Lindsell Train Investment Trust PLC

All data at 28 February 2017

Market Capitalisation
£153.2m

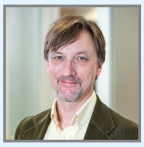
Share Price: £766.00

Net Asset Value: £573.36

Premium (Discount): 33.6%

Source: Lindsell Train Ltd/ Maitland Administration Services & Bloomberg. Share Price is based on closing mid price.

Portfolio Manager



Nick Train

Fund Objective

To maximise long-term total return subject to the avoidance of loss of absolute value and with a minimum objective to maintain the real purchasing power of Sterling capital, as measured by the annual average running yield on the longest-dated UK government fixed rate bond.

Fund Performance (GBP)

Calendar Year Performance (%)	*2012*	*2013*	*2014*	*2015*	*2016*
Lindsell Train Investment Trust NAV	+14.9	+25.9	+15.2	+23.0	+31.1
Lindsell Train Investment Trust Price	+28.0	+21.5	+8.7	+54.3	+61.9
MSCI World Index £	+10.7	+24.3	+11.5	+4.9	+28.2
Benchmark*	+4.0	+4.0	+4.3	+4.0	+4.0

Cumulative Performance (%) 28 February 2017	*Since Launch*	*5yr*	*3yr*	*1yr*	*YTD*	*3m*	*1m*
Lindsell Train Investment Trust NAV	+617.6	+174.1	+92.1	+33.8	+4.5	+7.4	+3.8
Lindsell Train Investment Trust Price	+854.5	+244.1	+129.8	+44.8	-16.1	-13.3	+10.8
MSCI World Index £	+138.8	+101.3	+56.8	+35.8	+4.5	+8.2	+3.9
Benchmark*	+104.6	+22.0	+12.8	+4.0	+0.7	+1.0	+0.3

Source: Lindsell Train Ltd, Bloomberg and Morningstar Direct. Listed securities in the portfolio are valued at the closing bid price. GBP return net of fees and expenses. MSCI World Index is not the Trust's benchmark and is shown for comparative purposes only.

Benchmark*: Index of annual average running yield of the 2½% Consolidated Loan Stock until 31 March 2015 and then the Index of the annual average running yield on the longest-dated UK government fixed rate bond plus 0.5% with a minimum yield of 4%

Past performance is not a guide to future performance.

Strategy Profile

Top 10 Holdings (% NAV)	
Lindsell Train Limited (unlisted)	37.9
Diageo	8.3
Unilever	7.0
London Stock Exchange	6.6
LT Japanese Equity Fund	6.3
Nintendo	6.0
A G Barr	5.7
RELX	4.2
Heineken Holdings	3.9
PayPal	3.0

Allocation (% NAV)	
Equities:	
Consumer Franchises	27.9
Financials	6.6
Media	16.8
Unlisted Securities	37.9
Funds	11.3
Cash & Equivalent	-0.5
Total	**100.0**

Lindsell Train sector definitions

Fund Exposure %	*Equity*	*Funds*	*Cash*	*Total*
UK	71.5	2.5	-0.5	**73.5**
USA	7.8	-	-	**7.8**
Europe (ex UK)	3.9	-	-	**3.9**
Japan	6.0	6.3	-	**12.3**
Global	-	2.5	-	**2.5**
Total	**89.2**	**11.3**	**-0.5**	**100.0**

Fund Information

Listing: **London Stock Exchange**

Launch Date: **22 January 2001**

Base Currency: **GBP (£)**

Year End: **31 March**

Benchmark: **The annual average running yield on the longest-dated UK government fixed rate bond plus 0.5% with a minimum yield of 4%**

Management Fees

Annual Fee:

0.65% of the lower of the market cap or NAV

Performance Fee :

10% of annual increase in the lower of NAV or share price above the benchmark return and calculated with a high watermark

Bloomberg:

LTI LN

ISIN :

GB0031977944

The Board:

Julian Cazalet (Chairman)
Vivien Gould
Rory Landman
Michael Lindsell
Michael Mackenzie

Corporate Secretary & Registered Office: **Maitland Institutional Services Limited, Springfield Lodge, Colchester Road, ESSEX CM2 5PW Phone: 01245 398950**

Investment Manager & Promoter: **Lindsell Train Ltd, 66 Buckingham Gate, London, SW1E 6AU Phone: +44 20 7808 1210 / info@lindselltrain.com**

Registrars: **Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU**

Portfolio Manager's Comments

The NAV advanced 3.8% in February and is now up 4.5% in 2017, just a fraction behind the performance of the MSCI. Meanwhile, the share price remains highly volatile and is down 16% year-to-date. As you can see the shares now trade at a c33% premium to the month-end NAV. A lower rating than for some while. We will do our best to keep the NAV moving forward, but, as always, it is for shareholders to determine the correct market price and valuation for their company.

