Lindsell Train Investment Trust PLC

All data at 30 June 2019

Market Capitalisation
£367.5m

Share Price: £1,837.50

Net Asset Value: £1,057.47

Premium (Discount): 73.8%

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 (%)	*2014*	*2015*	*2016*	*2017*	*2018*
Lindsell Train Investment Trust NAV	+15.2	+23.0	+31.1	+37.6	+16.2
Lindsell Train Investment Trust Price	+8.7	+54.3	+61.9	-6.2	+46.6
MSCI World Index £	+11.5	+4.9	+28.2	+11.8	-3.0
Benchmark*	+4.3	+4.0	+4.0	+4.0	+4.0

Cumulative Performance (%) 30 June 2019	*Since Launch*	*5yr*	*3yr*	*1yr*	*YTD*	*3m*	*1m*
Lindsell Train Investment Trust NAV	+1290.2	+251.5	+131.8	+33.6	+26.6	+18.0	+6.4
Lindsell Train Investment Trust Price	+2274.3	+473.2	+203.4	+93.2	+51.9	+24.6	-2.0
MSCI World Index £	+190.0	+85.0	+46.6	+10.3	+17.1	+6.5	+5.6
Benchmark*	+124.4	+21.9	+12.6	+4.0	+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.

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)	47.0
Diageo	6.7
London Stock Exchange	6.4
Nintendo	5.6
A G Barr	5.5
Unilever	5.1
PayPal	4.3
Heineken Holdings	3.5
RELX	3.3
Mondelez	3.2

Allocation (% NAV)	
Equities:	
Consumer Franchises	25.1
Financials	6.4
Media	15.4
Unlisted Securities	47.0
Funds	4.1
Cash & Equivalent	2.0
Total	**100.0**

Lindsell Train sector definitions

Fund Exposure %	*Equity*	*Funds*	*Cash*	*Total*
UK	75.2	1.8	2.0	**79.0**
USA	8.6	-	-	**8.6**
Europe (ex UK)	4.5	-	-	**4.5**
Japan	5.6	2.3	-	**7.9**
Total	**93.9**	**4.1**	**2.0**	**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)
Nicholas Allan
Vivien Gould
Richard Hughes
Rory Landman
Michael Lindsell *

* non independent

Corporate Secretary & Registered Office: Maitland Administration Services Limited, Hamilton Centre, Rodney Way, Chelmsford, Essex CM1 3BY
Phone: 01245 398950

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

Registrars: Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU

Portfolio Manager's Comments

Below is the text of the report we have sent out this month to holders of our UK and Global funds. The comments are relevant to you as shareholders of the Lindsell Train Investment Trust (LTIT), because of its ownership of nearly 25% of Lindsell Train Limited (LTL), an unquoted company. The very high premium to NAV that LTIT has been trading on in 2019 means that any changes in perception about the growth rate or reputation of LTL could have a material impact on the share price of LTIT. For avoidance of doubt, note that LTIT does not own any shares in Hargreaves Lansdown plc.

Mike and I are significant personal shareholders in LTIT and have not sold a share since flotation, 2001 – and have no intention of doing so. However, we have not added to our holdings for many years. This is because we have always believed that the independent directors' valuation of LTL within your company is fair. Our longstanding view has been that if we purchased shares above the price of the published NAV we would thereby be signalling that we thought the directors' valuation was too cautious. We don't. We reiterate last month's comments that our plans for succession are still at an early stage. Therefore simply comparing the value of LTL to quoted fund management groups without taking account of succession risk, as some investors seem inclined to do, is misleading.

It is for this reason that we have held off from buying more shares in LTIT (although we continue to personally invest in our other LTL-managed funds). Nonetheless, I think it's important to say - though without making any irrevocable commitment today - that if we ever again have the opportunity to buy LTIT shares on such terms, we'd absolutely love to do so. Mike and I remain committed to the company we established, enjoy our work, are continuing to build up a strong investment team around us and believe our investment approach, consistently applied, should deliver satisfactory returns to investors over time.

"Lindsell Train Limited (LTL) is affected by the Woodford affair in a number of ways.

First, what has happened is damaging to the whole active management industry, including us. At the margin we expect intermediaries to become even more likely to recommend their clients use passive products to capture equity exposure. And we expect individuals to become even warier about investing their savings in any kind of equity vehicle. This is a shame for the UK economy and society in general.

