

## CF Lindsell Train UK Equity Fund

### ACD's Annual Short Report

for the year ended 31 May 2008

#### Investment Objective and Policy

The investment objective of the CF Lindsell Train UK Equity Fund ('the Fund') is to invest in the securities of companies which are listed, quoted or dealt on any of the markets of the London Stock Exchange, including the Alternative Investment Market (AIM), with the objective of achieving capital and income growth and providing a total return in excess of that of the FTSE All-Share Index.

It is the Fund's policy not to invest in unlisted securities, other collective investment schemes, warrants, derivatives, immovables or gold.

#### Risk Profile

The Fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces from its financial instruments are market price, foreign currency and interest rate risk. The ACD reviews the policies for managing these risks in order to follow and achieve the Investment Objective as summarised above.

#### Accounting and Distribution Dates

	Accounting	Distribution
Interim	30 November	31 January
Final	31 May	30 September

#### Total Expense Ratios

Expense Type	31.05.08		31.05.07	
	Income	Accumulation	Income	Accumulation
ACD's periodic charge	0.65	0.65	0.65	0.65
Other expenses	0.28	0.33	0.10	0.10
Total expense ratio	0.93	0.98	0.75	0.75

## Distributions

Share Class	Interim 31.01.08 pence per share	Final 31.07.08 pence per share
Income	1.2803	2.1052
Accumulation	1.3223	2.2165

## Price and Income History

### Income shares

Calendar Year	Highest Price P	Lowest Price P	Distribution per share P
2006#	110.07	99.97	–
2007	122.79	105.45	3.2245
2008*	109.55	93.11	3.3855

### Accumulation shares

Calendar Year	Highest Price P	Lowest Price P	Allocation per share P
2006#	111.38	99.97	–
2007	124.83	108.45	3.2931
2008*	114.01	96.84	3.5388

# From 27 June 2006.

\* To 31 May 2008.

## Net Asset Value

Date	Share Class	Net Asset Value £	Shares in Issue	Net Asset Value pence per share
31.05.07	Income	42,827,114	35,530,065	120.54
	Accumulation	25,793,710	20,811,121	123.94
31.05.08	Income	24,951,105	26,091,866	95.63
	Accumulation	114,845,219	112,931,903	101.69

## Performance Record

Sector performance to 31 May 2008 (%)		
	1 year	Since launch*
CF Lindsell Train UK Equity Fund	(17.95)	1.69
FTSE All-Share Index	(6.79)	11.46

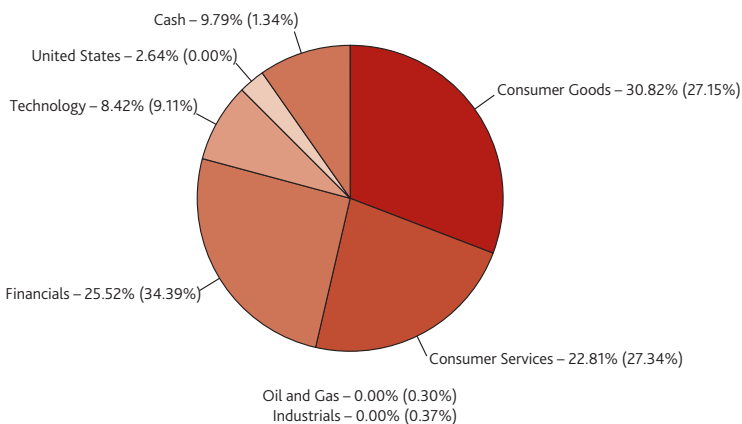
\* Launch date 27 June 2006.

The performance of the Fund is based on the net asset value per Accumulation share which includes reinvested income.

## Risk Warning

Please remember that past performance should not be seen as a guide to future performance and that the value of an investment and the income from it can fall as well as rise and may be affected by exchange rate variations.

## Sector Spread of Investments



The figures in brackets show allocations at 31 May 2008.

## Major Holdings

The top ten holdings at the end of each period are shown below.

