where not in end-December 2019 top 10.

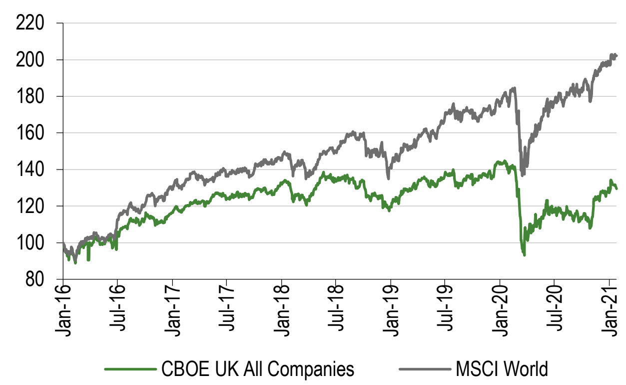
Market outlook: UK may be due for a catch-up

As shown in Exhibit 2 (LHS), UK stocks have lagged the performance of the global market in recent years, which has more than made back the coronavirus-led selloff in Q120. While there is considerable economic uncertainty as the UK suffers its third lockdown, domestic shares may be due for a period of catch-up now COVID-19 vaccines are being rolled out, Brexit has passed, a trade deal with the EU has been finalised and we get more clarity on the economic impact of Brexit. Although the UK market does not have broad exposure to some of the high-growth areas of the economy such as technology, there are high-quality firms available that have significant global exposure and long-term growth potential.

In aggregate, UK shares are looking relatively attractively valued. On a 12-month forward P/E multiple basis, the Datastream UK index is trading at a c 26% discount to the Datastream World index, and while the 14.8x multiple is a 14% premium to the 10-year average, this is meaningfully lower than the World index's 40% premium. Stock indices reflect future prospects rather than past events, so investors may look forward to better economic momentum and corporate earnings growth in the UK given the rollout of the COVID-19 vaccine programme and the alleviation of Brexit uncertainty. Along with its historical relative performance and comparative valuations, an allocation to the region may be worthy of consideration by global investors.

Exhibit 2: Market performance and valuation

Performance of indices (last five years – £ adjusted)



Valuation metrics (at 25 January 2021)

	Last	High	Low	10-year average	Last as % of average
Datastream UK index					
P/E 12 months forward (x)	14.8	15.7	8.5	13.0	114
Price to book (x)	1.1	2.1	0.8	1.4	78
Dividend yield (%)	3.0	6.4	2.7	3.5	83
Return on equity (%)	1.9	14.9	1.5	9.5	20
Datastream World index					
P/E 12 months forward (x)	19.8	19.8	10.0	14.1	140
Price to book (x)	2.5	2.5	1.4	1.9	137
Dividend yield (%)	1.8	3.4	1.8	2.5	72
Return on equity (%)	7.3	13.4	7.3	11.0	67

Source: Refinitiv, Edison Investment Research

Fund profile: Lindsell Train's 20-year anniversary

FGT was launched on 15 January 1926 and is listed on the Main Market of the London Stock Exchange. Boutique investment firm Lindsell Train was appointed as the trust's manager in December 2000 and since January 2001, the fund has been managed by one of its co-founders Nick Train, who has 39 years of investment experience. He aims to achieve capital and income growth and a total return in excess of that of the broad UK stock market from a concentrated portfolio of primarily UK companies.

In H120, FGT's board announced a subtle change to the trust's investment policy. Previously, most of the portfolio was invested in UK-listed companies, with up to 20% of the fund, at the time of investment, permitted in companies listed overseas. The policy now is to invest principally in the securities of companies either listed in the UK or otherwise incorporated, domiciled or having significant business operations within the UK, while a maximum of 20% of the portfolio, at the time of acquisition, can be invested in companies not meeting these criteria. In practice, this means the holding in Manchester United, which is listed on the New York Stock Exchange but essentially a UK business, is now classified within the UK rather than the US.

There is also a proposal that will be voted on at the 17 February 2020 AGM to restrict 15% of FGT's NAV, at the time of investment, in a single issuer. Other investment guidelines include that the portfolio will normally comprise up to 30 investments; this level of concentration and the fund's overseas exposure mean performance can vary significantly from that of the benchmark. Ordinarily, 50–100% of the fund will be invested in the largest 100 UK companies or comparable companies listed on overseas stock exchanges, and at least 70% will be invested in the largest 350 UK companies or their overseas equivalents. Up to 25% of gross assets may be invested in preference shares, bonds and other debt instruments, although no more than 10% of any one issue may be held. While up to 10% of gross assets may be held in cash, the manager prefers to remain fully invested. He employs a modest level of gearing (net gearing of 1.5% at end-December 2020) versus a maximum permitted 25% of NAV.

