Lindsell Train Investment Trust

February 2006

All data as at 28th Feb 2006

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	£ 26.5mn
Net Asset Value	£ 136.33
Share Price	£ 132.50
Premium (Discount)	(2.8)
Benchmark 2½% Consol	Annual +4.4% Monthly +0.4%

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

Fund Breakdown

Top 10 Holdings (% NAV)	
HBOS 9.25% Non Cum	11.4
Lindsell Train Global Media (Dist)	10.8
Barr AG	9.3
US Gov Treasury 6.25%	8.6
Cadbury Schweppes	8.1
2½% Consolidated Loan Stock	7.7
Diageo	7.4
Lindsell Train Ltd	5.8
UK Treasury 2.5%	5.7
Wolverhampton & Dudley Brew	5.7

Industry Breakdown (% NAV)	
Bonds	22.2
Preference Shares	14.7
Equity - Media	11.7
Equity - Banks & Investment Co.	5.8
Equity - Leisure & Entertainment	10.7
Equity - Food & Beverage	27.5
Equity - Consumer Goods	1.6
Investment Funds	20.5
Cash & Equivalent	(14.7)
Total	**100.0**

Fund Exposure	***Bonds***	***Prefs***	***Equity***	***Funds***	***Cash***	***Total***
UK %	13.5	14.7	46.5	4.5	(14.4)	**64.8**
USA %	8.7	-	1.5	-	5.0	**15.2**
Europe (ex UK) %	-	-	4.3	-	(2.5)	**1.8**
Japan %	-	-	5.0	5.2	(2.8)	**7.4**
Global %	-	-	-	10.8	-	**10.8**
Total %	**22.2**	**14.7**	**57.3**	**20.5**	**(14.7)**	**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
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***	***2005***	***YTD 2006***
LT Investment Trust NAV TR%	+3.2	-9.6	+3.1	+23.7	+16.5	+3.2
LT Investment Trust Price TR%	+18.5	-19.8	-8.7	+20.6	+27.5	+4.5
MSCI World Index GBP TR%	-18.0	-28.6	+17.6	+5.2	+20.3	+2.1

Source: LTL & S&P Micropal unless otherwise indicated. TR=Total Return. Launch date 22 Jan 2001. ❶ Source: LTL.

2005	***Jan***	***Feb***	***Mar***	***Apr***	***May***	***Jun***	***Jul***	***Aug***	***Sep***	***Oct***	***Nov***	***Dec***	***YE 2005***
NAV TR%⋆	+1.4	+0.3	+1.7	+0.2	+3.4	+2.9	+0.0	+0.2	+1.0	-1.5	+2.3	+2.9	**+16.5**
Price TR%⋆	+8.6	+3.5	-3.4	+1.8	+2.6	+9.3	+0.4	-2.3	+2.4	-3.9	+1.2	+4.0	**+27.5**
Since Launch NAV TR%	+20.3	+20.7	+22.8	+23.8	+27.3	+31.1	+32.6	+31.7	+32.8	+30.7	+33.7	+37.9	
Since Launch Price TR%	+13.9	+18.0	+13.9	+15.9	+19.0	+30.4	+31.0	+27.8	+32.7	+25.7	+27.3	+32.5	

2006	***Jan***	***Feb***	***Mar***	***Apr***	***May***	***Jun***	***Jul***	***Aug***	***Sep***	***Oct***	***Nov***	***Dec***	***YTD 2006***
NAV TR%⋆	+0.9	+1.9											**+3.2**
Price TR%⋆	-3.0	+7.5											**+4.5**
Since Launch NAV TR%	+39.5	+42.1											
Since Launch Price TR%	+28.4	+38.3											

Source: LTL & S&P Micropal unless otherwise indicated. Launch date 22 Jan 2001. TR=Total Return (adjusted for dividends). Listed securities in the portfolio are valued at the closing bid price.
⋆ Monthly performance sourced from Bloomberg & LTL. ❶ Source: LTL.

Fund Manager's Comments

LINDSELL TRAIN INVESTMENT TRUST

All data as at 28th Feb 2006

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The net asset value continued to make upward progress through February ending the month up 1.9%. The share price recovered as well, narrowing the discount to 2.8%.