Holding	% of Fund as at 31.05.08	Holding	% of Fund as at 31.05.07
Unilever	9.88	Cadbury Schweppes	10.03
Diageo	9.82	Diageo	7.83
Cadbury Schweppes	8.97	Unilever	7.71
Pearson	6.40	Reed Elsevier	7.16
Reed Elsevier	6.14	HBOS	6.85
Schroders	5.15	Pearson	6.77
Sage Group (The)	4.55	Reuters Group	6.72
Lloyds TSB Group	4.41	Sage Group (The)	5.09
Rathbone Brothers	4.10	National Westminster Bank	4.93
London Stock Exchange Group	3.90	Lloyds TSB Group	4.84

# INVESTMENT MANAGER'S REPORT

## Investment Review

Our investment strategy has performed poorly relative to the FTSE All-Share Index over the last 12 months. Two reasons for this predominate. First, the Fund has no exposure to the natural resource sectors of Mining and Energy, which are enjoying a strong bull market, particularly the former. Next, the Fund is overweight in the Financial Services sector and the loss of value for some of our holdings here has been marked – temporary though we expect most of those losses to prove.

The thinking that led us to structure the Fund this way is founded on Lindsell Train's investment principles, which we believe to be sound and which have generated success for our clients over many years. At the heart of those principles is our policy of investing in companies with strong brand names, like Cadbury or, dare we say it, Halifax and in companies with business franchises which we believe are unique or hard to replicate, like the London Stock Exchange or Sage. In our opinion the Fund's portfolio comprises a collection of outstanding brands and franchises, many of which are currently exceptionally undervalued. We do not propose, therefore, to alter today's portfolio, except at the margin and, accordingly, signal our intention to ride out the malign conditions.

We have two messages for Shareholders who will, quite reasonably, be wondering what to do with their investment. First, if the Mining sector continues to advance at the expense of almost every other sector of the London stock market, as it now appears, then your Fund is likely to continue to lag its benchmark. On this question, all we can state for certain is that Mining is an unpredictable industry, whose profitability is dependent on unpredictable moves in commodity prices and unpredictable discoveries of new reserves. It is this unpredictability that makes the industry unattractive to us for long term investment – as all our holdings are designed to be. Yet, the valuation of Mining companies today, some of the most grossly speculative ilk, suggest that other investors do not share our concerns.

Second and briefly stated, we are as certain as it is ever possible to be – in the uncertain arena of capital markets – that there is terrific value in the portfolio, that could be released very quickly if sentiment were to turn.

Given that there is little profit to be earned in dissecting past performance, we turn now to where we identify the best opportunities for making money in the Fund.

## Financials

The majority of our investments in this sector are to fund management companies – namely Hargreaves Lansdown, Rathbone and Schroders. In addition, we retain an important holding in the London Stock Exchange. All these companies have strong brands and are conservatively financed. In addition, of course, they all offer participation in the fortunes of the financial markets. As a general proposition, we always think it right to be broadly optimistic about markets, because, by and large, markets have a tendency to go up and to go up when investors least expect it – often when the economic news is terrible. Today, when good news is not expected but could easily happen – like a cut in interest rates or a bursting of the oil price bubble – these shares in 'market proxies', on very low valuations, have particular appeal. In addition, we think it right to expect a prolonged and material upturn in the savings ratio in the UK, as consumers turn away from debt-financed consumption and look to rebuild their personal balance sheets. More savings in the UK would be beneficial, we are sure, for strong savings brand names, like Hargreaves Lansdown and Schroders. It would also be beneficial for some of the High Street banks, with trusted savings products, not least HBOS and Lloyds.

### **Financials (continued)**

Lloyds remains your Fund's largest single investment in the banking sector. Its shares have fallen, but Lloyds is rare among British banks in not suffering a credit downgrade in the past year. This solidity is the result of, according to a recent report from rating agency S&P, "its strong position in UK financial services, strong earnings streams, tight cost control and good asset quality." We think it possible that Lloyds dividend might go up this year and beyond, and this makes its shares, offering an income yield of 11% most attractive.

Separately, during the first quarter of 2008 we disposed of our holding in Bradford & Bingley. This was disappointing for us, but we felt let down by the company's investment in, then belated disclosure of, a portfolio of synthetic CDOs, inappropriate for an institution of its type, in our opinion. We exited the shares at an average price of c£2.15 and it has now fallen to under 70p. This is thin comfort, but is an example of our readiness to take decisive action if we lose faith in a given company franchise.