Data from FGT show that £1,000 invested in the trust at the beginning of Train's tenure until 30 September 2020 would have been worth £6,283, which is considerably higher than a £1,000 investment in the broad UK market that over the same period would have been worth £2,187. Train has regularly stressed the importance of 'having skin in the game' by aligning his interests with those of other shareholders. At the end of September 2020, he held c 3.1m FGT shares (an increase of 16.6% year-on-year). This is the whole of his personal investment in Lindsell Train's UK equity strategy and is a significant portion of his total assets.

The fund manager: Nick Train

The manager's view: 'When in doubt, do nothing'

Train comments that in the current uncertain times, it is 'perfectly rational to do nothing, or very little if you are unsure', at the forefront of his mind is the motto 'when in doubt, do nothing'. The manager makes two observations about FGT's positioning and strategy:

- Train reiterates the trust's portfolio is predominantly oriented towards large-cap companies, with greater than 90% by value invested in the 100 largest UK companies or their equivalents. However, he suggests some of the so-called 'big companies' in the fund would argue they are 'small cap relative to their potential and warranted value', such as Burberry Group, London Stock Exchange, RELX and Sage Group. The manager believes all these businesses could be much bigger over the next five years. Of the less than 10% of the portfolio that is invested in mid- and smaller-cap stocks, most have no debt on their balance sheets. Train says that when taking on liquidity risk for outstanding brands and franchises, he wants to ensure the companies are 'conservatively financed and solid'.
- The manager explains the way he and his team think about FGT's portfolio structure is that there are four thematic ideas or buckets and 'more than 40%, perhaps bullishly, can be described as digital winners'. Train suggests 'there is a degree of latitude in determining which companies go into this bucket', as he includes the trust's holdings in Manchester United and Pearson. Around 35% of the fund is invested in beloved/trusted global consumer brands, around 15% is held in luxury premier/aspirational consumer brands, which are growing rapidly and should continue to do so driving long-term value creation, while less than 10% of the portfolio is invested in 'stock market proxies', including asset management companies with substantive and growing private wealth businesses.

The manager comments that 'in reality, FGT's portfolio shape did not change much in 2020', which he suggests is not unsurprising as he is very comfortable with the current 'buckets'. Train acknowledges he expects and hopes the digital winners and luxury brands buckets will grow disproportionately – when there are opportunities, the manager intends to increase exposure to both of these segments.

Train admits he has no comments to make on the macro environment as he is unsure how conditions will evolve. However, the manager is keen to share insights about FGT's portfolio holdings, which he considers to be 'intriguing and encouraging'. He highlights global provider of information-based analytics and decision tools RELX's 9M20 results that showed submissions to its Elsevier division's substantial scientific journals accelerated markedly in 2020, demonstrating that in a digital age, scientists still think publications are the best way for their work to be read and recognised. Sage Group held a technology seminar at the end of September 2020, announcing that in the first nine months of last year 25% of all VAT invoices in the UK were processed on Sage's business cloud. Train considers this to be a 'pretty impressive statistic' that demonstrates the company's transition to fully fledged cloud-software provider, a position he believes is underestimated by investors. The manager notes Hargreaves Lansdown's platform had an outage as transaction volumes surged after the positive Pfizer/BioNTech vaccine news in November last year. While the outage is not good news, it is illustrative of the growth in the company's mobile transactions, which increased from 1.7m to 4.2m in the 12 months to the end of June 2020. Train says that while not possible for many companies, Hargreaves Lansdown is likely to have generated double-digit revenue growth in 2020.

The manager comments that last year was tough for Heineken as bars were shut. Its Q320 global organic beverage volumes declined by 8%, while its operating profits were much weaker due to the effects of operating leverage. However, he notes that 'within this sorry tale', the biggest and most profitable Heineken brand actually grew volumes modestly year-on-year, which Train suggests is a 'remarkable achievement for the brand' and was driven by the success of Heineken Zero – the single most successful product launch for the company. Heineken's share price rallied by 20% on the Pfizer/BioNTech vaccine news; the manager comments that he does not want to miss the compounding growth potential of this stock. While last year was another difficult period for Manchester United, Train is confident global digital platform companies will continue to benefit from pricing power and higher volumes for their sports broadcasting rights. He notes that a near 25% increase year-on-year in hits to Manchester United's social media assets is evidence that fascination with the franchise has not waned.

