

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

Report and Financial Statements  
For the year ended 31 March 2014

**THIS DOCUMENT IS IMPORTANT** and, if you are a holder of Ordinary shares requires your immediate attention. If you are in doubt as to what action to take you should seek advice from your own independent personal financial advisor. If you have sold or otherwise transferred all of your Ordinary shares in the capital of the Company you should send this document, and the Form of Proxy which accompanies it, immediately to the purchaser or transferee; or to the stockbroker, bank or other agent through whom the sale or transfer was effected.

**Retail investors advised by Independent Financial Advisors (IFAs)**

The Lindsell Train Investment Trust plc (the 'Company') advises that its Ordinary shares of 75p each (Shares) can be recommended to retail investors by Independent Financial Advisors (IFAs), as the Shares are exempt from restriction on distribution under the Financial Conduct Authority's rules on non-mainstream investment products. The Company further advises that it intends to continue to conduct its affairs in a manner which would enable IFAs to able recommend the Shares to retail investors for the foreseeable future.

The Company however would also point out to IFAs considering recommending Shares to clients that whilst the Shares may trade at a premium, potential new investors should be made aware that the Shares have traded at a discount for significant periods in the past. A fall in market sentiment accordingly carries a risk that any premium could be eliminated quickly and buyers at a premium might face a material capital loss.

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

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## Strategic Report

### Highlights for the Year

#### Performance comparisons 1 April 2013 – 31 March 2014

|  |       |
|--|-------|
| Middle market share price per Ordinary Share # | 16.0% |
| Net asset value per Ordinary Share *           | 13.1% |
| Benchmark †                                    | 4.3%  |
| MSCI World Index (Sterling)                    | 9.0%  |
| UK RPI Inflation (all items)                   | 2.5%  |

# Calculated on a total return basis

\* The net asset value at 31 March 2014 has been adjusted to include the dividend of £6.25 per Ordinary Share paid on 2 August 2013.

† The index of the annual average yield on the UK 2.5% Consolidated Loan Stock between the relevant dates.

## Objective of the Company

The objective of the Company is to maximise long-term total returns with a minimum objective to maintain the real purchasing power of Sterling capital as measured by the annual average yield on the UK 2.5% Consolidated Loan Stock.

## Investment Policy

The Investment Policy of the Company is to invest:

- in a wide range of financial assets including equities, unquoted equities, bonds, funds, cash and other financial investments globally with no limitations on the markets and sectors in which investment may be made, although there may be bias towards Sterling assets, consistent with a Sterling-dominated investment objective. The Directors expect that the flexibility implicit in these powers will assist in the achievement of the absolute returns that the investment objective requires;
- in Lindsell Train managed fund products, subject to Board approval, up to 25% of its gross assets;
- to retain a holding, currently a 24.42% interest, in Lindsell Train Limited in order to benefit from the growth of the business of the Company's Investment Manager.

#### *Diversification*

The Company expects to invest in a concentrated portfolio of securities with the number of equity investments averaging fifteen companies. The Company will not make investments for the purpose of exercising control or management and will not invest in securities of or lend to any one company (or other members of its group) more than 15% by value of its gross assets. The Company will not invest more than 15% of gross assets in other closed-ended investment funds.

#### *Gearing*

The Directors' policy is to permit borrowings up to 50% of the net asset value of the Company in order to enhance returns where and to the extent that this is considered appropriate.

#### *Dividends*

The Directors' policy is to pay annual dividends consistent with retaining the maximum permitted earnings in accordance with investment trust regulations.

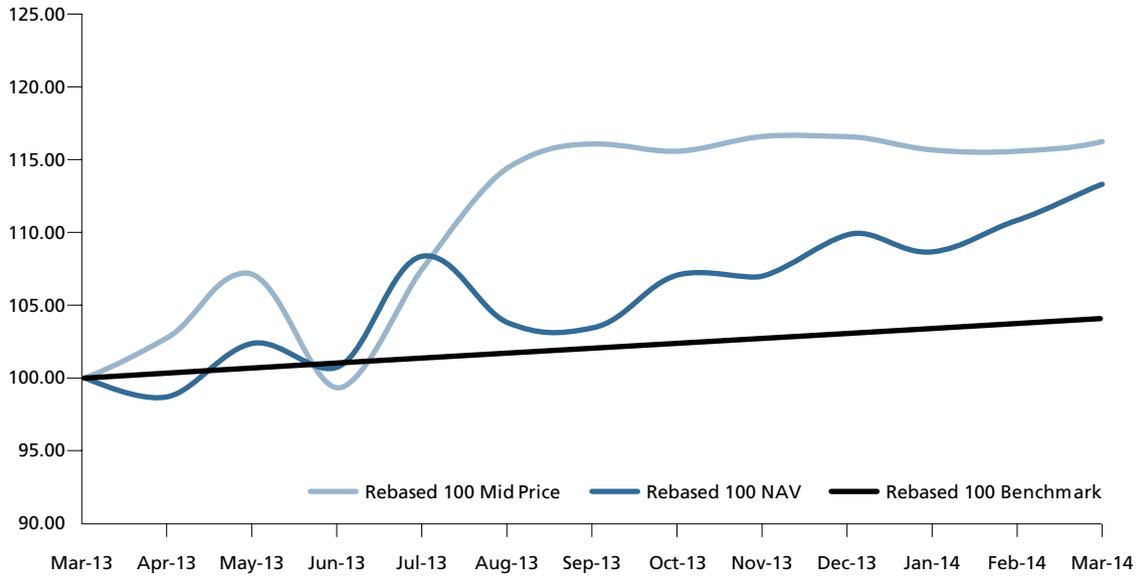
*The current composition of the portfolio, which may be changed at any time at the discretion of the Investment Manager within the confines of the policy stated above, is shown on pages 6 and 7.*

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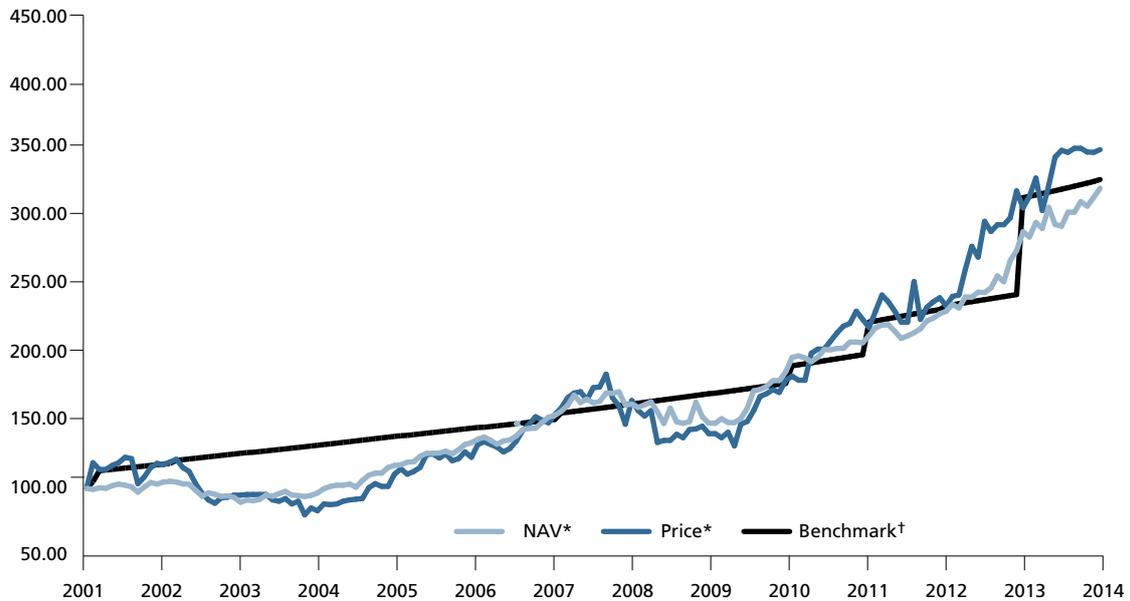
## Strategic Report

### Performance

Share price performance relative to the net asset value and benchmark for the year ended 31 March 2014 (based on total performance with reinvested net dividend)



Share price performance relative to the net asset value and benchmark† since inception on 22 January 2001 to 31 March 2014



\*The NAV and share price are unadjusted for dividends.

†The benchmark including adjustments to the high water mark to reflect the payment of performance fees.

Source: Bloomberg and Lindsell Train Limited

## Chairman's Statement

I am pleased to report that the Company's net asset value total return per share ('NAV') increased by 13.1% in the year to March 2014, well ahead of the Company's benchmark (up 4.3%) and better also than the performance of world stock markets as measured by the MSCI World Index total return in Sterling (up 9.0%). Although satisfactory, this performance was not enough to earn the Managers a performance fee as the basis for calculating the fee was changed last year to the lower of the NAV or the share price. This year's rise in the NAV to £321.51 exceeded last year's closing share price but failed to rise above this year's performance fee hurdle of £328.43. Nevertheless, as was also agreed last year, half of the proportion of the performance fee attributable to the expansion of the premium which was held back (£252,169) has now been paid to the Managers as they fulfilled the condition of the NAV ending the year above last year's closing value of £289.80 per share. This represented an extra contractual concession by the Manager to protect shareholders in the event of a poor year succeeding a particularly strong one while a much more shareholder friendly performance fee formula was adopted.

I should explain that there is a 2% difference between the Company's audited NAV of £321.51 per share with the published NAV per share of £315.34, which arose from the audited adjustment to the value of Lindsell Train Limited ("LTL") holdings. Since the inception of the Company the published NAV at the end of March reflected the value of LTL based on a valuation at the end of prior December, as the end March value of LTL usually takes a month to calculate. In this financial year, the difference in the value of LTL at the end March 2014 as compared to December 2013 proved to be £1,232,000, an amount that was considered material to the financial statements and as a consequence, an audit adjustment upwards of £6.17 per share was approved by the Board. In the future, it is the intention of the Board to update the value of LTL based on a valuation cycle on February, May, August and November so as to capture a more up to date fair value measurement at the balance sheet date.

Like last year the overwhelming contributor to performance was the performance of Lindsell Train Limited ('LTL') whose valuation rose 71% and whose dividends contributed 54% of the revenues of the Company. Such is the importance of this investment to the Company, at 24.0% of net assets today as compared to 15.6% at end March last year, that I would like to explain what I see as the associated potential and risks in more detail.

At its core, LTL has a simple and differentiated philosophy and approach to investment that is common to all its investment mandates. This approach has certainly proved successful in generating excess returns for investors over time, with current annualised excess performance (compared to the relevant benchmark) net of fees for the longest standing mandates in each strategy of: UK Equity +4.6%, Japan Equity +2.5% and Global Equity+ 2.9%. For this Company, the excess performance (excluding the contribution of the rise in value of the holding in LTL) versus the MSCI World Index in Sterling has been 4.1% p.a. since its establishment in January 2001. There are three key features of LTL's approach that differentiate it from most competitors. First, LTL only invests in companies that fit their exacting characteristics of durability, something that few quoted companies possess. Next, they run highly concentrated portfolios (as few as 10 but rarely more than 30 companies); and finally they make a strong feature of rarely trading which leads to unusually low levels of portfolio turnover and transaction related costs. We would also attribute their success to the framework they have maintained of a simple company with few moving parts and few distractions. This means that the founders, who are also the portfolio managers, are able to concentrate on the immediate investment challenges that face them, to the benefit of their clients.

## Strategic Report

### Chairman's Statement continued

Funds under management ('FUM') at the end of March 2014 in LTL's three strategies break down broadly as: UK £2.5bn, Global £1bn and Japan £200m. Each product has at least one LTL badged pooled fund, with these funds making up 37% of the total, a figure the company aspires to grow. Following the retail distribution review investors can access these funds either via platforms or directly, whilst incurring relatively low annual management charges. The limit of the size of assets in each product is governed by the Manager's guideline policy of never wanting to own more than 15% of the voting shares of any investment. But perhaps more importantly at this stage, LTL aims to limit the number of client portfolios it manages to preserve the simplicity of its business. Currently it manages 17 (defining a pooled fund as a single client) and has recently stated that it is unlikely to increase the number of segregated UK Equity accounts, although it is still keen to grow the UK pooled fund. Overall, the company is confident that it still has significant opportunity to grow each product area (for example, it is increasing its marketing efforts in North America).

Last year (the year to January 2014 – LTL's year end) LTL generated £17m in revenues of which 20% was accounted for by performance fees. Performance fees have on average made up 15% of revenues over the last five years. Pre-tax profit margins were 60% with staff costs representing 38% of revenues. Net new FUM raised last year amounted to £426m and the year before to January 2013 £296m. Shareholder's funds amounted to £7.6m with cash representing £6.6m. LTL has no debt.

The Directors' primary concern is that this idiosyncratic if highly successful approach to investment, which has been developed and executed by Nick Train and Michael Lindsell alone over the 24 years they have worked together may not be transferable and in any event is subject to material key man risk. As for the former, in the last few years LTL have recruited new investment staff (James Bullock and Madeline Wright), who have been moulded around the same core philosophy. Yet there is no certainty that when Nick and Mike retire their skills will be perpetuated. Given the commitment of the founders to the business and their current ages, this concern should not arise over the next ten or possibly more years during which time further progress in increasing the sustainability of the business should be implemented. Set against this concern current business prospects look promising with a strong record of performance and an approach that clients understand and support. Here lies the Directors' dilemma in valuing LTL.

The current formula values LTL at the end of March 2014 on 7.7x its earnings and a 7.3% historic dividend yield. To some the multiple of earnings may look low and the dividend yield high especially for an asset which has exhibited such strong growth and high margins but the Directors believe that this valuation balances the prospects with the risks as they appear today including the elevated levels of key man risk in what is a 24.42% minority investment.

The rest of the portfolio, other than the sale of Marston's, remained largely unchanged, although weightings have been influenced by market movements, especially the greater proportion of the assets accounted for by LTL. Pearson experienced a second year of disappointing share price performance which inspired further purchases to take advantage of its weak share price.

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The Directors propose an unchanged ordinary dividend of £5.63, continuing the practice of maintaining the ordinary dividend when there is a temporary fall in profits. This year the combination of unchanged income (due partly to the timing of dividends receivable) and rising costs has resulted in what we judge to be just such a circumstance. In addition the Directors propose an increase in the special dividend to £1.13 resulting from a the higher proportion of the Company's income earned from LTL performance fees compared to the previous year. This results in a rise in the overall dividend to £6.76 per share, up 8.2%

I reiterate the cautionary comments I made to shareholders in last year's annual report, first about the risk to the NAV from a sharp fall in markets given the size of holding in LTL and second to caution potential new shareholders to think carefully before buying the Company's shares at a premium to NAV, which as I write is at 6%. This has fallen from higher levels late in 2013 but it is worth pointing out that if the investment in LTL continues to grow in importance above 25% of the NAV the share price of the Company will increasingly be determined by investors views on the value of that asset and less by conventional reference to the NAV.

**D L Adamson**

Chairman

23 June 2014

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## Strategic Report

### Portfolio Holdings at 31 March 2014

(All Ordinary Shares unless otherwise stated)

| Holding    | Security                                     | Fair value<br>£'000 | % of<br>net assets | Look-through<br>basis % of<br>net assets <sup>†</sup> |
|------------|--|---------------------|--------------------|---|
| 651        | Lindsell Train Limited                       | 15,430              | 24.00              | 24.00   |
| 1,263,393  | Barr (AG)                                    | 7,707               | 11.99              | 12.17   |
| 318,000    | Diageo                                       | 5,916               | 9.20               | 9.85  |
| 161,000    | Unilever                                     | 4,123               | 6.41               | 7.17  |
| 6,555,661  | Lindsell Train Japanese Equity Fund – B      | 4,077               | 6.34               | 2.40 <sup>++</sup>                                    |
| 2,522,066  | Lindsell Train Global Equity Fund – B        | 3,784               | 5.88               | 2.71  |
| 73,000     | Heineken                                     | 2,828               | 4.40               | 5.08  |
| 245,500    | Pearson                                      | 2,607               | 4.05               | 4.76  |
| 36,000     | Nintendo                                     | 2,571               | 4.00               | 4.87  |
| 123,750    | London Stock Exchange                        | 2,437               | 3.79               | 4.28  |
| 252,500    | Reed Elsevier                                | 2,313               | 3.60               | 4.09  |
| 66,400     | eBay   | 2,200               | 3.42               | 3.69  |
| 420,000    | Finsbury Growth & Income Trust               | 2,161               | 3.36               | 1.55  |
| £3,350,000 | 2.5% Consolidated Loan Stock                 | 1,939               | 3.02               | 3.02  |
| 76,552     | Mondelez International                       | 1,586               | 2.47               | 2.77  |
| £2,500,000 | Treasury 2.5%                                | 1,475               | 2.29               | 2.29  |
| 25,517     | Kraft Foods                                  | 858                 | 1.33               | 1.49  |
|            | <b>Total Investments</b>                     | <b>64,012</b>       | <b>99.55</b>       | <b>96.19</b>  |
| (25)       | Nikkei 225 Index 12-Jun-14 Future            | 41                  | 0.06               | 0.06  |
|            | <b>Net current assets</b>                    | <b>249</b>          | <b>0.39</b>        | <b>3.75<sup>++</sup></b>                              |
|            | <b>Total assets less current liabilities</b> | <b>64,302</b>       | <b>100.00</b>      | <b>100.00</b>   |

<sup>†</sup> Look-through basis: This adjusts the percentages held in each security upwards by the amount held by Lindsell Train managed funds and adjusts the fund's holdings downwards to account for the overlap. It provides shareholders with a measure of stock specific risk by amalgamating the direct holdings of the Company with the indirect holdings held within the Lindsell Train funds.

