

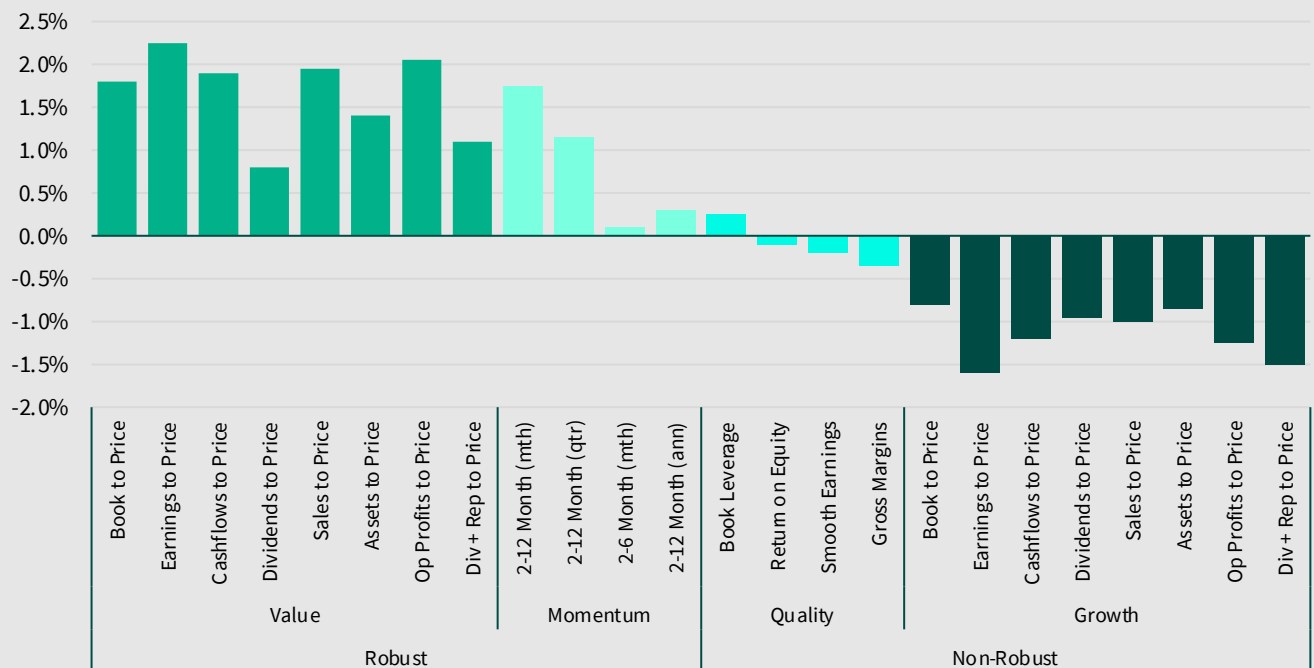
Temple Bar Investment Trust

Capturing the UK value opportunity

March 2023

Empirical evidence shows ‘value’ works in the long run – ‘quality’ and ‘growth’ do not

Long-only portfolio value-add vs cap-weighted benchmark, 1967-2016



It is intuitive that investors would earn a value premium to own stocks that other investors dislike

But why would investors be paid a premium to own better quality/less risky companies?

And if it existed, why would it not be arbitrated away?

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Lowly valued stocks have outperformed in every decade for 110 years except two

In an uncertain world, where we don't know what the future holds, shouldn't we go with what has worked in the past?

Lowly valued stocks have outperformed in every complete decade in the last 100 years – apart from the 1920'S AND 2010's

	20's	30's	40's	50's	60's	70's	80's	90's	00's	10's	20's
Year 0		-21	-3	29	-12	1	-4	-22	18	10	16
Year 1		13	18	-9	4	3	20	14	52	-11	34
Year 2		94	38	-1	4	-6	18	40	29	10	
Year 3		135	85	-10	8	-12	29	25	56	9	
Year 4		9	41	12	9	14	1	6	17	-8	
Year 5		16	29	-2	31	32	-7	0	3	-10	
Year 6	-3	38	-4	-5	5	32	-3	5	8	19	
Year 7	8	-23	4	-9	40	35	1	3	-20	-7	
Year 8	14	0	1	25	42	24	8	-22	-17	-15	
Year 9	-27	15	1	3	-18	14	-14	2	37	-13	
Decade (Ann.)	-4	20	18	3	10	13	4	4	16	-2	25

Source: Kenneth R. French library, Morgan Stanley Research. Performance of Value factor (Book Yield) since 1926, Morgan Stanley, 27 May 2022.

The table shows a long short value strategy in the US; Quintile 1 – Quintile 5, book to price, rebalanced annually.

Past performance is not a guide to the future. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested. No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment.

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Share price

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	YTD	1 Year	2 Year	Since Inception
Temple Bar (total return share price)	+12.0%	+6.3%	+33.4%	+91.7%
FTSE All Share TR	+6.1%	+7.3%	+24.5%	+47.5%

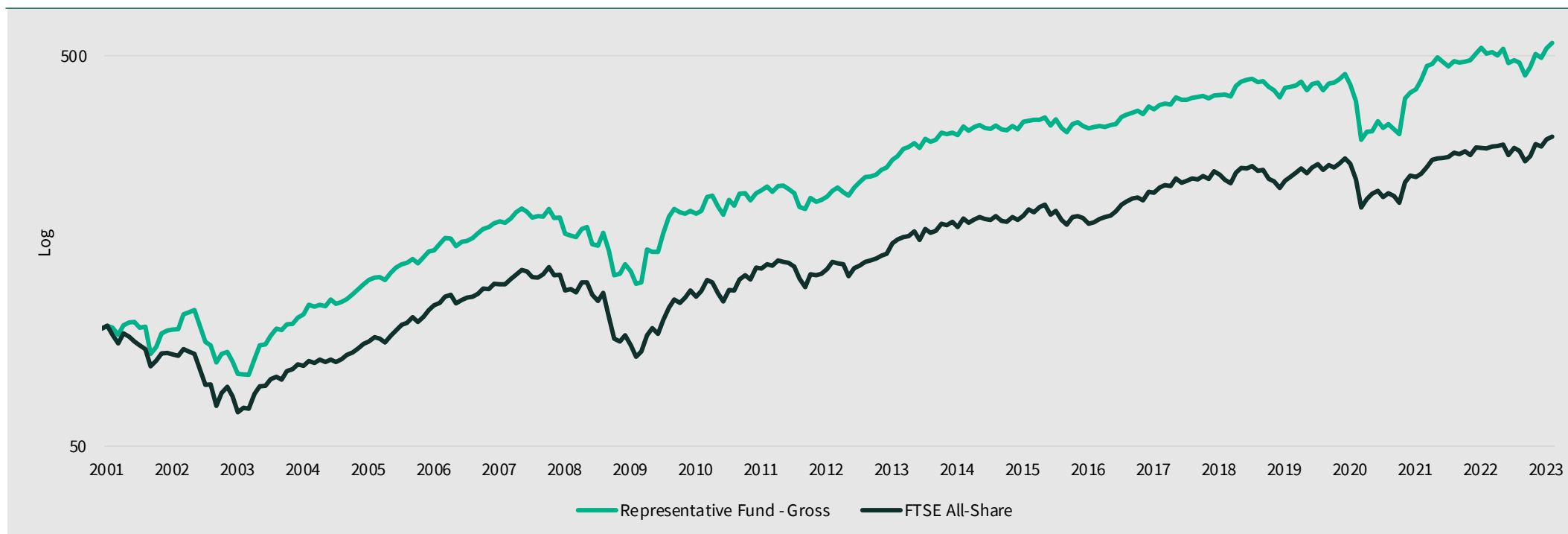
Source: Redwheel, data to 28 February 2022, inception date 30th October 2020.