Train suggests that while he 'could go on and on with examples, the point is clear, it is crucial not to confuse a short-term tactical set of problems with true underlying secular growth potential at companies' and he considers it very important to 'run your winners'. The manager highlights FGT's large position in Unilever, which he hopes gives a perspective of how he and his team think about the equity investment challenge. Unilever was listed in the US in 1964 and in the 27 years to 1991, a period of strongly rising inflation, Train says its share price appreciated by 100x, which he suggests is 'not a bad advertisement for a steadily compounding business'. While the pace of Unilever's share price rise has slowed, it has continued to perform considerably better than the broad UK market in recent years. The company's largest emerging market exposure is in India via its 70% holding in Hindustan Lever, which is India's biggest consumer goods business. Over the last five years, Hindustan Lever's share price has appreciated by c 270% in sterling terms and now represents around 30% of Unilever's market cap; the manager expects this percentage to increase over the next five to 10 years as the Indian economy and consumer purchasing power grows.

Asset allocation

Investment process: High-conviction, concentrated portfolio

Train focuses on growth businesses with high-quality management teams that are trading at a discount to their intrinsic value and can be held for the long term. FGT's concentrated portfolio currently has 24 holdings. Historic portfolio turnover of 4.1% per year implies a c 25-year holding period; in FY20 it was even lower at 1.3%. For reasons of prudence, once a position reaches 10% of the fund it is not added to and is actively reduced if it reaches 12.5%.

The manager seeks companies with the following attributes:

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

There are three broad themes represented within the portfolio: global consumer brands, owners of media/software intellectual property and capital market proxies. The manager favours well-established firms (the average age of portfolio companies is c 150 years) and around half of FGT's portfolio companies have a large family ownership. The overseas holdings in the portfolio are businesses that cannot be accessed in the UK, such as Rémy Cointreau with its exposure to premium cognac and Train comments that cognac sales are benefiting from worldwide wealth creation.

The manager highlights three rules of thumb used in selecting portfolio companies:

- If a company's products taste good, buy the shares – Train notes that the long-term performance of the trust's holdings in AG Barr, Diageo, Heineken, Mondelēz, Rémy Cointreau and Unilever confirm the validity of this simple but powerful message.
- The world will never be bored of being informed or entertained – the manager says the owners or creators of must-have business information, such as the London Stock Exchange and RELX, 'have been reliable profit-makers and stock market winners for decades'. Regarding entertainment, while Manchester United's share price is signalling investor scepticism today, Train believes the company provides access to a unique entertainment asset that looks undervalued compared with transactions undertaken for sports franchises around the world.
- The pros are always too cautious about the stock market – this creates opportunities for those investors with a more constructive view. While the UK market was a relative underperformer in 2020, the manager maintains his long-term positive view on the prospects for equity markets, including the UK. Train prefers to remain fully invested and does not try to time the market, while maintaining a modest level of gearing.

Current portfolio positioning

At the end of December 2020, FGT's top 10 positions made up 80.0% of the portfolio, which was a lower concentration compared with 83.7% a year before. The trust has typically invested in four sectors: consumer goods, financials, consumer services and technology. However, there is now a modest industrial exposure as this is how Experian is categorised (FGT's new position).

Exhibit 3: Portfolio sector exposure vs benchmark (% unless stated)

	Portfolio end-Dec 2020	Portfolio end-Dec 2019	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Consumer goods	48.8	45.7	3.1	17.1	31.7	2.9
Financials	26.9	28.8	(1.9)	26.1	0.8	1.0
Consumer services	17.3	19.0	(1.7)	12.4	4.9	1.4
Technology	4.9	6.5	(1.6)	1.1	3.8	4.4
Industrials	2.1	0.0	2.1	12.9	(10.8)	0.2
Telecommunications	0.0	0.0	0.0	2.2	(2.2)	0.0
Utilities	0.0	0.0	0.0	3.0	(3.0)	0.0
Oil & gas	0.0	0.0	0.0	7.2	(7.2)	0.0
Basic materials	0.0	0.0	0.0	9.0	(9.0)	0.0
Healthcare	0.0	0.0	0.0	9.0	(9.0)	0.0
	100.0	**100.0**		**100.0**		

