Lindsell Train Investment Trust

All data at 30 April 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	£94.0m
Share Price	£470.00
Net Asset Value	£402.578
Premium (Discount)	16.7%

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)	28.1
A G Barr	9.8
Diageo	7.2
LT Japanese Equity Fund	6.2
Unilever	5.9
Nintendo	5.6
London Stock Exchange	5.0
Pearson	4.7
2½% Consolidated Loan Stock	4.2
Heineken Holdings	4.1

Allocation (% NAV)	
Equities:	
Consumer Franchises	29.9
Financials	5.0
Media	17.5
Unlisted Securities	28.1
Funds	11.9
Bonds	7.3
Cash & Equivalent	0.3
Total	**100.0**

Lindsell Train sector definitions

Fund Exposure %	***Bonds***	***Equity***	***Funds***	***Cash***	***Total***
UK	7.3	64.2	3.0	(1.1)	**73.4**
USA	-	6.6	-	1.2	**7.8**
Europe (ex UK)	-	4.1	-	0.1	**4.2**
Japan	-	5.6	6.2	0.1	**11.9**
Global	-	-	2.7	-	**2.7**
Total	**7.3**	**80.5**	**11.9**	**0.3**	**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 (%) 30 April 2015	***Since Launch***	***5yr***	***3yr***	***1yr***	***YTD***	***3m***	***1m***
Lindsell Train Investment Trust NAV	+386.9	+118.9	+80.6	+29.3	+14.3	+8.9	+0.0
Lindsell Train Investment Trust Price	+470.7	+179.8	+104.9	+38.0	+25.3	+16.3	+10.2
MSCI World Index £	+80.5	+64.2	+54.5	+18.0	+6.3	+4.2	-1.1
Index of annual average yield of 2½% Consols	+90.2	+23.3	+12.7	+4.1	+1.3	+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 30 April 2015

In the short term we expect your Company to be sensitive to movements in the oil price. A number of the holdings are clear beneficiaries of cheaper energy – a proposition confirmed by strong NAV performance over the last six months. The rally in oil during April was unhelpful, therefore, for some of them, for instance Diageo, Heineken and Reed – all down by up to 5%.

The rise in Oil has hit bond prices too and this has an additional impact on your portfolio. A number of the holdings are categorised by other investors as "bond proxies", by which they mean, we think, that their share prices are dictated by the rise and fall of bond prices above any other factor. Now it would be idle of us to deny that bond prices are irrelevant for the portfolio. We use bond yields ourselves in valuation work and the lower those yields go the higher the warranted valuations we come up with. And if enough investors believe something then – justified or not – the weight of their money can move prices in the short term. However, we have two profound issues with the "bond proxy" argument, at least as it applies to your portfolio. First, if a share is really a bond proxy it must have qualities similar to a bond. The most notable characteristic of a conventional government bond is that it has a fixed, unchanging coupon. But our holdings most often cited in this context – Diageo, Heineken, Unilever – do not have fixed dividends. They have, instead, long histories of real, inflation-beating dividend growth and, in our opinion, plenty of scope to maintain these records. If there is anything "bond-like" about such companies, then actually the bonds they most closely resemble are index-linked government bonds, not conventionals. We know investing institutions value the inflation-proofing of linkers very highly – evidenced by negative redemption yields on some issues. To us these valuations make the inflation-proofing offered by our stocks still look amazingly attractive. Second, history also teaches that the type of companies that suffer most operational damage during periods of rising inflation are capital intensive suppliers of commodity products. In an inflation such companies routinely find they have not provided enough Depreciation in their P&L to cover the escalating cost of replacing capital equipment. Moreover their lack of pricing power, as commodity producers, means inflation hits their costs in ways they can't recoup at the revenue line. The ruinous and dilutive rights issues of the 1970s and 1980s came from the metal bashers and composite insurers, not the cash-generative beverage and household goods companies.

In conclusion here, we are not denying that there are today a number of reasons to be cautious of our strategy and, indeed, many equity strategies. But the risk of falling bond prices and rising inflation is not one that keeps us awake at night. As a for instance of something else to worry about, April saw contradictory moves in two of our media "content" companies. Nintendo rose over 11%, but Pearson dropped 7%. Of course these are two very different companies – one in entertainment, the other education. However what unites them is the necessity both have to respond to changes in technology to protect and grow their traditional business. Both are making concerted stabs at this and, if successful, we'd expect both still to be great investments. We know we must watch closely, though, because the pace of change is accelerating.

Nick Train, Lindsell Train Limited

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