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Long-term outperformance punctuated by periods of underperformance

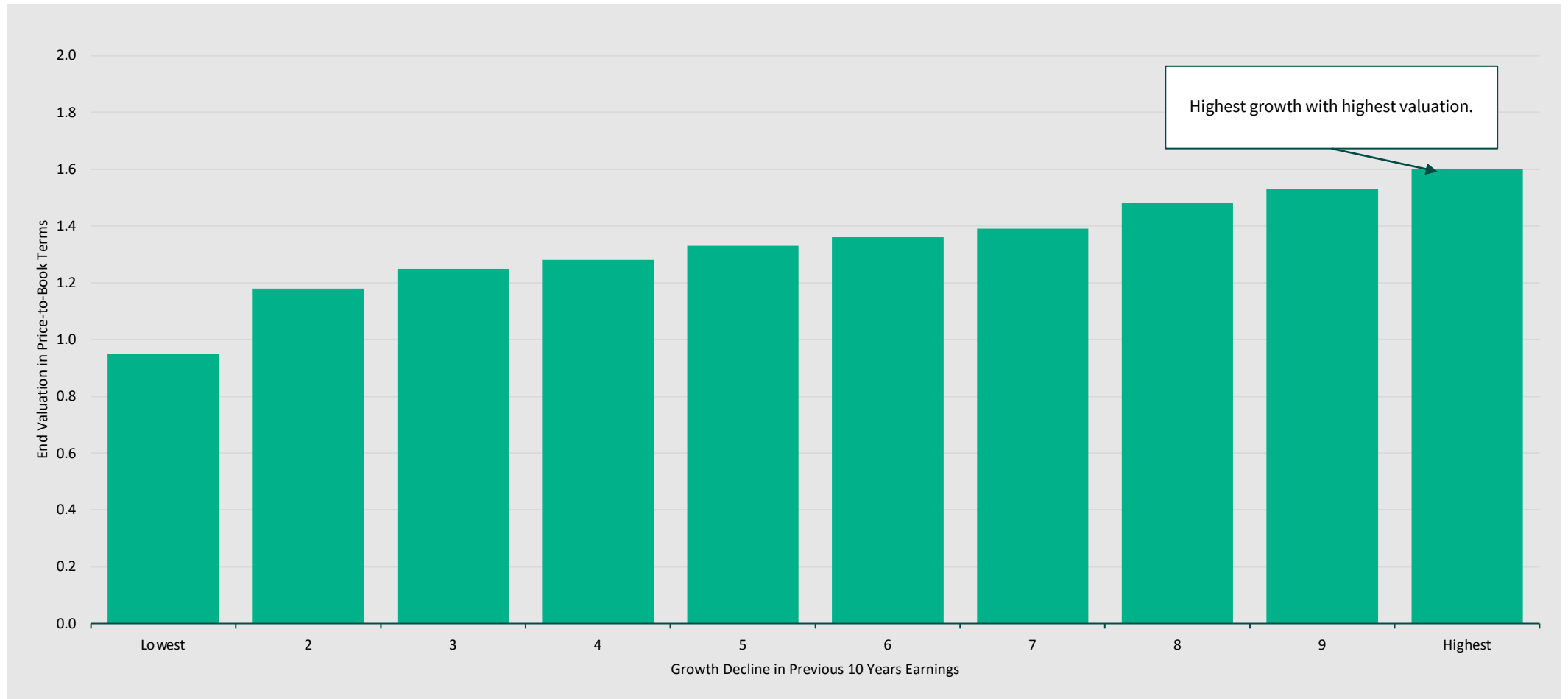


	1 Year	3 Years	5 Years	SI
Representative Fund (Gross)	6.4%	40.9%	35.6%	439.2%
FTSE All-Share Index	7.3%	28.9%	29.2%	210.2%

Source: Redwheel, Bloomberg.

Past performance is not a guide to the future. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested. Data is shown for the period 29 December 2000 to 28 February 2023 gross of fees and net of fees where indicated. Equity index used is FTSE All Share (TR). Note that Nick Purves has been responsible for the SJP Equity Income Fund since its inception on 29 December 2000 during that time he has been employed by both Schroders and Redwheel. The account moved across to Redwheel on 17 October 2010.

Investors extrapolate growth when valuing businesses



Source: "The level and persistence of growth rates", Lakonishok, Shleifer, Vishny

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And mean reversion of growth rates is still the norm

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Persistence of growth rates (1997 – 2021)

Metric	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	50.0%	25.5%	14.8%	9.1%	5.9%
% difference from chance	0.0%	0.5%	2.3%	2.9%	2.8%
EBITDA	50.0%	24.2%	13.0%	7.4%	4.5%
% difference from chance	0.0%	-0.8%	0.5%	1.2%	1.4%
EBIT	50.0%	24.5%	13.3%	7.8%	4.8%
% difference from chance	0.0%	-0.5%	0.8%	1.6%	1.7%
EBT	50.0%	24.3%	13.3%	7.7%	4.7%
% difference from chance	0.0%	-0.7%	0.8%	1.5%	1.6%
Base Case (chance)	50.0%	25.0%	12.5%	6.3%	3.1%

Source. Persistence of Growth, Chingono and Obenshain, 3 October 2022.