Source: Finsbury Growth & Income Trust, Edison Investment Research

Stock market volatility in 2020 meant Train was able to add two new holdings to FGT's portfolio, which is somewhat unusual for a fund that has a very low turnover. We discussed Fever-Tree in our June 2020 review, the manager reports that recently, competitor Schweppes has withdrawn its own premium mixer brand in the UK as retailers were not giving it shelf space due to poor sales. Train says Fever-Tree ‘owns the premium end’ and the company’s opportunities in the US and Europe are more than enough to justify its current enterprise value. He believes the company’s capital light/high return-on-capital business model deserves a higher valuation, but given its long-term potential, he sincerely hopes that Fever-Tree does not receive a takeover bid.

Multinational consumer credit reporting company Experian was added to FGT’s portfolio in August 2020. The manager describes it as ‘evidently one of the UK’s rare, globally significant, multi-billion-pound companies doing something smart with data and digital technology’. Experian was founded in 1968, since then it has been building a database of unique consumer credit data, which is critical for the decision-making processes of its credit-granting customers. Train believes the company has a strong business model, in which their customers (mostly banks) supply it with raw credit history data for free; Experian then aggregates them, applies analytics and tools and sells the information back to the customers as a credit report. Renewal rates are around 90% and competition is minimal because Experian’s (along with its US competitors’ Equifax and TransUnion) datasets vary and therefore most banks use reports from all three. The cost per report is low at around $1–2 so there is little incentive for either of the existing three bureaus to engage in price wars, or for a fourth player to enter. It would take more than 10 years for a new entrant to amass sufficient data to effectively compete and tough regulation in all geographies provides a further barrier to entry, while customers recognise that the risk of problems if they use an untested, new bureau is too high. Experian is shifting from simply selling data to that enhanced by software decision tools. This requires heavy investment into developing proprietary algorithms and data management tools, which increase the utility of the underlying data and the ‘stickiness’ of its customer relationships. Currently c 55% of the company’s sales are from large databases of credit history, from which reports are generated, but the advanced analytics and tools sitting on top of Experian’s datasets is now c 25% of revenues and is faster growing. The manager expects this shift to decision tools to drive the company’s growth over the next decade.

Performance: Very strong, long-term track record

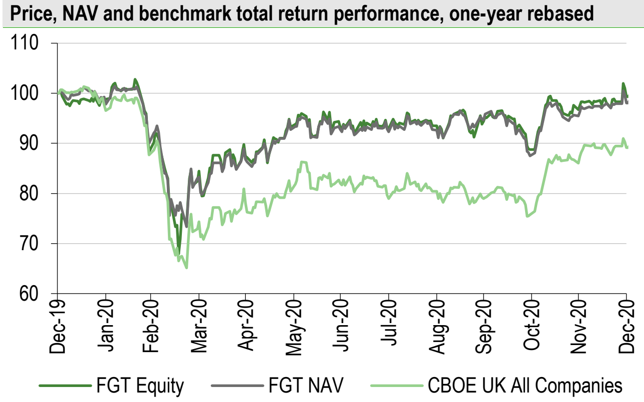
Exhibit 4: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	CBOE UK All Companies (%)	CBOE UK 350 (%)	MSCI World (%)
31/12/16	12.6	12.5	16.5	16.6	29.0
31/12/17	21.5	21.7	14.0	13.9	12.4
31/12/18	(0.9)	(0.8)	(9.8)	(9.8)	(2.5)
31/12/19	21.8	23.1	19.3	19.3	23.4
31/12/20	(0.7)	(2.0)	(10.9)	(10.9)	12.9

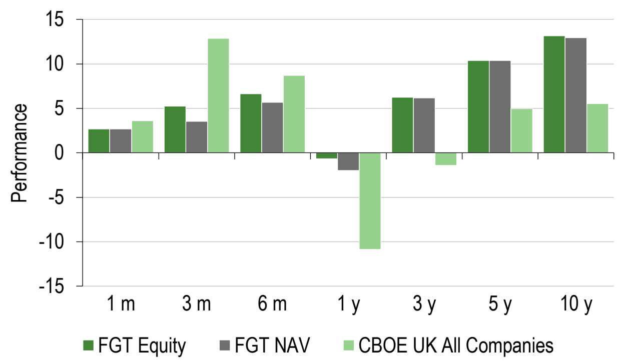
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

Exhibit 5: Investment trust performance to 31 December 2020

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



Price, NAV and benchmark total return performance (%)



