EDISON

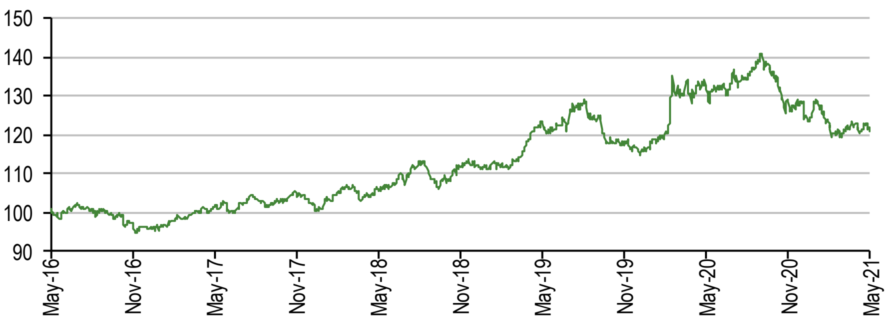
Finsbury Growth & Income Trust

Sticking to the successful long-term strategy

Investment trusts
UK equities

Finsbury Growth & Income Trust (FGT) is managed by Nick Train, one of the founding partners of boutique investment firm Lindsell Train. He is optimistic on the current outlook for UK equities, all the more so given several years of relative underperformance; in particular, the manager believes that global investors are underestimating the level of technological innovation within the UK corporate sector. While FGT's relative performance has lagged that of its peers and the UK market in recent months, a period that followed positive COVID-19 vaccine news last November, Train has a very commendable long-term record. This has been achieved by following a buy-and-hold strategy, focusing on specific sectors and a select number of companies that he believes have superior long-term earnings and dividend growth potential as a result of their unique brands and franchises.

NAV versus broad UK market (five years to end-May 2021)



Source: Refinitiv, Edison Investment Research. Total returns in sterling.

The analyst's view

Despite a period of relative underperformance since late 2020, by sticking to his well-defined, selective investment process, Train has delivered a long-term record of outperformance versus both FGT's peers and its benchmark (outperformance in 16 out of the last 20 calendar years). Absolute net asset value (NAV) and share price total returns of 12.7% pa and 12.6% pa respectively over the last decade compare very favourably with the 6.3% pa total return from the broad UK market. FGT may be worthy of consideration by investors with a longer-term perspective who are comfortable with a concentrated strategy favouring durable businesses, with high returns on equity and low capital intensity, generating high levels of free cash flow.

Progressive dividend policy

While FGT's FY20 dividend was maintained at 16.6p per share due to a lower level of income as a result of the coronavirus, over the last five years the annual distribution has compounded at a very respectable rate of 6.5% pa. The trust offers a 1.9% yield and has revenue reserves of c 1.1x the last annual dividend. FGT's board actively manages the trust's discount/premium; its shares are currently trading at a 1.6% discount to cum-income NAV, which compares to a 0.0% to 0.4% range of average premiums over the last one, three, five and 10 years.

NOT INTENDED FOR PERSONS IN THE EEA

8 June 2021

Price		**897.0p**
Market cap		**£2,018m**
AUM		**£2,085m**
NAV*		911.7p
Discount to NAV		1.6%
*Including income. As at 4 June 2021.		
Yield		1.9%
Ordinary shares in issue		225.0m
Code/ISIN		FGT/GB0007816068
Primary exchange		LSE
AIC sector		UK Equity Income
52-week high/low	917.0p	782.0p
NAV* high/low	916.9p	774.1p
*Including income		
Net gearing*		1.1%
*As at 30 April 2021		

Fund objective

Finsbury Growth Trust'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.

Bull points

- Very strong long-term absolute and relative performance versus the broad UK market.
- Disciplined strategy, with the manager investing with a very long-term perspective.
- Progressive dividend policy.

Bear points

- Performance has lagged in recent months following a change in market leadership.
- Highly concentrated portfolio means that a single company's share price weakness can negatively affect the whole fund's performance.
- Key-man risk: the manager has built up FGT's long-term record over more than 20 years.