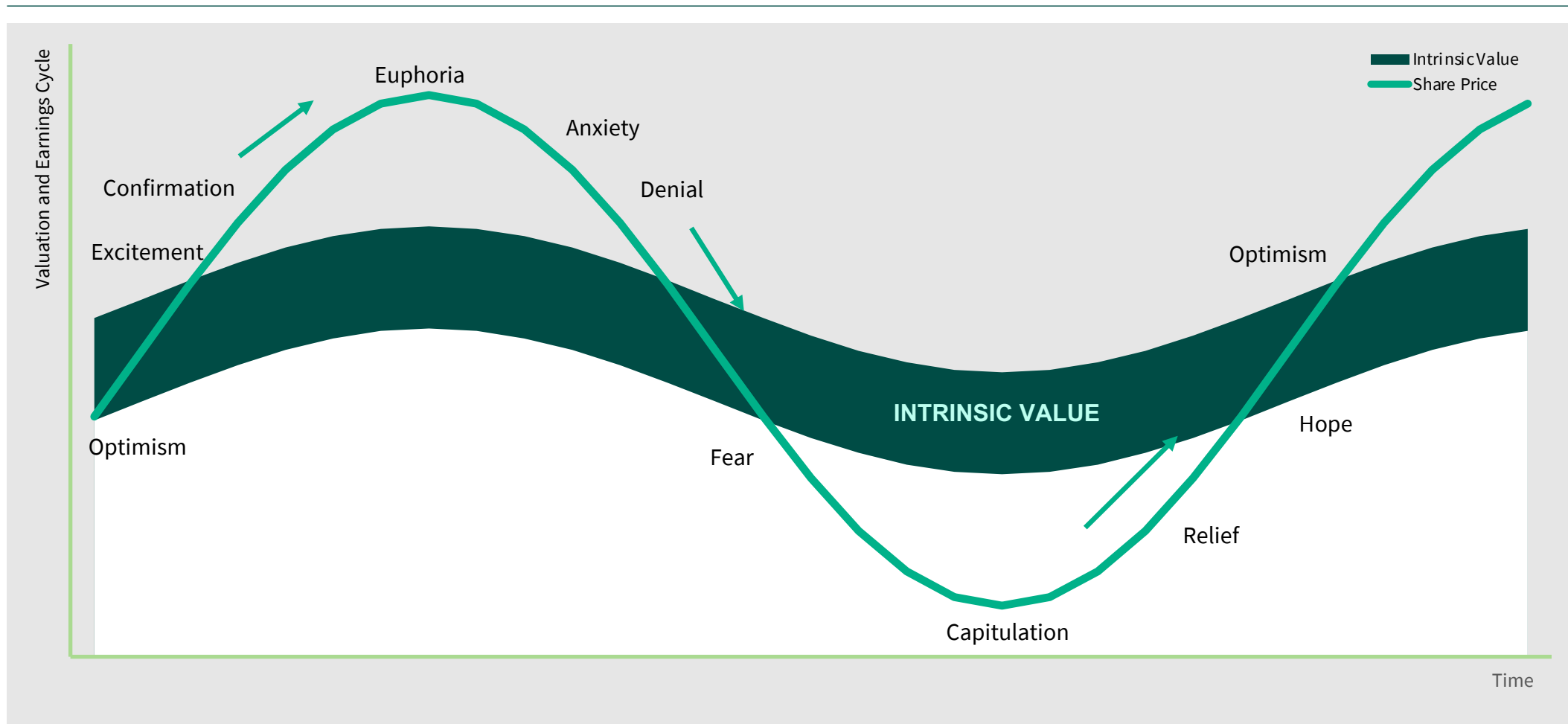
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Past performance is not a guide to future results. The prices of investments and income from them may fall as well as rise and an investor's investment is subject to potential loss, in whole or in part.

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Thus share prices will react to short-term earnings fluctuations by more than is warranted by the change in intrinsic value



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How over-reaction creates opportunities

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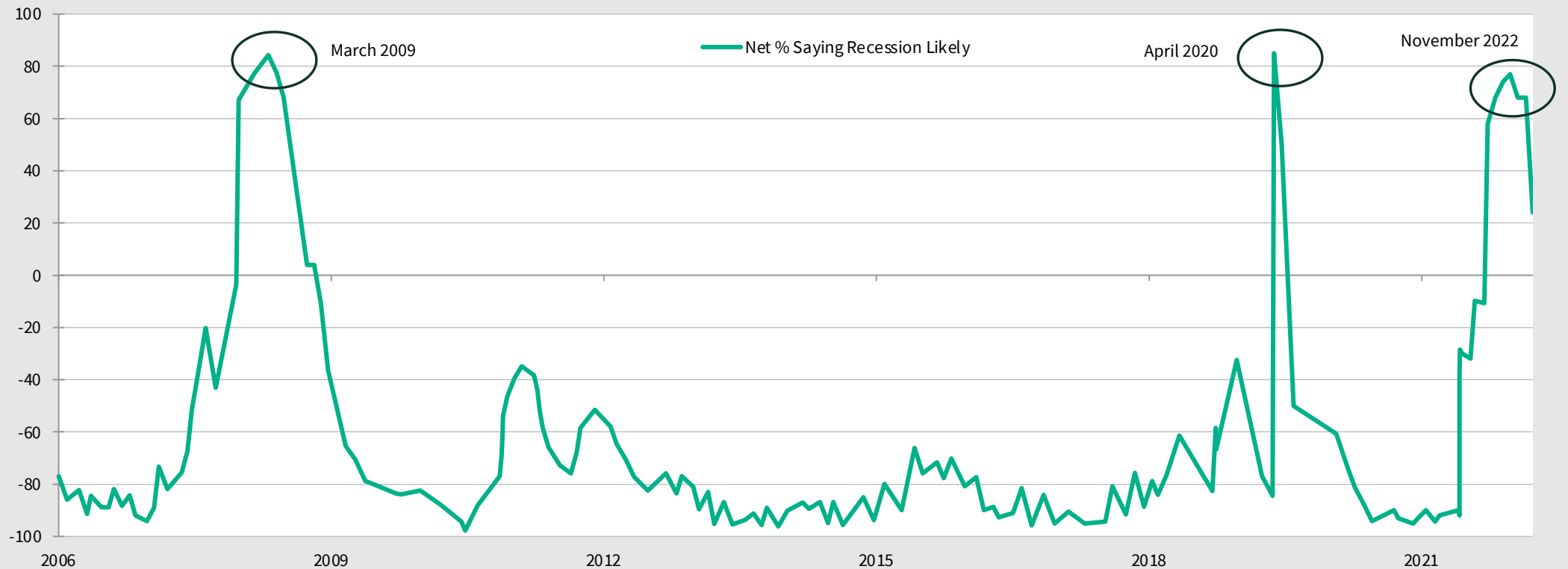
Economic Cycle	Capital Cycle	Credit Cycle	Strategic Error	Structural Decliners
<ul style="list-style-type: none">• Cyclical businesses priced as if they will never recover• Economies do eventually recover	<ul style="list-style-type: none">• Over supply drives down returns• Capital exits and returns improve	<ul style="list-style-type: none">• Decline in lending standards leads to increased defaults• Bad loans written down, capital ratios improve, better lending practices	<ul style="list-style-type: none">• Company expands too aggressively• Change of management, disposals, cost reduction, improved profitability	<ul style="list-style-type: none">• Disrupters win and everyone else loses• Reality more nuanced, incumbents adapt to competition
<p>Examples:</p> <ul style="list-style-type: none">• ITV• Marks & Spencer	<p>Examples:</p> <ul style="list-style-type: none">• Anglo American• Newmont• Shell	<p>Examples:</p> <ul style="list-style-type: none">• NatWest• Standard Chartered	<p>Examples:</p> <ul style="list-style-type: none">• Capita• Serco	<p>Examples:</p> <ul style="list-style-type: none">• Currys• Pearson

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Investors had become concerned about recession

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Net percentage saying recession is likely



