Lindsell Train Investment Trust

August 2005

All data as at 31st Aug 2005

Market Capitalisation	£ 24.5mn
Net Asset Value	£ 126.22
Share Price	£ 122.50
Premium (Discount)	(3.0)
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 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.

Fund Breakdown

Top 10 Holdings (% NAV)	
HBOS 9.25% Non Cum	11.1
US Gov Treasury 6.25%	11.0
Barr AG	10.7
Lindsell Train Global Media (Dist)	9.7
Lindsell Train Japan (Dist)	8.2
Cadbury Schweppes	7.8
2½% Consolidated Loan Stock	7.7
Diageo	6.4
Wolverhampton & Dudley Brew	5.8
UK Treasury 2.5%	5.7

Industry Breakdown (% NAV)	
Bonds	24.4
Preference Shares	14.5
Equity - Media	8.5
Equity - Banks & Investment Co.	4.6
Equity - Leisure & Entertainment	9.4
Equity - Food & Beverage	26.7
Investment Funds	22.2
Cash & Equivalent	(10.3)
Total	**100.0**

Fund Exposure	*Bonds*	*Prefs*	*Equity*	*Funds*	*Cash*	*Total*
UK %	13.4	14.5	42.1	4.2	(10.3)	**63.9**
USA %	11.0	-	1.6	-	3.6	**16.2**
Europe (ex UK) %	-	-	1.8	-	(0.5)	**1.3**
Japan %	-	-	3.7	8.2	(3.1)	**8.8**
Global %	-	-	-	9.8	-	**9.8**
Total %	**24.4**	**14.5**	**49.2**	**22.2**	**(10.3)**	**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	+11.2
LT Investment Trust Price %	+18.5	-19.8	-8.7	+20.6	+22.9
MSCI World Index GBP	-18.0	-28.6	+17.6	+5.2	+9.1

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	+0.5					**+11.2**
Price %	+8.9	+3.6	-3.5	+1.8	+2.7	+9.6	+0.4	-2.4					**+22.9**
Since Launch NAV %	+20.3	+20.7	+22.8	+23.8	+27.3	+31.1	+32.6	+31.7					
Since Launch Price %	+13.9	+18.0	+13.9	+15.9	+19.0	+30.4	+31.0	+27.8					

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

Fund Manager's Comments

LINDSELL TRAIN
INVESTMENT TRUST

All data as at 31st Aug 2005

Our holding in Dow Jones has come to life again after falling in the first half of the year. The price today is $40 having been as low as $32 in April. We originally bought it at an average price of $57, which, unfortunately, makes it one of the Fund's worst investments to date. The company owns some terrific franchises including the Wall Street Journal, Barrons and the Ottaway Group of local US Newspapers. The company's current market capitalisation is $3.3bn. One-way of thinking about whether this is a fair value for the business is to consider whether it is readily replicable for an equivalent sum. Today one might wonder whether anyone wanted to replicate it given the competition for advertisement spending from new on-line media. After 3 years of a rising asset markets and despite booming volumes and profits on Wall Street, advertising revenues for the Wall Street Journal are still languishing at 1985 levels. The problems are not confined to USA. The Financial Times, its main global competitor is similarly affected. Rupert Murdoch addressed this malaise in a speech to the American Society of Newspaper Editors when he claimed newspapers were 'remarkably complacent' about the effect of growing Internet use on the newsprint industry. He cited research, which showed that 'consumers between the ages of 18-34 are increasingly using the web as their medium of choice for news consumption', adding that 'Internet portals are quickly becoming the favoured destination for news among young consumers'. He goes on to acknowledge that 'the threat of losing advertising dollars to online media is very real'. These comments were primarily aimed at mass circulation newspaper editors. Nevertheless the slump in classified advertisements for them and financial advertising for The Wall Street Journal suggests a wider problem. The Wall Street Journal and the FT need to protect their franchises by using technology as they have done in the past to engage with on-line financial news consumers. Dow Jones's developed its own in-house, on-line website, WSJ on-line. Even though it has established the largest circulation for any paid subscription news site on the web, it only increased its 689,000 subscribers by 3% in 2004-2005, which must be considered disappointing given the increase in web usage by news consumers generally. As the management gropes for the right strategy to reinvigorate their Internet offering investors become disillusioned as the company spends precious cash flow paying seemingly high prices for on-line acquisitions. Dow Jones needs to upgrade its Internet presence so that it is compelling enough for more financial customers to make it their home page of choice. We are giving them the benefit of doubt and think they will succeed, largely because they have such an overwhelming advantage of having a recognisable franchise behind them. While we wait the gyrations of the share price are likely to continue, influenced as well by the rumours that the controlling Bancroft family may put up the company for sale. All we do know is that when advertising eventually recovers the marginal return on any increase for Dow Jones is likely to be huge, reinforcing the value of such a unique franchise and our determination to add to this holding if the share price falls back into the low $30's once again.

A more recent disappointing holding for the Fund has been that in the Lindsell Train Japan Fund. Although the Fund was initially successful in preserving value and generating modest returns in a bear market, since the Japanese market has recovered the Fund has stagnated. This August the Fund fell in value, as the short portfolio was hit. The short portfolio is dominated by cyclical businesses that have recently led the market higher. We hope that either this trend will reverse or that our long portfolio will rally strongly. Whatever occurs, we expect more volatility, with potential further risk on the downside.

The strategy of the Fund is predicated on the continued fall in the ownership of Japanese shares by relationship investors (cross-shareholders) whose prime motivation for owning shares is to derive tangible business benefits from such ownership, rather than earn any specific financial return, and a continued rise in the ownership of shares by portfolio investors, whose priority is to earn a competitive medium term financial return. As this transfer of ownership plays out, we expect the cash generative companies that comprise the long portfolio will likely pay higher dividends and increase returns on retained earnings. This is already happening and has led to good performance from some individual long positions. More importantly the changing landscape for share ownership will require cash consumptive companies, such as the ones that dominate our short portfolio, to improve equity ratios, reduce debt and pay higher dividends. At the moment such companies are able to do all three because of an ongoing short-term cyclical boost to profitability. As a result rising share prices have generated losses offsetting the gains from the long portfolio. But when the cycle turns down and profitability falls, returning to normal levels, the cyclical companies will find that maintaining dividends may not even be possible let alone reducing debt. At such a juncture this growing part of the strategy should contribute handsomely to returns.

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Risk Warning

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