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

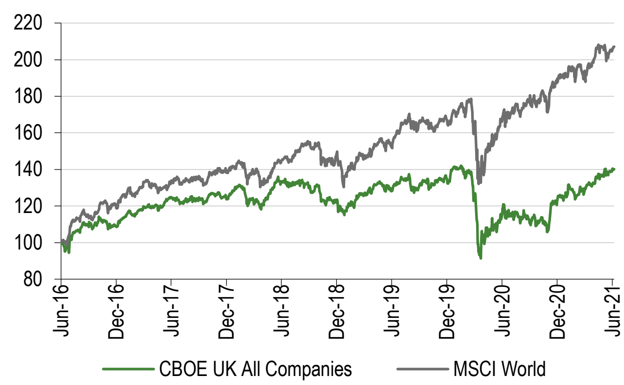
Market outlook: Room for a UK catch-up

Over the last five years, UK equities have meaningfully lagged the performance of the global market (in sterling terms) as shown in Exhibit 1 (left-hand side). There was considerable uncertainty following the outcome of the UK's European referendum, which has now lifted since the UK left the EU at the end of January 2021; hence, there is potential for better relative performance from the UK market. Although the UK has a relatively low exposure to the technology sector, which has been a particularly strong area of performance in recent years, since the announcements about successful COVID-19 vaccine trials in early November 2020, market leadership has broadened with investors placing greater emphasis on cyclical companies and those that have been penalised by coronavirus-induced lockdowns. The UK has been more proactive in rolling out its COVID-19 vaccine programme compared with many other developed markets, suggesting the potential for a relatively stronger economic rebound in coming quarters, which may encourage increased interest in the UK from global investors.

The valuation backdrop is also supportive for the relative performance of UK equities. The Datastream UK index is currently trading on a forward earnings multiple of 13.6x, which is a 3% premium to its 10-year average. This compares with the Datastream World index trading on 18.3x and a 27% premium to its average over the last decade.

Exhibit 1: Market performance and valuation

Performance of indices (last five years – £ adjusted)



Valuation metrics (at 7 June 2021)

	Last	High	Low	10-year average	Last as % of average
Datastream UK index					
P/E 12 months forward (x)	13.6	15.7	8.6	13.1	103
Price to book (x)	1.1	1.8	0.7	1.3	87
Dividend yield (%)	2.7	6.4	2.7	3.5	77
Return on equity (%)	4.3	14.9	1.4	9.3	47
Datastream World index					
P/E 12 months forward (x)	18.3	19.8	10.0	14.4	127
Price to book (x)	2.6	2.6	1.4	1.9	141
Dividend yield (%)	1.8	3.4	1.8	2.5	72
Return on equity (%)	9.4	13.4	7.2	10.8	86

Source: Refinitiv, Edison Investment Research

The fund manager: Nick Train

The manager's view: Maintaining his positive outlook

Train has had his second COVID-19 vaccination and admits to 'feeling quite stoked at the moment'. He feels energised by the much-improved performance of the UK market in 2021, noting that it is outperforming the technology-heavy US Nasdaq Composite Index. The manager suggests that there is a credible case to argue that this situation can continue following 'a long period of dismal UK equity returns, which resulted in the systematic underperformance of UK stocks'. Train believes an important factor for 2021 is that global investors are underestimating the technology-driven upsurge in innovation within the UK corporate sector, as evidenced by a high level of business formations and initial public offerings (IPOs). He says that looking at the investment actions of many companies that FGT is invested in, 'if we are right and the entrepreneurship in the corporate sector is in the throes of an upsurge in terms of the effectiveness of its technology spend, there is every reason to hope that the UK market can be stronger for longer'.

Last year was a personally significant period for the manager as it was the 20th year of his responsibility for FGT; he considers that 'two decades and counting is quite some stint'. He adds 'I'm a little bit proud and reasonably content about the trust's long-term track record. However, candidly I am less than delighted about the more recent relative NAV performance'. Over the last six to seven months there has been quite a sharp decline in relative performance, although FGT outperformed the broad UK market in 2020. After successful coronavirus vaccine trials were announced last November and into 2021 the trust lost some ground. Train explains that there are both structural and highly stock-specific reasons for this, and recent share price divergencies are providing interesting investment opportunities.

