

Finsbury Growth & Income Trust

Train puts his money where his mouth is

Finsbury Growth & Income Trust (FGT) has been managed by Lindsell Train since the beginning of 2001. During his long tenure, approaching a quarter of a century, lead manager Nick Train has steadily acquired a significant 2.9% personal holding in the trust, which is a considerable amount of 'skin in the game'. From the beginning of 2001 until the end of 2023, FGT's 9.0% annual NAV total return was comfortably ahead of the UK market's 5.1% annual total return. However, Train and deputy manager Madeline Wright, who was appointed in 2019, have underperformed for the last three years. The managers will continue with their successful long-term strategy of running a concentrated portfolio; Train's philosophy is that wealth creation requires a concentrated approach, while diversification is necessary for wealth protection.

Video with Nick Train (May 2024)



Source: FGT

Why consider FGT?

FGT's managers invest in quality growth businesses with high returns and low capital intensity, which can thrive throughout the economic cycle. Although the trust has experienced a protracted period of underperformance, Train and Wright believe the market will reward FGT's shareholders over time. They invest for the very long term with portfolio annual turnover in the low single-digit range. Rightmove is the latest addition to the fund (purchased in September 2023) and was the first new holding since 2020.

The trust's highly concentrated portfolio of around 20 names covers just five of the 11 market sectors. The managers have increased FGT's exposure to six 'digital winners', which together make up approximately 55% of the portfolio. Train and Wright believe these six data companies (RELX, Sage Group, London Stock Exchange Group, Experian, Hargreaves Lansdown and Rightmove) are well positioned to benefit from the growth in artificial intelligence (AI). The managers are encouraged that they can buy world-class, UK-listed growth businesses at significantly lower valuations than those of their overseas peers.

FGT retains its position as the top performing fund over the last decade in the 19-strong AIC UK Equity Income sector. An improvement in the trust's shorter-term performance record could be rewarded with a higher valuation, as the trust's current discount is wider than its historical averages.

NOT INTENDED FOR PERSONS IN THE EEA

Investment trusts UK equities

14 May 2024

Price 851.0p
Market cap £1,560m
Total assets £1,724m

NAV* 930.3p
Discount to NAV 8.5%

*Including income. At 10 May 2024.

Yield 2.2%
Ordinary shares in issue 183.3m
Code/ISIN FGT/GB0007816068
Primary exchange LSE
AIC sector UK Equity Income
52-week high/low 914.0p 792.0p
NAV* high/low 948.9p 835.3p

*Including income.

Net gearing* 1.1%

*At 31 March 2024.

Fund objective

Finsbury Growth & Income 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 managers investing with a very long-term perspective.
- The discount is at the wider end of the three-year range, which may offer a favourable entry point.

Bear points

- FGT has underperformed its benchmark for the last three consecutive years.
- Key person risk: Train has built up FGT's long-term record over the last 24+ years.
- Despite attractive valuations, UK shares remain out of favour with global investors.

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FGT: Why the manager continues to add to his holding

Train recently presented at the Frostrow Capital annual investment companies seminar. The manager discussed his responses to a shareholder question about why he continued to regularly add to his holding in the trust. Train highlighted that he has been steadily accumulating FGT shares since Lindsell Train took over management of the trust at the start of 2001 (he currently owns c 2.9% of FGT, which is worth more than £45m). The manager provided the following insights:

