Lindsell Train Investment Trust

May 2006

All data as at 31st May 2006

Market Capitalisation	£ 26.1mn
Net Asset Value	£ 132.70
Share Price	£ 130.50
Premium (Discount)	(1.6)
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 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	10.9
Lindsell Train Global Media (Dist)	10.9
Barr AG	10.0
Diageo	7.7
Cadbury Schweppes	7.5
US Gov Treasury 6.25%	7.4
2½% Consolidated Loan Stock	7.3
Lindsell Train Ltd	6.7
Wolverhampton & Dudley Brew	5.6
Nintendo	5.4

Industry Breakdown (% NAV)	
Bonds	20.1
Preference Shares	14.1
Equity - Media	12.0
Equity - Banks & Investment Co.	6.7
Equity - Leisure & Entertainment	11.5
Equity - Food & Beverage	27.7
Equity - Consumer Goods	1.6
Investment Funds	20.5
Cash & Equivalent	(14.2)
Total	**100.0**

Fund Exposure	***Bonds***	***Prefs***	***Equity***	***Funds***	***Cash***	***Total***
UK %	12.7	14.1	48.6	4.4	(14.3)	**65.5**
USA %	7.4	-	1.3	-	5.4	**14.1**
Europe (ex UK) %	-	-	4.2	-	(2.6)	**1.6**
Japan %	-	-	5.4	5.2	(2.7)	**7.9**
Global %	-	-	-	10.9	-	**10.9**
Total %	**20.1**	**14.1**	**59.5**	**20.5**	**(14.2)**	**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 Donald Adamson Dominic Caldecott Michael Mackenzie
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	-1.2
LT Investment Trust Price TR%	+18.5	-19.8	-8.7	+20.6	+27.5	+2.9
MSCI World Index GBP TR%	-18.0	-28.6	+17.6	+5.2	+20.3	-3.6

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	+1.2	-1.8	-2.0								**-1.2**
Price TR%⋆	-3.0	+7.5	+1.5	-1.4	-1.5								**+2.9**
Since Launch NAV TR%	+39.5	+42.1	+43.3	+41.0	+36.4								
Since Launch Price TR%	+28.4	+38.3	+40.4	+38.3	+36.2								

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 31st May 2006

The story goes that sometime in the early years of the Twentieth Century there was a lull on the trading floor of the New York Stock Exchange, a lull that extended from hours into days – and the boys were getting bored and restless. Come an afternoon, for want of any better entertainment, one of the traders pulled out an elderly sardine tin and announced his willingness to sell this unique item for no more than a nickel. In a moment two jobbers from the Railroads pitch had bid and counter-bid for the tin, pushing the price up to a dime. Not to be outdone, the swells who trade Texas oil stocks jump in, doubling the price of the sardines, then doubling it again. The tin passes from professional hand to professional hand, with the ticket sometimes a cent or two higher, sometimes up a quarter. At last the hubbub attracts the attention of the baby of the floor, a wet behind the ears college kid. He spots the unusual label and can't miss the excitement in the open outcry yelling of the traders. The kid, determined to show he can play with the big boys and genuinely intrigued by the apparent rarity of the item, firmly calls out "Ten bucks" and is delighted when the bidding comes to an abrupt end. Hefting out his pocket-knife, he punctures the tin, only to be met with the unmistakeable stink of rotting fish. Bewildered and heavily out of pocket, the new boy turns to one of his elders and betters, who had taken a half Dollar turn out of the tin an hour previously. "I don't get it" says the kid, "these sardines are long gone." "Son", says the old jobber, "those weren't eating sardines, thems were trading sardines."

We're fond of this apocryphal story, which illustrates one aspect of the workings of capital markets. We all know about the ramped "concept" stock, the speculative issue that almost unaccountably captures the attention of traders and the investing public. This is the kind of stock whose appeal begins and ends with the prospect that it might go up a lot in a short period of time. Sometimes an entire subsector of the market is implicated, or even created, in the excitement. If you play the game and, we must admit, we tend not to play this type of game, then one important thing is to not be the patsy who pays top Dollar. The other consideration is knowing, if and when the music stops, whether you hold trading or eating sardines. There were many months after March 2000 and many rallies, when it was possible to sell out of various Internet "trading" sardines, not at the top, assuredly, but before the things reverted to penny stock status. Equally, there were some "eating" sardines too. Sage was always more wholesome than QXL Ricardo and while its decline from £8.00 to £1.05 was disagreeable, to say the least, there was the comfort of actual revenues and dividends, unlike many others.