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

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

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to CBOE UK All Companies	(0.9)	(6.8)	(1.9)	11.4	25.1	28.8	101.0
NAV relative to CBOE UK All Companies	(0.9)	(8.3)	(2.8)	10.0	24.8	28.7	97.5
Price relative to CBOE UK 350	(0.9)	(6.7)	(1.8)	11.5	25.1	28.7	105.1
NAV relative to CBOE UK 350	(0.9)	(8.2)	(2.7)	10.0	24.8	28.6	101.5
Price relative to MSCI World	0.8	(2.5)	(4.3)	(12.0)	(11.8)	(16.8)	10.9
NAV relative to MSCI World	0.8	(4.0)	(5.1)	(13.2)	(12.0)	(16.9)	9.0

Source: Refinitiv, Edison Investment Research. Note: Data to end-December 2020. Geometric calculation.

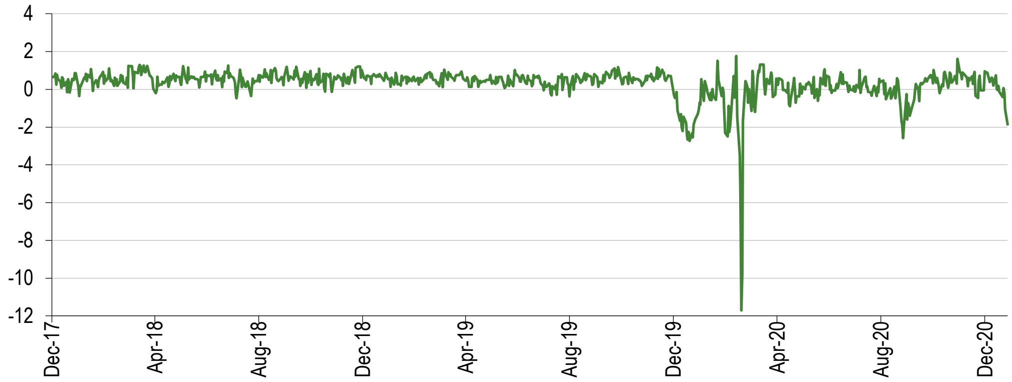
While FGT has trailed the benchmark in recent months as the shares in companies that suffered due to COVID-19 have rallied on increased confidence about successful vaccines, it retains an enviable track record outperforming the broad UK market over the last one, three, five and 10 years. The trust's absolute total returns are shown above in Exhibit 5 (RHS) over the last decade to the end of December, its NAV is +13.0% per year and modestly behind its share price (+13.2% pa); both are more than double the benchmark's total return of +5.5% pa.

Exhibit 7: NAV total return performance relative to benchmark over three years

Source: Refinitiv, Edison Investment Research

Valuation: Regularly trading close to NAV

Exhibit 8: Share price premium/discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

FGT is currently trading at a 1.9% share price discount to cum-income NAV, which compares to a wide range of valuations over the last 12 months of a five-year high 1.8% premium to a decade-wide 11.7% discount. Over the last one, three, five and 10 years the trust has traded at an average discount of 0.2% and premiums of 0.3%, 0.4% and 0.4%, respectively.

Since 2004, FGT's board has actively managed the trust's discount/premium by repurchasing shares when the discount exceeds 5% and issuing shares at a small premium when there are unfulfilled buy orders in the market. In FY20, 0.5m shares were bought back into treasury (the first repurchases since 2010) at an average share price discount of 6.7% and were subsequently re-issued at a price representing a 0.7% premium to NAV. A total of 16.9m shares (8.4% of the share base) were issued, raising £139.3m.

Capital structure and fees

FGT is a conventional investment trust with one class of share. There are 223.5m ordinary shares outstanding. The trust has a £50m (with the option of a further £50m) multicurrency revolving credit facility with Scotiabank Europe at a rate of Libor +1.05% expiring in October 2022, of which £36.7m is drawn down. At end-December 2020, net gearing was 1.5%. FGT's manager Lindsell Train receives an annual fee of 0.450% of the trust's market cap up to £1bn, 0.405% between £1bn and £2bn, and 0.360% above £2bn (no performance fee is payable). Frostrow Capital is the trust's Alternative Investment Fund Manager, providing company management, secretarial, administrative and marketing services, and receives an annual fee of 0.150% of FGT's market cap up to £1bn, 0.135% between £1bn and £2bn and 0.120% above £2bn. In FY20, the trust's ongoing charges of 0.64% were 2bp lower year-on-year.