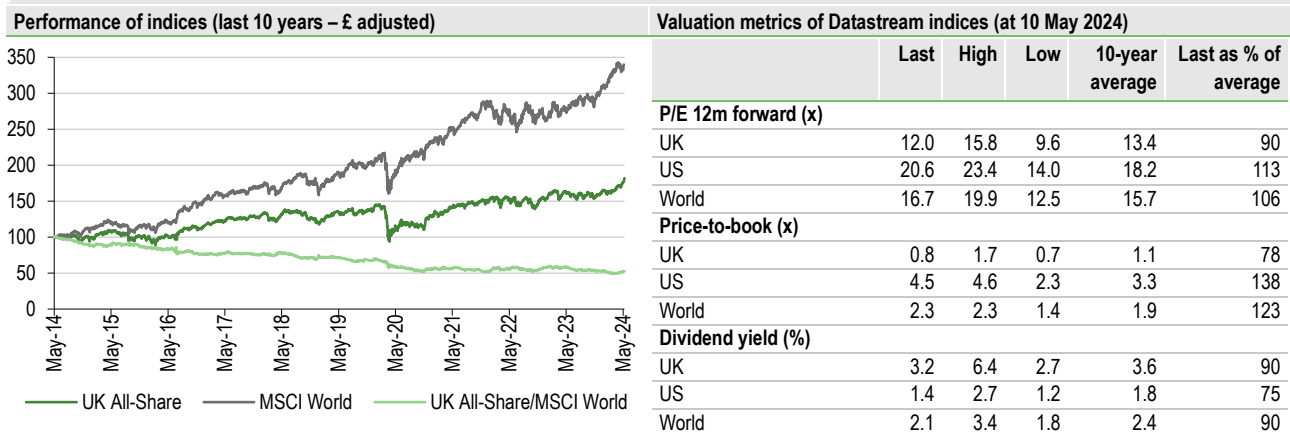
- Train says that it is a privilege to manage FGT, and he is conscious about the responsibility of managing other peoples' precious savings in the trust. The manager takes risk with shareholders' money, so he considers it important that he takes on a higher risk by having a significant amount of 'skin in the game'.
- As a rule of thumb, Train says that if you want to create wealth, you need to run a concentrated portfolio; however, if you want to protect your wealth, you need to diversify your investments. The manager explains that an investment trust, with its permanent pool of capital, is an ideal vehicle to run a concentrated fund as he and Wright can run FGT's winning positions for longer. This compares with an open-ended fund that has regular inflows and outflows. More detail about the trust's fund structure is shown below.
- Train says that FGT's portfolio has attractive characteristics. The primarily large-cap exposure is deliberate because that is where the managers are finding value, and the fund has a bias to best-of-breed companies such as Fevertree, which is the global leader in premium mixers. In aggregate, the portfolio is valued on a 21.5x forward P/E multiple, which the manager says is reassuringly expensive for a selection of quality businesses. The portfolio has a 2.75% dividend yield, a 35% return on equity and estimated 9.5% annual long-term earnings growth.
- The shape of FGT's portfolio has shifted, with the six analytics companies, which are driving additional value from their market-leading, growing databases, RELX, London Stock Exchange Group, Experian, Sage Group, Hargreaves Lansdown and Rightmove, which now make up c 55% of the portfolio, which compares with less than 8% of the benchmark. Train suggests these companies are London-listed AI beneficiaries, whose share prices are offering a sensational buying opportunity.
- The manager believes that the bear market in UK equities has created a series of value opportunities. These include Unilever, which was formerly an outperforming position, whose growth has stalled. Activist Nelson Peltz-led Trian Partners now has a seat on the Unilever board and Train is hopeful that the company's Growth Action Plan will be successful. As reported in its Q124 trading statement, Unilever's fastest growing beauty and wellbeing segment now makes up 21.3% of the company's total turnover. According to the manager, London Stock Exchange Group's share price has been in a three-year holding pattern, meaning its growth opportunities are not being recognised. Train contrasts this with RELX, which is the best performer in the large cap UK 100 index; £100 invested in this company at the index's inception 40 years ago would now be worth (with dividends reinvested) more than £30k. The manager believes that this stock can continue to outperform.
- FGT's last all-time high share price was in September 2019; Train says the subsequent period has been very frustrating, especially the last 18 months. The trust's underperformance has contributed to a persistent discount and regular repurchases, which have been accretive to NAV. The manager comments that FGT is an inexpensive stock in an inexpensive market.

UK market remains very attractively valued

Although the large-cap UK 100 index has been hitting new highs, helped by increased M&A activity, the broad UK market is yet to meaningfully start closing the performance gap versus global shares (Exhibit 1, left-hand side). Looking at the valuation of Datastream indices, the UK remains very attractively valued in both absolute and relative terms. On a forward P/E multiple basis, the UK is trading at a c 28% discount to the world index and an even greater c 42% discount to the US index.

The UK market is also trading at a 10% discount to its 10-year average compared with 6% and 13% premiums for the world and US markets respectively. The UK is more attractively valued on a price-to-book basis and offers a superior dividend yield.

