# Lindsell Train Investment Trust

October 2005

*All data as at 31st Oct 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** | £ 24.1mn |
| **Net Asset Value** | £ 125.54 |
| **Share Price** | £ 120.50 |
| **Premium (Discount)** | (4.0) |
| **Benchmark 2½% Consol** | Annual +4.6%<br>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)* | |
|---|---|
| HBOS 9.25% Non Cum | 11.6 |
| Barr AG | 10.2 |
| Lindsell Train Global Media (Dist) | 10.1 |
| US Gov Treasury 6.25% | 9.1 |
| Cadbury Schweppes | 8.0 |
| 2½% Consolidated Loan Stock | 7.7 |
| Lindsell Train Japan (Dist) | 7.0 |
| Diageo | 6.8 |
| Wolverhampton & Dudley Brew | 5.8 |
| UK Treasury 2.5% | 5.7 |

| *Industry Breakdown (% NAV)* | |
|---|---|
| Bonds | 22.5 |
| Preference Shares | 15.1 |
| Equity - Media | 10.6 |
| Equity - Banks & Investment Co. | 4.9 |
| Equity - Leisure & Entertainment | 9.9 |
| Equity - Food & Beverage | 27.0 |
| Investment Funds | 21.4 |
| Cash & Equivalent | (11.4) |
| **Total** | **100.0** |

| *Fund Exposure* | *Bonds* | *Prefs* | *Equity* | *Funds* | *Cash* | *Total* |
|---|---|---|---|---|---|---|
| UK % | 13.4 | 15.1 | 45.0 | 4.2 | (12.9) | **64.8** |
| USA % | 9.1 | - | 1.4 | - | 5.0 | **15.5** |
| Europe (ex UK) % | - | - | 2.0 | - | (0.6) | **1.4** |
| Japan % | - | - | 4.0 | 7.1 | (2.9) | **8.2** |
| Global % | - | - | - | 10.1 | - | **10.1** |
| **Total %** | **22.5** | **15.1** | **52.4** | **21.4** | **(11.4)** | **100.0** |

| | |
|---|---|
| **Fund Manager:** | Nick Train |
| **Launch Date:** | 22 Jan 2001 |
| **Base Currency:** | Sterling |
| **Year End:** | 31st March |
| **Dividend:** | Ex-date - Jun<br>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<br>Michael Mackenzie<br>Donald Adamson |
| **Secretary:** | Phoenix Administration Services Limited |
| **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 | +11.6 |
| LT Investment Trust Price % | +18.5 | -19.8 | -8.7 | +20.6 | +20.8 |
| 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 | +0.5 | +1.1 | -0.4 | | | **+11.6** |
| Price % | +8.9 | +3.6 | -3.5 | +1.8 | +2.7 | +9.6 | +0.4 | -2.4 | +2.4 | -4.0 | | | **+20.8** |
| Since Launch NAV % | +20.3 | +20.7 | +22.8 | +23.8 | +27.3 | +31.1 | +32.6 | +31.7 | +32.8 | +32.2 | | | |
| Since Launch Price % | +13.9 | +18.0 | +13.9 | +15.9 | +19.0 | +30.4 | +31.0 | +27.8 | +32.7 | +25.7 | | | |

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

## Fund Manager's Comments

# LINDSELL TRAIN INVESTMENT TRUST

*All data as at 31st Oct 2005*

The NAV took a hit last month falling 2% mirroring the weak performance of equity markets. Most of our equity holdings fell in price. A contributory factor to this weakness has been the spectre of higher inflation, which is now more evident in headline inflation data. For instance, US CPI in September was up 4.7%, the highest rate of increase since 1991 and UK CPI was up 2.5%, the highest rate of increase since 1996. In the face of these concerns our long-term fixed interest positions have held up rather better than expected with the gilts unchanged, the US bond down on the month by 3% and the preference shares actually rising.

There is no doubt that following the late summer hike in commodity prices, especially oil and gasoline, many investors fear a resurgence in inflation. It is understandable that there has been an immediate rise in the price of goods and services where the price of a commodity is a primary, direct input such as in electricity, petrol, gas and heating fuels but now that commodity prices have remained high for long, products where such commodities are an indirect or lesser input have also begun to rise in price, like the price of some household goods, cosmetics, building materials and transport suggesting that businesses have increasing pricing power. In support of this observation, it is notable how corporate profitably remains high and growing, especially in the USA where S&P 500 3rd quarter earnings were up 20% (with 80% of companies having reported) as compared to the previous year. There is precious little evidence of shrinking profit margins yet, implying that corporations in aggregate are able to cope well with the rise in input costs in part by passing on price increases to consumers. This winter is likely be a test of whether the consumer has the power to demand higher wages to compensate for increased costs such as heating and transport. In the USA, where the economy is so much more open, signs are that the consumer will continue to suffer as workers do not have the bargaining power, as has been recently demonstrated by General Motors by persuading the United Autoworkers Union to take pay and benefits cuts for its 1.1 million members. For some months US real average hourly earnings have been falling, more recently at an increased rate of 2.7%. But in the UK where wages rises have been stable at 4.0% and therefore increasing marginally in real terms, with CPI at 2.5%, and where unionised public sector workers make up a higher proportion of the total workforce, there is more risk that workers succeed in achieving higher wages rises in compensation for the higher cost of living.

What is certain is that central banks are watching carefully how this battle develops carefully and have become more hawkish of late, warning of the need to stamp out any incipient inflation. But perhaps the most important controlling influence in all of this are the bond markets themselves. Lower bond prices feed straight through to higher mortgage rates, which has been the main source of marginal funding for retail expenditures though home equity extraction in both the UK and the USA. Furthermore higher mortgage rates reduce housing activity and with a lag house prices thereby reducing the equity in homes able to be monetised for retail expenditures. There is also, not surprisingly, a strong link between consumer confidence and house prices changes.

Bond prices might continue to prove resolute in the face of such inflationary fears. In which case it will be the central banks raising short rates that will act to restrain credit growth through negatively sloped yield curves (short-term interest rates higher than long-term interest rates) such as we already have in the UK. On the other hand, we acknowledge the risk that even though our bonds have responded little to inflationary fears so far, they may well do so at some juncture in the future. Should that eventuate we think such weakness is likely to be temporary because of the linkages outlined above and may well engender conditions that become even more bond friendly thereafter.

Whatever happens, it looks as though the many years of benign conditions for consumers both sides of the Atlantic are drawing to a close which could have important implications for many of our consumer facing businesses. Indeed we have been watching with interest the travails of Anheuser-Busch whose 11 consecutive years of increasing profits has come to an abrupt halt this year. Does this make us less enthusiastic about our businesses? Definitely not, especially when compared to other companies even if it might moderate the price at which we are prepared to access more shares and temper the peak valuations at which we continue to remain owners. It does however remind us of the risks we face and makes us think that if great businesses such as the ones we own are to suffer, what will it be like for the vast majority of mediocre businesses we purposefully avoid owning.


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