Lindsell Train Investment Trust PLC

All data at 30 June 2018

Market Capitalisation
£193.6m

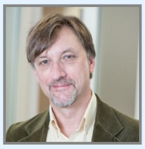
Share Price: £968.00

Net Asset Value: £813.05

Premium (Discount): 19.1%

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 (%)	*2013*	*2014*	*2015*	*2016*	*2017*
Lindsell Train Investment Trust NAV	+25.9	+15.2	+23.0	+31.1	+37.6
Lindsell Train Investment Trust Price	+21.5	+8.7	+54.3	+61.9	-6.2
MSCI World Index £	+24.3	+11.5	+4.9	+28.2	+11.8
Benchmark*	+4.0	+4.3	+4.0	+4.0	+4.0

Cumulative Performance (%) 30 June 2018	*Since Launch*	*5yr*	*3yr*	*1yr*	*YTD*	*3m*	*1m*
Lindsell Train Investment Trust NAV	+941.0	+206.5	+109.7	+25.1	+10.2	+8.8	+3.1
Lindsell Train Investment Trust Price	+1129.0	+244.2	+102.2	+32.6	+15.2	-6.0	-7.4
MSCI World Index £	+162.9	+84.5	+52.1	+9.3	+2.9	+8.1	+0.7
Benchmark*	+115.7	+22.2	+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)	42.3
Diageo	7.0
London Stock Exchange	6.8
Nintendo	6.2
Unilever	5.4
AG Barr	5.3
PayPal	3.9
LT Japanese Equity Fund	3.7
Heineken Holdings	3.3
RELX	3.2

Allocation (% NAV)	
Equities:	
Consumer Franchises	23.9
Financials	6.8
Media	16.2
Unlisted Securities	42.3
Funds	8.4
Cash & Equivalent	2.4
Total	**100.0**

Lindsell Train sector definitions

Fund Exposure %	*Equity*	*Funds*	*Cash*	*Total*
UK	71.7	2.1	2.4	**76.2**
USA	7.0	-	-	**7.0**
Europe (ex UK)	4.3	-	-	**4.3**
Japan	6.2	3.7	-	**9.9**
Global	-	2.6	-	**2.6**
Total	**89.2**	**8.4**	**2.4**	**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)
Vivien Gould
Rory Landman
Michael Lindsell *
Michael Mackenzie

* non independent

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Registrars: **Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU**

Portfolio Manager's Comments

"In the future all companies will be Internet companies".

We continue to find Andy Grove's observation of great relevance for understanding the performance of global equity markets in 2018, and indeed of our portfolios.

His quote seems to us to be true – in that most companies we know are indeed becoming more like Internet companies. But it also provides explanatory power for the way stock prices are performing. Certainly more explanatory than other, let us call them, twentieth century paradigms. Specifically, the twentieth century polarity between "growth" and "value", which for a number of last century decades was a helpful descriptor of what was going up or down, as well as when and why, seems to us to be less useful today – how temporarily we don't know. In other words, in 2018 it looks as though working out which companies are advantaged and which challenged by digital disruption may deliver better returns than establishing what is currently "cheap" or "dear" or whether macro-economic trends favour "cyclical value" or "quality growth".

Certainly in 2018 we note that government bond yields have gone up, as Oil and other commodity prices have advanced. The symptoms of a widely-predicted cyclical upturn are there. But we also note these developments have not had the effects that twentieth century market theory expects. The "growth" market NASDAQ remains the best performing major in 2018, while traditional "value" markets Germany and Japan are down. Indeed, according to Goldman Sachs, "value" was the worst performing stock category in Europe in H1 2018, underperforming "expensive" shares by 10%. Meanwhile and symbolically that great industrial/cyclical value play, GE, has dropped out of the Dow Jones after 110 years, with its shares still falling.