Exhibit 1: Market performance and valuation



Source: LSEG, Edison Investment Research

Current portfolio positioning

FGT's concentrated high-conviction portfolio has around 20 holdings. As shown in Exhibit 2, at the end of March 2024, the top 10 holdings made up 85.2% of the fund, which was modestly higher than 83.5% 12 months earlier. There were five holdings that each made up more than 10% of the portfolio (positions are trimmed when they reach 12.5%). Train comments that these companies have performed well and could be classed as 'the magnificent five', although he notes that Diageo is currently having a tough time. The manager believes all five companies are undervalued both versus their growth opportunities and against their global peers.

Exhibit 2: Top 10 holdings (at 31 March 2024)

Company	Country	Sector	Portfolio weight %	
			31 March 2024	31 March 2023*
London Stock Exchange Group	UK	Financials	12.6	10.3
RELX	UK	Consumer discretionary	12.4	12.4
Experian	UK	Industrials	11.9	6.1
Sage Group	UK	Technology	11.2	6.2
Diageo	UK	Consumer staples	10.5	11.0
Unilever	UK	Consumer staples	8.7	8.8
Burberry Group	UK	Consumer discretionary	5.2	10.2
Schroders	UK	Financials	4.9	6.0
Mondelēz International	US	Consumer staples	4.3	6.9
Rightmove	UK	Consumer discretionary	3.5	N/A
Top 10 (% of portfolio)			85.2	83.5

Source: FGT, Edison Investment Research. Note: *N/A where not in March 2023 top 10.

Rightmove is FGT's newest position; having entered the portfolio in September 2023, it now features in the trust's top 10 list. Train says that Rightmove dominates the residential real estate platform space. Its capital-light business model generates the highest ROI in the trust's portfolio. FGT's average cost price for its Rightmove shares are c 35% below the 2021 peak and they are trading in line with the trust's average forward P/E multiple. While Rightmove has a new competitor in US-based CoStar Group, which acquired UK-based OnTheMarket, CoStar's valuation is around triple that of Rightmove's. The manager highlights that UK-listed growth businesses are generally significantly less expensive than similar US-based companies.

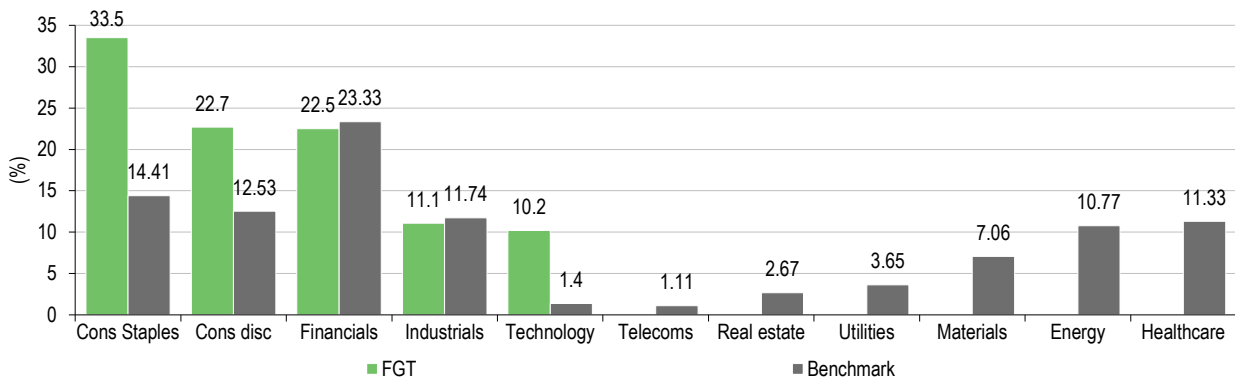
Exhibit 3: Portfolio sector exposure versus benchmark (% unless stated)

	Portfolio end-March 2024	Portfolio end-March 2023	Change (pp)	Active weight vs benchmark (pp)
Consumer staples	31.9	40.8	(8.9)	18.3
Consumer discretionary	22.6	25.4	(2.8)	10.1
Financials	22.4	21.5	0.9	(1.2)
Industrials	11.9	6.1	5.8	(0.6)
Technology	11.2	6.2	5.0	9.8
Telecommunications	0.0	0.0	0.0	(1.1)
Real estate	0.0	0.0	0.0	(2.6)
Utilities	0.0	0.0	0.0	(3.5)
Basic materials	0.0	0.0	0.0	(6.8)
Energy	0.0	0.0	0.0	(11.0)
Healthcare	0.0	0.0	0.0	(11.4)
Total	100.0	100.0		

Source: FGT, Edison Investment Research. Note: Excludes cash.

