

# LINDSELL TRAIN INVESTMENT TRUST

May 2008

All data as at 31st May 2008

## 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)

Nintendo	13.6
LT Global Media (Dist)	12.2
AG Barr	10.3
HBOS 9.25% Non Cum Pref	8.8
Diageo	7.0
Cadbury Schweppes	6.8
Lindsell Train Ltd	6.5
LT Japan (Dist)	6.4
2½% Consolidated Loan Stock	5.4
US Treasury 2.5%	4.7

### Industry Breakdown (% NAV)

Bonds	14.1
Preference Shares	8.8
Leisure & Tourism	3.4
Food & Beverage	29.3
Consumer Goods	1.6
Internet	1.3
Investment Funds	21.8
Financial Services	6.5
Cash & Equivalent	(8.9)
Media & Photography	22.1
<b>Total</b>	<b>100.0</b>

Fund Exposure	Bonds	Prefs	Equity	Funds	Cash	Total
UK %	9.4	8.8	44.9	3.1	(12.3)	<b>53.9</b>
USA %	4.7	-	1.3	-	6.9	<b>12.9</b>
Europe (ex UK) %	-	-	4.5	-	(2.8)	<b>1.7</b>
Japan %	-	-	13.6	6.4	(0.7)	<b>19.3</b>
Global %	-	-	-	12.2	-	<b>12.2</b>
<b>Total %</b>	<b>14.1</b>	<b>8.8</b>	<b>64.3</b>	<b>21.7</b>	<b>(8.9)</b>	<b>100.0</b>

## Fund Performance

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.

Standardised Discrete Annual Performance (%)	May 2003	May 2004	May 2005	May 2006	May 2007
	May 2004	May 2005	May 2006	May 2007	May 2008
Lindsell Train Investment Trust NAV 12m Return	+9.1	+22.7	+8.6	+28.9	-1.9

Source: Bloomberg. Launch date 22 Jan 2001. TR=Total Return (with dividends reinvested)

Calendar Year Performance 2007	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YE 2007
NAV TR%*	+2.7	+0.8	+2.0	+2.7	+4.7	-3.2	+2.6	-1.7	+0.6	+3.8	-0.1	+0.6	<b>+16.5<sup>T</sup></b>
Price TR%*	-1.4	+4.0	+3.2	+4.7	+2.1	+0.6	-2.5	+5.4	+0.3	+5.4	-9.5	-3.6	<b>+8.0<sup>T</sup></b>
Since Launch NAV TR%*	+60.1	+62.3	+65.5	+70.1	+78.1	+72.3	+76.9	+73.9	+75.1	+81.6	+81.5	+82.6	
Since Launch Price TR%*	+57.0	+63.4	+68.7	+76.6	+80.3	+81.4	+76.8	+86.4	+86.9	+97.1	+78.4	+72.0	

Source: LTL & Bloomberg 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. Net of fees and expenses. <sup>T</sup> Revised Figures

Calendar Year Performance 2008	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD 2008
NAV TR%*	-5.4	+0.4	-1.4	+1.1	+1.3								<b>-4.1</b>
Price TR%*	-8.3	+11.3	-4.5	-2.5	+2.5								<b>-2.4</b>
Since Launch NAV TR%*	+72.3	+74.0	+70.4	+72.4	+74.7								
Since Launch Price TR%*	+57.4	+77.3	+68.2	+64.0	+68.3								

Source: LTL & Bloomberg 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. Net of fees and expenses.

<b>Market Capitalisation</b>	£31.5mn
<b>Net Asset Value</b>	£164.00
<b>Share Price</b>	£157.50
<b>Premium (Discount)</b>	(4.0)%
<b>Benchmark 2½% Consol</b>	Annual +4.5%
(see definition below)	Monthly +0.4%

Source: NAV - Lindsell Train Ltd ; Price & Discount - Bloomberg. Share Price quoted is closing mid price.

