Lindsell Train Investment Trust

All data at 30 June 2015

Market Capitalisation	£100.1m
Share Price	£500.50
Net Asset Value	£410.39
Premium (Discount)	21.9%

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

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 longest-dated UK government fixed rate bond.

Fund Profile

Top 10 Holdings (% NAV)	
Lindsell Train Limited (unlisted)	29.6
A G Barr	9.5
Diageo	7.1
LT Japanese Equity Fund	6.0
Unilever	5.5
Nintendo	5.3
London Stock Exchange	4.5
Pearson	4.2
2½% Consolidated Loan Stock†	4.1
Heineken Holdings	4.0

†To be redeemed at par by the government 5/7/15

Allocation (% NAV)	
Equities:	
Consumer Franchises	29.2
Financials	4.5
Media	16.5
Unlisted Securities	29.6
Funds	11.6
Bonds	7.1
Cash & Equivalent	1.5
Total	**100.0**

Lindsell Train sector definitions

Fund Exposure %	*Bonds*	*Equity*	*Funds*	*Cash*	*Total*
UK	7.1	63.9	2.9	0.3	**74.2**
USA	-	6.6	-	1.2	**7.8**
Europe (ex UK)	-	4.0	-	-	**4.0**
Japan	-	5.3	6.0	-	**11.3**
Global	-	-	2.7	-	**2.7**
Total	**7.1**	**79.8**	**11.6**	**1.5**	**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 (%) 30 June 2015	*Since Launch*	*5yr*	*3yr*	*1yr*	*YTD*	*3m*	*1m*
Lindsell Train Investment Trust NAV	+396.4	+128.1	+79.9	+25.5	+16.5	+2.0	+0.3
Lindsell Train Investment Trust Price	+507.8	+168.2	+101.6	+46.7	+33.5	+17.4	+3.4
MSCI World Index £	+72.9	+76.0	+48.8	+10.3	+1.8	-5.3	-5.2
Benchmark*	+91.6	+23.2	+12.7	+4.1	+2.0	+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.

Past performance is not a guide to future performance.

*Benchmark: Index of annual average yield of the 2½% Consolidated Loan Stock until 31 March 2015 and then the index of the annual average 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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Lindsell Train Investment Trust

Fund Manager's Comments

All data at 30 June 2015

To our discomfort we note the premium to net asset value (NAV) on your shares has widened again, to 21.9%.

We're not going to say that anyone buying the shares on this rating is certainly going to be "wrong". We've warned about the premium before and that has not stopped the NAV and share price making further gains. But we will say that a premium of this magnitude puts shareholders and especially new shareholders at meaningful risk of capital loss if sentiment or circumstances change. Of course there is a risk of capital loss for any stock market investment, but history teaches that investment trusts trading at a premium are peculiarly vulnerable. We wonder about the impact on the Lindsell Train Investment Trust (LTIT) if global equity markets were to fall 20% and the premium on the shares to evaporate, replaced by a 10% discount. One could easily lose 50% of the current value of the shares; particularly if tough equity markets damaged the business of the largest holding in the Trust, a stake in unquoted investment management company Lindsell Train Limited (LTL). LTIT shares opened on their first day of trading in 2001 at £120 – over a 20% premium to the starting asset value. By November 2003 the shares were available at £80, trading at a discount after a 30%+ decline, brought about by a two year bear market for stocks and evaporation of interest in small investment trusts and small investment management companies.

Look - Mike and I remain committed to LTL and, within reason, enthusiastic about its prospects. We'd love it if the implications of the current premium to NAV turn out to be justified – because that would mean that we'd grown our business and, almost certainly, continued to generate investment performance that has satisfied our clients. But in today's circumstances we really do have to say again – CAVEAT EMPTOR.

Diageo was a decent contributor in June, up over 1% against a horrible market backdrop. Unilever was down 5.4%, highlighting that Diageo's resilience was everything to do with bid rumours, rather than its defensive qualities. Will Diageo be bought? I think it is possible to say three things. First - for companies of Diageo's calibre, with brands as self -evidently rare and valuable, prolonged business and share underperformance is untenable. As the saying by investment bankers to the consumer sector goes – fix or be fixed. If the incumbents can't get adequate returns on the brands and their cash flows, there are plenty of other management teams who would fancy a go. Diageo shares are still 11% below the peak set in 2013. Perhaps a big enough decline and long enough ago to make the Diageo board at least look over their shoulders at the current rumours. Next, even Diageo would agree, I'm sure, that there are unresolved strategic questions about its portfolio – both in terms of what it owns and where it has low or suboptimal representation. Can Diageo ever get control of Hennessy? Should it really be in beer? Is Guinness worth more to a global pure-play brewer, even at the astronomic multiple we're sure it would fetch in auction? What about Diageo's wine assets? There's enough here to make rumours of asset swaps credible, even if a full bid is less so. Finally, though I say that a full bid is less credible, it's worth reminding ourselves that so far in 2015 there has been \$2.8 trillion of announced global M&A, up over 30% on 2014 at this stage (and 2014 was up 60% on 2013). This year's deal run rate, if maintained, will almost certainly mean that 2015 will set a new record for the value of global M&A, at long last superseding the previous peak of 2007. There have been two deals in 2015 to date at about \$80 billion of value (Shell/BG and Time Warner/ Charter). Diageo's current market capitalisation is \$74 billion. So you never know.

Let me be clear, though, we are supportive of the company's strategy and board and hate to even contemplate the possibility that we might lose our investment in it. With over 20 million shares, or just less than 1% of the outstanding, Diageo is one of our biggest positions across all client accounts. "Fix" is a far better option for our investors than "be fixed".

Nick Train, Lindsell Train Limited

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