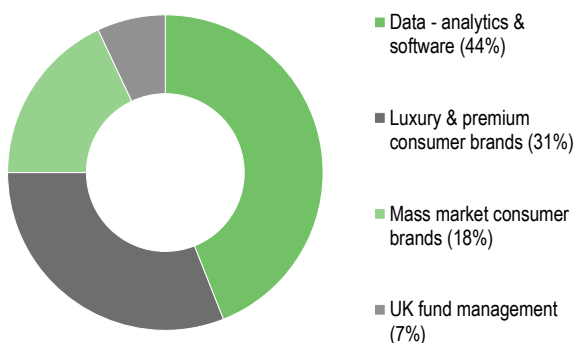
FGT has no exposure to six of the 11 market sectors, which made up 36.4% of the benchmark at the end of March 2024. It had notable overweight positions in consumer staples (+18.3pp), consumer discretionary (+10.1pp) and technology (+9.8pp). In the prior 12 months, there was an 8.9pp decrease in FGT's consumer staples exposure along with higher weightings in industrials (+5.8pp) and technology (+5.0pp).

Exhibit 4: FGT and benchmark sector breakdowns at 31 March 2024



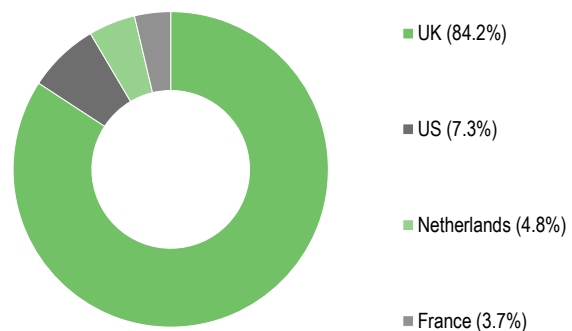
Source: FGT, Edison Investment Research

Exhibit 5: Product breakdown at 30 September 2023



Source: FGT, Edison Investment Research

Exhibit 6: Geographic exposure at 30 September 2023



Source: FGT, Edison Investment Research

While the data presented in Exhibits 5 and 6 are at the end of FY23, it shows the dominance of the data – analytics and software businesses within FGT's portfolio. Train reports that these businesses now make up around 55% of the fund. At the end of FY23, 15.8% of the portfolio was invested in

three overseas companies: Mondelēz International (US, 7.3%); Heineken (Netherlands, 4.8%); and Rémy Cointreau (France, 3.7%).

Performance: Hanging on to 10-year pole position

The AIC UK Equity Income sector is relatively large, made up of 19 funds. FGT is the second largest with a market cap around three times that of the sector average. The peers follow a variety of mandates and analysis from Morningstar shows that, although FGT is the only company categorised as a large-cap growth fund, the other 18 are either value or growth/value blended funds. The trust has the most concentrated portfolio in terms of the least number of holdings and has very low portfolio turnover. Compared with its peers, FGT has the lowest cyclical exposure and one of the highest defensive positions; portfolios are measured by their exposure to either cyclical, defensive or sensitive (moderately cyclical) sectors.

FGT's medium term performance record has suffered in the face of a three-year (2021 to 2023) period of underperformance, which has continued into 2024. The trust's NAV total return ranks 19th, 16th and 17th over the last one, three and five years, respectively. On a brighter note, FGT retains its top spot over the last decade. On 10 May 2024, the trust's discount was narrower than the sector average, with just one fund trading at a premium. FGT has a competitive ongoing charge ranking seventh and a comparative low level of gearing. Unsurprisingly, given its focus on capital return rather than income (although the company does have a progressive dividend policy), its yield is less than half that of the sector mean.