<sup>++</sup> Adjusted for the Nikkei Futures hedge against Japanese Equity Fund.

### Leverage

As well as the direct borrowings of the Company, funds managed by Lindsell Train Limited also have powers to borrow. We detail below the balance sheet positions of these funds at 31 March 2014:

| Fund                                | Net<br>equity<br>exposure |
|-------------------------------------|---------------------------|
| Lindsell Train Global Equity Fund   | 98.10%                    |
| Lindsell Train Japanese Equity Fund | 96.32%                    |
| Finsbury Growth & Income Trust      | 104.50%                   |

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## Analysis of Investment Portfolio at 31 March 2014

### Breakdown by geography (look-through basis)^

| Long-term fixed interest | 2014                  | 2013           |
|--------------------------|-----------------------|----------------|
| UK                       | <u>5.31%</u>          | <u>6.36%</u>   |
|                          | <b>5.31%</b>          | 6.36%          |
| <b>Equities</b>          |                       |                |
| UK                       | <b>70.58%</b>         | 67.69%         |
| USA                      | <b>7.95%</b>          | 9.03%          |
| Japan                    | <b>7.27%+</b>         | 8.16%          |
| Europe                   | <u><b>5.08%</b></u>   | <u>6.08%</u>   |
|                          | <b>90.88%</b>         | 90.96%         |
| <b>Cash</b>              |                       |                |
| USA                      | <b>6.77%</b>          | 8.19%          |
| Japan                    | <b>2.97%+</b>         | 3.97%          |
| Europe                   | <b>(1.05)%</b>        | (0.79%)        |
| UK                       | <u><b>(4.88)%</b></u> | <u>(8.69%)</u> |
|                          | <b>3.81%</b>          | 2.68%          |
|                          | <u><b>100.00%</b></u> | <u>100.00%</u> |

### Breakdown by currency (look-through basis)^

|      |                       |                |
|------|-----------------------|----------------|
| £    | <b>71.01%</b>         | 65.36%         |
| US\$ | <b>14.72%</b>         | 17.22%         |
| Yen  | <b>10.24%</b>         | 12.13%         |
| Euro | <u><b>4.03%</b></u>   | <u>5.29%</u>   |
|      | <u><b>100.00%</b></u> | <u>100.00%</u> |

^ Look-through basis: This adjusts the percentages held in each asset class, country or currency by the amount held by Lindsell Train managed funds. It provides shareholders with a more accurate measure of country and currency exposure by aggregating the direct holdings of the Company with the indirect holdings held by the Lindsell Train funds.

+ Adjusted for the underlying exposure of the Nikkei 225 Futures position.

### Look-Through Sector Exposure

|                           | Direct                | Look-through basis    |
|---------------------------|-----------------------|-----------------------|
| Consumer Franchise/Brands | <b>35.80%</b>         | <b>41.54%</b>         |
| Financials                | <b>27.79%</b>         | <b>29.27%</b>         |
| Media                     | <b>15.07%</b>         | <b>19.13%</b>         |
| Healthcare                | <b>0.00%</b>          | <b>0.69%</b>          |
| Other                     | <b>0.00%</b>          | <b>0.13%</b>          |
| Bonds                     | <b>5.31%</b>          | <b>5.30%</b>          |
| Funds                     | <b>15.58%</b>         | <b>0.00%</b>          |
| Futures (Notional)        | <b>0.06%</b>          | <b>(3.36)%</b>        |
| Cash & Equivalent         | <u><b>0.39%</b></u>   | <u><b>7.30%</b></u>   |
| <b>Total</b>              | <u><b>100.00%</b></u> | <u><b>100.00%</b></u> |

## Strategic Report

### Investment Manager's Report year ended 31 March 2014

Investment markets always give one something to think about and in no particular order here are some of the issues relating to the quoted part of your portfolio that give us pause for thought at the moment.

First, looking back at the performance of your Company and, indeed, Lindsell Train's other mandates since 2008 we have no doubt that it benefited from a "flight to quality". The aftermath of the Lehman implosion evidently increased investor aversion to risk and speculative assets and encouraged a corresponding preference for predictable, dependable ones. Given that our investment approach is based on a strategic commitment to own only "quality" this has meant we have enjoyed a 5-year plus tailwind relative to more diversified portfolios.

Although we stick to the proposition that owning the equity of great companies will work for us in the long run, we know that there are periods when even great companies tread water, or when investor appetite for "concept" or "value" or "cyclical" stocks predominates. For example, the last really nasty period of underperformance for us was through 2007 and into early 2008, when we chose to sit out the big move in commodity company shares – cyclicals. We have no doubt that there will be other such episodes and note just over the last year that some of our "quality" names have stagnated or subsided, notably Diageo, down 10%, Heineken down 6% and Unilever down 8%. A. G. Barr was a welcome exception, gaining another 12% over the year, but we can't readily refute the arguments that say this sort of company is due a hiatus. This might hurt, in relative terms at least, but it is important shareholders understand that we have no intention of taking any mitigating action. We will stick with our "dependables" – unless their businesses cease to be so.

In addition to "quality" another structural tilt in your portfolio is toward mid and small-cap stocks. The biggest company in the portfolio, as measured by its weighting in the MSCI World Equity Index is Diageo, at \$80bn. Unilever comes next, at c.\$40bn (although this is because MSCI splits the Dutch and UK listings). Of course these are not small companies – but they are well-down the size rankings; Diageo at number 74 for example. Meanwhile we have important holdings in what some investors would regard as small companies – certainly compared to an Apple at \$552bn or HSBC at \$432bn. A.G. Barr, our smallest, is "only" capitalised at \$1.2bn, but even Pearson at \$15bn and Nintendo at \$16bn are not big companies by global standards. There's nothing wrong with this, of course, but it reminds us how differently your portfolio can perform relative to the mainstream indices. And if one or more of the mega-cap sectors were to have a big rerating – say Oil or Pharmaceutical (this especially after the Pfizer move on fellow behemoth Astra Zeneca) – your Company could lag.

Another risk for the Company lies in its exposure to technology. We are invested in a number of companies chosen for the participation they promise to the growth of Internet and digital media. We've also judged these same companies to offer durable brand or franchise characteristics, similar to those of our holdings in the consumer sectors. It has to be admitted, though, that our record has been far from perfect in this endeavour. eBay and Reed have done well, albeit the former had a dull last year in share price terms. Elsewhere, over time we have made money out of the investment in Pearson, but this share dropped 10% over our financial year, as other

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investors worry that the Internet, or strictly, the digitisation of education, is more of a threat than opportunity for it. As for Nintendo, although the shares gained 22% in local currency over the reporting period, there remains scepticism that it can engage a new generation of gamers.

Rather than debate the pros and cons for these holdings – and we think there are compelling reasons to hold and add to them all - we reiterate our opinion that identifying winners from the digital revolution and avoiding its losers is the most important challenge stock pickers face today. If you are not worried about the impact of technology change on all your investments: you should be.

A final perspective on the portfolio relates to India, which has become an increasingly important geography for us. Diageo is in the process of adding a further £1.3bn to its controlling interest in India's United Spirits (itself the second largest spirits company in the world by volume), while Heineken, Mondelez (via Cadbury) and Unilever all offer substantive exposure to the sub-continent. We are no geopolitical experts, but note the Indian stock market has recently made convincing new highs, up c.20% in 2014 alone – this on the election victory of Modi's BJP party. Emerging Markets as a class are out of favour with investors currently, but this country specific move is a reminder that the theme remains an economic and stock market opportunity that will come again.

**N Train**  
Investment Manager  
Lindsell Train Limited  
23 June 2014

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## Strategic Report

### Company Profile

#### Business Review

The Company's business model is detailed in the Investment Objective and Policy set out on page 1. Reviews of the year and commentary on the future outlook are presented in the Chairman's Statement on pages 3 to 5 and the Investment Manager's Report on pages 8 and 9.

#### Key Performance Indicators

Total return and net asset value are measured against the benchmark and provide the key performance indicators for assessing the development and performance of the business. The Company does not envisage changing its objective or investment policy, which constitute its Business Model, or its management for the foreseeable future.

#### Principal Data

|   | 31 March 2014  | 31 March 2013 | % change |
|---|----------------|---------------|----------|
| Shareholders' funds (£'000)                 | <b>64,302</b>  | 57,960        | 10.9     |
| Basic net asset value per Ordinary share    | <b>£321.51</b> | £289.80       | 10.9     |
| Premium                                     | <b>9.02%</b>   | 6.11%         |          |
| Closing mid-market price per Ordinary share | <b>£350.50</b> | £307.50       | 14.0     |
| Recommended dividends per Ordinary share    | <b>£6.76</b>   | £6.25         | 8.2      |
| Dividend yield                              | <b>1.93%</b>   | 2.03%         |          |
| Ongoing Charges                             | <b>1.15%</b>   | 1.11%         |          |
| Earnings per Ordinary share – basic         | <b>£37.96</b>  | £62.88        |          |
| Revenue                                     | <b>£6.75</b>   | £7.41         |          |
| Capital                                     | <b>£31.21</b>  | £55.47        |          |
| Net asset value total return                |                |               | 13.1     |
| Share price total return                    |                |               | 16.0     |
| Benchmark*                                  |                |               | 4.3      |

\* The index of the annual average yield on the UK 2.5% Consolidated Loan Stock between the relevant dates.

#### Five Year Historical Record

| To 31 March | Gross income<br>£'000 | Net revenue available for Ordinary shares<br>£'000 | Dividends on Ordinary shares<br>Cost<br>£'000 | Dividends on Ordinary shares<br>Rate<br>(p) | Basic net asset value per Ordinary share<br>(£) | Mid-market price per Ordinary share<br>(£) |
|-------------|-----------------------|--|---|---|---|--|
| 2010        | 1,324                 | 645  | 730   | 365   | 195.72  | £183.00                                    |
| 2011        | 1,287                 | 760  | 730   | 365   | 212.92  | £219.00                                    |
| 2012        | 1,535                 | 1,047  | 830   | 415   | 231.06  | £235.00                                    |
| 2013        | 2,078                 | 1,483  | 1,250   | 625   | 289.80  | £307.50                                    |
| <b>2014</b> | <b>2,098</b>          | <b>1,351</b>                                       | <b>1,352</b>                                  | <b>676</b>                                  | <b>321.51</b>                                   | <b>£350.50</b>                             |

#### Ongoing Charges

The ongoing charges for the year ended 31 March 2014 amounted to £697,000 (2013: £561,000) equivalent to 1.15% (2013: 1.11%), based on undiluted net assets of £60,619,000 (2013: £50,578,000).

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## Principal Risks

The principal financial risks and how these are managed are discussed in note 18 to the financial statements on pages 53 to 58. Non-financial risks to which the Company is exposed include market, economic and regulatory factors, and loss of services provided by third party suppliers. These risks are considered at each Board meeting and the Investment Manager also closely monitors them. In the event that any factor poses a potential risk to the Company the Board will be alerted immediately so that it can consider what action (if any) should be taken.

The Company is an investment trust and to generate returns for shareholders it may invest in a range of different companies and sectors. Investors should be aware of certain factors which apply to the Company:

- The investment approach of the Company is expected to involve investing in a concentrated portfolio of securities (averaging around 15 companies). When compared to most other investment trusts the number of investments is relatively few.
- Currently, the Company retains an 24.42% holding in Lindsell Train Limited and has benefited over the years from the growth of the Company's Investment Manager. There is no guarantee that this growth will continue at the same pace or at all.
- The Company will not invest more than 15% of gross assets in other closed-ended investment funds.
- The Investment Manager will invest in securities on the Company's behalf that it believes to be undervalued. There is no guarantee that the perceived value of the underlying investments will be released in any expected timeframe or at all.
- The Company's portfolio is constructed in manner that does not seek to mirror any stock market index. Consequently there will be periods where performance will be quite unlike that of any index or the benchmark and there is no guarantee that this divergence will be to the Company's advantage.
- Market liquidity in the shares of investment trusts is frequently inferior to the market liquidity of shares issued by larger companies traded on the London Stock Exchange. The Company's Ordinary shares are traded on the London Stock Exchange Main Market but it is possible that there may not always be a liquid market in them and investors may have difficulty in selling.

## Economic Conditions

Changes in economic conditions, including, for example, interest rates, rates of inflation, industry conditions, competition, political and diplomatic events and trends and tax legislation, can substantially and adversely or favourably affect the Company's prospects and the value of the Company's portfolio.

## Employees, Social, Human Rights and Environmental Matters

The principal activity of the Company is to invest in a broad range of investments in line with the Investment Policy set out on page 1. The Company has no employees and accordingly it has no direct social, human rights or environmental impact from its operations. It does not hold sufficiently large proportions of investee companies to be able to influence their social or environmental footprints.

## Strategic Report

### Company Profile continued

#### **Approval Statement**

The Strategic Report of the Company, comprising pages 1 to 12 of this Report and Financial Statements, has been approved by the Board and signed on its behalf by:

For and on behalf of the Board

**Donald Adamson**

Chairman

23 June 2014

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## Governance

### Directors

**Donald Adamson\*^†**, Chairman, has over 25 years' experience of fund management, corporate finance and private equity in Edinburgh, London and Jersey. He serves as director or chairman of a number of listed and privately-held investment companies. He was awarded an M.A. in economics and history from Oxford University and carried out post-graduate research at Nuffield College, Oxford.

**Dominic Caldecott\*^†**, worked at Morgan Stanley Investment Management Limited, London, from 1986 to 2006, specialising in the management of overseas equity portfolios for U.S. institutions. He was a managing director of Morgan Stanley from 1992 until 2006. Prior to Morgan Stanley he worked for GT Management in Hong Kong and Tokyo as an analyst and portfolio manager of Japanese equities. He has an M.A. in law from Oxford University.

**Rory Landman\*^†**, is the Senior Bursar of Trinity College, Cambridge, and was previously a senior director and the head of global emerging markets at Baring Asset Management. He was a founding partner of the Nevsky emerging market equities team at Thames River Capital. He has an M.A. in Law from Cambridge University.

**Michael Lindsell**, joined the investment department of Lazard Brothers in 1982 after obtaining a BSc (Hons) degree in zoology from Bristol University. In 1985 he moved to Scimitar Asset Management in Hong Kong where he ran Pacific and Japanese mandates before specialising in Japan, then Warburg Asset Management in London in 1989 where he was a director and head of Mercury Asset Management's Japanese fund management division. In 1992 he joined GT Management's Tokyo office where he held the post of chief investment officer with responsibility for GT's Japanese funds, and global funds sourced out of Japan. He returned to the UK in 1997 and following the acquisition of GT by INVESCO in 1998, he was appointed head of the combined global product team. He left INVESCO to set up Lindsell Train Limited in 1999.

**Michael Mackenzie\*^†**, is a specialist in private equity investments focusing primarily on the wine industry. His career in financial services started in 1978 with Kleinwort Benson Limited in London and then in Hong Kong. In 1986 he joined James Capel (Far East) Limited as a director before becoming executive director of Wardley James Capel (Far East) Limited in 1991. In 1994 he was appointed a director of Jefferies Pacific Limited, a position that he held for three years. He has an M.A. in Modern Languages from Oxford University.

All Directors are non-executive.

\* Independent

^ Audit Committee member

† Management Engagement Committee member

*D Adamson and M Mackenzie were appointed on 29 November 2000. D Caldecott was appointed on 23 May 2006. M Lindsell was appointed on 13 July 2006 and R Landman was appointed on 20 July 2011.*

### Investment Manager

Lindsell Train Limited acts as discretionary Investment Manager of the Company's assets.

### Administrator and Secretary

Phoenix Administration Services Limited is the Administrator and Corporate Secretary of the Company.

## Governance

### Report of the Directors

The Directors present their report together with the audited financial statements of the Company for the year ended 31 March 2014.