### **Media & Technology**

The Fund has significant investments in these sectors. We own them for two reasons. First, we believe that the companies in which we have invested have wonderful market positions or properties – for instance, the Daily Mail, Financial Times, Economist, Reed's Elsevier scientific publishing business, Thomson Reuters' leading online legal service, Westlaw and Fidessa's increasingly ubiquitous equity trading platform. Next, we note that the sectors are wallowing at multi-year lows in terms of valuation, investment performance and investor favour. For instance, the European Media sector has underperformed the main market every year for the last seven, while Sage's shares, as one illustration, still stand at only a quarter of the peak they reached in 2000. This investor disenchantment is particularly relevant, because, in fact, these companies are growing and growing in a way that is not dependent on the economic cycle. Pearson's education business is only distantly exposed to the US consumer, Reuters' dominant currency trading service is booming, whatever happens to UK house prices.

This combination of great franchises, currently deeply out of favour with other investors and non-cyclical growth adds up to a major investment opportunity, we think.

### **Consumer Staples**

The biggest single allocation of capital within the Fund is to companies in the above category – booze, pubs, chocolate and soap. Key holdings are Cadbury, Diageo and Unilever. We are attracted to the reliable and inflation-proofed cash generation of this type of company, but, in addition, there are two further reasons for our enthusiasm.

First, some of the companies offer exposure to one of the strongest investment themes we have today. That theme is consumption growth in Emerging Markets, where billions of new consumers offer a multi-decade opportunity. Our big three holdings, in particular Unilever are advantaged, in that they already own resonant global brands and have established distribution in those parts. As an aside, we believe investors underestimate how important Emerging Markets are to other Fund holdings – for instance publisher Euromoney derives 40% of its revenues from this region, while Schroders has a huge Emerging Market presence, both in terms of its invested assets, but also clientele – and, hence, undervalue them.

Next, we are alert to an accelerating trend to consolidation amongst branded goods companies, especially those with global brands. This year Pernod has bought Absolut Vodka, Mars has announced a bid for Wrigley and Inbev is seeking to acquire Anheuser Busch. These deals are being struck at valuations well in excess of those prevailing in the stock market for our holdings. For instance, Cadbury would double if it were ever to command the same value as Mars has placed on Wrigley. In addition, we believe that Cadbury's former beverage division, Dr Pepper Snapple, is being valued at only 60% of what the Private Equity industry was prepared to pay in 2007 to take control of the business. Any corporate activity involving our consumer holdings would be 'icing on the cake' – they don't need to be bid for to be attractive investments, but it is important that Fund investors recognize the very material upside if there were to be such action.

### **Conclusion**

Now is not the time to make rose-tinted predictions about the likely near-term performance of your Fund. The fact is that our portfolio is not fashionable today.

However, we note that dividend growth for the portfolio remains robust and ahead of inflation, with only HBOS an announced dividend cutter. This dividend growth should drive long term gains for investors, while our strategic valuation work highlights several major holdings that could be 100% undervalued or more.

We look forward to reporting on a less hostile period.

### **Lindsell Train Limited**

*Investment Manager*

23 June 2008

### **Buying And Selling Shares**

The ACD will accept orders to deal in the shares normal business days between 9.00am and 5.30pm. Instructions to buy or sell shares may be either in writing to: 2 The Boulevard, City West One Office Park, Gelderd Road, Leeds LS12 6NT or by telephone on 0845 922 0044. A contract note will be issued by close of business on the next business day after the dealing date to confirm the transaction.

### **Report and Accounts**

This document is a short report of CF Lindsell Train UK Equity Fund for the year ended 31 May 2008. The full Report and Accounts for the Fund is available upon written request to Capita Financial Managers Limited, Ibex House, 42 – 47 Minories, London EC3N 1DX.

### **Other Information**

The information in this report is designed to enable you to make an informed judgement on the activities of the Fund during the period it covers and the results of those activities at the end of the period.

# CAPITA

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