Under the manager's stewardship, FGT has always had significant holdings in large, reliable, steadily compounding growth companies. These represent c 40% of the trust's NAV, which was beneficial for FGT's relative performance in 2020, but less so now as investors are looking for recovery and more rapidly growing businesses. Train says that 'steady compounders are being perceived as dull plodders', which he considers to be 'a bit unfair'. He highlights Unilever as an archetypal 'dull plodder', whose share price declined by c 4% over the first five months of 2021. The manager says that while he has no predictive power, every time the firm goes through a period of being out-of-favour with investors, he likes to remind himself of how formidable these steadily compounding growth companies can be. He notes that Unilever's dividend history is 'a hell of an achievement', as the company has more than 50 consecutive years of real dividend growth. In addition, looking back to 1988, which is the earliest data available on Bloomberg, Unilever's share price is up 16-fold since then, compared with the UK market that quadrupled over this period. Train opines that 'this is a huge differential and testament to the returns that steadily compounding companies can deliver'. Unilever's Q121 results were better than expected, helped by its e-commerce revenues, which grew by 66% year-on-year and now represent 11% of total turnover. The manager comments that 'there are encouraging things going on in this formidable business'. Unilever also announced a €3bn share repurchase (c 2.5% of market cap) and nudged up the Q1 dividend by 2.7% on top of a running dividend yield of 3.5%, 'so notionally the company could deliver 8–9% annual returns with no share price rerating' adds Train. Another steady compounder in FGT's portfolio is Mondelēz. The position was inherited following the company's acquisition of Cadbury. It operates in structurally faster-growing categories than Unilever and has higher dividend growth: +10.1% in 2020 and +10.5% in Q121 (yield of c 2%). Share repurchases of around 4% of the share base are anticipated in 2021. The manager suggests that Mondelēz can deliver annual percentage total returns in the low double-digits to mid-teen range. Its share price has recently hit an all-time high having appreciated by around 60% since the start of 2019; Train believes that there is 'plenty of justification that these compounding companies can generate perfectly acceptable returns going forward, as they have over previous decades'.

The manager notes that London Stock Exchange's (LSE's) shares have been subject to severe profit taking in 2021; it was FGT's biggest holding so has been painful for performance in both absolute and relative terms. However, Train remains positive on the firm's prospects. He says that 'it is an important company within the context of the UK market' and its share price weakness could prove to be a buying opportunity. LSE's acquisition of Refinitiv is viewed as a bold and transformational deal, and this type of transaction brings execution risk. 'Neither I nor the company can offer absolute certainty that the execution will be flawless or successful, but it is important not to lose track of what has been created by the combination' suggests the manager. LSE is a substantive company with c £40bn market cap and is the world's number two financial data and analytics business with c 70% recurring revenues. Train says that the company is targeting 50% operating margins and has a credible aspiration to increase its revenue growth from 3–5% pa to 5–7% pa over the next two years. 'This is exactly the type of business that UK equity investors have been bemoaning the shortage of. There have been three to four years of very disappointing UK equity performance; LSE is a rare company by global standards and very rare in the context of the

UK stock market' the manager adds. He says that investors are asking politely, or indeed demanding, that companies emerge from the global pandemic in a stronger position than when they went in, with superior growth prospects. Train believe that LSE has achieved this, and he suggests that this is the case for many of FGT's other holdings.

Current portfolio positioning

At end-April 2021, FGT's top 10 holdings made up 79.3% of the portfolio, which was a lower concentration versus 83.5% a year before; there was no change in the constituents year-on-year, although, due to underperformance in recent months, there is a notable reduction in the size of the LSE position (-3.4pp).

Exhibit 2: Top 10 holdings (as at 30 April 2021)

Company	Country	Sector	Portfolio weight %	
			30 April 2021	30 April 2020
Diageo	UK	Consumer staples	10.8	10.4
RELX	UK	Consumer discretionary	9.8	10.6
Unilever	UK	Consumer staples	8.8	10.1
London Stock Exchange	UK	Financials	8.6	12.0
Mondelēz International	US	Consumer staples	8.3	9.3
Schroders	UK	Financials	8.2	7.4
Burberry Group	UK	Consumer discretionary	8.0	6.3
Hargreaves Lansdown	UK	Financials	6.4	6.3
Heineken	Netherlands	Consumer staples	5.3	4.9
Sage Group	UK	Technology	5.1	6.2
Top 10 (% of portfolio)			**79.3**	**83.5**

Source: FGT, Edison Investment Research

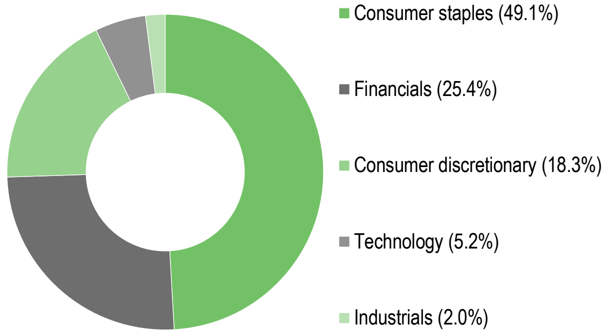
The trust's unconstrained investment approach is shown in Exhibit 3. The manager typically invests in four sectors: consumer staples, financials, consumer discretionary and technology. However, there is now a modest exposure to the industrials sector following FGT's initiation of a position in Experian (a consumer credit reporting company) in August 2020. It is not possible to highlight the year-on-year changes in the trust's sector weightings given recent changes to the Industry Classification Benchmark (ICB) definitions.