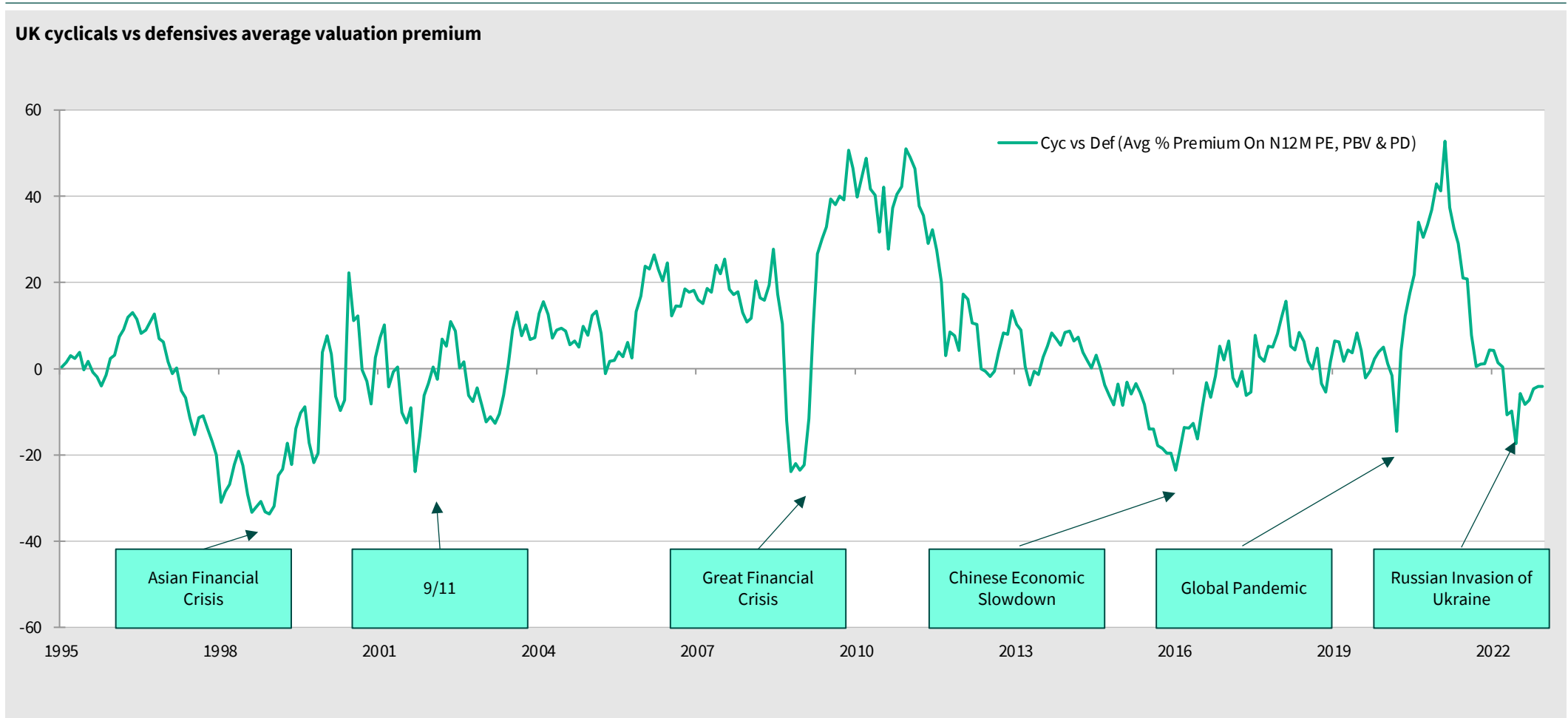
Source: Bank of America, 28 February 2023

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Gap in valuation between cyclicals and defensives is close to historical extremes

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Morgan Stanley, 31 December 2022

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The new management team has vastly improved the business

- Store base significantly rationalised, Clothing & Home store sales now just 20% of group total
- Almost 40% of Clothing sold on line; c.£1200m on line sales at a competitive 10% margin
- Along with Aldi and Lidl continues to take market share in food (ex Ocado JV)
- Ocado stake bought for £700m prior to COVID (35p per share) now likely to be worth more
- Strong balance sheet, just £628m of net bank debt at end March; over £2bn of liquidity
- Owns >50% real estate from which it operates (net book value land and buildings £2.2bn)
- Clothing negatively valued by stock market (MKS UK number 1 clothing retailer by market share, no 2 on line clothing retailer)
- **Normalised earnings estimate 27p would drive intrinsic value estimate of 300p**

Sources: Company Reports & Accounts, Redwheel, 5 September 2022

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Forecasts and estimates are based upon subjective assumptions about circumstances and events that may not yet have taken place and may never do so.

ITV is a global and diversified integrated producer broadcaster with two main businesses:

1. ITV Studios

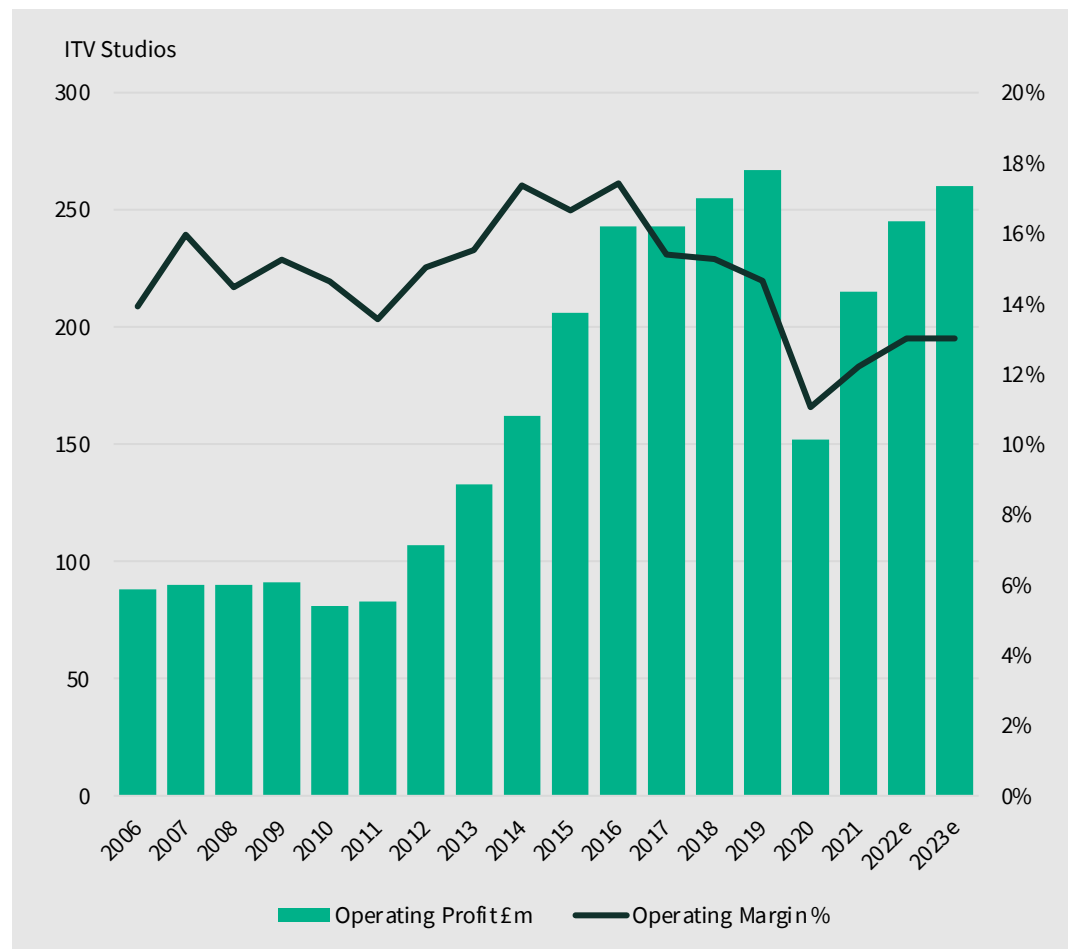
- One of the biggest global creators, producers and distributors in the world with 55% of ITV Studios total revenue from outside the UK
- Targets to grow by at least 5% p.a. to 2026 and margin to return to 13% to 15% range
- This would imply operating profit of £250m would drive estimated value of c80p per share

