Lindsell Train Investment Trust PLC

All data at 31 July 2019

Market Capitalisation
£268.0m

Share Price: £1,340.00

Net Asset Value: £1,088.72

Premium (Discount): 23.1%

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 July 2019	*Since Launch*	*5yr*	*3yr*	*1yr*	*YTD*	*3m*	*1m*
Lindsell Train Investment Trust NAV	+1331.3	+263.2	+124.6	+35.0	+30.3	+14.2	+3.0
Lindsell Train Investment Trust Price	+1631.4	+302.4	+84.9	+19.6	+10.7	-21.9	-27.1
MSCI World Index £	+202.9	+93.9	+46.0	+11.0	+22.3	+7.5	+4.5
Benchmark*	+125.1	+21.9	+12.6	+4.0	+2.3	+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)	48.0
London Stock Exchange	7.5
Diageo	6.7
Nintendo	5.7
Unilever	5.1
PayPal	4.2
A G Barr	4.0
Heineken Holdings	3.4
RELX	3.3
Mondelez	3.2

Allocation (% NAV)	
Equities:	
Consumer Franchises	23.3
Financials	7.5
Media	15.5
Unlisted Securities	48.0
Funds	4.1
Cash & Equivalent	1.6
Total	**100.0**

Lindsell Train sector definitions

Fund Exposure %	*Equity*	*Funds*	*Cash*	*Total*
UK	75.6	1.8	1.6	**79.0**
USA	8.6	-	-	**8.6**
Europe (ex UK)	4.4	-	-	**4.4**
Japan	5.7	2.3	-	**8.0**
Total	**94.3**	**4.1**	**1.6**	**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:

0.60% 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

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Portfolio Manager's Comments

It was a month of contrasting fortunes.

First, of disappointment as AG Barr hit a troublesome road bump. The shares were down 26% following a profits warning with the prediction that six month revenues to July would fall 10% and profits 20% over the year to January 2020. Bad weather, unfavourable comparisons with last year and more malign issues surrounding its juice brand Rubicon and its energy drink Rockstar are to blame. We think that Barr owns great brands, has unique market positions and excellent, committed long-term management. Last year the management successfully navigated the imposition of the sugar tax, which helped the shares sustain the high rating from which they have now fallen. It will be as big a challenge getting the company back on track this year and next. It's also a ready reminder of how a company like Barr - that sustained an average return on equity ('ROE') of 20% (fluctuating between 19% and 21%) over the last ten years - can justifiably trade at a P/E ratio above 20x; but how a fall in the ROE as is likely to occur this year, to say 15%, is understandably punished so harshly. Restoring that ROE to previous levels as a result of a recovery in profits should help enhance its rating once again but that could take time. At least the company's ongoing share repurchase programme can take advantage of today's lower prices. It follows also that the share repurchases in the first half of the year may have proved to be less than a prudent use of shareholder's funds, at least in the shorter term.

In strong contrast, the London Stock Exchange ('LSE') ended the month up 21% and is now the biggest quoted holding in the Trust. The company announced its intention to buy Thomson Reuters' financial and risk business, Refinitiv, in a deal valued at $27bn. If sanctioned, the match will more than double the company's enterprise value ('EV') and create the world's largest listed financial markets infrastructure company; with Refinitiv's current owners (principally the Thomson family and Blackstone private equity) attaining a 37% stake in the new group. At just over four times EV/sales, the price looks good compared to other quoted data assets and as a consequence the deal has so far earned applause from both the media and the market.

So why attempt the deal (LSE's biggest ever) and why has it been so well received? Refinitiv owns a number of important financial platforms, with FXall and its 54% majority stake in Tradeweb being the clearest complements to the London exchange. Both are market leading, electronic over-the-counter (OTC) trading venues - the former for dealer-to-customer currencies, the latter for treasuries, rates, and other credit derivatives. Akin to LSE's existing marketplace businesses these benefit from high volumes and deep pools of liquidity. This leads to a virtuous cycle, whereby more flow begets more liquidity and utility, attracting more participants and even more flow. Surrounding all this is a halo of correspondent data, which becomes more useful the more of it there is. These self-reinforcing network effects have always been central to our thesis for LSE. By increasing the group's exposure to currencies and fixed income (two of the world's biggest asset classes) LSE is also furthering long-held strategic ambitions, positioning it nicely for the ongoing electronification of OTC trading.

In addition to these more obvious fits, Refinitiv's highest profile component is the Reuters Eikon desktop terminal, which as a distribution channel (sticky and stable though it is) plays second fiddle to Bloomberg. Why buy this? Well here it's really a data, or more exactly a *data platform* story. The Eikon terminal is just one aspect of Refinitiv's data distribution capabilities, which sit on an infrastructure platform that's taken many years and many billions of dollars to build. The platform integrates the (often proprietary) datasets, overlays functionality and pipes the result directly into the workflow of Refinitiv's globally dispersed customer base. LSE's existing market and index data offerings (e.g. FTSE-Russell) will join this aggregate flow, as might any newly acquired feeds. With the participation of new partners (unlike Bloomberg, Reuters host third party data) and LSE's open access philosophy helping to strengthen the collaborative model with the sell-side, the platform should become ever more valuable. This combined data-plus-analytics-plus-distribution platform will be a key asset for LSE and a hard thing for a new competitor (pre-deal LSE included) to replicate.

If we have a concern about these wide-moat marketplace businesses, it's how they manage the transition from regional semi-monopolies to relevant global enterprises - an increasingly important question as customers and liquidity pools globalise. Happily, Refinitiv helps address this as well, with North American and EM derived revenues more than double those sourced from Europe - a contrast to the UK-centric LSE where these weightings are reversed. Less happily, Refinitiv brings with it a big chunk of debt; but this is the only obvious blemish on a pairing that seems remarkably concinnous. Whilst we're cautious of being overly effusive (there are still nuances to understand, not least detail on the proposed revenue synergies), it's no wonder the initial reaction has been positive.

Much of the surrounding media commentary has noted LSE's venerability; in a cut-throat business environment where survivability is low, LSE's purported lifespan of 'over three hundred years old' seems exceptional. Often such claims are hyperbole, but in the LSE's case it holds water with a clear corporate lineage stretching back to the informal trading venues (most famously Jonathan's Coffee House) of late 17th century London. The company only demutualised in 2000 but has performed spectacularly well since then, growing its dividend at over 18% per annum - a hard enough rate to sustain for even a couple of years, let alone 18. This has translated into stock returns capable of outshining even the brightest tech stars. Since May 2012, when Facebook (the youngest of the FAANGs) listed, LSE's total local-currency return has annualised at just shy of 36% pa; delivering a nine-fold gain that's outpaced Apple, Google, Facebook, Microsoft and now even Amazon. Not bad for a spritely three-hundred-and-something year old, setting out on its own data-driven journey.

Michael Lindsell, Lindsell Train Ltd

19 August 2019

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

The top three contributors to the Fund's performance in July were Lindsell Train Ltd, London Stock Exchange and Nintendo and the top three detractors were A G Barr, PayPal and Laurent Perrier.