Exhibit 3: Portfolio sector exposure vs benchmark

% unless stated	30 April 2021	Benchmark	Active weight (pp)
Consumer staples	49.1	15.4	33.8
Financials	25.4	23.5	2.0
Consumer discretionary	18.3	12.8	5.5
Technology	5.2	1.9	3.3
Industrials	2.0	12.7	(10.7)
Telecommunications	0.0	2.4	(2.4)
Utilities	0.0	3.0	(3.0)
Real estate	0.0	3.0	(3.0)
Energy	0.0	7.2	(7.2)
Healthcare	0.0	8.6	(8.6)
Basic materials	0.0	9.6	(9.6)
	100	**100**	

Source: FGT, Edison Investment Research

Exhibit 4: Sector weights at 30 April 2021



Source: FGT, Edison Investment Research

Train says that Burberry Group is a very important holding for FGT, and he believes that there is a lot of latent value within this investment, which has appreciated by more than 20% year-to-date. The manager says that the company's share price 'got clobbered in 2020' but has now rallied by c 90% since mid-March last year. He says that from the nadir in November 2008 in the depths of the global financial crisis to September 2013, Burberry's share price rose sevenfold as consumer confidence returned and the global economy healed itself. Train wonders if this share price performance can be repeated as he suggests that the company has not received credit for the current management team's investments over the last three years in terms of moving its products and image higher up the luxury curve. The manager hopes that Burberry's investments can pay off and believes that if there is a 'roaring twenties' period after COVID-19 it will be due to technological developments creating new wealth, part of which will be spent on luxury goods and services. 'I hope that Burberry gets its fair share of this' he adds.

'Diageo had a tough year in 2020', says Train but its share price is performing better in 2021 and this steady, compounding company is now FGT's largest holding. The manager reports that over the last 20 years Diageo's share price has more than quadrupled compared with the broad UK market, which is up just 40% in capital terms. He believes that there is 'every reason to hope that the company does even better over the next 20 years versus the last two decades'. There is a secular trend of people drinking less alcohol, but more higher-quality premium spirits, which Train says plays into Diageo's strengths. He comments that its share repurchase programme has resumed, which is 'nice to see' and confirms its board's view about the strategic value in the company's equity.

The manager is encouraged that FGT's three long-term asset management investments are generally doing well so far in 2021 (Hargreaves Lansdown, Rathbones and Schroders), which he says reflects improving business confidence in the UK and a domestic stock market that is performing relatively better than in recent years.

If this positive backdrop continues, Train is hopeful that in aggregate UK companies can be afforded higher ratings. He points out that while fund managers are often questioned about their strategies for selling positions, they are seldom asked about their hold disciplines. 'It is difficult to hold onto companies when they go through periods of underperformance. Within FGT's portfolio there are companies with winning characteristics, and we will continue to hold them' he says, re-emphasising his long-term disciplined approach.

Performance: Outperformance over the mid-long term

Exhibit 5: Five-year discrete performance data

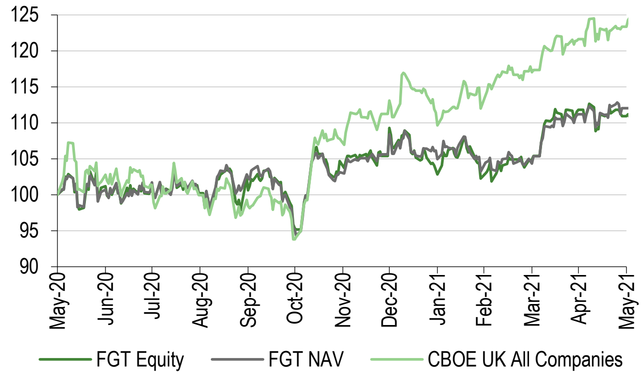
12 months ending	Share price (%)	NAV (%)	CBOE UK All Companies (%)	CBOE UK 350 (%)	MSCI World (%)
31/05/17	25.4	26.4	24.4	24.2	32.0
31/05/18	12.0	11.2	6.6	6.6	8.8
31/05/19	12.1	12.4	(3.4)	(3.4)	5.9
31/05/20	(4.5)	(4.2)	(12.0)	(12.0)	9.5
31/05/21	10.9	12.0	23.4	23.1	22.9

