Lindsell Train Investment Trust PLC

All data at 31 May 2019

Market Capitalisation
£375.0m

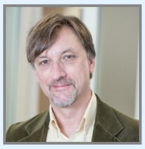
Share Price: £1,875.00

Net Asset Value: £993.99

Premium (Discount): 88.6%

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 (%) 31 May 2019	*Since Launch*	*5yr*	*3yr*	*1yr*	*YTD*	*3m*	*1m*
Lindsell Train Investment Trust NAV	+1206.8	+233.0	+130.1	+29.5	+19.0	+14.4	+4.2
Lindsell Train Investment Trust Price	+2322.7	+486.6	+217.7	+82.6	+55.0	+30.9	+9.3
MSCI World Index £	+174.7	+75.0	+49.6	+5.3	+10.9	+4.3	-2.5
Benchmark*	+123.6	+22.0	+12.6	+4.0	+1.7	+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)	46.7
Diageo	7.0
London Stock Exchange	6.5
AG Barr	6.0
Nintendo	5.8
Unilever	5.4
PayPal	4.4
Heineken Holdings	3.5
RELX	3.4
Mondelez	3.3

Allocation (% NAV)	
Equities:	
Consumer Franchises	26.2
Financials	6.6
Media	15.9
Unlisted Securities	46.7
Funds	4.3
Cash & Equivalent	0.3
Total	**100.0**

Lindsell Train sector definitions

Fund Exposure %	*Equity*	*Funds*	*Cash*	*Total*
UK	76.3	1.9	0.3	**78.5**
USA	8.8	-	-	**8.8**
Europe (ex UK)	4.5	-	-	**4.5**
Japan	5.8	2.4	-	**8.2**
Total	**95.4**	**4.3**	**0.3**	**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**
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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

May was a good month for the Trust. Its NAV was up 4.2%, well outperforming any equity market index (for example the MSCI World Index in Sterling was down 2.5%) and the Trust's benchmark. The unquoted holding of Lindsell Train Limited ('LTL') did well, up 4.7%, and contributed most to the performance in the month. But it was interesting that in a month when most stock indices were down, a remarkable percentage - 75% - of the Trust's quoted holdings were up. They were led by our biggest holdings in AG Barr (up 12.8%), Diageo (up 2.8%) and Unilever (up 4.7%). It continued a trend that began earlier this year with investors encouraged by the steady sales growth exhibited by many consumer franchise brands in the face of patchy, if not necessarily declining, profits and the uncertainty surrounding trade and tariffs from the more economically sensitive parts of the market. Then combine this with the favourable backdrop of declining long-term bond yields, which helps boost the present value of future, typically predictable, cash flows generated by our type of company, and you have some of the ingredients supporting the recent strong performance.

How much more support can lower long-term bond yields give to share prices? We have no special insight but if yields continue to decline, it may signal a degree of economic weakness or disinflation that might be harmful to the revenue growth currently experienced by many of our consumer franchises and therefore to their share prices. Is such a disinflationary scenario likely when labour markets in major economies (the US and UK particularly) remain tight, with unemployment at historical lows? Economic conundrums abound, which is why we spend little time considering them and instead focus on long-term prospects for the franchises that we own.

It's worth reflecting on LTL's 19.7% increase in value year to date. LTL's formulaic valuation methodology is a simple average of two calculations, one based on 1.5% of LTL's funds under management ("FUM") and the other based on its adjusted annualised earnings discounted at (currently) 8.5%. As a result LTL's value is immediately sensitive to changes in its FUM through the first calculation but the earnings related part of the formula takes longer to adjust as it reflects the average of the latest three months earnings, annualised. It means that changes in FUM at the end of month 1 will only be fully reflected in earnings in month 4 as fees are also charged one month in arrears. There has been a significant uplift in LTL's FUM this year, from £15.6bn at the end of 2018 to £20.8bn at the end of May, helped by the strong performance of all LTL's strategies. As such this is fully reflected in the FUM part of the valuation but is currently still feeding through to the earnings part, helping to underpin the price performance of LTL.

The Trust's NAV is up 19% this year, helped by the same factors described above, but the share price is up 55% and unbelievably making new highs this month as I write. It means that the premium to the NAV is hovering around 90%. If you assume that the premium is all attributable to the deemed undervaluation of the LTL holding within the Trust, it means the implied valuation of LTL as a whole is of the order of £1.1bn. That is nearly 5% of current FUM, c.26x its historic earnings and a 3.1% dividend yield assuming an 80% payout ratio. Compare this to 2.2% of FUM, 14x earnings and a 5.7% dividend yield from a broad universe of quoted competitors that the Board of the Trust monitor. Investors must weigh up this valuation against the obvious succession risk at Lindsell Train. Nick and I hope to be involved in the business for many years and have been taking important steps to ensure that the rest of the investment team are motivated and incentivised to take on significantly more responsibility (as they have been increasingly doing in the last five years); but, faced with the unlikely scenario that Nick or I will not be around for whatever reason, it's clear that we have some way to go to engineer a smooth and seamless transfer of responsibilities.

Consider also this scenario: a 25% fall in LTL's FUM on account of declining markets, underperformance or client withdrawals or a combination of all three might result in a similar 25% fall in LTL's value. The quoted shares held by the Trust are essentially the same as those held by our clients so you might expect a similar fall in the value of the Trust's quoted portfolio. If the Trust's share price premium to NAV at the same time fell to zero (as it did 11 years ago when markets last fell significantly) then the resultant fall in the share price from today's elevated level could be as much as c.60%.

In summary then we continue to caution that the shares in the Trust represent a risky investment if bought at a premium, and certainly at today's approximate 90% premium.

Michael Lindsell, Lindsell Train Ltd

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

For the month of May the top three contributors to the Fund are Lindsell Train Ltd, AG Barr and Nintendo and the top three detractors from the Fund are Pearson, eBay and Heineken Holdings.