A number of disclosures previously incorporated in the Directors' Report are now included in the Strategic Report. These include: Objective of the Company; Investment Policies and Risk Management; Investment Restrictions and Guidelines; Performance; Total Return; Principal Risks; Gender Representation; Employee, Social, Community and Human Rights Issues; and Future Developments.

#### **Status**

The Company is an investment company as defined in Section 833 of the Companies Act 2006.

HM Revenue & Customs' approval as an investment trust has been received for all financial years to 31 March 2012, but this does not preclude a subsequent enquiry into a tax return from being opened.

The Company has been confirmed by HM Revenue & Customs as having approved investment trust status under the Investment Trusts (Approved Company) (Tax) Regulations 2011 for financial periods commencing from 1 April 2012, subject to it continuing to comply with the Regulations. The Directors conduct the affairs of the Company with a view to maintaining this approved investment trust status in order to preserve the Company's exemption from UK capital gains tax.

#### **Results and Dividend**

The revenue return for the financial year ended 31 March 2014 after taxation amounted to £1,351,000 (2013: £1,483,000). A final dividend of 676p per Ordinary Share (2013: 625p) is proposed for the year ended 31 March 2014 and if approved by Shareholders at the forthcoming Annual General Meeting will be paid on 12 September 2014 to Shareholders on the register at close of business on 22 August 2014 (ex-dividend 20 August 2014).

#### **Directors**

Details of the Directors of the Company who served during the year are set out on page 13. Particulars of their remuneration are given on pages 28 to 33.

#### **Powers of the Directors**

The powers of the Directors are contained in the Company's Articles of Association, which are publicly available at Companies House. Subject to the provisions of the Companies Acts and the Company's Articles, the Directors may exercise all powers within their scope to manage the business of the Company and may delegate any of those powers to a Director, Committee or Agent.

The Directors may exercise the Company's authority to borrow, to pay fees, expenses and additional remuneration or salary for special duties undertaken by any Director, and vote the shares of portfolio companies.

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## **Directors' Indemnification and Insurance**

Articles 165 and 166 of the Company's Articles of Association provide that, insofar as permitted by law, every Director shall be indemnified by the Company against all costs, charges, expenses, losses or liabilities incurred in the execution and discharge of the Directors' duties, powers or office. The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

## **Directors' Interests**

The interests of the Directors, and connected persons, in the Ordinary Shares of the Company are shown on page 33.

## **Disclosure of Interests**

Save as disclosed below and in note 6 to the financial statements, no Director was a party to, or had an interest in, any contract or arrangement with the Company.

Michael Lindsell is a director of the Investment Manager, Lindsell Train Limited, and the beneficial holder of 36.5% of the issued share capital of that Company. He is actively involved in the management of the Lindsell Train Global Equity Fund and the Lindsell Train Japanese Equity Fund, in which he, the Company, Mr Adamson and Mr Landman have investments. He is also actively involved in the management of Finsbury Growth & Income Trust PLC in which he and the Company have an investment. Details of the Company's investments in these funds can be found on page 6.

All of the Directors are non-executive and no Director had a contract of service with the Company at any time during the year.

## **Waiver of Emoluments**

Because of his connection with the Investment Manager, Michael Lindsell has waived his entitlement to fees as a Director of the Company.

## **Investment Manager**

The Investment Manager, Lindsell Train Limited, is engaged under the terms of a contract dated 1 September 2009, details of which are given in note 6 to the financial statements, terminable on twelve months' notice by either party. During the year the Directors reviewed the performance of the Investment Manager and consider that the continued engagement of Lindsell Train Limited under the existing terms is in the best interests of the Company and Shareholders.

Being an employee and shareholder of the Investment Manager, Michael Lindsell did not participate in the review.

In addition to the day to day management of investments, the Investment Manager advises the Board on liquidity and borrowings, and liaises with major Shareholders. The Investment Manager has a stated policy on stewardship and engagement with investee companies, which the Board has reviewed and endorses, and provides verbal reports to the Board where any concerns or issues have been raised.

## Governance

### Report of the Directors *continued*

#### Administration and Secretarial Agreement

Accounting, company secretarial and administrative services are provided by Phoenix Administration Services Limited ("Phoenix") pursuant to an agreement dated 21 December 2000. The agreement is terminable by either party on not less than three months' notice. Details of the fees paid to Phoenix are given in note 4 to the financial statements. The services provided by Phoenix were also reviewed during the year and the Board considered it to be in the best interests of the Company to continue Phoenix's appointment under the existing terms.

#### Other third party service providers

In addition to the Investment Manager and Administrator the Company has engaged Capita Registrars to maintain the share register of the Company and Northern Trust Company London Office ("Northern Trust") as the Company's custodian. Northern Trust also provide a £5m short-term borrowing facility to the Company. The agreements for these services were only entered into after careful consideration of their terms, and their cost-effectiveness for the Company.

#### Substantial Shareholdings

At the below dates the Company had been notified and/or become aware of the following holdings representing 3% or greater of the Ordinary Share capital of the Company:

|  | <i>No. of Shares at<br/>31 March 2014</i> | <i>No. of Shares at<br/>22 May 2014</i> | <i>% of issued<br/>capital</i> |
|--|---|---|--------------------------------|
| Brewin Dolphin                                     | 18,939                                    | 18,766                                  | 9.47                           |
| Rathbone Investment Management Ltd                 | 16,134                                    | 15,243                                  | 8.07                           |
| Hargreaves Lansdown Asset Management Ltd           | 12,744                                    | 12,807                                  | 6.37                           |
| Mr Nicholas Train                                  | 11,930                                    | 11,930                                  | 5.79                           |
| Alliance Trust plc                                 | 11,573                                    | 12,658                                  | 5.97                           |
| Mr M Lindsell (including non-beneficial interests) | 10,755                                    | 10,755                                  | 5.38                           |
| Finsbury Growth & Income Trust PLC                 | 10,000                                    | 10,000                                  | 5.00                           |
| Mr D Caldecott                                     | 8,250                                     | 8,250                                   | 4.13                           |
| Troy Asset Management Limited                      | 6,619                                     | 6,619                                   | 3.31                           |

#### Share Capital

At 31 March 2014 and 31 March 2013, and up to the date of this report, the Company had an authorised and issued share capital comprising 200,000 Ordinary Shares of 75p nominal each. At 31 March 2014 the Ordinary Share price was £350.50 (31 March 2013: £307.50).

#### *Income entitlement*

The Company's revenue earnings are distributed to holders of Ordinary Shares by way of dividends (if any) as may from time to time be declared by the Directors and approved by the Shareholders.

#### *Capital entitlement*

On a winding up of the Company, after settling all liabilities of the Company, holders of Ordinary Shares are entitled to a distribution of any surplus assets in proportion to the respective amounts paid up or credited as paid up on their shares.

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## *Voting entitlement*

Holders of Ordinary Shares are entitled to one vote on a show of hands, and on a poll to one vote for each Ordinary Share held. Notices of Meetings and Proxy Forms set out the deadlines for the valid exercise of voting rights and, other than with regard to Directors not being permitted to vote on matters upon which they have an interest, there are no restrictions on the voting rights of Ordinary Shareholders.

## *Transfers*

There are no restrictions on transfers of Ordinary Shares except: a) dealings by Directors, Persons Discharging Managerial Responsibilities and their connected persons which may constitute insider dealing or are otherwise prohibited by the rules of the UKLA; b) transfers to more than four joint holders; c) transfers to US persons other than as specifically permitted by the Directors; d) if, in the Directors' opinion, the assets of the Company might become "plan assets" for the purposes of US ERISA 1974; and e) transfers which in the opinion of the Directors would cause material legal, regulatory, financial or tax disadvantage to the Company.

The Company is not aware of any agreements with or between Shareholders which restrict the transfer of Ordinary shares, or which would take effect or alter or terminate in the event of a change of control of the Company.

## **Corporate Governance, Employment, Social, Human Rights and Environmental Statements**

The Corporate Governance Statement, which forms part of this Report of the Directors, is set out on pages 20 to 24. The Strategic Report on pages 1 to 12 includes statements on social, economic, human rights and environmental issues.

## **Disclosure Concerning Greenhouse Gas Emissions**

The Company itself has no greenhouse gas emissions to report on from its activities.

## **Annual General Meeting**

The Annual General Meeting of the Company will be held on Tuesday 2 September 2014 at 2.30pm and all Shareholders are encouraged to attend. In accordance with the Code, the Notice of Meeting is circulated more than twenty working days before the meeting. The Meeting will be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN.

## **Special Business at the Annual General Meeting**

### **Directors' Remuneration Policy**

Resolution 10 is proposed as an Ordinary Resolution to receive and adopt the Directors' Remuneration Policy.

### **Share buyback authority**

Resolution 11 is proposed as a Special Resolution and would, if passed, renew the authority to permit the Company to buy back through the stock market up to a maximum of 29,999 Ordinary Shares of 75p each (equivalent to 14.99% of the Ordinary Shares in issue at the date of this report). Purchases will only be made through the market for cash at prices below the prevailing Net Asset Value per Ordinary Share, thereby resulting in an increased Net Asset Value per share.

Shares bought back may be held in treasury, which are then eligible for subsequent resale or cancellation. No voting rights or entitlement to distribution (either dividend or on a winding up) applies to shares held in treasury.

## Governance

### Report of the Directors *continued*

#### **Authority to allot/sell treasury shares**

Resolution 12 authorises the Directors to sell or transfer back into the market shares held in treasury. Treasury shares would not be resold at a price below that at which they had been bought back.

The Directors recommend that Shareholders vote in favour of all Resolutions being put to the Annual General Meeting, as they themselves intend to do in respect of their own holdings representing 9.3% of total voting rights.

#### **Statement of Directors' Responsibilities for the Annual Report**

The Directors are responsible for preparing the annual report, the Directors' Remuneration Report, and financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the annual report and financial statements are made available on a dedicated page on Lindsell Train Limited's website and the National Storage Mechanism. Financial statements are published on the website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions.

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## **Audit information**

Each of the persons who were Directors at the date of approval of this annual report confirm, in accordance with the provisions of Section 418 of the Companies Act 2006 that:

- so far as each is aware there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware; and
- each has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## **Auditor**

Grant Thornton UK LLP has expressed its willingness to continue to act as the Company's auditor. A resolution to re-appoint Grant Thornton UK LLP as Auditor to the Company and to authorise the Directors to determine the Auditor's remuneration will be proposed at the forthcoming Annual General Meeting.

## **Going Concern**

After considering a schedule of the Company's current financial resources and liabilities for the next twelve months, and as the majority of the net assets of the Company are securities which are traded on recognised stock exchanges, the Directors have determined that its resources are adequate for continuing in business for the foreseeable future and that it is appropriate to prepare the financial statements on a going concern basis.

The Company does not have a fixed life.

## **Directors' Confirmation Statement**

The Directors listed on page 13, as the persons responsible within the Company, hereby confirm to the best of their knowledge:

- a) that the financial statements within the annual report of which this statement forms part have been prepared in accordance with applicable UK Accounting Standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- b) that in the opinion of the Board, the Annual Report and Financial Statements taken as a whole, is fair, balanced and understandable and it provides the information necessary to assess the Company's performance, business model and strategy; and
- c) the Strategic Report includes a fair review of the development and performance of the business and position of the Company, together with the principal risks and uncertainties which the Company faces.

By order of the Board

## **Phoenix Administration Services Limited**

Secretary

23 June 2014

## Governance

### Corporate Governance Statement

The Corporate Governance Statement forms part of the Report of the Directors.

The Board supports the high standards of corporate governance contained within the UK Corporate Governance Code (“Code”) issued by the Financial Reporting Council (“FRC”) effective from October 2012, and the principles published in February 2013 by the Association of Investment Companies (“the AIC Principles”) and their predecessors issued in 2010. The Codes referred to above can be found on the following websites: [www.frc.org.uk](http://www.frc.org.uk) and [www.theaic.co.uk](http://www.theaic.co.uk).

The Board confirms that it complies with the AIC principles subject to those aspects explained in the table below where the Company has either not complied, or does not feel it appropriate to do so.

| AIC Code Principle   | Additional Information   |
|--|--|
| 1, 5, 7, 9, 10, 12, 13, 14, 15, 17, 18, 19, 20, 21   | The Company complies with these principles in full.  |
| 2 – A majority of the Board should be independent of the manager.  | <p>Mr Lindsell is a director and shareholder of Lindsell Train Limited which is the Investment Manager of the Company. He is therefore not independent. All of the other directors are independent of the Investment Manager.</p> <p>The Board does not consider it necessary to appoint a Senior Independent Director as all the Directors endeavour to make themselves available at general meetings of the Company.</p>   |
| 3 – Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but based on disclosed procedures and continued satisfactory performance. | The Company’s Articles of Association require newly appointed Directors to submit themselves for election by Shareholders at the next Annual General Meeting. At the forthcoming Annual General Meeting, all of the Directors of the Board will retire and offer themselves for re-election. The Board evaluated the individual performance of each of the Directors and considers that the Company has benefited significantly from their contribution to the Board’s deliberations. The Board accordingly recommends that Shareholders vote in favour of all the Directors standing for re-election. |
| 4 – The Board should have a policy on tenure, which is described in the annual report.   | <p>The Board does not have a formal policy requiring Directors should stand down after a fixed period. It considers that a long association with the Company and experience of a number of investment cycles is valuable and does not compromise a Director’s independence.</p> <p>Mr Adamson and Mr Mackenzie have served on the Board for more than nine years; however they both demonstrate impartiality when participating in matters being considered by the Board, and accordingly the Board deems them to be independent.</p>  |

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

| <b>AIC Code Principle</b>   | <b>Additional Information</b>   |
|---|---|
| 6 – The Board should aim to have a balance of skills, experience, length of service and knowledge of the company.   | The Company is committed to ensuring that any vacancies arising are filled by the most qualified candidates and recognises the value of diversity in the composition of the Board.  |
| 8 – Director remuneration should reflect their duties.  | As the Company has no executive Directors the provisions of the Code in respect of executive Directors' remuneration do not apply to the Company. The Remuneration Policy of the Company is set out on pages 28 to 33.  |
| 11 – The Chairman (and the Board) should be brought into the process of structuring a new launch at an early stage. | This principle only applies to the launch of new investment companies and is therefore currently not applicable to the Company.   |
| 16 – The Board should agree policies with the manager covering key operational issues.                              | <p>The Investment Management Agreement between the Company and the Investment Manager sets out the authority delegated by the Company. Prior Board approval must be sought for any matters not covered under this Agreement.</p> <p>Voting Policy – In the absence of any direct instruction from the Board the Directors have authorised one Director, Mr Michael Lindsell, to vote shares of investee companies at his discretion, but with a view to preserving the best interests of the Company. However, he is required to consult with the Chairman before voting on special business or any issues of a contentious nature.</p> |

## **Corporate Governance Framework**

### **Board Structure**

The Board recognises that its prime purpose is to direct the business so as to maximise shareholder value within a framework of proper controls. The Board comprises five members, all of whom are male and non-executive and four of whom are independent of the Investment Manager.

The Directors normally meet as a Board on a quarterly basis. The Board lays down guidelines within which the Investment Manager implements investment policy and has a schedule of matters reserved exclusively for resolution by the Directors. All Board members have access to the advice and services of the Corporate Secretary, the removal or replacement of whom is a matter for the Board as a whole. The Directors are also able to take independent professional advice at the Company's expense.

The Investment Manager, Company Secretary and Administrator all operate in a supportive and cooperative manner, and representatives of each attend Board meetings.

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## Governance

### Corporate Governance Statement continued

The number of meetings of the Board and Committees for the year under review is given below, together with individual Director's attendance at those meetings:

|                    | <b>Board<br/>Regular (4)</b> | <b>Audit<br/>Committee (2)</b> | <b>Management<br/>Engagement (2)</b> |
|--------------------|------------------------------|--------------------------------|--------------------------------------|
| Number of meetings |                              |                                |                                      |
| Donald Adamson     | 4                            | 2                              | 2                                    |
| Dominic Caldecott  | 3                            | 2                              | 2                                    |
| Rory Landman       | 4                            | 2                              | 2                                    |
| Michael Lindsell   | 4                            | n/a                            | n/a                                  |
| Michael Mackenzie  | 4                            | 2                              | 2                                    |

The Board evaluates the performance of the Board, Committees, individual Directors and third party service providers using a structured questionnaire and without recourse to an external facilitator. The Board is satisfied from the results of these that the Board, its Committees and its third party providers function effectively, both collectively and individually, and contain an appropriate balance of skills and experience for the effective management of the Company.

#### **Board Responsibilities**

There is a clear division of responsibility between the Board, led by the Chairman to ensure effectiveness, the Manager and third party service providers. The Board receives accurate, timely and clear information to assist it in its decision making, and no one Director has unfettered powers of decision.