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

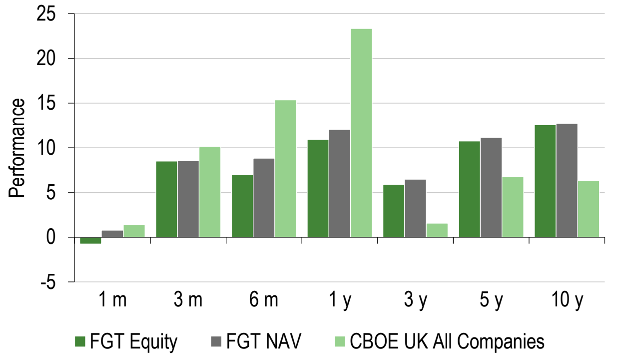
In H121 (ending 30 March), FGT's NAV and share price total returns of +2.2% and +3.7% respectively lagged the benchmark's +18.5% total return, although over the course of 2020, the trust's NAV outperformed by 7.8pp (-2.0% versus -9.8%); the trust's portfolio of high-quality companies proved to be resilient during the stock market sell-off in early 2020. When asked to describe FGT's investment approach in a nutshell, Train responds with 'big positions in intrinsically low-risk companies'. He explains that following news about successful COVID-19 vaccine trials in early November 2020, the trust's performance started to lag that of the benchmark (Exhibit 8). As the portfolio had held up well during the Q120 stock market weakness, there was less potential for a bounce as investor confidence about economic growth improved and attention turned to recovery and more cyclical stocks and sectors. There have also been some positions in FGT's portfolio that have underperformed for stock-specific reasons such as LSE, whose share price has fallen by more than 20% since early March 2021 due to higher-than-expected integration costs following the acquisition of Refinitiv.

Exhibit 6: Investment trust performance to 31 May 2021

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.

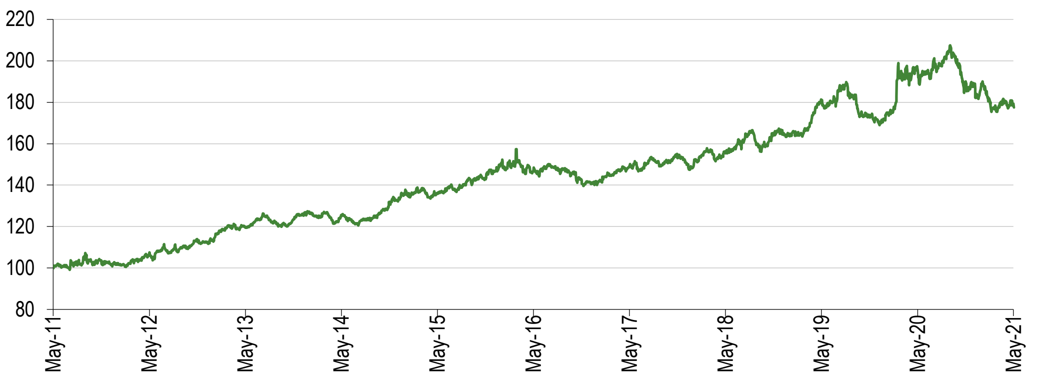
Exhibit 7: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to CBOE UK All Companies	(2.2)	(1.5)	(7.3)	(10.1)	13.4	20.0	76.9
NAV relative to CBOE UK All Companies	(0.6)	(1.5)	(5.7)	(9.2)	15.2	22.0	79.3
Price relative to CBOE UK 350	(2.2)	(1.5)	(7.2)	(9.9)	13.5	20.3	80.1
NAV relative to CBOE UK 350	(0.6)	(1.4)	(5.6)	(9.0)	15.3	22.3	82.5
Price relative to MSCI World	0.4	0.4	(2.1)	(9.7)	(16.6)	(18.5)	0.2
NAV relative to MSCI World	1.9	0.4	(0.4)	(8.8)	(15.2)	(17.1)	1.6

Source: Refinitiv, Edison Investment Research. Note: Data to end-May 2021. Geometric calculation.

Despite trailing the benchmark over the last year, the trust has meaningfully outperformed the broad UK market over the last three, five and 10 years in both NAV and share price terms. In absolute terms, FGT has delivered NAV and share price total returns of 12.7% pa and 12.6% pa respectively over the last decade, which are double the 6.1% pa UK equity total returns over this period.