2. Media and Entertainment

- Media & Entertainment is made up of two parts – Streaming (ITV Hub, and subscription services, ITV Hub+ and BritBox UK) and Broadcast (ITV, ITV2, ITV3, ITV4, ITVBe, and CITV).
- Launch of ITVX in Q4 2022 which will integrate ITV Hub, ITV Hub+ and BritBox UK into one platform – ITVX which will offer both advert and subscription funded packages
- Investors disliked the costs associated with ITVX (£160m in content in 2023 plus £20m launch cost) but ignored the potential reward of doubling digital revenues to £750m by 2026.

Group

- Free cash flow estimated at £350-£400m per year hence 15% yield
- Normalised earnings estimate 10p would drive intrinsic value estimate of 140p per share



Source: Company Reports & Accounts, Redwheel, 5 September 2022

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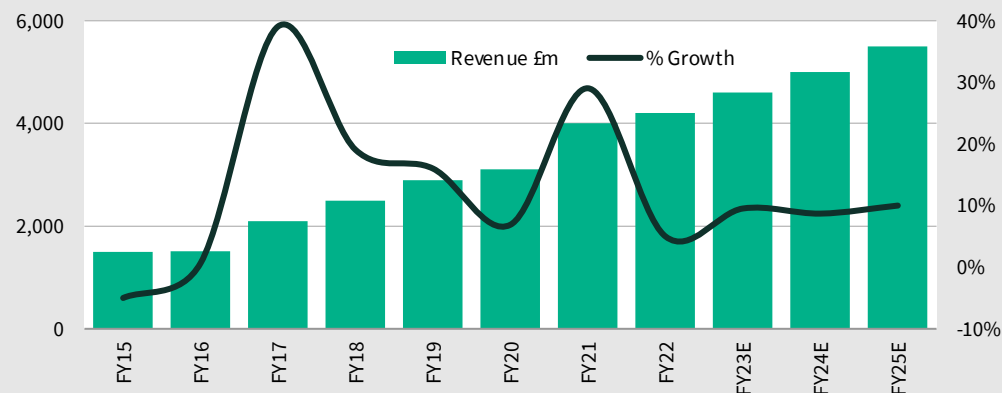
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International Distributions Services

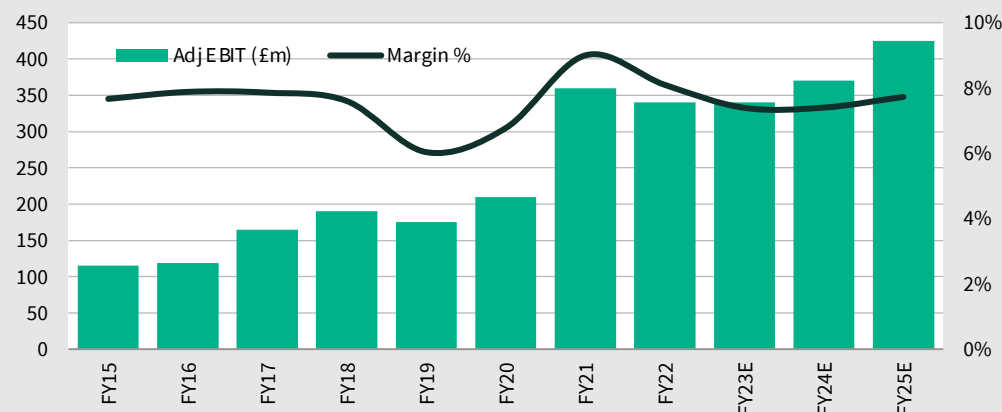
March 2023

- Investors focus on struggling UK business - ignore high quality Europe / US parcels business (GLS)
- GLS expected to generate £350m operating profit in current year – 12x multiple suggests value of over £4bn
- Group market capitalisation is £2.0bn, net cash on balance sheet – significant negative valuation placed on UK business
- UK business needs to transition from letters to parcels (where it has a 50% market share) but unions reluctant to agree to changes in working practices – labour relations are poor, UK expected to lose money in 22/23
- Management have said that they will not allow shareholder value erosion through GLS cross subsidisation of UK business – businesses have been separated
- At a 5% long run margin target, UK business would generate £500m operating profits – suggests around 60p of group earnings potential
- **Intrinsic value estimate of 800p**

GLS revenue (£m) and growth (%)



GLS adjusted EBIT (£m) and margin (%)



Source: Company Reports & Accounts, BofA Global Research, Redwheel, 5 September 2022

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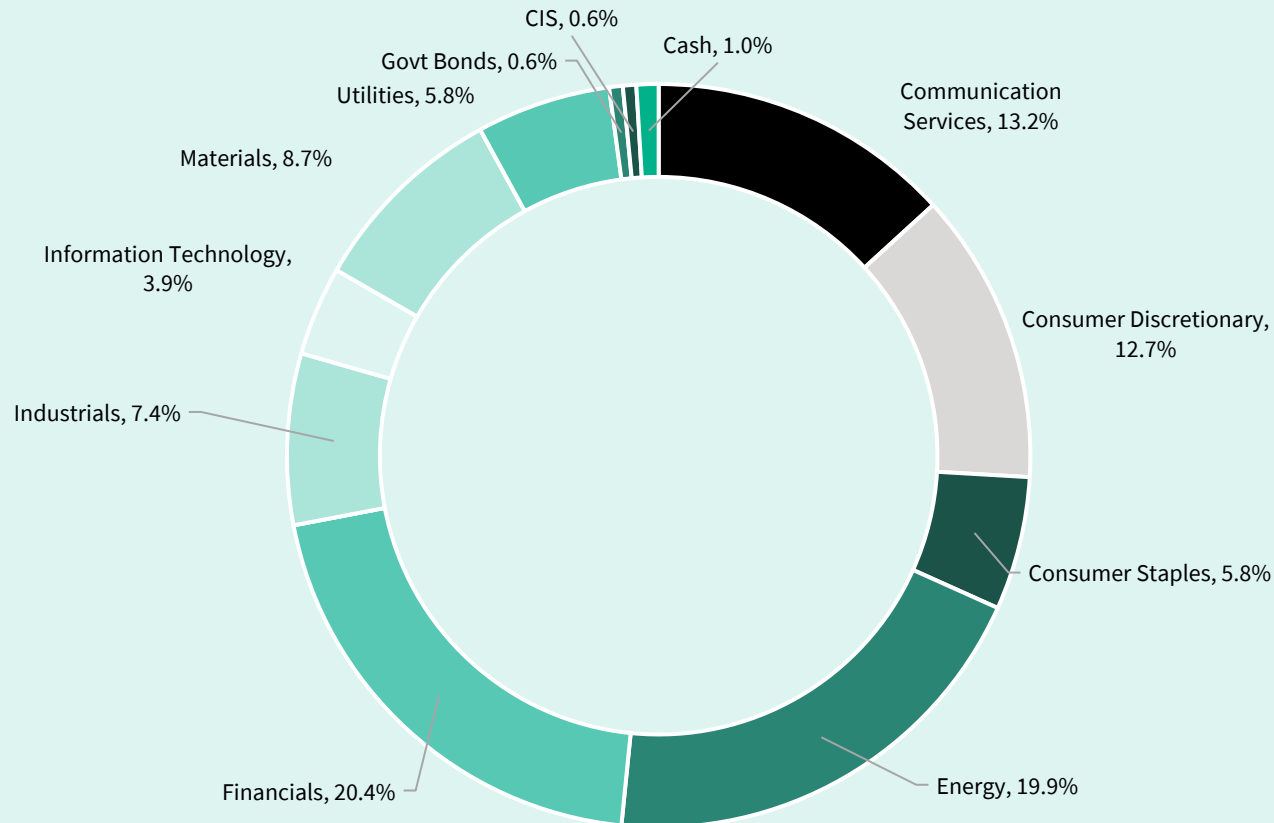
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The portfolio is well positioned in areas of the market offering the greatest value

