

LINDSELL TRAIN INVESTMENT TRUST

September 2005

All data as at 30th Sep 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.

Fund Breakdown

Top 10 Holdings (% NAV)

HBOS 9.25% Non Cum	11.3
US Gov Treasury 6.25%	10.6
Barr AG	10.3
Lindsell Train Global Media (Dist)	9.8
Cadbury Schweppes	8.1
Lindsell Train Japan (Dist)	7.6
2½% Consolidated Loan Stock	7.5
Diageo	6.6
Wolverhampton & Dudley Brew	5.9
UK Treasury 2.5%	5.6

Industry Breakdown (% NAV)

Bonds	23.8
Preference Shares	14.7
Equity - Media	8.5
Equity - Banks & Investment Co.	4.5
Equity - Leisure & Entertainment	10.0
Equity - Food & Beverage	26.7
Investment Funds	21.7
Cash & Equivalent	(9.9)
Total	100.0

Fund Exposure	Bonds	Prefs	Equity	Funds	Cash	Total
UK %	13.2	14.7	42.2	4.3	(10.0)	64.4
USA %	10.6	-	1.5	-	3.6	15.7
Europe (ex UK) %	-	-	1.8	-	(0.5)	1.3
Japan %	-	-	4.2	7.6	(3.0)	8.8
Global %	-	-	-	9.8	-	9.8
Total %	23.8	14.7	49.7	21.7	(9.9)	100.0

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	+12.1*
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	+13.6

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	+1.1*				+12.1*
Price %	+8.9	+3.6	-3.5	+1.8	+2.7	+9.6	+0.4	-2.4	+2.4				+26.0
Since Launch NAV %	+20.3	+20.7	+22.8	+23.8	+27.3	+31.1	+32.6	+31.7	+32.8*				
Since Launch Price %	+13.9	+18.0	+13.9	+15.9	+19.0	+30.4	+31.0	+27.8	+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 & Bloomberg.

Market Capitalisation	£ 25.1mn
Net Asset Value	£ 127.56
Share Price	£ 125.50
Premium (Discount)	(1.6)
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 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:

<i>Annual Fee:</i>	0.65%
<i>Performance Fee:</i>	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
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Secretary:	Phoenix Administration Services Limited
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ISIN:	GB0031977944
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Bloomberg:	LTI LN
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Listing:	London Stock Exchange
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All data as at 30th Sep 2005

Fund Manager's Comments

Your NAV rose 1.1% in September, taking the gain for the first three quarters of 2005 to 10.6%, before dividends. This return comfortably exceeds that of our benchmark (the annual average running yield on an irredeemable gilt, which we take as a proxy for UK inflation expectations plus a risk premium), which has delivered 3.5% to end September. By contrast, the MSCI World Equity Index and the FT All-Share Index gained 12.6% and 13.8% respectively over the same period, in Sterling.

We continue to focus earning an absolute return for shareholders, in excess of our benchmark, while minimising, to the fullest extent we can, the risk of loss of capital value. This objective means it is unlikely that the NAV will ever perform similarly to the major equity indices in the short term. For instance, we are content with the total returns earned in 2005 from the fixed interest securities in the Trust, which range from c6.0% delivered by the gilts, to c15.0%, in Sterling from the US Treasury bond, even though the combined contribution is less than could have been earned from a UK equity index-tracker. We are content, because those fixed interest returns outstripped our benchmark hurdle, with, we judge, low risk. Meanwhile, over the nearly five years since the establishment of the Trust, the NAV performance has in fact significantly exceeded that of mainstream equity markets (the FT All-Share Index is still down by 8.0% since January 2001) and we believe, looking ahead, that our investment strategy has every chance of delivering returns that will satisfy investors in both absolute and relative terms.

For that contention to hold, three conditions, at least, must be met. First, we must ensure we exit our fixed interest holdings advantageously, before rising inflation expectations and indeed, actual UK inflation cause permanent loss of their capital value and erode the real value of the income the Trust enjoys from them. Next, we must ensure that our growing exposure to various equities delivers terrific returns. Finally, your investment manager must succeed in growing the funds under management and profits of Lindsell Train Limited, because then the Trust's 25.0% holding in that private company can be expected to deliver a rich and increasing flow of dividends and further capital uplift. We have comments this month on each of the three conditions.

On the first trading day of October we sold a portion of our US Treasury Bond, amounting to c1.0% of net assets. We used the proceeds to begin an investment in a new equity holding, discussed below. This action is consistent with our policy of the past few years, of using our government bond holdings to finance purchase of equity assets, where we have a high degree of confidence that the equity in question can comfortably outperform the bond, from our entry price. The sale should not be interpreted, though, as a change in our strategic view on Anglo-Saxon bonds as an asset class. Of course, we cannot be as bullish about bonds as we were when the positions were established, back in 2001, because their prices have risen and yields fallen. However, we remain fairly much convinced that over the next few years there is a period of spending and borrowing retrenchment to be endured by US and UK consumers and that this pain could lead to lower short term interest rates and lower inflation expectations. In other words, the bull market in government bonds is maturing, but not necessarily over.