Second, Woodford's relationship with Hargreaves Lansdown (HL) has raised questions about ours too. HL's share price has fallen and it is a matter of public record that LTL is not only a significant shareholder in HL, but also a big recipient of HL client savings. Two questions arise. First - is there a conflict of interest? Next – has the investment case for HL been permanently impaired?

As to a possible conflict of interest – LTL is a regulated company (as is HL, of course) and it is critical for both companies' reputations and the maintenance of our regulatory status that we give consideration to and avoid any conflicts that might harm our clients. So, of course we do consider on an ongoing basis the possibility that the investment decision to invest in HL, that Mike and I first took as long ago as 2007 could lead to such a conflict. We do not believe there is a conflict, because we cannot conceive how our investment in HL shares could influence that company's investment experts to recommend purchasing or selling our funds to its customers. We don't mean to trivialise the situation – but is it really credible that LT would so openly pursue a business strategy that relied on us using our clients' savings to try and persuade a reputable counterparty to recommend our funds against its better judgement? No. We made the investment precisely because we admire the integrity, independence of thought and investment acumen of the professionals who work there.

But in the current environment we can understand why questions might be asked.

What of the investment case for HL shares? We want to be careful about what we say on this matter, because the size of our holding means that we are to a degree parti pris or committed to a view. Of course we hope that HL will continue to prosper as a business and be a good investment for our clients. But we would say that, wouldn't we? So I will limit my comments to a factual account. HL's shares fell 15% in June and were thus the biggest detractor to our performance over the month. We were not surprised by the fall and agree that HL's reputation has taken a blow. We also agree it is appropriate that the media, regulator and politicians should review HL's role in the affair, if for no other reason than to help us all understand and address areas where we can better manage risks and serve the needs of investors. As I write this report HL shares have recovered from the lows of June – up some 9% from that level. We take this as investors coming to the conclusion that HL's reputation can recover – over time. We agree and accordingly have added to our holding over the last few weeks.

The final ramification of all this, and of greatest concern to LT, is the shocking sight of a run on a UK open-ended fund. It demonstrates the bad things that can happen when investment managers take risk with portfolio concentration and illiquidity. And the truth is – as we seek to communicate to all our investors – that there is risk inherent in the concentrated nature of our portfolio and to an extent with liquidity too. However, to be clear, we do not invest in unquoted shares and to an overwhelming extent only invest in substantive companies. Both our Global and UK funds are at least 99% invested in companies with market capitalisations of over £1bn.

Portfolio Manager's Comments

There is no question that if we were required to return a big proportion of the capital entrusted to us in short order – say 20% or more - whilst we are confident we could do so we would have to take discounts on some of our holdings in order to raise cash that would damage the value of fund units at least in the short term. Michael Lindsell has recently written a more detailed note on these issues, which is available on our website and which we counsel all investors in our funds, or potential investors, to read.

Actually what really concerns us is that the episode has arisen at a time when LT's long and short term performance and inflows into our funds have been so strong. Elevated expectations for future returns and a growing predominance of new fund holders set up the circumstances for possible disappointment.

In light of the above, Mike and I make the following observations:

We should not alter our investment style or process in response to the recent events or the scale of our business. We have always invested on the assumption that the money entrusted to us is permanent (even though we know it is not necessarily so). That assumption has allowed and encouraged us to take truly strategic views about the companies we invest in – it is central to our ability to capture returns.

We do not believe the current size of our LTL funds is close to compromising the potential to generate good returns into the future. For as long as we believe this the funds will remain open to new investors.

We have recently announced a fee reduction on our LTL funds as a signifier that we are open for business, but also keen to share benefits of scale with our clients.

Most importantly, we intend to remain as frank and transparent as possible about the risks intrinsic to our funds. We encourage individuals and institutions to consider whether the risks we take are acceptable to them."

Nick Train, Lindsell Train Ltd

12 July 2019

Source of Data: Maitland Administration Services, Lindsell Train Ltd and Morningstar.

The top three contributors to the Fund's performance in June were Lindsell Train Ltd, London Stock Exchange and Heineken Holdings and the top three detractors from the Fund's performance were A G Barr, Laurent Perrier and Lindsell Train Japanese Equity Fund.