Admittedly for our portfolios we must acknowledge that some of our big so-called "quality growth" holdings – Diageo, Heineken, RELX and Unilever underperformed over the first half of the year. Even so, over the half year, the worst of them was RELX which was only down 5% - and as this note is written its shares are now basically unchanged year-to-date. Against the apocalyptic warnings we heard at the end of 2017 about the clear and unsustainable overvaluation of consumer staples and other steady growers this outcome seems unimpressively muted and indeed the shares have recovered strongly in the second quarter, with Diageo and Heineken hitting new all-time highs. Bears of these growth stocks have longer to wait.

Notwithstanding the underperformance of these consumer staples, you can see that your portfolio actually outperformed over the half year. A look at the contributors to that return reveals, at least to our eyes, the irrelevance of the value/growth debate. And the central importance of backing successful digital strategies. The big winners over the six months (in terms of contribution to overall portfolio performance) were LSE, Paypal, Pearson and the Lindsell Train Global and Japan Funds All of these we have seen characterised as "expensive" in recent times – including our funds! But the fact is it is the success of the strategies of these companies – strategies with technology at the heart of them – that has mattered much more to stock market investors than the valuations.

Pearson was up over 20% over the half year - not because its shares had become too "cheap". Rather the investment and time it has poured into digitising its products has at last begun to show signs of paying off. In truth for Pearson the evidence of transformative digital success is still tentative. And it is at least another illustration of the paucity of credible digital strategies in the UK stock market that the shares have rallied so soon and so much. It's worth remembering that still the top 5 UK companies by market capitalisation are a bank, two oil majors, an arguably ex-growth drug company and a tobacco stock. Not being disparaging, but this is no collection of FAANGs.

The worst performer in the portfolio so far in 2018 is Nintendo. The share is down 12%. Again, that fall has nothing to do with valuation or rising interest rates. Instead it absolutely has to do with the challenges the company faces in transitioning its business model away from packaged software to a subscription-based, mobile friendly service. It has to do this in the face of new competition from new entrants who are exponents of these new distribution technologies. We hope Nintendo can meet those challenges, of course.

Another weaker holding in 2018 has been Mondelez – inherited from Cadbury and combined with Kraft's biscuit and confectionary assets. Its shares have drifted, as sales growth has been muted. But also in sympathy with the very poor share price performance of many US food companies. Here the dismal share prices over the last couple of years of, for instance, Campbell Soup, General Mills or Kellogg (none of which we own, or have ever owned) are further instances of the sterility of the value/quality debate. Because no one is arguing these US food companies are doing poorly because interest rates are going up – even though interest rates have been going up. No, they're doing poorly because of investors' well-founded concerns about what Amazon will do to food brands in circumstances where younger consumers' tastes and shopping habits are changing quickly. As one thoughtful client put it to me recently – in the 20th century much of the value of a food brand was in the simple but invaluable proposition: "this product will not poison me". Now edibility is a given. And perhaps staple foods will now commoditise more quickly, just as, for instance, sugar did in the second half of the twentieth century. Returning to Mondelez, though, we remain encouraged about its brands. New CEO Dirk Van de Put was recently interviewed and noted that Oreos remain the number one biscuit brand purchased online in the US – just as they are in brick and mortar stores. The same is true for Cadbury in the UK. His conclusion is that beloved consumer brands which taste good are making a perfectly successful transition to digital distribution – at least so far. Meanwhile, he claimed, own-label share in chocolate is only 3% worldwide; much lower than for mainstream food products. We think Mondelez may be being unfairly tarred with the genuine problems of others.

Concluding this discussion let me say that in the end the sceptics are going to be right. In the end "value" will prevail over "growth". Because in the end everything hangs on what is the true value of a corporation's future cash flows, discounted back to today's intrinsic worth. It's just that during the 21st century to date what looked expensive yesterday has turned out to be in fact far cheaper than most of us could imagine. And some of yesterday's most compelling "value" opportunities have been revealed to be ruinous value traps. Because digital technology is creating investment value so quickly. And destroying it.

Nick Train, Lindsell Train Ltd