As to our equity portfolio, there were some notable features in September. The best performer was Nintendo, up 14.0%, although this gain leaves the shares only 2.0% better for the year. Nintendo used the occasion of the Tokyo Game Show in mid-September to reveal the specifications for its new home console, codenamed "Revolution". For once the hype may be justified, because the device appears really to change the "gaming experience" (by providing a controller which is touch and motion sensitive, rather than button-driven).

All we are sure of is that Nintendo, still with c40.0% of its market value accounted for by its net cash, is exceptionally undervalued if this new product catches the imagination of gamers and delivers revenue growth.

Revenue growth was the one feature missing from A.G. Barr's otherwise respectable set of interim results, released late in the month. Of course, increasing sales are an important component of any equity valuation and Barr's flat performance for its first six months is a disappointment, that left the shares down 3.0% in September – not a trivial drop for the Trust's largest equity holding. In partial mitigation, the performance was affected by the poor showing of just one brand, Tizer, while the key property, IRN-BRU, saw revenues rise by 5.0%. Decent growth from this high profit margin brand allowed Barr to report a 6.0% increase in pre-exceptional profits, despite flat overall sales and to increase its interim dividend by 5.4%. Barr's share price has more than doubled since early 2003, an uplift that explains its importance in the affairs of the Trust, but an uplift, too, that has removed the gross undervaluation that pertained back then. Nevertheless, we find the shares still full of strategic interest. The company has c£35.0 million of net cash, against its current stock market value of £180 million and annual sales of £125 million. This enterprise value/sales ratio of 1.2x appears extraordinarily low compared to the rash of transactions in the consumer-branded goods sector during 2005 (today, for instance, Boots announced the sale of its over the counter consumer brands, including Strepsils and Nurofen, for 3.6x annual sales). Cadbury signalled in September its intention to sell its European soft drinks business, a transaction which is likely to be keenly contested and may provide an even better benchmark for a fair value for Barr. It is not impossible that Barr could find some use for its cash pile in the fallout from the Cadbury auction, buying the UK rights to Orangina, for instance. The Trust earns a net dividend yield of 6.5% on its average buying price for Barr shares, from a cash-rich company with strategic flexibility and we can think of far worse places to commit long term capital.

We have now begun accumulating our second new equity holding of 2005. The first, Heineken, has, so far, been satisfactory, gaining just under 10.0% since purchase. Any setback in its price will encourage us to add to the current 2.0% holding. The prime factor in Heineken's recent bounce has been the rally in the US Dollar, to which the company is very exposed. That consideration also influenced our, so far, tentative new investment in Pearson, which, if anything, is even more exposed to the US Dollar than Heineken (the company is probably marginally loss-making on its Sterling business interests, meaning that over 100.0% of current profits are Dollar denominated). The undoubted currency drag on Pearson's profits during the Dollar's bear market against Sterling is certainly one of the factors that has reduced the company to its, we think, unreasonably low valuation and could provide an unlooked for boost to earnings if Sterling's weakness continues. Another factor in our interest in Pearson, although like the currency, a contributory rather than clinching factor, is the dividend yield we are able to access on its shares. At a fraction under 4.0% net, Pearson's equity yields some 33.0% more than the FT All-Share and in line with that of a long-dated gilt (net), meaning that the Trust sacrifices little or no income when switching into it out of a bond, but gains the prospect of a continuation of the company's dividend growth, up 85.0% over the past 10 years. At the heart of the investment decision, though, is our conviction that Pearson's roughly £5.0 billion of market value is too low, compared to the roughly £4.0 billion of annual sales. We can see circumstances where investors might be happy to value Pearson's revenues at more like 3.0x and circumstances where the revenues themselves might have grown to materially more than £4.0 billion, implying a possible tripling of the stock over the next, say, 5 years. In particular, we think investors today

underestimate the value of a number of Pearson's assets and some of its growth opportunities. The Financial Times is an obvious example, currently loss-making, as the financial services industry emerges from recession. Pearson's Longman imprint, which is China's leading "English as a foreign language" teaching tool, is, we think, an underplayed source of growth, as the world adopts American as its lingua franca. Pearson's 60.0% stake in Interactive Data Corporation, a NASDAQ quoted company, is valued by US investors at an implied £710 million, or 14.0% of Pearson's own market value – yet we suspect most UK investors are not even aware of the existence of the asset, sitting as a minority in the FT group. Similarly, Pearson's 50.0% interest in The Economist is lost as an item in its accounts, as part of "joint ventures", but the magazine has recently reached a record weekly circulation of over 1 million and must be worth £100's of millions, if it were ever extricated from the group. We understand investors' frustration with Pearson as a business and an investment and recognise that capital has been poorly allocated, at times, by the current management. However, disenchantment, combined with unique assets present opportunities and we are prepared to accumulate shares, preferably into falling prices.

Finally, reverting to Lindsell Train Limited, we are pleased to report a new segregated account, of some £60 million, invested in UK equities, replicating our core UK portfolio Finsbury Growth and Income Trust. This award lifts LTL's funds under management to £300 million, compared to £157 million in September 2004. New FUM are highly accretive for LTL's profitability and we hope that future satisfactory performance for this and our existing clients will lead to other opportunities, whose value will also be shared with Trust shareholders.

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