Exhibit 8: NAV total return performance relative to benchmark over 10 years



Source: Refinitiv, Edison Investment Research

Peer group comparison

FGT is the largest fund in the 21-strong AIC UK Equity Income sector. In Exhibit 9, we show the 12 largest funds with market caps greater than £300m, although the companies employ a range of different investment approaches. FGT's strategy of focusing on a narrow range of sectors and a concentrated portfolio of companies has been very successful over the long term. The trust's NAV total return ranks second in the selected peer group over the last five and 10 years. While FGT's relative performance has lagged following the shift in market leadership in late 2020, its NAV total return remains above average over three years, ranking fifth. On 7 June 2021, FGT was trading at a 1.7% discount to NAV compared with the selected group average of a 1.2% discount. Its ongoing charge is in line with the mean and it has a below-average level of gearing. Unsurprisingly, given the trust's focus on total return rather than income, it has the lowest dividend yield in the selected peer group (1.9pp below the mean).

Exhibit 9: Selected peer group at 7 June 2021*

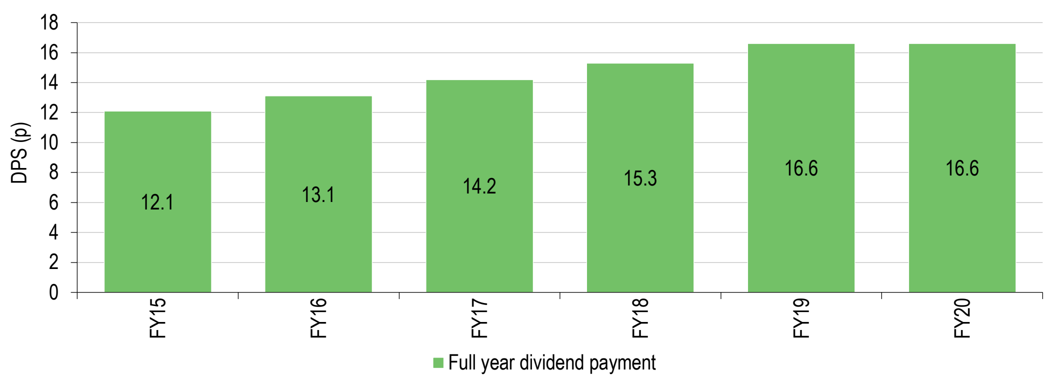
% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Finsbury Growth & Income	2,018.2	9.9	19.7	70.0	235.2	(1.7)	0.6	No	101	1.9
BMO Capital & Income	350.8	25.9	9.3	52.3	118.1	(1.3)	0.6	No	105	3.6
City of London	1,764.8	16.3	4.5	31.1	105.6	2.1	0.4	No	108	4.8
Diverse Income Trust	428.3	36.7	27.9	58.8	237.8	(0.9)	1.1	No	100	3.1
Dunedin Income Growth	471.2	18.0	25.4	64.8	116.6	(0.7)	0.6	No	106	4.0
Edinburgh Investment	1,102.0	26.4	(1.7)	15.0	106.1	(4.5)	0.6	No	104	3.8
JPMorgan Claverhouse	440.7	31.5	8.5	50.8	121.5	0.8	0.7	No	118	4.1
Law Debenture Corporation	952.9	36.6	28.4	78.7	174.7	2.2	0.6	No	112	3.7
Lowland	376.9	37.5	0.9	36.9	122.4	(4.3)	0.6	No	113	4.3
Merchants Trust	652.4	34.4	11.2	57.8	112.4	0.6	0.6	No	113	5.2
Murray Income Trust	1,076.8	18.5	23.1	62.1	122.5	(1.9)	0.6	No	108	3.8
Temple Bar	765.0	32.3	(1.2)	31.1	92.2	(5.5)	0.5	No	108	3.4
Average (12 funds)	**866.7**	**27.0**	**13.0**	**50.8**	**138.7**	**(1.2)**	**0.6**		**108**	**3.8**
Trust rank in selected peer group	**1**	**12**	**5**	**2**	**2**	**8**	**4**		**11**	**12**

Source: Morningstar, Edison Investment Research. Note: *Performance data to 4 June 2021 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Dividends: Progressive policy

FGT's board employs a progressive policy, aiming to grow the trust's annual dividend at a rate above the level of UK inflation or in periods of lower income receipts to at least maintain the total distribution. In FY20, FGT's dividend was maintained at 16.6p per share as its revenue return declined from 18.3p to 16.5p per share as some investee companies were forced to reduce their own dividend payments due to COVID-19. The trust pays out twice a year in May and November; so far in respect of FY21, an 8.0p per share first interim dividend has been paid (flat year-on-year). At the end of H121, FGT had revenue reserves of £40.0m, which is equivalent to c 1.1x the last annual dividend. Based on its current share price, the trust offers a 1.9% yield.