The tale is also salutary as a reminder of how all capital market activity is driven by speculation, to a greater or lesser extent. There is a raw gambling instinct at work, not so deep beneath most investment decisions and necessarily so, given our always imperfect knowledge of the future. For instance, we were intrigued to read John Ralfe's recent comments about the University Superannuation Scheme's current asset allocation for its £22.0 billion fund. Ralfe was the architect of the Boots' pension plan's famous switch into fixed interest assets and has argued publicly that the USS is imprudently exposed to equities. The scheme has 80.0% in stocks, compared to the industry average c65.0% and a deficit of c£3.5 billion. From Ralfe's perspective that makes its pensioners dangerously exposed to any further declines in the equity market. The scheme's officers argue the opposite - that the long tail of its liabilities means that above average equity risk and the excess returns to be expected for taking that risk are appropriate and desirable. Both positions are plausible, both based on sophisticated analysis of past returns, volatility and liability benchmarking. Either position, though, could turn out horribly wrong. In the end, the USS' extra £3.3 billion of equity exposure, compared to industry average, is an animal-spirited punt – the stakes are high and the outcome uncertain.

Of course, the most topical and urgent question that arises from our fishy tale, is whether a similar rise and fall may be unfolding in the commodity markets and associated more or less speculative equity instruments. We are not experts on commodity cycles, so will not hazard a definitive view as to whether a bubble is inflating or, as it is possible to argue, has already burst. It has to be said, though, that the behaviour of the copper price in 2006 would not disgrace the final stages of a speculative blow-out. The metal has quadrupled since 2001, but more to the point, with a perfect NASDAQ 1999-2000-style exponential curve, the last doubling in price, from 193 on the CRB future to 392, was achieved in little over four months, from Jan 1st 2006, to May 11th. At this point, you may remember, it was reported that the melted down value of a Sterling two penny piece would now be 3p - a symbolic but probably spurious indicator of excess. A more relevant sign of the possible overvaluation of the metal can be seen though, in BHP's acknowledgement that the run-up in copper has lead to accelerating substitution in plumbing products – from copper to plastics – and that these represent c10-12.0% of global usage. Consumers may never smelt their loose change, but they will respond rationally to price hikes, in ways that can ultimately undermine the economics of the commodity producer.

The subsequent correction in the CRB copper future led to a 12.0% drop, since narrowed to less than 5.0% by end May. You don't need to be a chartist to know that the next substantive move, down, or up to new highs, will be significant for sentiment and the pricing of a whole slew of dependent equities. NASDAQ suffered plenty of corrections during its long bull market, but when the real break finally came, it fell 72.0% from its peak and is still less than half its 2000 levels. Meanwhile, while we have nothing of value to assert individually about companies such as Kazakhyms, Vedanta or Xstrata, just to cite some of the heaviest UK capitalisations in the territory, it is hard to believe that there aren't some decomposing sardines amongst them. Even the eating sardines look challengingly priced. Both BHP and RTZ trade for getting on 4.0x 2005's revenues. Admittedly those revenues are currently super profitable and likely to grow smartly for the foreseeable future, but at some stage the likelihood is that one will be able to access the equity of these companies, at some low ebb in commodity prices and during a period of heavy capital expenditure, on more like 1.0x EV/Revenues.

We continue to believe in the thematic underpinning of the commodity price boom. That underpinning is not, we think, that coal or copper is in fundamentally short supply - these are not rare commodities. The boom is actually an expression of the unexpected and sustained growth in developing economies. We choose to participate in this theme via the equity of consumer branded goods businesses, which we expect to benefit from a prolonged period of rising disposable incomes in those parts. This is because, over the piece, we expect such brand-owning companies to earn higher cash returns on capital committed to developing economies, than more cyclical, capital-intensive commodity extractors. We also believe that the equity of our favoured companies is undervalued, as investor attention has fixated on mineral assets. For instance, we note and applaud Cadbury Schweppes recent acquisition of Dan Products, a South African chewing gum business. Cadbury paid c3.75x Dan's annual revenues for the company. If we apply a similar EV/Revenue multiple to the 30.0% or more of Cadbury's group sales that derive from the developing economies, then we find that the remainder of the company is valued on less than 1.3x. This seems exceptionally modest to us and similar analysis can be performed on other holdings in Diageo, Clarins and Heineken.

Your NAV declined in May, but at a more modest rate than that of global equity markets. This is consistent with past performance of the Company, which has tended to outperform falling stock markets and underperform rising. Longer term performance from inception still comfortably exceeds the return on global equities.

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