Performance was driven by a steady if unspectacular advance from some of the core consumer franchises, Cadbury, Diageo where we have large positions of 7.5% in each and Heineken where we have a lesser position of 2.5%. All three companies announced 2005 results which, we believe reinforced the predictability and stability of the cash flows these companies generate. Cadbury's results demonstrated how accretive the purchase of Adams, the chewing gum and medicated sweet business, was in 2003. Cadbury's financed the purchase with new debt, gearing the balance sheet to 1.5x equity. Now, just two years later, the return on equity has increased from 20% to 26% and the gearing should fall to 1x equity by the end of 2006. At the current price the free cash flow yield is c6%, 1.5x the bond yield and we think dividends can grow at 5% as they did over the last 10 years. Diageo, which owns 8 of the top 20 spirits brands (and a 35% interest in a 9th), is now a pure drinks company following the divestments of the last 3 years. As we have pointed out before, the company operates one of the largest share repurchase programmes of any British company. As these have been taking place at cash flow yields at 6% (where the yield is today) and above, these repurchases have been highly accretive for shareholders. Over the last 5 years the company has distributed 70% of net earnings to shareholders as dividends. Adding repurchases to this figure, the total return, in buybacks and dividends, has been 140%. Heineken announced better than expected results, which was frustrating for us as we are still building our investment in the company. Although we admire the Heineken brand we have doubts about the management strategy of expanding though the acquisition of local brands of lesser quality at what may prove to be high prices. While this strategy prevails and the management has provided no indication otherwise, we feel that the extra risk that our concerns may be correct was well compensated with the 7-8% free cash flow yield, the price we were able to accumulate the shares last year. Now, the yield has dropped to nearer 6.5% following the recent share price gain. We continue to think that all these shares represent some of the more undervalued assets in the Trust, a situation that is unlikely to persist if the compounding effect of high free cash flow yields continues and especially if investors sense that earning gains elsewhere in the market are less buoyant than in prior years.

Another consumer franchise that has performed well for the Trust lately is Nintendo, up 21.1% in 2006. Sales of its handheld console, Nintendo DS, have surpassed all expectations in Japan and look like continuing, following the launch of a sleeker version the "Nintendo Lite". The company's stated intent of broadening its customer base by designing games that appeal to women and older people seems to be working. This means that the company's 2005 performance is likely prove better than expected. What is less clear today is whether Nintendo will have the same success in expanding the markets in the USA and Europe, which traditionally record sales 3 times higher than Japan. It makes the US March launch of the 'brain teasing' games that have sold so well in Japan over the end of last year so important for the company, as these were the ones that drove the adult sales. On top of all this Nintendo will launch its new console with its revolutionary controller this autumn. With so many initiatives ongoing it is perhaps not so surprising that the shares have been firmer of late, not least because the potential for more success introduces an 'optionality' in our investment that could have a dramatic effect on cash flows and business value were they to pay off. While we wait we earn a 2% yield, not bad for a Japanese company, especially one with so much potential.

We initiated a new position in February in Clarins, a family controlled, French cosmetics company with a 50 year heritage. We have followed the company for some time and regret not taking advantage of the low prices the company traded at in 2002 and 2003. Nevertheless we accessed an opening position at a market capitalisation 1.7x the company's sales. We think this, as an initial entry point, could still prove to represent exceptional value. Like other consumer franchises the cosmetics business benefits from low raw material costs but bears high distribution and marketing expenses. Clarins' products are distributed worldwide in 123 different countries. The cost of this global reach for a €1bn sales company is, we suspect, much greater, proportionately, compared with larger quoted competitors, like L'Oreal or Estee Lauder. This explains Clarins' lower level of profit margin than one might otherwise expect. Despite this, the global expansion of the brand, which has been ongoing from 1974, is raising awareness, providing a base for growth at higher margins in years to come, as worldwide market share builds. 60% of Clarins' sales are beauty products (predominantly skin care and some make-up) and 40% perfumes. The company aims to sell to the high/mid market: high quality, high efficacy but affordable. As a result of its market positioning, we think Clarins cosmetics products are 'aspirational' in that even though they are expensive, they are affordable to the mass market in search for quality. By steering away from exclusivity, a characteristic many other cosmetic brands actively seek, the company widens its net of potential customers. Ageing population profiles in many developed countries provides a helpful demographic background to sales, a dynamic that has not gone unnoticed by others, including Alan Lafley, the CEO of Proctor and Gamble, who in a recent FT interview, signalled that the future growth of his company was likely to be dominated by 'beauty', which he defined as a $150bn business growing at 10% per annum. Few consumer businesses have this growth profile. Actual transactions, as a guide to the value of Clarins in the industry are few and far between. The latest was Kao's purchase of Kanebo Cosmetics in Japan for 2x sales. Not only was Kanebo an inferior business to Clarins, we think, but was probably bought from a government agency at a more favourable price that if it had been a successful independent company, making Clarins at 1.7x much better value. Although the company's dividend yield is only 1.5%, the dividend has grown an impressive 16.8% per annum over the last 20 years and 11.5% over the last 5 years, illustrating the favourable growth characteristics of the industry.