Exhibit 10: Dividend history since FY15



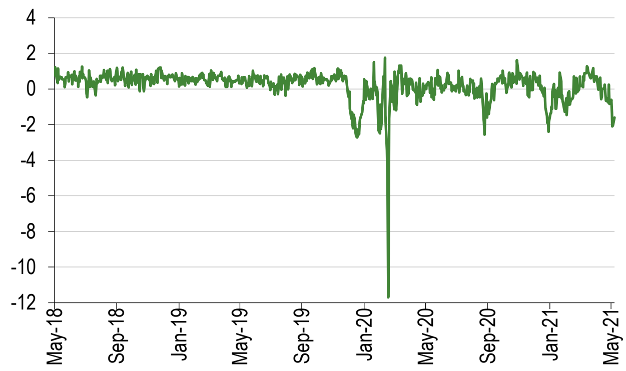
Source: Bloomberg, Edison Investment Research

Valuation: Regular issuance to manage the premium

FGT's shares are currently trading at a 1.6% discount to cum-income NAV; over the 12 months the trust's valuation has been in a range of a 1.6% premium to a 2.6% discount. The trust has traded in a 0.0% to 0.4% range of average premiums over the last one, three, five and 10 years.

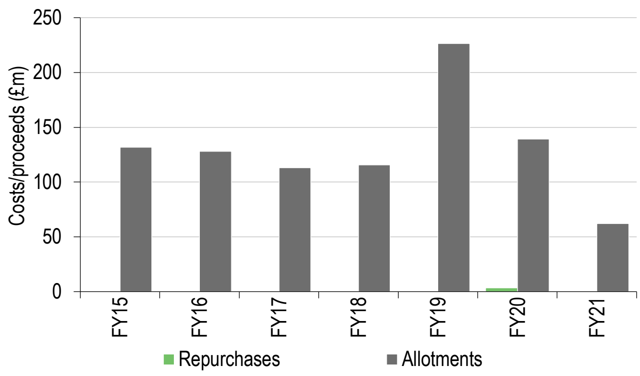
Since 2004, FGT's board has actively managed the trust's discount/premium by repurchasing shares when the discount exceeds 5% and issuing shares at a small premium when there are unfulfilled buy orders in the market. In H121, 6.1m shares were issued (c 2.8% of the share base) raising £51.6m.

Exhibit 11: Discount over three years



Source: Refinitiv, Edison Investment Research

Exhibit 12: Buybacks and issuance



Source: Morningstar, Edison Investment Research

Fund profile: Concentrated, high-conviction portfolio

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 40 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.

FGT's policy 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 is essentially a UK business, is classified within the UK by FGT rather than the US. At end-Q121, the trust's geographic breakdown was: 81.6% UK, 8.5% US, 5.0% Netherlands and 4.9% France.

The trust's 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. FGT's investment guidelines restrict 15% of its NAV, at the time of investment, in a single issuer (excluding the holding in Frostrow Capital, which is the trust's Alternative Investment Fund Manager), and 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, but are generally not held, and no more than 10% of any one issue may be held. While up to 10% of gross assets may be in cash, the manager prefers to remain fully invested. He regularly employs a modest level of gearing (net gearing of 1.1% at end-April 2021) 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 end-FY20 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, which 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 end-FY20, 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.

Investment process: Very long-term holding periods

Train focuses on growth businesses with high-quality management teams that he believes are trading at a discount to their intrinsic value and can be held for the long term, thereby reducing the drag of transaction costs. FGT's concentrated portfolio currently has 25 holdings. Historical 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%. At end-April 2021, FGT's active share was 86.1% (this is a measure of how a fund differs from its benchmark, with 100% representing no commonality and 0% representing full index replication).

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, which Train believes are 'money-making areas of the next decade': digital products & services (c 40% of the portfolio), luxury & premium consumer brands (c 50%) and trusted wealth management services (c 10%). 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. Overseas holdings in the portfolio are businesses that cannot be accessed in the UK, such as Rémy Cointreau with its exposure to premium cognac. Train highlights three rules of thumb used in selecting portfolio companies: if a company's products taste good, buy the shares (FGT's holdings include AG Barr, Diageo, Heineken, Mondelēz, Rémy Cointreau and Unilever); the world will never be bored of being informed or entertained (London Stock Exchange, RELX and Manchester United); and the professionals are always too cautious about the stock market, which creates opportunities for those investors with a more constructive view.