#### **Matters Reserved for the Board**

The Board is responsible for setting the Company's investment objectives, strategy and benchmark. It also decides on the appointment and replacement of key suppliers including the Investment Manager, external Auditor (subject to shareholder approval), Registrar, Custodian and Administrator.

The Board determines what items will be put to shareholders at general meetings, approves financial results and any communications/announcements relating to the Company. Within the authority granted by shareholders the Board approves allotments and buy-backs of shares/loan stock and increases/reductions of shares/loan stock in issue and in treasury.

The Board monitors key risks and ensures that there is a structure of internal controls in place to mitigate the likelihood of risks occurring these are explained in greater detail below. Authority has been delegated to the Investment Manager to take decisions on the purchase and sale of individual investments. The Board has also delegated authority to the following Committees and has established Terms of Reference which are available from the Registered Office of the Company.

A schedule of Matters Reserved for the Board is available from the Registered Office of the Company.

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## **Internal Control**

The Board confirms that there is an ongoing process for identifying, evaluating and managing those risks which are significant for the Company (particularly operational risks) and that this process reflects the guidance provided by the FRC. This process has been in place for the year ended 31 March 2014 and up to the date of the annual report and financial statements, and is regularly reviewed by the Board. The review covers all material financial, operational and compliance controls, and risk management systems.

The Board has ultimate responsibility for the system of internal control and for reviewing its effectiveness. The key elements of the system are the appointment of an independent custodian with responsibility for safeguarding the Company's assets, and clearly defined responsibilities between the Board, the Custodian and the Investment Manager, all of whom have detailed operating procedures in place. The controls operated by the Board include the authorisation of the investment strategy and regular reviews of the investment performance and financial results. The system is designed to manage rather than eliminate the risk of being unable to meet business objectives and can provide reasonable but not absolute assurance against material misstatement or loss. The Board reviews the operation and effectiveness of the Company's internal controls regularly through identification and assessment of key risks, and an annual review of how these are managed.

The Board has contractually delegated the management of the investment portfolio to the Investment Manager, Lindsell Train Limited, the day to day administration and the Company Secretarial requirements to Phoenix Administration Services Limited, and the custodial services including the safeguarding of assets to Northern Trust Company (see note 18). These contracts have been entered into after full consideration by the Board of the services undertaken and are reviewed annually. The Investment Manager, Administrator and Custodian all maintain their own systems of internal and financial controls.

The Investment Manager has established a framework to provide reasonable assurance on the effectiveness of internal controls operated on behalf of its clients. The Investment Manager's compliance officer assesses and reports to the Board on that effectiveness and on the business risk exposure of the Investment Manager.

The Corporate Secretary and Administrator also has established internal controls and procedures in place.

The Audit Committee reviews, at least annually, a detailed analysis of the activities and potential risks which the Company might be exposed to, and the key controls in place to minimise risk and confirm the status of each activity.

The Board is satisfied that its approach to managing internal control and risk conforms to the recommendations of the FRC's Internal Control Revised Guidance for Directors.

As the Company's investment management, administration and custodial activities are carried out by third party service providers, the Board does not consider it necessary to have an internal audit function or whistleblowing procedures. The Audit Committee reviews annually the whistleblowing procedures of the Investment Manager and the Administrator.

## Governance

### Corporate Governance Statement continued

#### **The Nomination Committee**

The Board as a whole fulfils the function of a Nomination Committee. The Directors have many years' experience within the industry between them and a broad knowledge of individuals who would have the necessary skills to promote and develop the Company. Accordingly the Nomination Committee does not consider it necessary to engage the services of third party search consultants unless the Directors are unable to identify suitably skilled individuals.

The Company will ensure that any Board vacancies will be filled by the most qualified candidates and recognises the value of diversity in the composition of the Board. When Board positions become available, the Company will consider a diverse group of candidates.

#### **Remuneration Committee**

The Company has no executive Directors and the Board as a whole fulfils the function of a Remuneration Committee.

#### **Audit Committee**

The Company's Audit Committee comprises Michael Mackenzie (Chairman), Donald Adamson, Dominic Caldecott and Rory Landman. Although Mr Adamson is Chairman of the Board, the Board considers it desirable that he continues as a member of the Committee. The Audit Committee has set out a formal Report on pages 25 to 27 of the Annual Report.

#### **Management Engagement Committee**

Donald Adamson (Chairman), Dominic Caldecott, Rory Landman and Michael Mackenzie comprise the Management Engagement Committee. Terms, fees and other remuneration payable to Lindsell Train Limited and Phoenix Administration Services Limited (set out in notes 3, 4 and 6 to the financial statements), are kept under review by the Committee. It also reviews the performance of the Investment Manager at least annually.

#### **Shareholder Relations**

The Company, through the Investment Manager (in accordance with its stated policy on stewardship), has regular contact with its institutional Shareholders. The Board supports the principle that the Annual General Meeting should be used to communicate with private investors. It has implemented the provisions of the Code in this report for the forthcoming Annual General Meeting and recommends that Shareholders attend the meeting, where the Directors present will be able to answer any questions they may have in relation to the Company and its activities.

Rather than read out proxy voting figures at General Meetings of the Company, the Board has instead elected to provide attending Shareholders with a printed summary of proxy voting. The proxy voting figures are also made available on the web pages of the Company after the meeting.

Shareholders may contact the Board through either the Investment Manager or the office of the Corporate Secretary, contact details for whom are given on page 63.

## Governance

### Report of the Audit Committee

This report to Shareholders for the year ended 31 March 2014 has been prepared in accordance with guidance issued by the Financial Reporting Council and the UK Corporate Governance Code issued by it in September 2012.

#### **Composition of the Committee**

The Audit Committee comprises four Directors all of whom are members of the Board. All of the members of the Committee are independent and considered to have sufficient recent and relevant experience to enable the Committee to function effectively. Rory Landman has current experience in relation to accounting and financial matters. The Corporate Secretary is Secretary to the Committee.

#### **Role of the Committee**

The principal activities undertaken by the Audit Committee are:

- to monitor and review the effectiveness of all aspects of the Company's financial reporting;
- to satisfy itself as to the integrity of the full year and half year reports to Members;
- to advise the Board that such reports are fair, balanced and understandable and comply with applicable laws and regulations;
- to monitor the effectiveness of internal controls operated by third party service providers appointed by the Board to undertake the day to day activities and administration of the Company's business;
- to consider any significant issues (if any) which are identified by the independent auditor and to determine such action (if any) as needs to be recommended to the Board in connection therewith;
- to meet, at least annually, with the Company's independent auditor and review the audit plan proposed by them; including areas of risk they will look particularly at, their level of materiality and the fee proposed by them for the statutory audit work;
- to make recommendations to the Board on the appointment, re-appointment, replacement or removal of the independent auditor;
- to consider all proposals and fees for non-audit work, which may include tenders from independent third parties as well as proposals from the independent auditor to undertake such work, the fees for such work and their suitability to undertake the work involved;
- to monitor and satisfy itself as to the independence, objectivity, resources and qualifications of the Company's appointed independent auditor at least annually;
- to consider, at least annually, whether or not the Company should have an internal audit function.

#### **Meetings**

The Audit Committee normally meets two times each year. Meetings are held to consider the full-year and half-year results, and shortly before each year end to review the external auditor's proposed plans, scope of work and costs for the ensuing full-year audit. Representatives of the Investment Manager and the Administrator attend meetings to provide input and respond to questions. The Committee also holds meetings with the external auditor without any of the Company's third party service providers present at which any aspect of the auditor's work may be discussed.

## Governance

### Report of the Audit Committee continued

The Audit Committee operates under written Terms of Reference, copies of which are available from the Registered Office of the Company.

#### **Internal Controls**

The Committee is responsible for ensuring that suitable controls are in place to prevent and detect fraud, error and misstatement of financial information. As the Company outsources all of its functions to third parties, neither the Committee nor the Company has any internal control structure in place but instead requires its third party service providers to report against a checklist of requirements. These reports are received at least annually, including reports which have been independently verified by the relevant service provider's independent auditors.

#### **Audit process**

The Committee reviews at least annually whether the Company should have an internal audit function. It has recommended to the Board that given the size, structure and nature of the Company's activities, and that all operations are carried out by third party service providers, an internal audit function is not appropriate. The Board has endorsed the recommendation of the Committee.

Grant Thornton UK LLP is the Company's independent external auditor and has held office since July 2007, when it subsumed RSM Robson Rhodes LLP who had been the Company's external auditor since inception in December 2000. The Committee is not aware of any contractual or other restrictions which would impinge on the Committee's ability to select the external auditor.

The Partner responsible for the audit affairs of the Company is subject to change at least every 5 years. Julian Bartlett notified the Company that he was stepping down as Partner after serving for a period of 4 years, and the Partner now responsible for audit matters is Christopher Smith.

The Committee satisfies itself as to the independence of the Company's external independent auditor, and in particular takes into account any non-audit work undertaken by the auditor. The auditor is currently engaged to assist with the Company's tax matters and to give accounting advice as required. When considering whether to appoint the Company's external auditor to undertake non-audit work the Committee takes into account any potential impairment of independence or impartiality, knowledge of the Company, and their proposed fee. The Committee may also put non-audit work out to tender.

#### **Significant issues in relation to Financial Statements**

When planning the statutory audit, the independent auditor and the Committee identified the following areas of particular significance which might require particular audit emphasis:

- ownership of investments and assets included in the portfolio;
- valuation of positions in the portfolio, especially any which are illiquid or un-quoted; and
- accuracy and completeness of the recognition of revenue.

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## **Ownership of investments**

The Audit Committee reviewed the external auditor's approach to determining the existence and completeness of investments. The results of the audit highlighted no issues and confirmed that all additions, disposals and corporate actions were agreed to contract notes or other supporting documentation. In addition, a list of holdings was checked against an independent statement provided by the Company's custodian.

## **Valuation of investments**

The Audit Committee considered the valuation methodology of the unquoted investment in Lindsell Train Limited ('LTL') representing 24.42% of net assets. It was considered that no change was required to the valuation methodology and hence the valuation approach remains consistent with prior years.

The other 75.58% of the Company's net assets are quoted investments. The valuation of these investments is a material matter in the production of the Financial Statements. The Audit Committee reviewed the procedures in place for ensuring the accuracy of the values and is content that these procedures remain robust. The results of the audit in this area were discussed with the external auditor and there were no issues arising.

## **Revenue and Expenditure**

The Audit Committee reviewed the external auditor's approach to the audit prior to the commencement of the audit. The results of the audit in this area were discussed with the external auditor and there were no significant issues arising in relation to the recognition of revenue and expenditure.

## **Reappointment of Auditor**

The Committee is satisfied that the independence, objectivity and impartiality of the Company's external independent auditor has not been compromised by the non-audit work it provides to the Company. Accordingly the Committee has recommended that a Resolution to reappoint Grant Thornton UK LLP as independent auditor to the Company be proposed at the forthcoming Annual General Meeting.

The Committee has not put the Company's audit work out to tender as it has been satisfied with the services it has been provided with and does not consider the audit fees paid to be materially out of line with expectations. The Committee is aware that proposals are being considered which might make audit tendering compulsory, but will await the introduction of regulations on this before considering what action to take.

## **Michael Mackenzie**

Chairman – Audit Committee

23 June 2014

## Governance

### Directors' Remuneration Report

This Remuneration Report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). It describes the Company's Directors' Remuneration Policy ("Policy"), and how the Policy was implemented for the year to 31 March 2014.

The Board does not consider it necessary or appropriate to establish a separate Remuneration Committee as the Company has no employees, the Board is small, and there are no executive Directors. Non-executive Directors' remuneration is determined by the Board in line with the Directors' Remuneration Policy (below), subject to an aggregate ceiling of £220,000 per annum under the Company's Articles of Association ("Articles"). No change to this ceiling is currently envisaged. Each Director abstains from voting on the specific remuneration to be paid to them.

#### **REMUNERATION POLICY**

This Directors' Remuneration Policy ("Policy") sets out details of the Company's policy on the remuneration of Directors of the Company. All Directors are non-executive and are appointed under the terms of Letters of Appointment. None of the Directors has a service contract. The Company has no employees. The Company does not have a nominated Senior Independent Director.

A Resolution to approve the Policy will be proposed at the forthcoming Annual General Meeting of the Company to be held on 2 September 2014, and the vote is binding on the Company. Thereafter, renewal of the approved Policy will be sought at intervals of three years or less, and earlier if a change to the Policy is proposed. Any changes to the approved Policy can only become effective after shareholder approval has been obtained in General Meeting.

The non-executive Directors of the Company are entitled to such rates of annual fees as the Board at its discretion determines, subject to aggregate annual fees not exceeding £220,000. In addition to fees, Directors are entitled to reimbursement of reasonable expenses incurred by them in the performance of their duties. In line with the majority of investment trusts, no component of any Director's remuneration is subject to performance factors. There are no provisions in Directors' Letters of Appointment for recovery or withholding of fees or expenses. Annual fees are pro-rated where a change takes place during a financial year.

The Board last reviewed the Directors' Remuneration Components on 10 June 2014. This review considered the remuneration paid by other similar investment trusts and sought to determine whether the Company pays a median level of compensation. The Board considers it important to pay sufficient compensation in order to ensure that directors of a sufficient calibre can be attracted and retained by the Company. After consideration, the Board recommends to shareholders the following remuneration components with effect from 2 September 2014.

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

**Table of Directors' Remuneration Components** (effective 2 September 2014 and all components subject to periodic review)

| <b>Component</b>                               | <b>Annual Rate (£)</b> | <b>Purpose and operation</b>  |
|--|------------------------|---|
| Basic Annual Fee:<br>Each Director             | 20,000                 | In recognition of the time and commitment required by Directors of public companies. The basic fee is reviewed against those paid for peer companies, to ensure that it reflects fair and adequate compensation for the role. |
| Additional Fee:<br>Chairman of the Board       | 10,000                 | For the additional time, commitment and responsibility required on the Company's business issues; and providing leadership as Chairman of the Board.  |
| Additional Fee:<br>Audit Committee<br>Chairman | 4,000                  | For the greater time required on the financial and reporting affairs of the Company.  |
| Additional Fee:<br>Each Director               | Variable               | In the event that the Company undertakes a complex or large project, such additional fee as will fairly compensate for the additional time and commitment required by a Director.   |
| Expenses:<br>Each Director                     | Variable               | Reimbursement of expenses properly incurred by Directors in attending meetings and/or otherwise in the performance of their duties to the Company.  |

**Notes:**

1. The Board only exercises its discretion in setting rates of fees after an analysis of fees paid to directors of other companies of a similar size to that of the Company;
2. As the Company has no employees, there are no differences in policy between the remuneration of Directors and the remuneration of employees;
3. None of the Directors are entitled to receive any remuneration which is performance-related. As a result there are no performance scenarios in respect of any elements of Directors' remuneration can be set out in this Remuneration Policy;

The table below shows the rates of annual fees payable to the highest paid Director and all other non-executive Directors for the year to 31 March 2014 and the year to 31 March 2013:

| <b>Fees</b>                      | <b>2014 (£)</b> | <b>2013 (£)</b> |
|----------------------------------|-----------------|-----------------|
| Chairman                         | <b>22,500</b>   | 22,500          |
| Board Member                     | <b>18,000</b>   | 18,000          |
| For additional responsibilities: |                 |                 |
| Chairman of Audit Committee      | <b>20,000</b>   | 20,000          |

**Recruitment Remuneration Principles**

1. The remuneration package for any new Chairman or non-executive Director will be the same as the prevailing rates determined on the bases set out above. The fees and entitlement to reclaim reasonable expenses will be set out in Directors' Letters of Appointment;
2. The Board will not pay any introductory fee or incentive to any person to encourage them to become a Director. However, it may engage the services of search & selection specialists in connection with the process of appointing new non-executive Directors;
3. The Company does not intend appointing any executive Directors in the foreseeable future; and
4. The aggregate maximum fees currently payable to all directors is £220,000 per annum.

## Governance

### Directors' Remuneration Report *continued*

#### *Service Contracts*

None of the Directors has a service contract with the Company. Non-executive Directors are engaged under Letters of Appointment.

#### *Loss of Office*

Directors' Letters of Appointment expressly prohibit any entitlement to payment or compensation on loss of office.

#### *Scenarios*

As all remuneration of the Chairman and non-executives Directors' is fixed at annual rates, and there are no scenarios where remuneration will vary. It is accordingly not considered appropriate to provide different remuneration scenarios for each Director.

#### *Statement of consideration of conditions elsewhere in the Company*

The Company has no employees, nor does it have any subsidiaries or associated companies which have employees, and accordingly a process of consulting with employees on the setting of the Company's Remuneration Policy is not applicable.

#### *Other Items*

None of the Directors has any entitlement to pensions or pension related benefits, medical or life insurance schemes, share options, long-term incentive plans, or any form of performance related payments. No Director is entitled to any other monetary payment or any assets of the Company except in their capacity (where applicable) as shareholders of the Company.

