

Looking under the bonnet

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This week was the Annual General Meeting for one of our longest standing holdings, Finsbury Growth & Income Trust. The Trust's manager, Nick Train, presented what appeared to be a very simple set of slides but we feel the content was actually very interesting given the current concerns around inflation.

Nick Train's investment strategy is based on a few key principles. First, he looks for companies with strong fundamentals. He looks for companies with a long track record of success, a strong balance sheet, and a competitive edge in their respective markets. He also looks for companies with a good management team that is committed to creating value for shareholders.

Second, Train looks for companies into which he is confident to invest for the long-term. He believes that investing in companies with a long-term horizon will lead to better returns over the long run. He also looks for companies that are undervalued, as he believes that these companies have the potential to generate higher returns.

Third, he looks for companies with a strong dividend policy. He believes that dividends are a key indicator of a company's financial health and can be a good source of income for investors. He also looks for companies that are committed to paying out a consistent dividend over time.

Fourth, Nick Train looks for companies with a good track record of innovation. He believes that companies that are constantly innovating and adapting to changing market conditions will be better positioned to generate higher returns. He also looks for companies that are willing to invest in research and development, as he believes that this will lead to better products and services.

Finally, Nick Train looks for companies with a good corporate governance structure. He believes that companies with strong corporate governance are better positioned to generate higher returns for shareholders. He also looks for companies that are committed to creating value for all stakeholders, including employees, customers, and the environment.

This five-point investment approach may appear very sensible to most investors, but it is not practiced by many professional or indeed private investors. Too many professional investors are now driven by day-to-day market moves, and by their position relative to their peers from month to month. The proof that the Train approach works is, as always, in the results: the Finsbury Growth and Income Trust has delivered an annualised return of 9.2% p.a. compared to the broader UK stock market annualised return of 5.0% (data from 2001-2022).

Last year the Trust share price underperformed but the companies held by Train actually fared much better than the majority. 94% of the company shares held by the Trust, such as Unilever and Heineken, increased their dividends during the year whilst 85% of companies in the Trust bought shares using company cashflows. In a year when most investors fretted about the impact of high inflation on their portfolios, the better managed companies continued to grow their businesses and increase their prices to offset these effects. Only then could they afford to increase dividends and buy back their own shares. As inflation abates, these companies will be in a very strong position and their share prices will benefit as investors begin to recognise their strong financial position.

Their ability to maintain pricing power, profit margin, and cash flow are the primary reasons that the shares of successful companies provide a longer-term hedge against the pressures of inflation. Market pricing can vary from day to day, but

value contained within the businesses held within Finsbury will ultimately lead to higher prices for the shares.

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