Dividend policy and record

FGT pays dividends twice a year in May and November. The board employs a progressive policy, aiming to grow the trust's annual distribution at a rate above the level of UK inflation or in periods of lower income to at least maintain the total dividend. In FY20, FGT's annual dividend was 16.6p per share (unchanged year-on-year), while its revenue return per share declined by 9.8% from 18.3p to 16.5p. This was the first time in many years that the annual distribution was not increased but this was considered to be a prudent move given the lower level of income received as some portfolio companies were forced to reduce their own dividend payments due to COVID-19. At the end of FY20, FGT had revenue reserves equal to c 1.3x the last annual distribution. Based on its current share price, the trust offers a 1.9% dividend yield.

Peer group comparison

With a market cap approaching £2bn, FGT is the largest member of the 23-strong AIC UK Equity Income sector. The 12 funds with market caps greater than £300m are shown below in Exhibit 9, although readers should note they follow a variety of mandates; FGT is differentiated by its highly concentrated portfolio of branded goods and services companies. Its strategy has proved to be successful as the trust's NAV total returns are above average over all periods shown, ranking fourth over the last 12 months, first over three and 10 years and second over five years. FGT's performance is particularly notable over the longer term, over the last decade its NAV total return is c 90pp ahead of the second-ranked fund (in contrast The Law Debenture Corporation has a highly diversified portfolio and owns an operating business that provides a significant revenue stream).

At 25 January 2021, FGT was trading at a narrower-than-average discount. Its ongoing charge is in line with the mean and it has a below-average level of gearing. In keeping with the trust's focus on total return rather than income, it has the lowest dividend yield in the selected peer group, 2.4pp below the mean.

Exhibit 9: Selected peer group at 25 January 2021*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Finsbury Growth & Income	1,915.2	(1.8)	22.5	72.3	244.5	(1.9)	0.6	No	102	1.9
BMO Capital & Income	305.0	(12.1)	1.0	48.2	99.5	(2.5)	0.6	No	106	4.1
City of London	1,559.7	(11.8)	(3.8)	26.6	97.6	3.0	0.4	No	108	5.2
Diverse Income Trust	361.6	12.1	14.9	43.5		(3.9)	1.1	No	100	3.6
Dunedin Income Growth	432.6	1.1	20.1	69.5	114.3	(5.1)	0.6	No	109	4.3
Edinburgh Investment	935.0	(8.1)	(8.5)	9.7	111.1	(9.7)	0.6	No	107	4.4
JPMorgan Claverhouse	375.5	(10.2)	(0.8)	40.6	96.5	(3.5)	0.7	No	114	4.6
Law Debenture Corporation	761.5	7.3	15.2	74.5	155.3	(2.7)	0.3	No	112	4.0
Lowland	314.8	(12.1)	(13.0)	27.2	103.4	(6.3)	0.6	No	114	5.2
Merchants Trust	538.4	(9.0)	1.7	43.2	86.7	(0.9)	0.6	No	114	6.1
Murray Income Trust	962.1	(4.3)	14.2	59.3	111.3	(5.5)	0.6	No	110	4.2
Temple Bar	621.9	(21.3)	(14.6)	21.9	71.2	(7.9)	0.5	No	114	4.1
Average (12 funds)	**756.9**	**(5.9)**	**4.1**	**44.7**	**117.4**	**(3.9)**	**0.6**		**109**	**4.3**
Trust rank in selected peer group	**1**	**4**	**1**	**2**	**1**	**3**	**4**		**11**	**12**

Source: Morningstar, Edison Investment Research. Note: *Performance data to 22 January 2021 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

FGT's board has six directors, all are non-executive and independent of the manager. Chairman Anthony Townsend re-joined the board on 1 February 2005 and assumed his current role on 30 January 2008. Simon Hayes (current senior independent director) was appointed on 29 June 2015, Kate Cornish-Bowden and Lorna Tilbian both on 26 October 2017 and Sandra Kelly (chairman of the audit committee) on 9 October 2019. The newest member of the board is James Ashton, who was appointed with effect from 14 October 2020. He is a financial journalist and consultant; his prior roles include city editor and executive editor of the Evening Standard and city editor of the Sunday Times. Townsend will stand down from the board at the February 2021 AGM. He will be succeeded as chairman by Hayes, while Kelly will become the senior independent director.

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