Directors and Officers liability insurance cover is maintained by the Company, at the Company's expense, on behalf of all Directors.

The Company has also provided indemnities to the Directors in respect of costs or other liabilities which they may incur in connection with any claims relating to their performance or the performance of the Company whilst they are Directors.

The Directors' interests in contractual arrangements with the Company are as shown in the Annual Report on Remuneration below. No Director had any interest in any contracts with the Company during the year to 31 March 2014 or subsequently, other than as stated in the Directors' Report.

#### **ANNUAL REPORT ON REMUNERATION**

A Resolution to adopt this Annual Report on Remuneration will be put to the forthcoming Annual General Meeting. The vote however is advisory only and not binding on the Company, but does give shareholders a chance to inform the Board of their views on Directors' remuneration.

The rates of fees paid to Directors were not changed during the year and were payable at the following rates: Donald Adamson (Chairman of the Board) £22,500; Mr Michael Mackenzie (Chairman of the Audit Committee) £20,000; Mr Dominic Caldecott £18,000; and Mr Rory Landman £18,000. Mr Michael Lindsell, because of his connection with the Investment Manager, waived his entitlement to fees.

## THE LINDSELL TRAIN INVESTMENT TRUST PLC

### *Directors' emoluments (audited information)*

Directors are only entitled to fees at rates set out in the Directors' Remuneration Policy from time to time approved by shareholders. The rates applicable for the financial year to 31 March 2014 were set out in the Directors' Remuneration Report in the Company's Report & Financial Statements for the year to 31 March 2013. An Ordinary Resolution proposing adoption of that Directors' Remuneration Report was put to shareholders at the Annual General Meeting of the Company held on 24 July 2013, and was passed by 100% of shareholders voting on the Resolution.

None of the Directors has any entitlement to pensions or pension related benefits, medical or life insurance, share options, long-term incentive plans, or any form of performance related pay. Also, no Director has any right to any payment by way of monetary equivalent to an entitlement, or any assets of the Company except in their capacity as shareholders. The Single Total Figure table below therefore does not include columns for any of these items or their monetary equivalents.

As the Company does not have a Chief Executive Officer or any executive Directors, there are no percentage increases to disclose in respect of their Single Total Figure.

The Directors who served during the year received the following emoluments in respect of their positions as Directors of the Company:

### *Single Total Figure Table (audited information)*

| Name of Director  | Fees paid (£) |               | Taxable benefits (£) |          | Total (£)     |               |
|-------------------|---------------|---------------|----------------------|----------|---------------|---------------|
|                   | 2014          | 2013          | 2014                 | 2013     | 2014          | 2013          |
| Year to 31 March: |               |               |                      |          |               |               |
| Donald Adamson*   | 22,500        | 22,500        | –                    | –        | 22,500        | 22,500        |
| Michael Mackenzie | 20,000        | 20,000        | –                    | –        | 20,000        | 20,000        |
| Dominic Caldecott | 18,000        | 18,000        | –                    | –        | 18,000        | 18,000        |
| Rory Landman      | 18,000        | 18,000        | –                    | –        | 18,000        | 18,000        |
| Michael Lindsell  | 0             | 0             | –                    | –        | 0             | 0             |
| <b>TOTALS</b>     | <b>78,500</b> | <b>78,500</b> | <b>–</b>             | <b>–</b> | <b>78,500</b> | <b>78,500</b> |

### *Sums paid to Third Parties (audited information)\**

Of the fees referred to in the above table £22,500 was paid for the year ended 31 March 2014 to Research & Consulting Associates Limited in respect of the services provided by Donald Adamson.

Directors' & Officers' insurance is maintained by the Company, at the Company's expense, on behalf of all Directors, in accordance with Article 173 of the Articles.

### *Other Benefits*

Taxable Benefits – Articles 106 and 107 of the Company's Articles of Association provide that Directors are entitled to be reimbursed for reasonable expenses incurred by them in connection with attendance at Board and General Meetings, the performance of their duties, and any additional work or duties they undertake on behalf of the Company.

Pensions related benefits – Although Article 109 of the Company's Articles permits the Company to provide pensions and/or similar benefits for Directors and employees of the Company, no schemes or arrangements have been established and no Director is entitled to any pension or similar benefits.

## Governance

### Directors' Remuneration Report *continued*

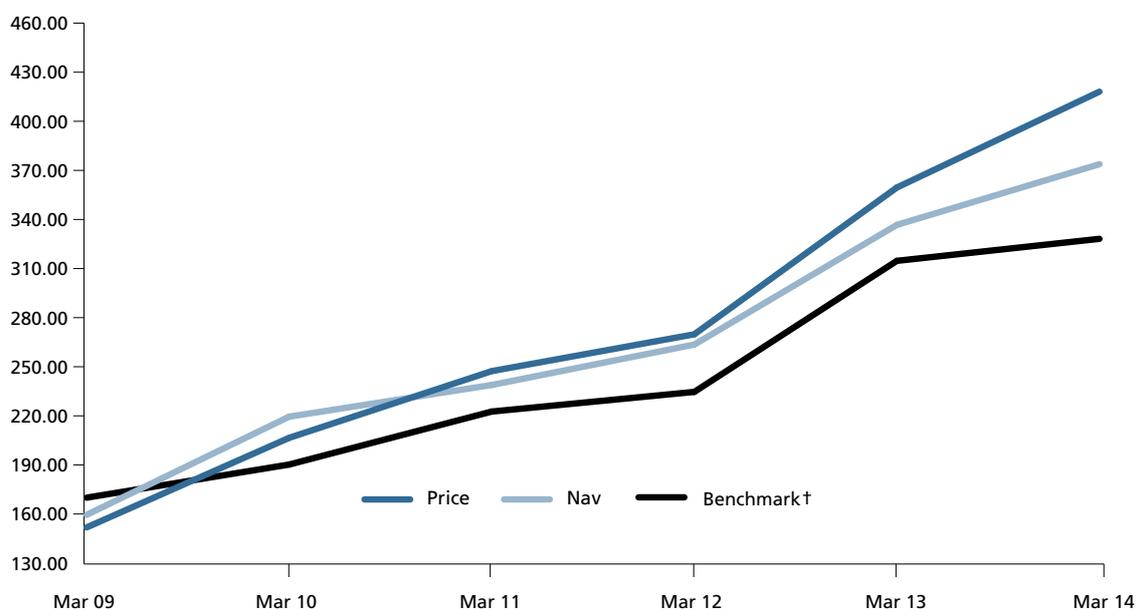
#### *Loss of office*

Directors do not have service contracts with the Company but are engaged under Letters of Appointment. These expressly exclude any entitlement to compensation upon leaving office for whatever reason.

#### *Share Price Total Return*

The chart below illustrates the total shareholder return for a holding in the Company's shares as compared to the benchmark between the relevant dates. The Board has adopted this as the measure for both the Company's performance and that of the Investment Manager for the year.

#### **Share price performance relative to the net asset value and benchmark for five years to 31 March 2014 (based on total return performance with net dividends reinvested)**



*†The benchmark including adjustments to the high water mark to reflect the payment of performance fees.*

#### *Relative Importance of Spend on Pay*

The below table shows the proportion of the Company's income spent on Directors' remuneration in comparison with investment management fees paid, and dividends paid to shareholders.

|   | <b>2014</b>      | <b>2013</b> | <b>Difference</b> |
|---|------------------|-------------|-------------------|
|   | <b>(£)</b>       | <b>(£)</b>  | <b>(%)</b>        |
| Directors' remuneration                       | <b>78,500</b>    | 78,500      | –                 |
| Investment management fees and other expenses | <b>700,931</b>   | 2,273,395   | (69.2)            |
| Dividends to Shareholders                     | <b>1,352,000</b> | 1,250,000   | 8.2               |

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## *Statement of Directors' shareholding and share interests (audited information)*

Neither the Articles nor the Directors' Letters of Appointment require any Director to own shares in the Company. The interests of the Directors and their connected persons in the equity securities of the Company at 31 March 2014 and 31 March 2013 are shown in the table below:

|                              | <b>Ordinary Shares of 75p<br/>31 March 2013</b> | <b>Ordinary Shares of 75p<br/>31 March 2014</b> |
|------------------------------|---|---|
| D Adamson                    | 2,750   | 2,750   |
| D Caldecott                  | 8,250   | 8,250   |
| R Landman                    | 402   | 402   |
| M Lindsell                   | 7,155   | 7,155   |
| M Lindsell (non-beneficial)  | 3,600   | 3,600   |
| M Mackenzie                  | 250   | 0   |
| M Mackenzie (non-beneficial) | 2,075   | 1,475   |

Michael Mackenzie's non-beneficial interest was reduced by 750 shares in April 2014. No other changes in the above interests occurred between 31 March 2014 and the date of this report. None of the Directors has been granted, or exercised, any options or rights to subscribe for Ordinary Shares of the Company.

## *Statement by the Chairman of the Board*

The Directors confirm that the Remuneration Policy and Annual Report on Remuneration set out above provide a fair and reasonable summary for the financial year ended 31 March 2014 of:

- a) the major decisions on Directors' remuneration;
- b) any substantial changes relating to Directors' remuneration made during the year; and
- c) the context in which those changes occurred and the decisions which have been taken.

By order of the Board

**Donald Adamson**  
Chairman  
23 June 2014

## Governance

### Independent auditor's report to the members of The Lindsell Train Investment Trust plc

We have audited the financial statements of The Lindsell Train Investment Trust plc for the year ended 31 March 2014 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities for the Annual Report set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

#### **Auditor commentary**

##### *An overview of the scope of our audit*

Our audit approach was based on a thorough understanding of the Company's business and is risk-based. The day-to-day management of the Company's investment portfolio, the custody of its investments and the maintenance of the Company's accounting records is outsourced to third-party service providers. Accordingly, our audit work is focussed on obtaining an understanding of, and evaluating, internal controls at the Company and relevant third-party service providers. This included a review of reports on the description, design and operating effectiveness of internal controls at relevant third-party service providers. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the design effectiveness of controls over individual systems and the management of specific risks.

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## **Our application of materiality**

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person, relying on the information would have been changed or influenced by the misstatement or omission. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We established materiality for the financial statements as a whole to be £640,000, which is 1% of the Company's net assets. For the income statement we determined that misstatements for a lesser amount than materiality for the financial statements as a whole would make it probable that the judgement of a reasonable person, relying on the information, would have been changed or influenced by the misstatement or omission. Accordingly, we established materiality for the revenue column of the income statement to be £160,000.

## **Our assessment of risk**

Without modifying our opinion, we highlight the following matters that are, in our judgement, likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual transactions, account balances or disclosures.

## **Investments**

The Company's business is investing in financial assets with a view to profit from a balanced return, in the form of revenue and capital gains. Accordingly, the investment portfolio is a significant, material item in the financial statements. The investment portfolio includes an unquoted investment, which includes significant assumptions and judgements in its measurement. The recognition and measurement of the investment portfolio is therefore a risk that requires particular audit attention.

Our audit work included, but was not restricted to, understanding management's process to recognise and measure investments including ownership of those investments, obtaining a confirmation of investments held at the year-end directly from the independent custodian, testing all investment additions and disposals shown in the Company's records to supporting documentation, recalculating the realised gains made on a selection of disposals and agreeing the valuation of quoted to an independent source of market prices and relevant source documentation

In addition to the above for the unquoted investment, we considered whether the investment has been valued in accordance with the published guidance, discussing the valuation basis with the investment manager, and reviewed and challenged the basis and reasonableness of the assumptions and judgements made through a review of supporting documentation.

## Governance

### Independent auditor's report to the members of The Lindsell Train Investment Trust plc *continued*

#### **Investment income**

Investment income is the Company's major source of revenue and a significant, material item in the Income Statement. Accordingly, the recognition of investment income is therefore a risk that requires particular audit attention.

Our audit work included, but was not restricted to, assessing whether the Company's accounting policy for revenue recognition is in accordance with the Statement of Recommended Practice, "Financial Statements of Investment Trust Companies and Venture Capital Trusts"; a sample of dividend income was checked from the independent custodian assessing whether it been correctly recorded in the Financial Statements and for a sample of investments held in the period confirming that income that should have been received has been received and recorded and assessing whether any of the revenue should have been treated as capital receipts. For Lindsell Train Limited, the unquoted investment, we have reviewed the financial information available and checked that the income has been correctly recorded in the Financial Statements.

The Company's accounting policy on the recognition of income is shown in note 1 and the components of that revenue are included in 2.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Other reporting responsibilities**

*Opinion on other matters prescribed by the Companies Act 2006*

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable, and whether the annual report appropriately discloses those matters that were communicated to the audit committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 19, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

## **Christopher Smith**

(Senior Statutory Auditor)

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

23 June 2014

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## Financial Statements

### Income Statement for the year ended 31 March 2014

|   | Notes | Revenue<br>£'000 | 2014<br>Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000 | 2013<br>Capital<br>£'000 | Total<br>£'000 |
|---|-------|------------------|--------------------------|----------------|------------------|--------------------------|----------------|
| Gains on investments  | 11    | –                | 6,902                    | 6,902          | –                | 13,100                   | 13,100         |
| Exchange losses on<br>currency  |       | –                | (293)                    | (293)          | –                | (247)                    | (247)          |
| (Losses)/gains on forward<br>currency contracts                               |       | –                | (378)                    | (378)          | –                | 195                      | 195            |
| Gains/(losses) on futures<br>contracts  |       | –                | 14                       | 14             | –                | (242)                    | (242)          |
| Income  | 2     | 2,098            | –                        | 2,098          | 2,078            | –                        | 2,078          |
| Investment management fees  | 3     | (379)            | –                        | (379)          | (301)            | (1,698)                  | (1,999)        |
| Other expenses  | 4     | (318)            | (4)                      | (322)          | (260)            | (14)                     | (274)          |
| <b>Net return before finance<br/>costs and tax</b>                            |       | <b>1,401</b>     | <b>6,241</b>             | <b>7,642</b>   | <b>1,517</b>     | <b>11,094</b>            | <b>12,611</b>  |
| Interest payable and<br>similar charges                                       | 7     | (36)             | –                        | (36)           | (16)             | –                        | (16)           |
| <b>Return on ordinary activities<br/>before tax</b>                           |       | <b>1,365</b>     | <b>6,241</b>             | <b>7,606</b>   | <b>1,501</b>     | <b>11,094</b>            | <b>12,595</b>  |
| Tax on ordinary activities  | 8     | (14)             | –                        | (14)           | (18)             | –                        | (18)           |
| <b>Return on ordinary<br/>activities after tax for<br/>the financial year</b> |       | <b>1,351</b>     | <b>6,241</b>             | <b>7,592</b>   | <b>1,483</b>     | <b>11,094</b>            | <b>12,577</b>  |
| <b>Return per Ordinary Share</b>  | 10    | <b>£6.75</b>     | <b>£31.21</b>            | <b>£37.96</b>  | <b>£7.41</b>     | <b>£55.47</b>            | <b>£62.88</b>  |

All revenue and capital items in the above statement derive from continuing operations.

The total columns of this statement represent the profit and loss accounts of the Company. The revenue and capital return columns are supplementary to this and are prepared under the guidance published by the Association of Investment Companies.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

No operations were acquired or discontinued during the year.

The notes on pages 42 to 59 form part of these financial statements.

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## Reconciliation of Movements in Shareholders' Funds

|   | Share<br>capital<br>£'000 | Special<br>reserve<br>£'000 | Capital<br>reserve<br>£'000 | Revenue<br>reserve<br>£'000 | Total<br>£'000 |
|---|---------------------------|-----------------------------|-----------------------------|-----------------------------|----------------|
| <b>For the year ended 31 March 2014</b>                           |                           |                             |                             |                             |                |
| At 31 March 2013  | 150                       | 19,850                      | 35,333                      | 2,627                       | 57,960         |
| Return on ordinary activities after tax for<br>the financial year | -                         | -                           | 6,241                       | 1,351                       | 7,592          |
| Dividends paid (see note 9)                                       | -                         | -                           | -                           | (1,250)                     | (1,250)        |
| <b>At 31 March 2014</b>   | <b>150</b>                | <b>19,850</b>               | <b>41,574</b>               | <b>2,728</b>                | <b>64,302</b>  |

|   | Share<br>capital<br>£'000 | Special<br>reserve<br>£'000 | Capital<br>reserve<br>£'000 | Revenue<br>reserve<br>£'000 | Total<br>£'000 |
|---|---------------------------|-----------------------------|-----------------------------|-----------------------------|----------------|
| <b>For the year ended 31 March 2013</b>                           |                           |                             |                             |                             |                |
| At 31 March 2012  | 150                       | 19,850                      | 24,239                      | 1,974                       | 46,213         |
| Return on ordinary activities after tax for<br>the financial year | -                         | -                           | 11,094                      | 1,483                       | 12,577         |
| Dividends paid (see note 9)                                       | -                         | -                           | -                           | (830)                       | (830)          |
| <b>At 31 March 2013</b>   | <b>150</b>                | <b>19,850</b>               | <b>35,333</b>               | <b>2,627</b>                | <b>57,960</b>  |

The notes on pages 42 to 59 form part of these financial statements.