<b>Fund Manager:</b>	Nick Train
<b>Launch Date:</b>	22 Jan 2001
<b>Base Currency:</b>	Sterling
<b>Year End:</b>	31st March
<b>Dividend:</b>	Ex-date - Jun Paid - Jul
<b>Benchmark:</b>	The annual average yield on the 2½% Consolidated Loan Stock.
<b>Management Fees:</b>	
Annual Fee:	0.65%
Performance Fee:	10% of annual increase in the share price above the gross annual yield of the 2½% Consolidated Loan Stock.
<b>The Board:</b>	Rhody Swire Donald Adamson Dominic Caldecott Michael Mackenzie Michael Lindsell
<b>Secretary:</b>	Phoenix Administration Services Limited
<b>ISIN:</b>	GB0031977944
<b>Bloomberg:</b>	LTI LN
<b>Listing:</b>	London Stock Exchange

## Fund Manager's Comments

Early in the month Cadbury Schweppes demerged, splitting into Cadbury and Dr Pepper Snapple ('DPS'). Cadbury incorporates the global confectionery business and DPS the North American beverages with the iconic brands reflected in both companies' names. We plan to keep both holdings and indeed might add to either. We have articulated the investment case for Cadbury often, and most recently in last month's report, but it is worth going over the case for DPS now that it is a separate entity.

DPS is the third largest brand owner, bottler and distributor of soft drinks in the North America, behind Coke and Pepsi, and at its core is the Dr Pepper franchise, a sweet, carbonated, strongly flavoured drink particularly popular in the southern United States. The brand, established in 1885, has actually been around longer than Coke and, despite being a quarter of the size of Coke and one third the size of Pepsi in the US market, it has exhibited the same lasting durability as a business and generated similar prodigious cash flows for its owners over time. In 1986 the company acquired 7UP and in 2000 (as Cadbury Schweppes) acquired Snapple, a leading brand of still tea and fruit based drinks which usefully complemented the carbonated business as consumer consciousness about health increased. Like other soft drinks Dr Pepper is produced as a concentrate which is then sold to bottlers, some of which are within the DPS group, but unlike Coke and Pepsi, Dr Pepper is also sold through its competitors' bottling channels. Although this gives DPS less control over its end sales, the bottlers - despite being allied to a competitive brand - are keen to sell it where it is popular as it broadens their offerings to retailers giving them more access to shelf space. However, DPS recently recognised the need to invest in its bottling and distribution to maintain control and presence especially where its market positions were weaker. In 2006 it bought out the minority of DPS bottling group and has made further bolt-on acquisitions since. Despite these recent capital commitments the suspicion has always been that Cadbury milked DPS for its cash flow and underinvested in the franchise. That is particularly evident when comparing sales through vending machines

(much more profitable as sales are made at a full price without a retailer's discount) which are materially lower as a proportion of sales compared to the key competitors despite the company's greater share of sales in hotter climates that demand chilled product.

DPS is a largely US franchise, with almost 90% of its sales in the USA, thus over the years it has lacked that growth dynamic that has made Coke and Pepsi into two of the most recognised global brands. Nevertheless DPS shares the same characteristics of its main competitors - generating high and stable returns on capital and growing cash flow - and, even though it has no exposure to emerging market growth, it is exposed to the higher population growth in the southern states of the USA. The company has more debt than we would like especially as we suspect it needs to invest more in the short term. The initial trading in the company's shares has been at a relatively high cash flow yield of 7%, much higher than Coke's at 4.5% and Pepsi's at 4.7%, and an enterprise value to sales ratio of 1.5x versus 4.3x and 2.5x respectively. At the current price, we think the market undervalues the franchise. There could be a number of reasons. First, with its US bias growth prospects are less obvious; second, there is no apparent strategic buyer now that corporate debt has become so expensive and difficult to securitise; third net debt is high at 45% of equity and 4.5x cash flow and, finally, there are many UK shareholders of Cadbury Schweppes, the previously combined company, who are UK centric investors and thus are likely sellers of the New York quoted DPS in the short term. Yet compared to Coke and Pepsi, its valuation profile is notably appealing and as a result we are keen to take advantage of any share price weakness, should it occur, and look to hold our position to take advantage of the cash generative characteristics of this unusually valuable franchise.

*All data as at 31st May 2008*

### Registered Address:

Linsell Train Investment Trust plc  
Springfield Lodge  
Colchester Road  
Chelmsford  
ESSEX CM2 5PW

Linsell Train Limited  
2 Queen Anne's Gate Buildings  
Dartmouth Street  
London SW1H 9BP

Limited Company Registered in  
England No. 3941727  
Registered Office as above

Phone: +44 20 7227 8200  
Fax: +44 20 7227 8299  
Enquiry@LinsellTrain.com

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