Lindsell Train Investment Trust

All data at 31 May 2015

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 yield on the 2.5% Consolidated Loan Stock.

Market Capitalisation	£96.8m
Share Price	£484.00
Net Asset Value	£409.230
Premium (Discount)	18.3%

Source: Lindsell Train Ltd/ Phoenix Administrators & Bloomberg. Share Price is based on closing mid price.

Fund Profile

Top 10 Holdings (% NAV)	
Lindsell Train Limited (unlisted)	27.6
A G Barr	9.4
Diageo	7.1
LT Japanese Equity Fund	6.0
Unilever	5.9
Nintendo	5.6
London Stock Exchange	4.7
Pearson	4.6
2½% Consolidated Loan Stock	4.1
Heineken Holdings	4.1

Allocation (% NAV)	
Equities:	
Consumer Franchises	29.6
Financials	4.7
Media	17.5
Unlisted Securities	27.6
Funds	11.8
Bonds	7.2
Cash & Equivalent	1.6
Total	**100.0**

Lindsell Train sector definitions

Fund Exposure %	*Bonds*	*Equity*	*Funds*	*Cash*	*Total*
UK	7.2	62.8	3.1	0.3	**73.4**
USA	-	7.0	-	1.2	**8.2**
Europe (ex UK)	-	4.1	-	-	**4.1**
Japan	-	5.5	6.0	0.1	**11.6**
Global	-	-	2.7	-	**2.7**
Total	**7.2**	**79.4**	**11.8**	**1.6**	**100.0**

Fund Performance (GBP)

Calendar Year Performance (%)	*2010*	*2011*	*2012*	*2013*	*2014*
Lindsell Train Investment Trust NAV	+18.0	+9.4	+14.9	+25.9	+15.2
Lindsell Train Investment Trust Price	+30.9	+7.0	+28.0	+21.5	+8.7
MSCI World Index £	+15.3	-4.8	+10.7	+24.3	+11.5
Index of annual average yield of 2½% Consols	+4.7	+4.6	+4.0	+4.0	+4.3

Cumulative Performance (%) 31 May 2015	*Since Launch*	*5yr*	*3yr*	*1yr*	*YTD*	*3m*	*1m*
Lindsell Train Investment Trust NAV	+395.0	+124.2	+85.6	+26.1	+16.2	+10.6	+1.7
Lindsell Train Investment Trust Price	+487.7	+188.1	+110.2	+42.3	+29.1	+13.0	+3.0
MSCI World Index £	+82.4	+74.2	+61.9	+16.2	+7.4	+2.4	+1.1
Index of annual average yield of 2½% Consols	+90.8	+23.1	+12.6	+4.0	+1.5	+0.9	+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.

Past performance is not a guide to future performance.

Portfolio Manager: Nick Train

Listing: London Stock Exchange
Launch Date: 22 Jan 2001
Base Currency: Sterling
Benchmark: 2½% Consolidated Loan Stock
Year End: 31 March

Management Fees:
Annual Fee: 0.65% of market cap
Performance Fee: 10% of annual increase in the lower of NAV or share price above the gross annual average yield of the 2½% Consolidated Loan Stock.

Bloomberg: LTI LN
ISIN: GB0031977944

The Board: Donald Adamson, Dominic Caldecott, Julian Cazalet, Vivien Gould, Michael MacKenzie, Rory Landman, Michael Lindsell

Secretary: Phoenix Administration Services Limited

Lindsell Train Investment Trust

Fund Manager's Comments

All data at 31 May 2015

To remind you: we own Pearson for its ownership of and expertise in developing and delivering educational content, its ownership of unique publications such as the Financial Times and the Economist and for the opportunity it has to digitalise that content. If it succeeds, and at the same time is able to capitalise on its leading position in the educational industry, it could capture an even bigger slice of educational budgets and imbed its software into the infrastructure of its customers reinforcing barriers to entry for others.

In 2013 when Apple won a contract to supply 30,000 iPads to the Los Angeles Unified School District ('LAUSD') - the third largest school district in the USA - loaded with a Pearson designed curriculum and in 2014 when Pearson won the K-12 (schools) assessment contract for the PARRC consortium of 17 US states we took some considerable encouragement from Pearson's dominant position in the industry. In both cases credible competition was either absent or simply unable to deliver on the complicated requirements of a large district or multi-state solution. If, we thought, Pearson could deliver new digital software and services using its long standing education knowledge and content it could provide a template for duplication elsewhere in the world.

Two years on, the picture is rather different with LAUSD having cancelled future plans to use Pearson's software and the PARRC consortium, instead of amalgamating the assessments of 17 states, is now down to just 12. What is not clear is how much this is really due to shortcomings on Pearson's part. Large-scale technology implementations are complicated and involve many stake holders - including in the LAUSD contract the District leadership, school level administrators and teachers, the school board, Unions and multiple partners under Apple. It is also clear that politics plays a part. The US, like the UK, is keen to raise educational standards in government-run schools but imposition of standard curricula, methods of teaching and assessment are challenged by many of those who actually control education on the ground. If disappointments with new initiatives are not Pearson's fault they can hardly say so publically. But as the news broke of Pearson's exclusion from the LAUSD even Pearson's response implied some culpability.

In addition, we noted that when Pearson management reviewed last year's results they admitted that in their eagerness to digitalise and embrace the common core – the USA's new standardised curriculum – they had in their own words 'got the product wrong' as adoption was unexpectedly slow. This resulted in poor short-term results and a consolidation of the sales force.

These examples show how much more difficult it is to move onto digital platforms in education in practice and we should not be surprised if similar instances occur in the future. On the other hand we want Pearson to continue to force the pace. They need to do that to keep competition at bay especially while the transition is underway. But at the same time we want to be reassured that this new digital software can be made to work effectively, providing more utility to children and teachers than textbooks to help produce better outcomes for pupils. Ultimately, of course, any success will also help raise barriers to entry for putative competitors.

Having done well earlier this year the share price has stagnated recently which is perhaps understandable in light of these revelations.

Michael Lindsell, Lindsell Train Limited

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Reports can be found on our website www.lindselltrain.com