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## Financial Statements continued

### Balance Sheet at 31 March 2014

|   | Notes | 2014         |                | 2013         |                |
|---|-------|--------------|----------------|--------------|----------------|
|   |       | £'000        | £'000          | £'000        | £'000          |
| <b>Fixed assets</b>                                   |       |              |                |              |                |
| Investments held at fair value through profit or loss | 11    |              | 64,012         |              | 58,571         |
| <b>Current assets</b>                                 |       |              |                |              |                |
| Debtors   | 12    | 3,993        |                | 4,936        |                |
| Cash at bank  |       | 2,158        |                | 1,739        |                |
|   |       | <u>6,151</u> |                | <u>6,675</u> |                |
| Creditors: amounts falling due within one year        | 13    | (5,861)      |                | (7,286)      |                |
| <b>Net current assets/(liabilities)</b>               |       |              | <u>290</u>     |              | <u>(611)</u>   |
| <b>Net assets</b>                                     |       |              | <u>64,302</u>  |              | <u>57,960</u>  |
| <b>Capital and reserves</b>                           |       |              |                |              |                |
| Called up share capital                               | 14    |              | 150            |              | 150            |
| Special reserve                                       |       |              | 19,850         |              | 19,850         |
|   |       |              | <u>20,000</u>  |              | <u>20,000</u>  |
| Capital reserve                                       | 15    |              | 41,574         |              | 35,333         |
| Revenue reserve                                       |       |              | 2,728          |              | 2,627          |
| <b>Equity Shareholders' funds</b>                     | 16    |              | <u>64,302</u>  |              | <u>57,960</u>  |
| <b>Net asset value per Ordinary Share</b>             | 16    |              | <u>£321.51</u> |              | <u>£289.80</u> |

The financial statements on pages 38 to 59 were approved by the Board on 23 June 2014 and were signed on its behalf by:

**D L Adamson**  
Chairman  
The Lindsell Train Investment Trust Plc  
Registered in England, No: 4119429

The notes on pages 42 to 59 form part of these financial statements.

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## Cash Flow Statement for the year ended 31 March 2014

|   | Notes | 2014<br>£'000  | 2013<br>£'000 |
|---|-------|----------------|---------------|
| Net cash inflow from operating activities                       | 17a   | 64             | 734           |
| Servicing of finance  |       | (36)           | (16)          |
| Taxation  |       | (14)           | (18)          |
| Financial investment  | 17b   | <u>1,461</u>   | <u>1,346</u>  |
| Net cash inflow before financing                                |       | 1,475          | 2,046         |
| Equity dividends paid   |       | <u>(1,250)</u> | <u>(830)</u>  |
| Increase in cash in the year                                    |       | <u>225</u>     | <u>1,216</u>  |
| <b>Reconciliation of net cash flow to movement in net funds</b> |       |                |               |
| Increase in cash for the year                                   |       | 225            | 1,216         |
| Exchange movements  |       | (293)          | (247)         |
| Opening net funds/(debt)  |       | <u>502</u>     | <u>(467)</u>  |
| Closing net funds   | 17c   | <u>434</u>     | <u>502</u>    |

The notes on pages 42 to 59 form part of these financial statements.

## Financial Statements

### Notes to the Financial Statements

#### 1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below:

##### (a) Basis of accounting

The financial statements are prepared on the historical cost basis of accounting, except for the measurement at fair value of investments and derivatives. The financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) and with the AIC Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" dated January 2009. All of the Company's operations are of a continuing nature.

As the majority of the Company's assets are readily realisable securities and its projected revenue exceeds its projected expenses, the financial statements are prepared on a going concern basis.

##### (b) Reporting currency

The financial statements are presented in Sterling which is the functional currency of the Company, because it is the currency of the primary economic environment in which the Company operates.

##### (c) Dividends

Dividends paid by the Company are recognised in the financial statements for the period in which they are paid.

##### (d) Valuation of fixed asset investments

When a purchase or sale is made under a contract, the terms of which require delivery within the time frame of the relevant market, the investments concerned are recognised or derecognised on the trade date.

Investments have been designated by the Board as held at fair value through profit or loss and accordingly are valued at fair value, deemed to be bid or last market prices depending on the convention of the exchange on which they are listed. As the entity's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increases in fair value, investments are designated as fair value through profit or loss on initial recognition. The entity manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the Company is provided internally on this basis to the Board.

Where performance fees earned by the Manager in respect of the Company's investment in a Lindsell Train fund product are reinvested in shares of the relevant fund, those additional shares are recorded at nil cost in the Company's records and then restated on the basis as disclosed above. Lindsell Train fund products are valued monthly using prices supplied by the administrator of these funds.

Unquoted investments are valued by the Directors at fair value using market valuation techniques. Investments are held as part of the investment portfolio, even those over which the Company has significant influence because their value to the Company is through their marketable value as part of a basket of investments rather than as a vehicle through which the Company carries out its business.

The investment in Lindsell Train Limited (representing 24.42% of the Manager) is held as part of the investment portfolio. Accordingly, the shares are accounted for and disclosed in the same way as other investments in the portfolio. The valuation of the investment (see note 18) is calculated at the end of each quarter on the basis of fair value as determined

## THE LINDSELL TRAIN INVESTMENT TRUST PLC

by the Directors of the Company. The valuation process is based upon a formula that takes into account, inter alia, the value of the funds under Lindsell Train Limited's management and the moving average of its monthly earnings.

### **(e) Income**

Dividends are credited to the revenue column of the Income Statement on an ex-dividend basis. Where an ex-dividend date is not available, dividends received on or before the year end are treated as revenue for the year. The fixed return on a debt security is recognised on a time apportionment basis so as to reflect the effective interest rate on the debt security.

Bank and deposit interest is accounted for on an accruals basis.

### **(f) Expenses**

All expenses are accounted for on an accruals basis. Finance costs are accounted for on an accruals basis using the effective interest rate method. Expenses are charged through the revenue column of the Income Statement except as follows:

- expenses which are incidental to the acquisition or disposal of an investment are charged to the capital column of the Income Statement;
- expenses are charged to the realised capital reserve, via the capital column of the Income Statement, where a connection with the maintenance or enhancement of the value of the investments can be demonstrated; and
- performance fees payable to the Investment Manager are charged 100% to capital.

### **(g) Taxation**

Deferred taxation is provided on all differences which have originated but not reversed by the balance sheet date, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

### **(h) Foreign currency**

Transactions denominated in foreign currencies are recorded in the local currency, at the actual exchange rates as at the date of the transaction. Assets and liabilities denominated in foreign currencies at the year end are reported at the rate of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates, subsequent to the date of the transaction, is included as an exchange gain or loss in the capital or revenue column of the Income Statement, depending on whether the gain or loss is of a capital or revenue nature respectively.

### **(i) Capital reserve**

The following are taken to this reserve:

- Gains and losses on the disposal of investments;
- Exchange differences of a capital nature;
- Expenses, together with the related taxation effect, allocated to this reserve in accordance with the above policies; and
- Investment holding gains being the increase and decrease in the valuation of investments held at the year end.

### **(j) Futures contracts**

Futures contracts are classified at fair value through profit or loss and fall within the classification of "held for trading" under FRS 26. The fair value is the applicable closing price of the underlying contract.

## Financial Statements

### Notes to the Financial Statements *continued*

**(k) Forward currency contracts**

Forward currency contracts are classified as held for trading and are held at fair value through profit or loss. The forward currency contracts are revalued to the relevant forward rates of exchange at the balance sheet date.

**2 Income**

|                                | <b>2014</b>         | 2013                |
|--------------------------------|---------------------|---------------------|
|                                | <b>£'000</b>        | £'000               |
| <b>Income from investments</b> |                     |                     |
| Overseas dividends             | 193                 | 216                 |
| UK dividends                   | 1,735               | 1,692               |
| UK fixed interest income       | <u>170</u>          | <u>170</u>          |
|                                | <b><u>2,098</u></b> | <b><u>2,078</u></b> |
| <b>Total income comprises:</b> |                     |                     |
| Dividends                      | 1,928               | 1,908               |
| Interest                       | <u>170</u>          | <u>170</u>          |
|                                | <b><u>2,098</u></b> | <b><u>2,078</u></b> |

**3 Investment management fees**

|   | <b>2014</b>       | 2013                |
|---|-------------------|---------------------|
|   | <b>£'000</b>      | £'000               |
| Investment management fee                       | 440               | 359                 |
| Manager's performance fee – charged to capital  | –                 | 1,698               |
| Rebate of investment management fee (see below) | <u>(61)</u>       | <u>(58)</u>         |
| <b>Total management fee</b>                     | <b><u>379</u></b> | <b><u>1,999</u></b> |

For the avoidance of double charging management fees, the Investment Manager has agreed to rebate any periodic management fee that it receives from the Company by the amount of fees receivable by it from Lindsell Train fund products and other fund products where Lindsell Train Limited is the investment manager in respect of the Company's investments in those funds. The amounts rebated on the Investment Management fee are shown above, of which £26,208 (2013: £22,873) relates to the Company's investment in the Lindsell Train Japanese Equity Fund, £25,257 (2013: £28,117) relates to the Company's investment in the Lindsell Train Global Equity Fund and £9,253 (2013: £7,204) relates to the Company's investment in the Finsbury Growth & Income Trust PLC.

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## 3 Investment management fees continued

The Investment Manager has agreed that any performance fees that it earns from a Lindsell Train fund product in respect of the Company's investment in that fund will be reinvested in the shares of that fund and the shares rebated to the Company. In respect of the Company's investment in Finsbury Growth & Income Trust PLC shares, any performance fee earned by the Investment Manager will be rebated to the Company in cash.

As at 31 March 2014 the Company had investments in the following Lindsell Train managed funds: 6,555,661 shares in Lindsell Train Japanese Equity Fund at a cost of £2,661,165; 2,522,066 shares in Lindsell Train Global Equity Fund at a cost of £1,385,199; 420,000 shares in Finsbury Growth & Income Trust PLC at a total cost of £758,720.

Details of the Investment Management Agreement are disclosed in note 6 on page 46.

## 4 Other expenses

|   | 2014       | 2013       |
|---|------------|------------|
|   | £'000      | £'000      |
| Directors' emoluments (see note 5)                        | 79         | 79         |
| Administration fee  | 80         | 77         |
| Auditor's remuneration for:                               |            |            |
| – audit of the financial statements of the Company        | 25         | 22         |
| Auditor's remuneration for the provision of tax services: |            |            |
| – taxation compliance                                     | 6          | 7          |
| – taxation advisory                                       | –          | 1          |
| Safe custody fee  | 44         | –          |
| Printing fees   | 9          | 9          |
| Registrars' fee   | 12         | 12         |
| Listing fee   | 13         | 12         |
| Legal fees  | 12         | 24         |
| Directors' liability insurance                            | 5          | 5          |
| Irrecoverable VAT   | 21         | –          |
| Sundry  | 12         | 12         |
|   | <u>318</u> | <u>260</u> |
| Capital charges   | 4          | 14         |
|   | <u>322</u> | <u>274</u> |

In accordance with an administration agreement dated 21 December 2000 between the Company and Phoenix Administration Services Limited ("Phoenix"), Phoenix has been appointed to provide administration and company secretarial services to the Company for which Phoenix receives an annual fee of £80,000.

## 5 Directors' emoluments

One Director's emoluments are assigned to a consultancy of which he is the principal Director. These total £22,500 (2013: £22,500) and are included in the table below:

|                 | 2014      | 2013      |
|-----------------|-----------|-----------|
|                 | £'000     | £'000     |
| Directors' fees | <u>79</u> | <u>79</u> |

## Financial Statements

### Notes to the Financial Statements *continued*

#### 5 Directors' emoluments *continued*

Since 1 July 2011, the Chairman of the Board, Chairman of the Audit Committee, and other Directors receive fixed fees at rates of £22,500, £20,000 and £18,000 respectively per annum, and have no entitlement to any performance fees. Directors' fees amounting to £18,000 have been waived by Mr Michael Lindsell in view of his connection with the Investment Manager.

There were no pension contributions paid or payable.

#### 6 Disclosure of interests and Manager's fees

In accordance with an Investment Management Agreement dated 21 December 2000 (revised in May 2008) between the Company and Lindsell Train Limited, Lindsell Train Limited has been appointed to provide investment management services to the Company. Lindsell Train Limited receives an annual fee of 0.65% of the Adjusted Market Capitalisation of the Company calculated on the last Business Day of each calendar month and payable in arrears in respect of each calendar month. The amount charged during the year is shown in note 3 and £33,293 (2013: £29,536) of the fee for the year was outstanding as at the balance sheet date.

A performance fee is payable at the rate of 10% of the amount by which the growth in the Adjusted Market Capitalisation per Ordinary Share of the Company in each performance period exceeds a specified performance hurdle calculated with reference to the annual average gross running yield on the 2.5% Consolidated Loan Stock over the period, subject to a high watermark. The Company has twelve month performance periods, ending on 31 March in each year. The performance fee is payable in arrears in respect of each performance period.

The performance fee for the year to 31 March 2014 amounts to £nil (2013: £1,697,980). Under a "claw-back" arrangement agreed with the Manager after the year end 31 March 2013, 50% of the performance fee deemed attributable to expansion of the share price premium over the NAV was withheld by the Company and will only be paid out if the NAV at 31 March 2014 (adjusted for any payment of dividends) exceeds the NAV at 31 March 2013. At the balance sheet date £252,169 relating to the claw-back agreement was outstanding. This change is not an adjusting event under FRS21.

Lindsell Train Limited is also the Investment Manager of Finsbury Growth & Income Trust PLC in which the Company has an investment (see page 6).

Lindsell Train Limited's appointment as Investment Manager is subject to termination by either party on twelve months' notice.

#### 7 Interest payable and similar charges

|               | 2014      | 2013      |
|---------------|-----------|-----------|
|               | £'000     | £'000     |
| On overdrafts | <u>36</u> | <u>16</u> |

#### 8 Taxation

The tax charge on the profit on ordinary activities for the year was as follows:

|                          | 2014      |         |           | 2013      |         |           |
|--------------------------|-----------|---------|-----------|-----------|---------|-----------|
|                          | Revenue   | Capital | Total     | Revenue   | Capital | Total     |
|                          | £'000     | £'000   | £'000     | £'000     | £'000   | £'000     |
| UK corporation tax       | -         | -       | -         | -         | -       | -         |
| Overseas tax             | 18        | -       | 18        | 19        | -       | 19        |
| Overseas tax recoverable | (4)       | -       | (4)       | (1)       | -       | (1)       |
| Tax charge per accounts  | <u>14</u> | -       | <u>14</u> | <u>18</u> | -       | <u>18</u> |

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## 8 Taxation continued

The current taxation charge for the year is different from the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below:

|   | 2014<br>£'000    | 2013<br>£'000    |
|---|------------------|------------------|
| Net return on ordinary activities before taxation             | <u>7,606</u>     | <u>12,595</u>    |
| Theoretical tax at UK corporation tax rate of 23% (2013: 24%) | 1,749            | 3,023            |
| Effects of:   |                  |                  |
| – UK dividends which are not taxable                          | (399)            | (406)            |
| – Overseas dividends which are not taxable                    | (44)             | (52)             |
| – Capital gains not subject to corporation tax                | (1,435)          | (3,073)          |
| – Current year excess expenses                                | 130              | 97               |
| – Unutilised capital expenses                                 | (1)              | 411              |
| – Overseas tax suffered                                       | 18               | 19               |
| – Overseas tax recoverable                                    | <u>(4)</u>       | <u>(1)</u>       |
| <b>Actual current tax charge</b>                              | <u><u>14</u></u> | <u><u>18</u></u> |

As an investment trust the Company, whilst it obtains exemption under Sections 1158/1159 Corporation Tax Act 2010, is not subject to UK taxation on capital gains. In the opinion of the Directors, the Company has complied with the requirements of Section 1159 Corporation Tax Act 2010.

### Factors that may affect future tax charges

The Company has not recognised a deferred tax asset of £1,158,000 (2013: £1,076,000) arising from management expenses exceeding taxable income. These expenses could only be utilised if the Company were to generate taxable profits in the future.

