Lindsell Train Investment Trust

All data at 31 July 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 running yield on the longest-dated UK government fixed rate bond.

Market Capitalisation	£105.6m
Share Price	£528.00
Net Asset Value	£420.55
Premium (Discount)	25.6%

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)	29.9
A G Barr	8.5
Diageo	6.8
LT Japanese Equity Fund	6.0
Unilever	5.7
Nintendo	5.5
London Stock Exchange	4.9
Pearson	4.1
Heineken Holdings	3.9
RELX Group	3.6

Allocation (% NAV)	
Equities:	
Consumer Franchises	28.2
Financials	4.9
Media	17.1
Unlisted Securities	29.9
Funds	11.6
Cash & Equivalent	8.3
Total	**100.0**

Lindsell Train sector definitions

Fund Exposure %	***Equity***	***Funds***	***Cash***	***Total***
UK	63.5	2.9	7.2	**73.6**
USA	7.2	-	1.1	**8.3**
Europe (ex UK)	3.9	-	-	**3.9**
Japan	5.5	6.0	-	**11.5**
Global	-	2.7	-	**2.7**
Total	**80.1**	**11.6**	**8.3**	**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
Benchmark*	+4.7	+4.6	+4.0	+4.0	+4.3

Cumulative Performance (%) 31 July 2015	***Since Launch***	***5yr***	***3yr***	***1yr***	***YTD***	***3m***	***1m***
Lindsell Train Investment Trust NAV	+408.7	+129.9	+81.3	+29.1	+19.4	+4.5	+2.5
Lindsell Train Investment Trust Price	+541.2	+178.7	+96.6	+49.0	+40.8	+12.3	+5.5
MSCI World Index £	+77.4	+74.9	+50.6	+13.5	+4.4	-1.8	+2.6
Benchmark*	+92.1	+23.0	+12.7	+4.0	+2.2	+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.

*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%.

Portfolio Manager: **Nick Train**

Listing: **London Stock Exchange**
Launch Date: **22 Jan 2001**
Base Currency: **Sterling**

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 benchmark return and calculated with a high watermark.**

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**

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Fund Manager's Comments

All data at 31 July 2015

For the first time since we started there are no long-term fixed interest securities in the portfolio. Our remaining two undated bonds were taken off us by the Government at par (implying a redemption yield of 2.5%), a price that we nominally held out for but wondered whether it would really ever materialise. What's more, it represented a c.35% premium to the last traded price in late March, an unusual expression of largesse from the Government.

Does it mean we are bearish on bonds? Not really. If the government hadn't acted we'd still be holding out for a market traded price equivalent to a 2.5% yield. Since 2000, for what it's worth, we've felt that deflation is more of a threat than inflation and still tend to that view today. But in the last ten years equities, as alternatives to bonds, have looked much better value and in consequence our long-term fixed interest weighting has fallen from 50% at its peak to zero today. It's easy to conclude that bonds represent little value at 2.5% yields but bear in mind that such a decision in 2008 in Japan would have been entirely wrong as 30 year yields there are now 1.5%!

The consequence of all this is that we now have 7% of the portfolio in cash to deploy - we suspect back into equities. Quite where, we have not yet decided but there is a chance that by adding selectively to existing holdings we can lock into a dividend yield somewhat higher than the irredeemable bond's redemption yield of 2.5%. A yield that in the fullness of time should also grow, reflecting the real growth inherent from our companies and further underlining the attractiveness of the switch.

The other change to the portfolio is the separation of eBay into its two constituent parts: the eBay online marketplace and PayPal online payment platform. Our initial response is to continue to hold both companies as both have attributes we admire even though challenges remain.

Growth in the eBay marketplace has stagnated following a reset of user passwords last year and the change of Google's search algorithms that reduced eBay's prominence in its search rankings. Although these events represent short term blips in the context of a positive long term trend, there is no doubt that eBay has now lost the battle with Amazon to be the shopping platform of default on the internet. Amazon continues to grow at 25% pa, eBay by less than 10%. Equivalent items are invariably cheaper and more widely available on Amazon and choice is increasing all the time. Nonetheless, there is no reason why eBay should not continue to thrive as a market for second hand goods and a platform for small and medium sized companies. Some customers especially value the price discovery feature of auctions and the fun of participating. eBay's business model is to earn listing and transaction fees and to carry no inventory. The marketplace business has high margins (c.30% compared to Amazon that are barely positive) and it generates twice as much cash flow compared to Amazon despite having one tenth the sales. Amazon, on the other hand, is all about building scale, sacrificing margin to offer better price and offering convenient and timely facilitation. Given its business model we expect eBay to remain niche but cash generative with unassailable market shares in internet auctions in the jurisdictions where they dominate and a friend to those small businesses which Amazon hope to outdo.

PayPal, on the other hand, is growing at 25%pa as it increases its current market share of online transactions, currently estimated at c.18%. It has the largest market share outside China and has first mover advantage. It could be, if it is not already in some people's eyes, the internet payment platform of choice. Its brand is widely recognised and trusted, it is embedded in the payments architecture of almost all countries around the world and its customers value the security, speed and ease of use that it offers. The company is expanding more rapidly on mobile which they see as the future. Recent bolt-on acquisitions of Braintree (which helps facilitate Uber payments, for example) and Xoom (money transfers and remittances) make sense and help to expand the franchise. But there is competition. First, from closed platforms where PayPal is excluded - Alibaba, Apple and Amazon all have pretensions to build big networks serviced by their own payment systems that could take a large share of overall transactions. In addition, Alipay and Applepay could compete for business outside their networks - as Apple is already attempting to do in the USA and UK. And perhaps more concerning is the dominance of the card companies, Visa and Mastercard in particular. Currently these are partners of

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Fund Manager's Comments

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PayPal as over 50% of PayPal payments are funded from cards but in the future as PayPal grows, there may be a concern over whether the card companies might use their dominance to disadvantage PayPal. Whilst these longer term concerns remain, any growth in the franchise only helps to increase its strategic value: how many putative competitors would find it preferable to buy PayPal than to establish a competing network?

Michael Lindsell, Lindsell Train Limited

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

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