FGT's approach to ESG

Lindsell Train invests for the very long term, which it characterises as responsible investing. Train is chairman of the company's relatively new environmental, social and governance (ESG) committee. He stresses the importance of this element of the investment process in terms of how capital is allocated. Given that Lindsell Train's managers invest with a 10+ year view, Train says that it is crucial that they focus on companies that meet or are ahead of consumer/societal changing attitudes and behaviours and has always encouraged companies to pre-empt and respond to any ESG-related issues.

The managers have long-term partnerships with investee companies, often taking meaningful stakes, which encourages constructive dialogue. Discussions increasingly surround the risks and opportunities posed by ESG issues (including climate change). The managers are in the process of systemising the ESG questions that they ask all investee companies and there is generally a half-dozen critical issues at each company that can be discussed at each engagement.

Lindsell Train's investment approach leads it to focus on certain sectors, while avoiding capital intensive industries such as energy and materials and those that it judges are detrimental to society and may have regulatory or litigation risks that could negatively affect financial returns including tobacco or weapons manufacturers. The firm actively votes on all investee company resolutions and votes against or abstains where dialogue has not proved effective. Lindsell Train is a signatory of the United Nations Principles for Responsible Investment. For more detailed information on FGT's approach to ESG please visit its website.

Gearing

FGT has a three-year secured, fixed-term £50m multicurrency revolving credit facility with Scotiabank Europe at a rate of Libor +1.05%, which expires in October 2022. It also has an additional £50m facility if required. As at end-April 2021, £36.7m was drawn down and net gearing was 1.1%. The manager continues to employ modest levels of debt given the portfolio's concentrated nature already brings an element of risk.

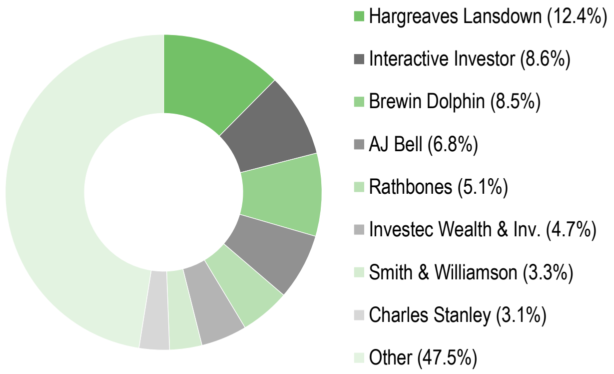
Fees & charges

Lindsell Train receives an annual fee of 0.450% of FGT'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 H121, the trust's ongoing charges of 0.64% were in line with FY20.

Capital structure

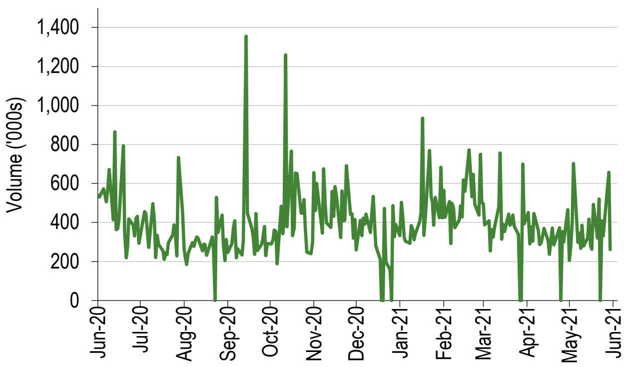
FGT is a conventional investment trust with one class of share; there are currently 225.0m ordinary shares outstanding. Its average daily trading volume over the last 12 months is c 415k shares.

Exhibit 13: Major shareholders



Source: FGT, as at 31 May 2021

Exhibit 14: Average daily volume



Source: Refinitiv. Note: 12 months to 7 June 2021.

The board

Exhibit 15: FGT's board of directors

Board member	Date of appointment	Remuneration in FY20	Shareholdings at end-FY20
Anthony Townsend (former chairman)	1 February 2005	£37,500	206,534
Simon Hayes (current chairman)	29 June 2015	£24,500	66,488
Kate Cornish-Bowden	26 October 2017	£24,500	7,061
Lorna Tilbian	26 October 2017	£24,500	Nil
Sandra Kelly	9 October 2019	£30,000	4,645
James Ashton	14 October 2020	N/A	N/A

Source: FGT

Anthony Townsend stood down at the February 2021 AGM; he had served as chairman since 30 January 2008 and was succeeded by Simon Hayes. The role of senior independent director moved from Simon Hayes to Sandra Kelly, who is also chair of the audit committee.

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