## 9 Dividends paid

|  | 2014<br>£'000 | 2013<br>£'000 |
|--|---------------|---------------|
| Final dividend for the year ended 31 March 2013 of 625p per Ordinary Share   | <u>1,250</u>  | <u>830</u>    |
| The total dividend forming the basis of Sections 1158/1159 Corporation Tax Act 2010 payable in respect of the financial year is set out below: |               |               |
| Final dividend for the year ended 31 March 2014 of 676p per Ordinary Share   | <u>1,352</u>  | <u>1,250</u>  |

## Financial Statements

### Notes to the Financial Statements continued

#### 10 Return per Ordinary Share

|  | 2014              | 2013           |
|--|-------------------|----------------|
| <b>Total return per Ordinary Share</b>                                 |                   |                |
| Total return   | <b>£7,592,000</b> | £12,577,000    |
| Weighted average number of Ordinary Shares<br>in issue during the year | <u>200,000</u>    | <u>200,000</u> |
| Total return per Ordinary Share  | <u>£37.96</u>     | <u>£62.88</u>  |

The total return per Ordinary Share detailed above can be further analysed between revenue and capital, as below:

|  |                   |                |
|--|-------------------|----------------|
| <b>Revenue return per Ordinary Share</b>                               |                   |                |
| Revenue return   | <b>£1,351,000</b> | £1,483,000     |
| Weighted average number of Ordinary Shares<br>in issue during the year | <u>200,000</u>    | <u>200,000</u> |
| Revenue return per Ordinary Share                                      | <u>£6.75</u>      | <u>£7.41</u>   |
| <b>Capital return per Ordinary Share</b>                               |                   |                |
| Capital return   | <b>£6,241,000</b> | £11,094,000    |
| Weighted average number of Ordinary Shares<br>in issue during the year | <u>200,000</u>    | <u>200,000</u> |
| Capital return per Ordinary Share                                      | <u>£31.21</u>     | <u>£55.47</u>  |

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## 11 Investments held at fair value through profit or loss

|   | 2014<br>£'000 | 2013<br>£'000 |
|---|---------------|---------------|
| Investments listed on a recognised investment exchange                          | 48,582        | 49,561        |
| Unlisted investments  | 15,430        | 9,010         |
| Valuation at year end   | <u>64,012</u> | <u>58,751</u> |
| Opening book cost   | 25,241        | 24,983        |
| Opening investment holding gains  | 33,330        | 21,328        |
| Opening valuation   | <u>58,571</u> | 46,311        |
| Movements in the year:  |               |               |
| Purchases at cost   | 646           | 1,248         |
| Sales – proceeds  | (2,107)       | (2,088)       |
| – gains on sales  | 1,043         | 1,097         |
| Increase in investment holding gains for the year                               | <u>5,859</u>  | <u>12,003</u> |
| Closing valuation   | <u>64,012</u> | <u>58,571</u> |
| Closing book cost   | 24,823        | 25,241        |
| Closing investment holding gains  | 39,189        | 33,330        |
|   | <u>64,012</u> | <u>58,571</u> |
| Sale proceeds   | 2,107         | 2,088         |
| Investments at cost   | (1,064)       | (991)         |
| Gains on sales based on historical cost   | 1,043         | 1,097         |
| Investment holding losses recognised in previous years                          | (934)         | (1,039)       |
| Gains on sales based on carrying value at previous<br>year's balance sheet date | 109           | 58            |
| Investment holding gains for the year   | <u>6,793</u>  | <u>13,042</u> |
| Net gains on investments  | <u>6,902</u>  | <u>13,100</u> |

Investment transaction costs on purchases and sales of investments during the year to 31 March 2014 amounted to £5,000 and £4,000 respectively (2013: £5,000 and £2,000 respectively).

During the year the investment holding gain attributable to the Company's holding in Lindsell Train Limited amounted to £6,420,000 (2013: £2,905,000).

## Financial Statements

### Notes to the Financial Statements *continued*

#### 11 Investments held at fair value through profit or loss *continued*

##### Significant holdings

Included in the above are the following investments in which the Company has an interest exceeding 10% of the nominal value of the shares of that class in the investee company as at 31 March 2014.

| Investments                          | Country of registration<br>or incorporation | Class of<br>capital                       | % of<br>class held |
|--------------------------------------|---|---|--------------------|
| Lindsell Train Limited*              | England                                     | Ordinary Shares of £100                   | 24.42%             |
| Lindsell Train Japanese Equity Fund† | Ireland                                     | Class B Redeemable<br>Participating Share | 26.04%             |

\*As at 31 January 2014, the latest year end for Lindsell Train Limited, the audited aggregate capital and reserves amounted to £7,564,377 (2013: £6,780,468) and the profit for that year ended amounted to £7,822,149 (2013: £4,471,234). The total amount of dividends paid during the year was £7,038,240, equating to a dividend of £2,640 per share. The earnings per share was £2,934.04. The cost of the investment in Lindsell Train Limited was £65,100.

† The unaudited aggregate net assets of Lindsell Train Japanese Equity Class B Redeemable Participating Shares as at 30 March 2014 was ¥2,687,927,434.

These companies have been accounted for as investments in accordance with the accounting policy in note 1 (d).

The Company has arrangements in place with the Investment Manager to avoid double charging of fees and expenses on investments made in other Lindsell Train fund products (see note 3).

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## 12 Debtors

|  | 2014         | 2013         |
|--|--------------|--------------|
|  | £'000        | £'000        |
| Futures contact held at fair value through profit or loss                | 41           | –            |
| Open forward currency contract held at fair value through profit or loss | 3,779        | 4,146        |
| VAT recoverable  | –            | 26           |
| Prepayments and accrued income   | 173          | 764          |
|  | <b>3,993</b> | <b>4,936</b> |

## 13 Creditors: amounts falling due within one year

|  | 2014         | 2013         |
|--|--------------|--------------|
|  | £'000        | £'000        |
| Bank overdraft   | 1,724        | 1,237        |
| Futures contact held at fair value through profit or loss                | –            | 127          |
| Open forward currency contract held at fair value through profit or loss | 3,813        | 4,163        |
| Accruals and deferred income   | 324          | 1,759        |
|  | <b>5,861</b> | <b>7,286</b> |

## 14 Called up share capital

|  | 2014          |            | 2013          |            |
|--|---------------|------------|---------------|------------|
|  | No. of shares | £'000      | No. of shares | £'000      |
|  | 000's         |            | £'000         |            |
| <b>Authorised:</b>                         |               |            |               |            |
| Ordinary Shares of 75p each                | <u>200</u>    | <u>150</u> | <u>200</u>    | <u>150</u> |
| <b>Allotted, called up and fully paid:</b> |               |            |               |            |
| Ordinary Shares of 75p each                | <u>200</u>    | <u>150</u> | <u>200</u>    | <u>150</u> |

There has been no change in the capital structure during the year to 31 March 2014.

## 15 Capital reserve

The capital reserve includes investment holding gains of £39,189,000 (2013: £33,330,000).

The Institute of Chartered Accountants in England and Wales has issued guidance stating that profits arising out of a change in fair value of assets, recognised in accordance with Accounting Standards, may be distributed provided the relevant assets can be readily convertible into cash. Securities listed on a recognised stock exchange are generally regarded as being readily convertible into cash. In accordance with the Company's Articles of Association, the capital reserve and special reserve may not be distributed by way of dividend but may be utilised for the purposes of share buybacks, and the Company may only distribute by way of dividend accumulated revenue profits.

## Financial Statements

### Notes to the Financial Statements continued

#### 16 Net asset value per share

The net asset value per Ordinary Share and the net asset value at the year end calculated in accordance with the Articles of Association were as follows:

| Net asset value per share attributable |               | Net asset value attributable |               |
|--|---------------|------------------------------|---------------|
| 2014                                   | 2013          | 2014                         | 2013          |
| £                                      | £             | £'000                        | £'000         |
| <u>321.51</u>                          | <u>289.80</u> | <u>64,302</u>                | <u>57,960</u> |

The movements during the year of the assets attributable to each Ordinary Share were as follows:

|  | Ordinary Shares<br>£'000 |
|--|--------------------------|
| Total net assets attributable at beginning of year | 57,960                   |
| Total recognised gains for the year                | 7,592                    |
| Dividends paid during the year                     | (1,250)                  |
| Total net assets attributable at end of year       | <u>64,302</u>            |

The net asset value per Ordinary Share is based on net assets of £64,302,000 (2013: £57,960,000) and on 200,000 Ordinary Shares (2013: 200,000), being the number of Ordinary Shares in issue at the year end.

#### 17 Cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

|  | 2014<br>£'000 | 2013<br>£'000 |
|--|---------------|---------------|
| Net return before finance costs and taxation         | 7,642         | 12,611        |
| Gains on investments held at fair value              | (6,902)       | (13,100)      |
| Movement in Derivatives contracts held at fair value | (168)         | 35            |
| Losses on exchange movements                         | 293           | 247           |
| Decrease/(increase) in other debtors                 | 393           | (205)         |
| Decrease/(increase) in accrued income                | 591           | (574)         |
| (Decrease)/increase in creditors                     | (1,785)       | 1,720         |
| Net cash inflow from operating activities            | <u>64</u>     | <u>734</u>    |

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## 17 Cash flow statement continued

(b) Analysis of cash flows for headings netted in the cash flow statement

|   | 2014<br>£'000 | 2013<br>£'000 |
|---|---------------|---------------|
| <b>Financial investment</b>               |               |               |
| Purchase of investments                   | (646)         | (1,248)       |
| Sale of investments                       | 2,107         | 2,594         |
| Net cash inflow from financial investment | <u>1,461</u>  | <u>1,346</u>  |

| (c) Analysis of net funds | At<br>1 April<br>2013<br>£'000 | Cash<br>flow<br>£'000 | Exchange<br>movement<br>£'000 | At<br>31 March<br>2014<br>£'000 |
|---------------------------|--------------------------------|-----------------------|-------------------------------|---------------------------------|
| Cash at bank              | 1,739                          | 426                   | (7)                           | 2,158                           |
| Bank overdraft            | (1,237)                        | (201)                 | (286)                         | (1,724)                         |
| Total                     | <u>502</u>                     | <u>225</u>            | <u>(293)</u>                  | <u>434</u>                      |

## 18 Financial instruments and capital disclosures

### Risk management policies and procedures

The investment objective of the Company is to maximise long-term total returns with a minimum objective to maintain the real purchasing power of Sterling capital as measured by the annual average yield on the 2.5% Consolidated Loan Stock. In pursuit of this objective, the Company may be exposed to various forms of risk, as described below.

When judged appropriate by the Investment Manager, the Company may use the overdraft facility with Northern Trust Company in order to gear the portfolio.

The Investment Manager will use this facility only when investments, or a specific investment opportunities are identified where the Investment Manager judges that the likely returns will exceed the cost of the borrowed capital. In practice, this means that the Investment Manager looks for sustainable high income, dividend yields or special situations, typically takeovers, where it is expects to arbitrage a meaningful annualised return.

The Board sets out its investment policies and its policy on gearing (bank borrowing), diversification and dividends at the front of this report on page 1.

The Board and its Investment Manager consider and review the number of risks inherent with managing the Company's assets which are detailed below.

### Market risk

The fair values or future cash flows of the Company's financial instruments may fluctuate due to changes in market risk. Market risk encompasses mainly equity price risk but also foreign exchange risk and interest rate risk which are discussed below.

Market risk is monitored by the Board on a quarterly basis and on a continuous basis by the Investment Manager.

The company transacts futures contracts, which alter the exposure to equity price risk.

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## 18 Financial instruments and capital disclosures continued

### Foreign currency exposure as at 31 March 2014

|   | Sterling<br>£'000 | US\$<br>£'000 | Euro<br>£'000 | JPY<br>£'000 | Total<br>£'000 |
|---|-------------------|---------------|---------------|--------------|----------------|
| Investments held at fair value through profit or loss that are monetary items | 3,414             | –             | –             | –            | 3,414          |
| Forward currency contracts held at fair value through profit or loss          | (3,813)           | 3,779         | –             | –            | (34)           |
| Futures contracts held at fair value through profit or loss                   | –                 | –             | –             | 41           | 41             |
| Short-term debtors  | 115               | 34            | 5             | 19           | 173            |
| Cash at bank  | 2,158             | –             | –             | –            | 2,158          |
| Short-term creditors  | (322)             | –             | (1)           | (1)          | (324)          |
| Overdraft facility  | –                 | –             | (911)         | (813)        | (1,724)        |
| Foreign currency exposure on net monetary items                               | 1,552             | 3,813         | (907)         | (754)        | 3,704          |
| Investments held at fair value through profit or loss that are equities       | 46,478            | 4,644         | 2,828         | 6,648        | 60,598         |
| Total net foreign currency exposure   | <u>48,030</u>     | <u>8,457</u>  | <u>1,921</u>  | <u>5,894</u> | <u>64,302</u>  |

### Foreign currency exposure as at 31 March 2013

|   | Sterling<br>£'000 | US\$<br>£'000 | Euro<br>£'000 | JPY<br>£'000 | Total<br>£'000 |
|---|-------------------|---------------|---------------|--------------|----------------|
| Investments held at fair value through profit or loss that are monetary items | 3,687             | –             | –             | –            | 3,687          |
| Forward currency contracts held at fair value through profit or loss          | (4,163)           | 4,146         | –             | –            | (17)           |
| Futures contracts held at fair value through profit or loss                   | –                 | –             | –             | (127)        | (127)          |
| Short-term debtors  | 722               | 44            | 1             | 23           | 790            |
| Cash at bank  | 1,739             | –             | –             | –            | 1,739          |
| Short-term creditors  | (1,756)           | –             | (2)           | (1)          | (1,759)        |
| Overdraft facility  | –                 | –             | (913)         | (324)        | (1,237)        |
| Foreign currency exposure on net monetary items                               | 229               | 4,190         | (914)         | (429)        | 3,076          |
| Investments held at fair value through profit or loss that are equities       | 40,331            | 4,776         | 3,077         | 6,700        | 54,884         |
| Total net foreign currency exposure   | <u>40,560</u>     | <u>8,966</u>  | <u>2,163</u>  | <u>6,271</u> | <u>57,960</u>  |

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## 18 Financial instruments and capital disclosures continued

Over the year against all of the Company's principal investing currencies, Sterling strengthened against the US Dollar by 9.72% (2013: weakened by 4.90%), against the Euro by 2.05% (2013: weakened by 1.21%) and against the Japanese Yen by 19.92% (2013: strengthened by 8.89%).

A 5% decline or rise of Sterling against foreign currency denominated (i.e. non Sterling) assets held at the year end would have increased/decreased the net asset value by £814,000 or 1.29% of Net Asset Value (2013: £870,000 or 1.50% of Net Asset Value). The impact on the profit and loss account is impossible to estimate, since the profit and loss is the net result of all the transactions in the portfolio throughout the year.

### Interest rate risk

The Company is only exposed to significant interest rate risk through its overdraft facility with Northern Trust Company. Borrowing varied throughout the year as part of a Board endorsed policy. Borrowings at the year end consisted of €1,101,000 and JPY139,619,000 with a Sterling equivalent of £911,000 and £813,000 respectively. If that level of borrowing were maintained for a year a 1% change in LIBOR (up or down) would decrease or increase net revenue by £17,000 or 8.62p per Ordinary Share (2013: £12,000 or 6.18p per Ordinary Share).

The Company's fixed rate financial assets are disclosed on page 6 and details of the split between equities and fixed interest securities are disclosed on page 7. The weighted average interest rate for the fixed rate financial assets is 5.21% (2013: 5.21%) and the weighted average period for which rates are fixed is indefinite (2013: indefinite).

### Other price risk

If the fair value of the Company's investments (see portfolio holdings on page 6) at the year end increased/decreased by 10% then it could have the effect of £6,401,000 or £32.01 per Ordinary Share (2013: £5,857,000 or £29.29 per Ordinary Share) on the capital return.

### Derivative exposure

As at 31 March 2014 there was one open forward currency contract increasing the exposure to the US Dollar by USD6,300,000 against Sterling of £3,779,000 which matured on 28 April 2014 (2013: USD6,300,000 against Sterling of £4,147,000 which matured on 22 April 2013).

The Company has sold 25 Nikkei 225 Index Futures due to expire on 12 June 2014 (as a partial hedge against exposure to the Japanese equity content of the portfolio).

The Company's strategy in using forward currency contracts is to maintain additional exposure to the US Dollar at levels previously recorded in prior years.

### Liquidity risk

Liquidity risk is not significant in normal market conditions as the majority of the Company's investments are listed on recognised stock exchanges and for the most part readily realisable securities which can be easily sold to meet funding commitments if necessary. Short-term flexibility is achieved by the use of overdrafts as required and are repayable on demand.

### Credit risk

Credit risk is mitigated by diversifying the counterparties through whom the Investment Manager conducts investment transactions. The credit-standing of all counterparties is reviewed periodically with limits set on amounts due from any one broker.

Cash at bank and other debtors of the Company at the year end as shown on the Balance Sheet was £6,151,000 (2013: £6,675,000).

