Lindsell Train Investment Trust

July 2005

All data as at 31st Jul 2005

Fund Objective

To maximise long-term total returns 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 yield on the 2.5% Consolidated Loan Stock.

Market Capitalisation	£ 25.1mn
Net Asset Value	£ 125.97
Share Price	£ 125.50
Premium (Discount)	(0.4%)
Benchmark 2½% Consol	Annual +4.6% Monthly +0.4%

Source: NAV - LTIT; Price & Discount - Bloomberg. Share Price quoted is closing mid price. See Benchmark Definition

Fund Breakdown

Top 10 Holdings (% NAV)	
US Gov Treasury 6.25%	10.9
HBOS 9.25% Non Cum	10.8
Barr AG	10.6
Lindsell Train Global Media (Dist)	9.9
Lindsell Train Japan (Dist)	8.6
Cadbury Schweppes	7.8
2½% Consolidated Loan Stock	7.5
Diageo	6.4
Wolverhampton & Dudley Brew	5.8
UK Treasury 2.5%	5.6

Industry Breakdown (% NAV)	
Bonds	24.0
Preference Shares	14.2
Equity - Media	8.6
Equity - Banks & Investment Co.	4.6
Equity - Leisure & Entertainment	9.6
Equity - Food & Beverage	26.6
Investment Funds	22.7
Cash & Equivalent	(10.3)
Total	**100.0**

Fund Exposure	***Bonds***	***Prefs***	***Equity***	***Funds***	***Cash***	***Total***
UK %	13.1	14.2	42.3	4.2	(10.4)	**63.4**
USA %	10.9	-	1.5	-	3.7	**16.1**
Europe (ex UK) %	-	-	1.8	-	(0.5)	**1.3**
Japan %	-	-	3.8	8.6	(3.1)	**9.3**
Global %	-	-	-	9.9	-	**9.9**
Total %	**24.0**	**14.2**	**49.4**	**22.7**	**(10.7)**	**100.0**

Fund Manager:	Nick Train
Launch Date:	22 Jan 2001
Base Currency:	Sterling
Year End:	31st March
Dividend:	Ex-date - Jun Paid - Jul
Benchmark:	The annual average yield on the 2½% Consolidated Loan Stock.
Management Fees:	
Annual Fee:	0.65%
Performance Fee:	10% of annual increase in the share price, plus dividend, above the gross annual yield of the 2½% Consolidated Loan Stock.
The Board:	Rhoddy Swire Michael Mackenzie Donald Adamson
ISIN:	GB0031977944
Bloomberg:	LTI LN
Listing:	London Stock Exchange

Fund Performance (Fixed Calendar Year)

Past performance is not a guide to future performance. The price of units and the income from them may go down as well as up. Investors may not get back what they invested.

5 Year History (Jan-Dec)	***2001***	***2002***	***2003***	***2004***	***YTD 2005***
LT Investment Trust NAV %	+3.2	-9.6	+3.1	+23.7	+11.9
LT Investment Trust Price %	+18.5	-19.8	-8.7	+20.6	+26.0
MSCI World Index GBP	-18.0	-28.6	+17.6	+5.2	+10.8

Source: S&P Micropal unless otherwise indicated. Based in GBP with dividends reinvested, unadjusted. Launch date 22 Jan 2001.

2004	***Jan***	***Feb***	***Mar***	***Apr***	***May***	***Jun***	***Jul***	***Aug***	***Sep***	***Oct***	***Nov***	***Dec***	***YE 2004***
NAV %	+1.8	+3.3	+0.3	+2.3	-0.1	+2.1	-2.0	+4.8	+3.8	+1.4*	+0.0*	+3.7	**+23.7**
Price %	-2.3	+6.0	-0.6	+0.6	+2.3	+2.7	+0.5	+0.5	+8.6	+3.0	-1.9	+0.0	**+20.6**
Since Launch NAV %	-2.1	+1.2	+1.5	+3.8	+3.7	+6.0	+3.8	+8.8	+12.9	+14.5*	+14.5	+18.7	
Since Launch Price %	-15.3	-10.3	-10.8	-10.3	-8.2	-5.7	-5.2	-4.7	+3.6	+6.7	+4.6	+4.6	

2005	***Jan***	***Feb***	***Mar***	***Apr***	***May***	***Jun***	***Jul***	***Aug***	***Sep***	***Oct***	***Nov***	***Dec***	***YTD 2005***
NAV %	+1.4	+0.3	+1.7	+0.8	+3.0	+3.0	+1.1						**+11.9**
Price %	+8.9	+3.6	-3.5	+1.8	+2.7	+9.6	+0.4						**+26.0**
Since Launch NAV %	+20.3	+20.7	+22.8	+23.8	+27.3	+31.1	+32.6						
Since Launch Price %	+13.9	+18.0	+13.9	+15.9	+19.0	+30.4	+31.0						

Source: S&P Micropal unless otherwise indicated. Based in GBP with dividends reinvested, unadjusted. Launch date 22 Jan 2001. * Source: Lindsell Train Ltd.