Sector breakdown



Source: Sector breakdown: Redwheel. Data shown for the Temple Bar Investment Trust as at 28 February 2023.

Portfolio holdings are subject to change at any time without any notice. This information should not be construed as a recommendation to purchase or sell any security.

No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

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Top 10 positions

March 2023

Security	Weight (%)	2022 PE	2022 Dividend Yield
BP PLC	8.2%	6.1	3.9%
Shell PLC	7.0%	6.4	3.8%
Standard Chartered PLC	6.5%	9.1	1.8%
Centrica PLC	5.8%	5.7	3.4%
Marks & Spencer Group PLC	5.8%	9.8	1.9%
NatWest Group PLC	5.6%	6.4	6.5%
Pearson PLC	5.2%	18.5	2.3%
ITV PLC	4.9%	7.1	5.6%
TotalEnergies SE	4.7%	5.5	5.2%
WPP PLC	4.4%	10.3	3.9%

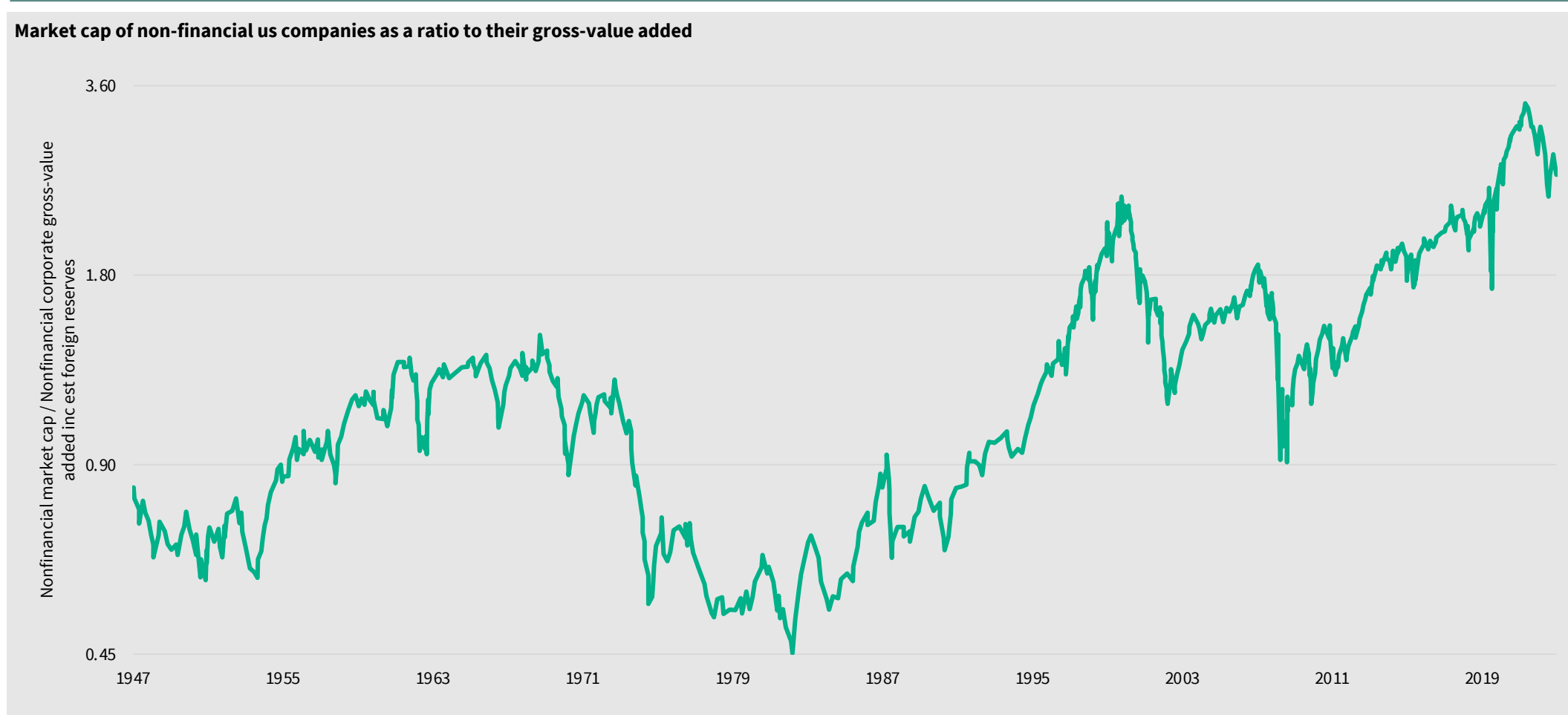
Source: Redwheel, Bloomberg, as at 28 February 2023.