Exhibit 7: Peer group at 10 May 2024*

% 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	1,570.1	1.0	9.0	18.2	126.1	(8.0)	0.6	No	101	2.2
abrdn Equity Income Trust	151.5	9.0	2.7	5.2	31.8	(5.9)	0.9	No	112	7.2
BlackRock Income and Growth	39.6	10.6	22.5	36.7	87.0	(12.9)	1.3	No	105	3.7
Chelverton UK Dividend Trust	31.9	4.3	(18.9)	8.9	52.0	(7.9)	2.4	No	153	8.5
City of London	2,120.4	13.9	28.4	37.6	81.3	(3.2)	0.4	No	107	4.8
CT UK Capital and Income	343.4	17.5	18.7	35.3	97.4	(4.3)	0.7	No	106	3.6
CT UK High Income Units	75.8	16.5	11.9	31.6	59.9	(8.4)	1.0	No	112	6.2
Diverse Income Trust	278.4	8.7	(9.3)	24.1	68.0	(8.9)	1.1	No	100	4.7
Dunedin Income Growth	421.6	8.9	12.7	38.5	74.1	(10.2)	0.6	No	106	4.7
Edinburgh Investment	1,121.5	17.9	31.2	43.8	84.1	(9.1)	0.5	No	107	3.7
Invesco Select UK Equity	93.4	11.3	20.4	39.0	91.1	(18.1)	0.8	No	100	4.5
JPMorgan Claverhouse	426.8	17.3	15.0	34.0	78.0	(3.8)	0.7	No	109	4.7
Law Debenture Corporation	1,161.5	12.9	21.3	56.1	118.6	1.0	0.5	No	112	3.6
Lowland	344.5	13.7	13.3	27.0	53.8	(13.4)	0.6	No	112	4.9
Merchants Trust	867.7	10.1	25.8	55.7	88.4	(1.8)	0.5	No	112	4.9
Murray Income Trust	948.3	11.5	18.8	41.3	84.0	(9.8)	0.5	No	108	4.2
Schroder Income Growth	200.6	11.8	20.6	40.5	84.4	(12.4)	0.8	No	115	4.8
Shires Income	99.5	12.8	14.2	34.2	79.8	(12.6)	1.0	No	115	5.9
Temple Bar	776.5	24.2	28.7	29.2	65.8	(6.5)	0.5	No	109	3.5
Simple average (19 funds)	582.8	12.3	15.1	33.5	79.2	(8.2)	0.8		111	4.8
Trust rank in peer group	2	19	16	17	1	9	7		17	19

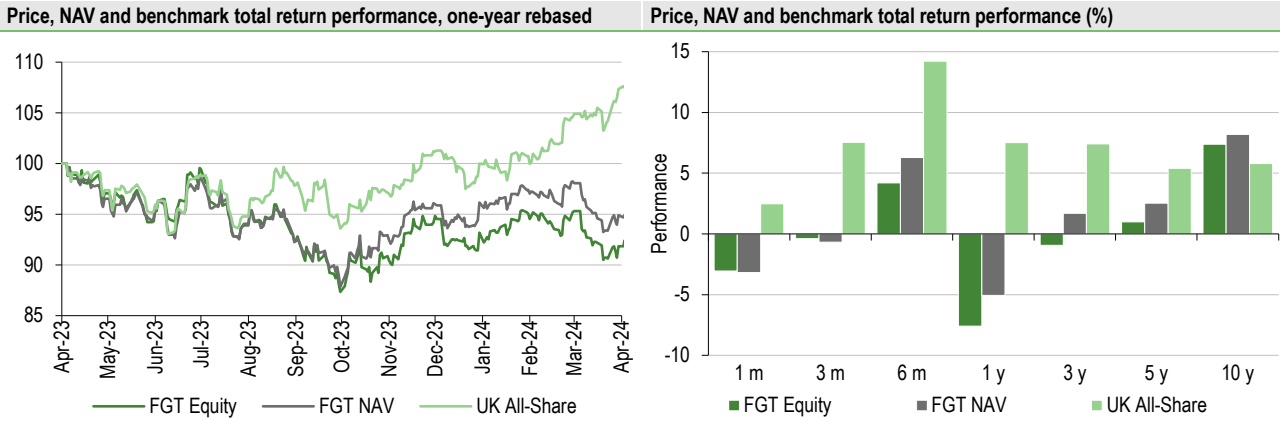
Source: Morningstar, Edison Investment Research. Note: *Performance data to 9 May 2024 based on ex-par NAV. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Exhibit 8: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	UK All-Share (%)	UK 350 (%)	MSCI World (%)
30/04/20	(9.4)	(9.2)	(16.7)	(16.7)	(0.2)
30/04/21	19.3	18.7	25.9	25.0	33.0
30/04/22	(6.5)	0.4	8.7	9.1	6.9
30/04/23	12.5	10.3	6.0	6.4	3.6
30/04/24	(7.6)	(5.1)	7.5	7.5	19.4