## Financial Statements

### Notes to the Financial Statements *continued*

#### 18 Financial instruments and capital disclosures *continued*

##### Counterparty risk

Northern Trust Company (the "Bank") is the appointed custodian of the Company. It provides securities clearing, safe-keeping, foreign exchange, advance credits and overdrafts, and cash deposit services. The Bank has a credit rating of A1 from Moody and AA- from S&P.

As cash placed at the Bank is deposited in its capacity as a banker not a trustee, in line with usual banking practice such cash is not held in accordance with the Financial Conduct Authority's client money rules. The Bank's London Branch provides a short-term overdraft facility not exceeding £5 million to the Company which is linked to the master custody agreement. The facility is an unsecured and uncommitted line of credit which can be recalled at any time by notice in writing. Whilst there are drawings on the overdraft the Bank has a right of set-off and a lien on all of the Company's assets held and maintained by the Bank pursuant to the master custody agreement, which may be exercised for the purposes of securing any sums due and payable to the Bank by the Company.

##### Valuation of financial instruments

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements. Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

- Level 1 – valued using quoted prices unadjusted in active markets for identical assets or liabilities.
- Level 2 – valued by reference to valuation techniques using observable inputs for the asset or liability other than quoted prices included in Level 1.
- Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data for the asset or liability.

The table below sets out fair value measurements of financial instruments as at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised.

##### Financial assets at fair value through profit or loss at 31 March 2014

|                            | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|----------------------------|------------------|------------------|------------------|----------------|
| Equity investments         | 45,168           | –                | 15,430           | 60,598         |
| Fixed interest investments | 3,414            | –                | –                | 3,414          |
| Forward Currency Contract  | –                | 3,779            | –                | 3,779          |
| Derivatives                | 41               | –                | –                | 41             |
|                            | <u>48,623</u>    | <u>3,779</u>     | <u>15,430</u>    | <u>67,832</u>  |

##### Financial liabilities at fair value through profit or loss at 31 March 2014

|                           | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|---------------------------|------------------|------------------|------------------|----------------|
| Forward Currency Contract | –                | (3,813)          | –                | (3,813)        |
|                           | <u>–</u>         | <u>(3,813)</u>   | <u>–</u>         | <u>(3,813)</u> |

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## 18 Financial instruments and capital disclosures continued

### Financial assets at fair value through profit or loss at 31 March 2013

|                            | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|----------------------------|------------------|------------------|------------------|----------------|
| Equity investments         | 45,874           | –                | 9,010            | 54,884         |
| Fixed interest investments | 3,687            | –                | –                | 3,687          |
| Forward Currency Contract  | –                | 4,147            | –                | 4,147          |
|                            | <u>49,561</u>    | <u>4,147</u>     | <u>9,010</u>     | <u>62,718</u>  |

### Financial liabilities at fair value through profit or loss at 31 March 2013

|                           | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|---------------------------|------------------|------------------|------------------|----------------|
| Forward Currency Contract | –                | (4,163)          | –                | (4,163)        |
| Derivatives               | (127)            | –                | –                | (127)          |
|                           | <u>(127)</u>     | <u>(4,163)</u>   | <u>–</u>         | <u>(4,290)</u> |

The valuation techniques used by the company are explained in the accounting policies note on page 42.

The valuation of the investment in Lindsell Train Limited (“LTL”) derives from a formula adopted by the Board in October 2007, after taking advice from an expert in the sector, and uses a simple average of two different components:

- 1.5% of LTL’s most recent funds under management; and
- LTL’s net earnings (adjusted for a notional increase in staff costs to 45% of revenues excluding performance fees) divided by the annual average yield on the 2.5% Consolidated Loan Stock plus an equity risk premium of 4.5%.

As stated in the accounting policy of the Company, the valuation of LTL shares is calculated at the end of each quarter on the basis of fair value as determined by the Directors of the Company.

The audited NAV in the financial statements reflects the latest available fair value price for LTL based on its valuation as at March 2014, a valuation that was updated in April 2014. This figure was considered materially different to the published NAV as at March 14 based on LTL’s last quarterly fair value price at the end of December 2013, which was updated in February 2014.

Given that this would result in a 2% material change to the net asset value of the Company, the Directors consider that an adjustment is made to the financial statements below:

|  |               |                |
|--|---------------|----------------|
|  | £'000         | £'000          |
| Published net asset value of the Company as at 31 March 2014 |               | 63,068         |
| Valuation Adjustments:                                       |               |                |
| Change in fair value through profit and loss account         |               |                |
| LTL latest available valuation*                              | 15,430        |                |
| LTL last updated valuation **                                | <u>14,198</u> |                |
|  |               | 1,232          |
| Other adjustments  |               | 2              |
| Audited Net Asset Value of the Company as at 31 March 2014   |               | <u>64,302</u>  |
| Audited net asset value per share                            |               | <u>£321.51</u> |

\*Valuation based on LTL’s AUM and earnings in March 2014.

\*\*Valuation based on LTL’s AUM and earnings in December 2013.

## Financial Statements

### Notes to the Financial Statements *continued*

#### 18 Financial instruments and capital disclosures *continued*

If the value of the funds under management changes by 10% with unchanged earnings, this will impact the valuation of the investment by 4.3%. If the funds under management are unchanged and earnings change by 10%, the impact on the valuation of the investment would be 5.7%. If both the value of the funds under management and earnings change by 10% then the impact to the valuation of the investment would be 10%.

There have been no transfers during the year between Levels 1 and 2. A reconciliation of fair value measurements in Level 3 is set out below.

#### Level 3 Financial assets at fair value through profit or loss at 31 March

|   | 2014<br>£'000 | 2013<br>£'000 |
|---|---------------|---------------|
| Opening fair value  | 9,010         | 6,277         |
| Purchases at cost   | –             | –             |
| Sales proceeds  | –             | (172)         |
| Total gains or losses included in gains on investments<br>in the Income Statement |               |               |
| – on sold assets  | –             | 170           |
| – on assets held at the end of the year   | 6,420         | 2,735         |
| <b>Closing fair value</b>   | <b>15,430</b> | <b>9,010</b>  |

#### Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to maximise long-term total returns subject to the avoidance of loss of absolute value through an appropriate balance of equity capital and debt.

The policy is that borrowings should amount to no more than 50% of the net asset value (including borrowings) of the Company.

The Board, with the assistance of the Investment Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the level of gearing, which is only used to finance investment in specific assets held by the Company; and
- takes into account the Investment Manager's view on the market.

The Company's objectives, policies and processes for managing capital are unchanged from last year.

The Company is subject to externally imposed capital requirements:

- as a public company, the Company has a minimum share capital of £50,000; and
- in order to be able to pay dividends out of profits available for distribution, the Company has to be able to meet one of the two capital restriction tests imposed on investment companies by UK company law.

These requirements are unchanged since last year and the Company has complied with them at all times.

The Company intends to renew its authority to repurchase shares at a discount to net asset value in order to enhance value for Shareholders.

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## 19 Guarantees, financial commitments and contingent liabilities

There were no financial commitments or contingent liabilities outstanding at the year end (2013: None).

| 20 Ongoing charges       | 2014  |      | 2013  |      |
|--------------------------|-------|------|-------|------|
|                          | £'000 | %    | £'000 | %    |
| Total operating expenses | 697   | 1.15 | 561   | 1.11 |

Total operating expenses include £61,000 (2013: £58,000) in respect of a management fee waiver (see note 3). They exclude the Manager's performance fee of £nil charged to capital in 2014 (2013: £1,698,000). The fees of the principal clearing broker and custodian, Northern Trust Company, were not included in these figures for 2013.

The above ongoing charge is based on the average Shareholders' Funds of £60,619,000 (2013: £50,578,000) calculated at the end of each month during the year.

It should be noted that administrative expenses borne by the Lindsell Train Funds are excluded from the above.

## 21 Transactions with the Manager

Lindsell Train Limited acts as the Investment Manager of the Company. The amounts paid to the Investment Manager are disclosed in note 3 and further details of the relationship between the Company and the Investment Manager are set out in note 6. Full details of Directors' interests are set out in the Report of the Directors on page 33.

## Shareholder Information

### Notice of Annual General Meeting

Notice is hereby given that the eleventh Annual General Meeting of The Lindsell Train Investment Trust Plc will be held at Cayzer House, 30 Buckingham Gate, London SW1E 6NN on 2 September 2014 at 2.30 pm for the following purposes:

#### Ordinary business

1. To receive the Financial Statements and Reports of the Directors and the Auditor for the year ended 31 March 2014;
2. To approve the Annual Report on Remuneration for the year ended 31 March 2014;
3. To approve the payment of a final dividend for the year ended 31 March 2014 of 676p per Ordinary Share;
4. To re-elect Mr Donald Adamson as a Director of the Company;
5. To re-elect Mr Dominic Caldecott as a Director of the Company;
6. To re-elect Mr Rory Landman as a Director of the Company;
7. To re-elect Mr Michael Lindsell as a Director of the Company;
8. To re-elect Mr Michael Mackenzie as a Director of the Company;
9. To re-appoint Grant Thornton UK LLP as Auditor to the Company and authorise the Directors to determine the Auditor's remuneration;

#### Special Business

To consider and, if thought fit, pass resolution 10 as an Ordinary Resolution:

10. To receive and adopt the Directors' Remuneration Policy.

To consider and, if thought fit, pass resolutions 11 and 12 as Special Resolutions:

11. THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693(4) of the Act) of Ordinary Shares of 75p each ("Ordinary Shares") in the capital of the Company provided that:
  - a. the maximum number of Ordinary Shares hereby authorised to be purchased shall be 29,999;
  - b. the minimum price which may be paid for an Ordinary Share shall be 75p;
  - c. the maximum price (excluding expenses) which may be paid for an Ordinary Share shall be the higher of (a) 5% above the average of the mid market values for the Ordinary Shares in the Stock Exchange Daily Official List for the five business days immediately preceding the date of the purchase and (b) the higher of the last independent trade and highest independent bid;
  - d. any purchase of Ordinary Shares will be made in the market for cash at prices below the then prevailing Net Asset Value per Ordinary Share;
  - e. any shares so purchased shall be cancelled unless the Directors otherwise determine that they shall be held in treasury and treated as treasury shares; and

## THE LINDSELL TRAIN INVESTMENT TRUST PLC

- f. unless renewed, such authority hereby conferred shall expire at the end of the next following Annual General Meeting of the Company to be held after the passing of this resolution, or if earlier, the date fifteen months from the passing of the resolution, save that the Company may, prior to such expiry, enter into contract(s) to purchase shares which will or may be completed or executed wholly or partly after such expiry.
12. THAT the Directors be and are hereby generally and unconditionally authorised in accordance with Section 573 of the Companies Act 2006 ("Act") to sell and/or transfer Ordinary shares held by the Company in treasury for cash as if Section 561 of the Act did not apply to such sale or transfer, provided that the authority hereby granted shall expire at the earlier of the conclusion of the next following Annual General Meeting of the Company or the date fifteen months after the passing of this resolution, save that the Directors may before such expiry enter into offer(s) or agreement(s) which may or shall require Ordinary shares held in treasury to be sold or transferred after such expiry and the Directors shall be entitled to sell or transfer Ordinary shares pursuant to such offer(s) or agreement(s) as if the authority hereby granted had not so expired.

Dated this 23rd day of June 2014

By order of the Board

**Phoenix Administration Services Limited**

Secretary

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## Notes

- (i) This Report & Financial Statements is sent to holders of Ordinary shares, all of whom are entitled to attend, speak and vote at the above Annual General Meeting ("AGM").
- (ii) Members entitled to attend and vote at the AGM are also entitled to appoint one or more proxies to exercise all or any of their rights to attend and speak and vote on their behalf. Where multiple proxies are appointed they must be appointed to exercise the rights in relation to different Ordinary shares. Proxies need not be members of the Company.
- (iii) A form of proxy is sent to members with the Report & Financial Statements. To be valid the form of proxy and any power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of that power of attorney or authority) must be sent to the Company's registrar – Capita Registrars, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF – so as to arrive no later than 2.30 pm on 29 August 2014. Where multiple proxies are being appointed the form of proxy should be copied and a separate one completed for each proxy identifying, that the form of proxy is a multiple form and the different Ordinary shares that each proxy represents. Completion and return of form(s) of proxy will not preclude a member from attending, speaking and voting in person at the AGM.
- (iv) CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- (v) In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent Capita Registrars (ID: RA10) by 2.30 pm on 29 August 2014. In this respect the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message in the manner prescribed by CREST.
- (vi) CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by the particular time the CREST member requires.
- (vii) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- (viii) A person who is not a member of the Company and receives this notice of meeting as a person nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 ("Act") does not have a right to appoint proxies. However, if a nominated person has an agreement with the member who nominated them, the nominated person may have a right to be appointed as a proxy or a right to instruct the member as to the exercise of voting rights at the AGM.
- (ix) Shareholders entered on the Register of Members of the Company at the close of business on 29 August 2014, or the close of business on the day two days prior to the time of an adjourned meeting, shall be entitled to attend and vote at the AGM. Any changes to the Register of Members after such dates shall be disregarded in determining the rights of any shareholders to attend and vote at the AGM.
- (x) Under Section 319(A) of the Act, the Company must cause to be answered any question relating to the business being dealt with at the AGM put by a member attending the AGM unless answering the question would interfere unduly with the preparation for the meeting, would involve the disclosure of confidential information, an answer has already been given on a website, or is undesirable in the interests of the Company or the good order of the AGM.
- (xi) Members may not use any electronic address provided in this notice or any related document(s) to communicate with the Company for any purpose other than as specifically stated.
- (xii) As at 18 June 2014, the latest practicable date prior to the publication of this notice, the Company's issued share capital comprised 200,000 Ordinary shares of 75p each, of which none are held in treasury. Each Ordinary share carries a right to one vote at general meetings of the Company and accordingly the total number of voting rights in the Company as at 18 June 2014 is 200,000.
- (xiii) Information regarding the AGM, including the information required by Section 311A of the Act, can be found on the Company's web-pages by following the appropriate links at [www.lindselltrain.com](http://www.lindselltrain.com).
- (xiv) No Director has a service agreement with the Company. Directors' letters of appointment will be available for inspection at the AGM venue from 15 minutes before the time for the meeting until conclusion of the meeting.
- (xv) Member(s) have a right in accordance with Section 388 of the Act to require the Company to give to members of the Company entitled to receive the above notice of meeting, notice of any resolution which they may properly move at the meeting. Under Section 338A of the Act member(s) may request the Company to include in the business to be dealt with at the meeting any matter, other than a proposed resolution, which may be properly included in that business.
- (xvi) Members may require the Company, under Section 527 of the Act, to publish on a website a statement setting out any matter relating to the audit of the Company's Financial Statements being laid before the meeting, including the auditor's report and the conduct of the audit at the Company's expense. Where the Company is required to place such a statement on a website it must forward the statement to the Company's auditor not later than the time it makes the statement available on that website, and include the statement in the business to be dealt with at the meeting.

# THE LINDSELL TRAIN INVESTMENT TRUST PLC

## Company Information

### Directors

Donald Adamson (Chairman)  
Dominic Caldecott  
Rory Landman  
Michael Lindsell  
Michael Mackenzie

### Investment Manager

Lindsell Train Limited  
Cayzer House  
30 Buckingham Gate  
London  
SW1E 6NN  
Tel: 020 7802 4700

### Company Secretary and Registered Office

Phoenix Administration Services Limited  
Springfield Lodge  
Colchester Road  
Chelmsford  
Essex  
CM2 5PW  
Tel: 01245 398950  
www.phoenixfundservices.com  
email: pfsinfo@phoenixfundservices.com

### Registrars

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU  
Tel: 0871 664 0300  
*Calls cost 10p per minute plus  
network extras (from outside the  
UK: +44 208 639 3399)*

### Solicitor

Stephenson Harwood LLP  
London  
EC2M 7SH

### Auditor

Grant Thornton UK LLP  
30 Finsbury Square  
London  
EC2P 2YU

### Broker

JP Morgan Cazenove plc  
20 Moorgate  
London  
EC2R 6DA

### Custodian

Northern Trust Company  
50 Bank Street  
Canary Wharf  
London  
E14 5NT

### Shareholder relations

The Company's share price for Ordinary Shares is listed daily in the Financial Times.

For further information visit: [www.lindselltrain.com](http://www.lindselltrain.com) and follow the links.

### Individual Savings Account ("ISA")

The Company's shares are eligible to be held in an ISA account subject to HM Revenue & Customs' limits.

Registered in England, No: 4119429

**Company Secretary and Registered Office**

Phoenix Administration Services Limited

Springfield Lodge

Colchester Road

Chelmsford

Essex CM2 5PW

Tel: 01245 398950

Fax: 01245 398951

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