LINDSELL TRAIN INVESTMENT TRUST

Fund Manager's Comments

All data as at 31st Jul 2005

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July was an unhelpful month for your NAV, with the reversal of two trends that assisted for the first six months of the year – namely the rally of the US Dollar against Sterling and the bull market in long-dated Anglo-Saxon government bonds. Moreover, the continued gains in oil and hard commodity prices have become a negative for your Company. Understandably, investors have begun to see these increases as de facto tax hikes for global consumers and, as a result, many "non-commodity" company share prices have been drifting, even relatively insulated businesses, such as our favourites, Cadbury and Diageo.

We think it unlikely, however, that all these three headwinds will be sustained against us indefinitely and may already be turning. In particular, we expect that any continued spiral in the oil price really will hit consumer confidence worldwide and lead to a further sharp decline in inflation expectations, boosting government bond prices. The recent, for many unanticipated, cut in UK short interest rates seems to point to such an outcome.

UK base rate reductions are very interesting for your Company. First, they are immediately value-creating. The Trust is moderately levered, at c 10.0% and the debt is bank borrowing, paid at floating rates. Any drop in the cost of borrowing increases the amount of income we earn from the investment portfolio, albeit modestly in this instance. Next, the cut in interest rates leaves the yields available on gilts and, particularly, preference shares looking even more attractive to income-seeking institutions and private investors. All our fixed interest assets have bounced in price in early August, after the rate cut and we hope for more. Finally, the cut is a signal that the long British consumer boom is waning. With falling house prices and a deteriorating fiscal outlook we think that further rate reductions and a wobbly Sterling look plausible. An end to the recent rally in Sterling would certainly help the NAV. A final thought - if UK house price deflation proves contagious - and US real estate values look distinctly bubble-like to many, including Alan Greenspan - then the world might really begin to look rather different, as deflationary forces kick in, with serious implications for the pricing of bonds, currencies, equities and, of course, commodities.

We've been wallflowers to the commodity price boom, watching on with a mixture of envy and incomprehension as smarter people than us have made big money in assets that we regard as excessively speculative (and that description includes several FTSE 100 constituents). We remember some of our earliest lessons in investment management – "A mine is a hole in the ground with a liar at the top" or "The most dangerous phrase in our business is "It's different this time"" - because these lessons have served us well over the years and because they remain relevant. It is uncanny for us to read the "new era" justifications for, say, companies benefiting from soaring steel prices so relatively soon after the scuppering of similar Dotcom fantasies (justifications often from the selfsame broker cheerleaders for technology). Hot-rolled steel prices peaked in September 2004 at $756 per ton, today it fetches c$400 – what is your guess for next month?

That question leads to our two prime objections to investing in commodity sectors. First, we have always been reluctant to commit to industries or companies whose long term success is tied to commodity prices, because they are, we think, essentially unpredictable. We have a view as to what may happen to the inflation-adjusted price of a bottle of Johnnie Walker Black Label over the next decade – we think it will maintain, or possibly modestly increase its real value, but we have no idea what steel or a barrel of oil will fetch in 2006, let alone 2015 (though we have a suspicion that by the latter date the real price of metals and oil will have fallen, as it did for much of the Twentieth Century, when increased supply soon swamped cyclical demand for commodities). Next, we also stick to perhaps a simplistic view- that if commodity prices are rising, then it is likely that economic growth is accelerating above expectation in some part of the global economy. If so, then we believe we can invest in far more attractive business models, with higher intrinsic returns to equity and better cash generation than (typically) capital-hungry extractive companies.

Here are two instances of such attractive models which we own and which offer access to accelerating economic growth. We have, first, been mildly disappointed that Diageo's price has fallen 6.0% since early July, as investors digested a pre-close period trading statement that reaffirmed forecasts, but failed to lead to profit upgrades. We think investors are missing the future growth implications of the fact that Diageo today earns 29.0% of its EBIT from the emerging economies of Latin America, Asia and Africa, where it often has market-leading positions (and, meanwhile, only 2.0% of its EBIT derives from the world's "problem" economies of France and Germany). In the long run, we see the economic returns to Diageo of delivering increasing volumes of Johnnie Walker to China or India as being far more attractive than, say, Corus or Xstrata's opportunity to deliver steel or coal to the same regions. Reuters' shares too have fallen in July, despite the company's win of a significant contract from the People's Bank of China to establish a foreign currency trading portal. The China Foreign Exchange Trade System (CFETS) is the only organisation licensed to trade forex in China and is based on a version of Reuters' existing electronic trading platform, situated in Shanghai. The portal is likely to be central to the development of a domestic forex market in China and gives Reuters a real chance of dominating this trade. Reuters' profitability from its provision of currency trading platforms is already exceptional and arguably, the most valuable franchise within the group – the promise of drawing the China currency bloc into its sway is not in the stock price, we believe. The only consolation from the recent share price fall for a long term investor in Reuters is that it means that the £1.0 billion share buyback the company announced with its interim results, now shrinks the equity base by 20.0%, meaning that there is even more growth to share around the remaining holders.

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