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

Exhibit 9: Investment trust performance to 30 April 2024



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

The trust has retained a solid outperformance record versus the UK market over the last decade but lags over the shorter periods shown in Exhibit 10. This year has not shown much of a reprieve for FGT's performance. Shares that have performed well this year include top 10 holdings Unilever (+12.2%), RELX (+12.1%) and Experian (+10.3%), but these have been overwhelmed by poorly performing names elsewhere in the portfolio, such as Burberry (-14.5%) and Schroders (-13.2%).

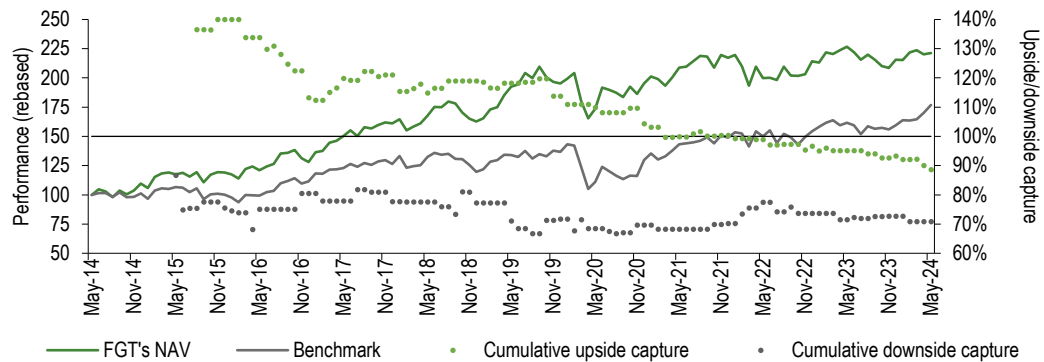
Exhibit 10: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to UK All-Share	(5.4)	(7.4)	(8.8)	(14.0)	(21.5)	(19.2)	15.9
NAV relative to UK All-Share	(5.5)	(7.6)	(7.0)	(11.7)	(15.1)	(12.8)	25.0
Price relative to UK 350	(5.4)	(7.4)	(8.8)	(14.0)	(22.0)	(19.1)	16.5
NAV relative to UK 350	(5.5)	(7.7)	(6.9)	(11.7)	(15.6)	(12.7)	25.6
Price relative to MSCI World	(0.2)	(5.6)	(10.8)	(22.6)	(26.4)	(40.1)	(38.7)
NAV relative to MSCI World	(0.4)	(5.9)	(9.0)	(20.5)	(20.4)	(35.4)	(33.9)

Source: LSEG, Edison Investment Research. Note: Data to end-April 2024. Geometric calculation.

FGT's upside/downside analysis

Exhibit 11: FGT's upside/downside capture



Source: LSEG, Edison Investment Research. Note: Cumulative upside/downside capture calculated as the geometric average NAV total return (TR) of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside indicates that the fund's TR was in line with the reference index's during months with positive/negative returns. Data points for the initial 12 months have been omitted in the exhibit due to the limited number of observations used to calculate the cumulative upside/downside capture ratios.

FGT's cumulative upside/downside capture over the last decade is shown in Exhibit 11. The trust's upside capture of 89% suggests that during periods when the UK market is rising, FGT will underperform by around 10%. However, this was not always the case as before 2021, when the UK inflationary environment was benign and the trust's upside capture rate was above 100%, indicating

that FGT was likely to outperform in a rising market. The trust's current defensive nature is reinforced by its downside capture rate of 70%, which indicates that FGT is likely to outperform by a meaningful amount during periods of UK stock price weakness. Over the last decade, the trust's downside capture rate has been more consistent than its upside capture rate.

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