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The current juncture – the US market is overvalued in a historical context



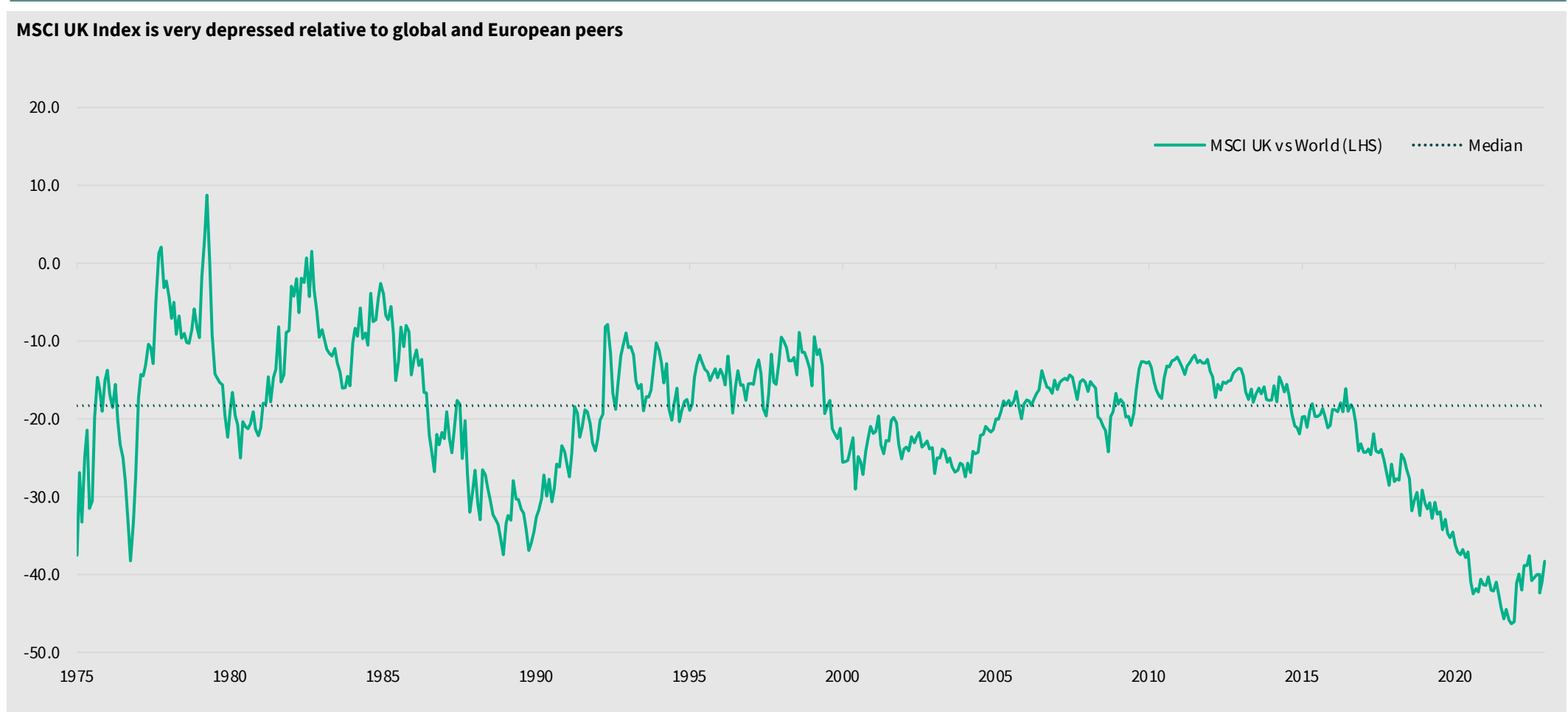
Hussman Strategic Advisors, 31 December 2022

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UK market is valued at a 40% discount