Kraft Heinz' (KHC) approach to Unilever (ULVR) was a significant event for LT portfolios and of course has wider investment implications. Turning to those first.

The size of the proposed transaction was a wake-up call for corporations all over the world - and their investors. In these monthly notes we have repeatedly pointed to the growing scale of global M&A activity. 2015 was by far the biggest year for M&A in history and 2016 the second – at just short of $5 trillion, admittedly down c12% on the previous year. But even I would not have regarded ULVR as a likely merger or takeover candidate. Not just because of its, in our opinion, more than satisfactory business record, but because the ticket – well over £100 billion – seemed implausibly high, even in an era of low interest rates. In the light of KHC's willingness to engage – you now have to ask: Is any company too big to be bought?

On this issue of scale consider the following recent quote from Baillie Gifford's James Anderson – one of his many smart and provocative insights (for which we, and all investors, should be very grateful). "Aren't market capitalisations for the leading companies absurdly small?" He means global companies and he is right. Globalisation and digital technology have changed the upper boundaries for what constitutes "big". The way we think about it is that most companies categorised as "big" are actually rather "small" compared to the opportunities that have opened up for them. Or put another way – in 10 years time market capitalisations of leading companies will dwarf those that prevail now. Looking ahead to this world KHC and ULVR are just a couple of midcaps coming together.

And again on this point of global reach, we think it important to consider Kraft's motivation – both public and implied. Of course there was probable profit margin uplift from the proposed combination. KHC's high 20%s profit margin seems unsustainably high to us, but ULVR's in the mid teens can likely be enhanced, as indeed is confirmed in ULVR's response to the proposal. But this is relatively trivial stuff. Far more germane for KHC shareholders, we suspect, was the fact that it is predominantly a continent-locked North American business, 70%+ of revenues. And, crucially, only 10% derive from Emerging Markets. But, as ULVR CEO Paul Polman put it memorably a couple of years ago – Emerging Markets are where all the people are. To us KHC's opportunistic approach was likely driven far more by its desire to take advantage of the current relative unpopularity of Emerging Markets than short term quibbles about what ULVR's profit margins should be. It's ULVR's unique market positions in India, Indonesia, Brazil etc that were the real prize here. ULVR investors must not allow themselves to be spoofed out of their full ownership of these strategic assets in return for a few and possibly temporary, basis points of profit uplift.

Another consideration is valuation. For at least five years we've been dealing with client scepticism about the valuation of ULVR and similar companies. And that scepticism has intensified, of course, following the late 2016 sell-off in government bonds and rally in commodities. "Cyclical value" is now commonly expected to do better than "quality growth" – for an indefinite period. This could be right – although we do not feel in the remotest tempted to sell our growth stocks. Though we acknowledge there is never any definitive proof of a claimed under or over valuation until well after the claim is made - nonetheless, we do have to observe that Buffett, who knows more about valuation than most and 3G, arguably the most successful private equity concern of the last decade, have just placed a £40 sighting shot on ULVR's equity. Who knows how much more would have been tabled to close a transaction? That £40 is 20% above ULVR's average price over the last year. And it's pretty much double the price it was five years ago. Think about how much ULVR equity has changed hands over the last five years – on, in hindsight, spurious concerns about valuation. All we can say is that obviously special companies like ULVR (look at the dividend history) are very rare and very valuable. Of course there must be a price that is too high for it, but that is unlikely to be so while the earnings yield is in touch with 5% or a P/E of 20x.

What to do now? We have bought more ULVR since the deal fell through – although are now constrained by portfolio concentration rules in many accounts. The board's response to the approach – of immediately promising a review to release more value more quickly for holders is intriguing. We can see how short term value could be created. But we can also see how long term value could be lost – if ULVR feels compelled to cut back on brand building or to hamstring its balance sheet by taking on a lot of debt. So we need to be alert. Elsewhere the attractions and – we think – undervaluation of Diageo, Heineken and Mondelez in our portfolio have all been underlined.

Nick Train, Lindsell Train Ltd