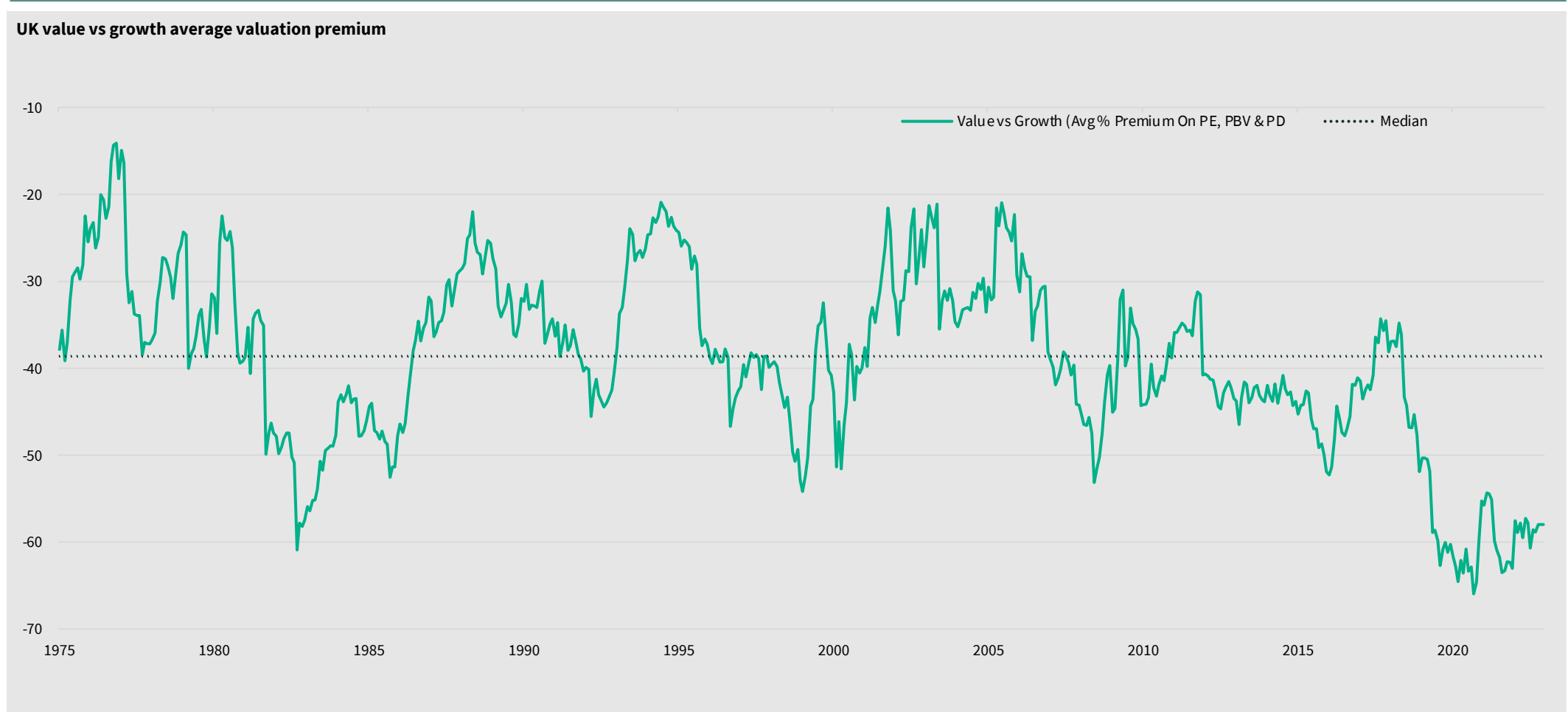
March 2023



Morgan Stanley, 31 December 2022

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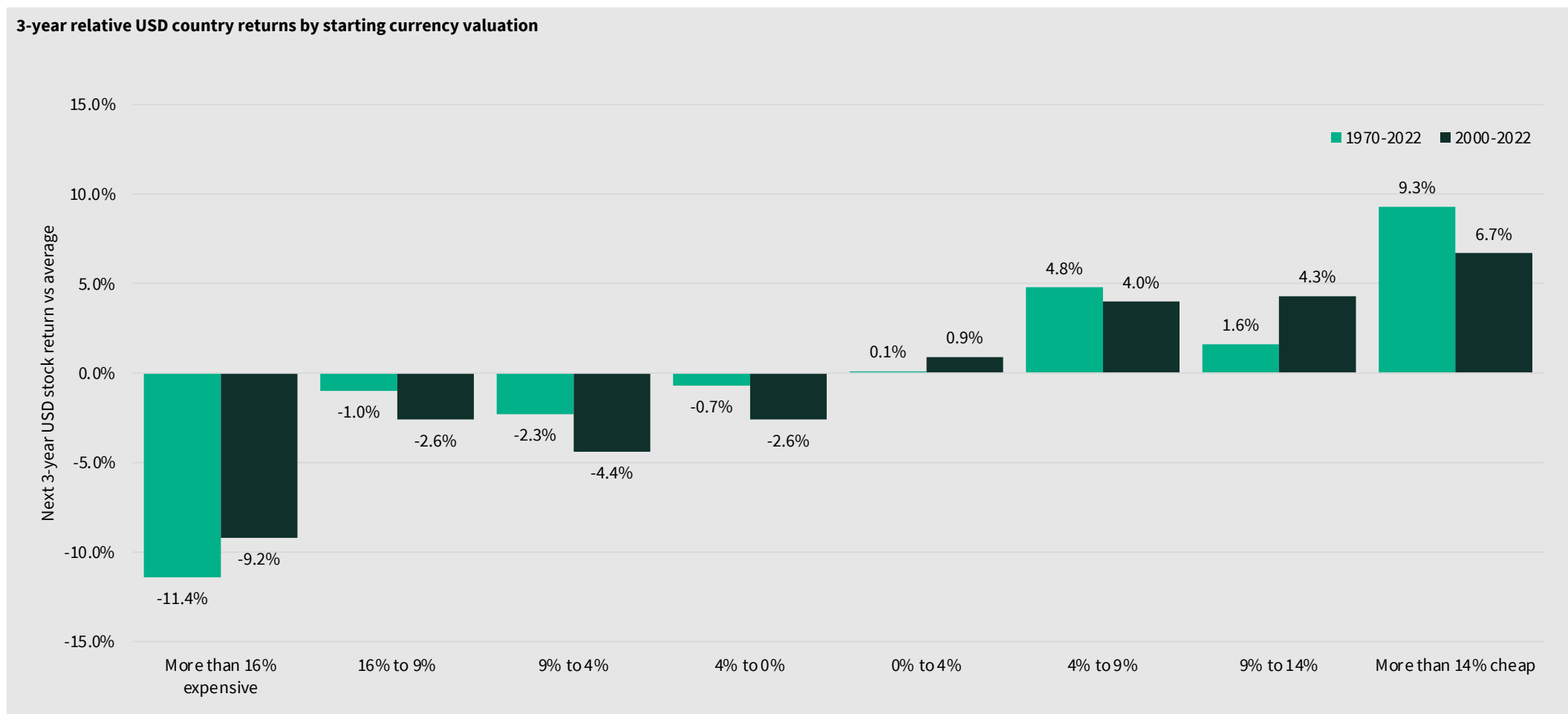
Value continues to be very cheap relative to growth



Morgan Stanley, 31 December 2022

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Countries with cheap currencies generally see their equity markets outperform



GMO, MSCI, 30 June 2022

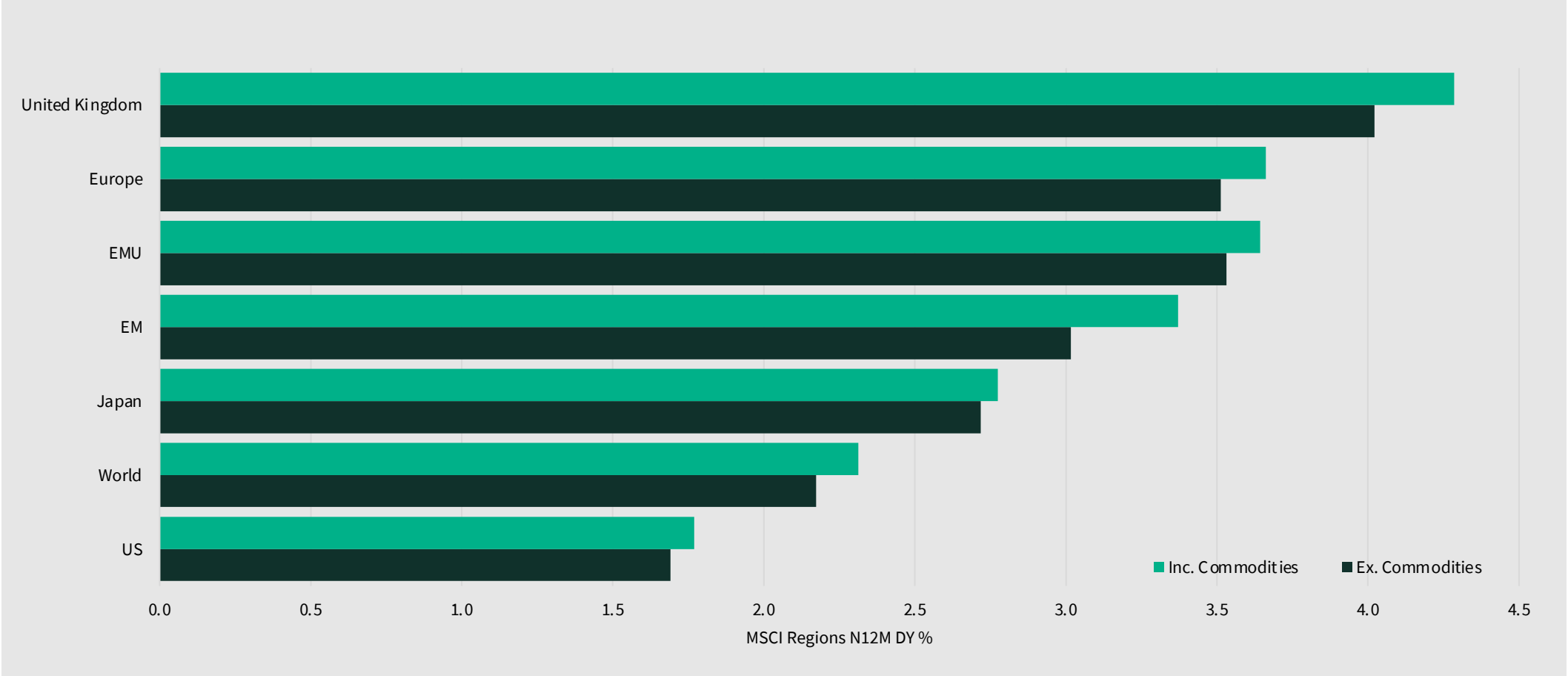
Ranges for bars were chosen to have roughly similar events in each in both 1970-2022 and 2000-2022 periods. Past performance is not a guide to the future. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested. No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment.

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The UK also offers a high dividend yield

March 2023

The UK's high dividend yield is not just a commodities story



Morgan Stanley, 31 December 2022

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