

# LINDSELL TRAIN INVESTMENT TRUST

October 2008

All data as at 31st Oct 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)

LT Global Media (Dist)	14.1
AG Barr	10.1
LT Japan (Dist)	9.1
Nintendo	9.1
Diageo	7.5
Cadbury Schweppes	6.3
Lindsell Train Ltd	6.2
2½% Consolidated Loan Stock	6.0
HBOS 9.25% Non Cum Pref	4.7
US Treasury 2.5%	4.5

### Investment Allocation (% NAV)

Bonds	11.7
Equities - Financial Services	7.4
Food & Beverage	30.5
Internet	0.9
Investment Funds	26.3
Leisure & Tourism	1.6
Media & Photography	16.1
Preference Shares	4.7
Cash & Equivalent	0.8
<b>Total</b>	<b>100.0</b>

Fund Exposure %	Bonds	Prefs	Equity	Funds	Cash	Total
UK	10.5	4.7	42.8	2.5	(14.0)	<b>46.5</b>
USA	1.3	-	0.9	-	15.1	<b>17.3</b>
Europe (ex UK)	-	-	3.3	-	(0.5)	<b>2.8</b>
Japan	-	-	10.0	9.1	0.2	<b>19.3</b>
Global	-	-	-	14.1	-	<b>14.1</b>
<b>Total</b>	<b>11.8</b>	<b>4.7</b>	<b>57.0</b>	<b>25.7</b>	<b>0.8</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 (%)	Oct 2003	Oct 2004	Oct 2005	Oct 2006	Oct 2007
	Oct 2004	Oct 2005	Oct 2006	Oct 2007	Oct 2008
Lindsell Train Investment Trust NAV 12m Return	+17.1	+17.6	+14.0	+15.7	-7.9

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	-4.1	+5.4	+0.3	+5.4	-8.0	-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	+73.8	+83.3	+83.8	+93.8	+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%*	-5.7	+0.4	-1.4	+1.1	+1.3	-4.5	-4.2	+7.6	-6.3	-0.8			<b>-12.5</b>
Price TR%*	-8.4	+11.9	-4.5	-2.5	+2.6	-14.9	+2.6	+0.0	+3.3	-1.8			<b>-13.4</b>
Since Launch NAV TR%*	+72.3	+72.9	+70.4	+72.4	+74.7	+66.8	+59.8	+72.0	+61.1	+59.9			
Since Launch Price TR%*	+57.5	+76.2	+68.2	+64.0	+68.2	+43.1	+46.8	+46.8	+51.7	+49.0			

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.

<b>Market Capitalisation</b>	£28mn
<b>Net Asset Value</b>	£148.10
<b>Share Price</b>	£137.5
<b>Premium (Discount)</b>	(7.2%)
<b>Benchmark 2½% Consol</b>	Annual +4.6%
(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.

### Management Fees:

<i>Annual Fee:</i>	0.65%
<i>Performance Fee:</i>	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
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Michael Lindsell

<b>Secretary:</b>	Phoenix Administration Services Limited
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**ISIN:** GB0031977944

**Bloomberg:** LTI LN

**Listing:** London Stock Exchange

## Fund Manager's Comments

By mid-October I'd had enough. I tidied up my diary and set off on a long walk. The journey I chose was the Ridgeway, running 87 miles from The Sanctuary, a sacred prehistoric site at Overton Hill, Wiltshire up to the Ivinghoe Beacon, the final eminence of the Chilterns, a sharp pull up from Tring in Buckinghamshire. I touched the Beacon's trig point by lunchtime on the fifth day – foot-sore, but refreshed and pleased, above all, to have let the stock market exhaust its convulsions in my absence. So far as the UK is concerned October contained not only a full-scale bear market, down 22% to its low, but a full year's decent return, up 13% in its last four trading days. However, my personal "5 standard deviation" event for the month was the overnight snowfall on Tuesday 28<sup>th</sup>, that gave as perfect a day of winter's walking as I've ever had in England – snow blanket underfoot, with the beech woods still ablaze. The first such fall in October in the South East since 1974.

En route I was reassured by the volume of trade being done at the numerous pubs where I took refreshment. I took care to favour Brakspear, Fullers and Pedigree houses – all ales brewed by Lindsell Train investments. The dining room at Marston's Red Lion at Wendover was notably busy, this on a Wednesday evening. Of course, these are anecdotal observations and we know that the pressures on the British pub trade are intense, however my experience left me unsurprised on my return to read the following conclusion from a piece of research carried out by Capital Economics. Over the last 40 years, they note, if British consumer expenditure has a beta of "1", then spending on consumer durables exhibits a beta of 2.4 – giving significant volatility around trend. Meanwhile, spending in Pubs and Restaurants has a beta of 0.7 – far less cyclical than the average. People will always visit pubs. Doubtless some pubcos have over-reached themselves, putting dividends and even covenants at hazard, but it is hard to think of a beaten-up sector where investors are more likely to be sensitive to falls in the Oil price or mortgage costs. Put a few extra quid in the pockets of Middle England and sales of flat-screen TVs may barely flicker, but extra pints will be pulled and chickens in baskets consumed. Marston shares have had a terrible year, I'm afraid, down 70%, but with a twice covered historic dividend yield of over 13% and interest covered 2.3x by operating profits, we are tempted to buy more.

A handful of our stocks registered gains in October, including manufacturers of "consumer

staples" – Barr, Cadbury and Diageo, an important block, amounting to 23% of NAV. The other portfolio winner was Pearson, perhaps a surprise, given its exposure to both financial and consumer publishing, via FT Group and Penguin. But in the short term at least, the market panic has been beneficial, with the company reporting record usage of FT products and services – monthly unique users of FT.com up 250% year-on-year for instance. Meanwhile, education, Pearson's dominant division, continues to trade well – and, consider, an Obama presidency is likely to favour text books over tactical nuclear warheads. In addition, there are hints emerging from the company about accelerating change in its business – change liable to improve economic returns. In October Pearson was able to report that 2.1 million students of the academic cohort 2008/9 had signed on to its MyLab online learning programs, taking the total for the calendar year up to 3.8 million, a 48% increase on last year. More than 500,000 students log on daily – making this a valuable stretch of cyber real estate.

Pearson and Reed have proven relatively secure in 2008 – Reed hitting an all-time peak against the FT All-Share, but only because they have fallen less than the average. If bull markets necessarily begin as a surprise to other investors – otherwise the gains would already have happened, we still expect agreeable surprises from these companies, particularly their exploitation of the Internet, which could trigger material rises.

Each quarter your Directors publish an updated valuation of the Company's 25% holding in Lindsell Train Limited (LTL). This valuation derives from a formula adopted by the Board in October 2007, after taking independent advice from an expert on the sector, using a simple average of two different components:

- 2% of LTL's most recent funds under management (FUM); and
- LTL's net earnings (adjusted for a notional increase in staff costs at 45% of revenues excluding performance fees) divided by the annual average yield on the 2.5% Consolidated Loan Stock plus an equity risk premium of 4.5%.

For the quarter to end September 2008 the formula indicates a modest increase in the value of LTL, driven by an uplift in funds under

## LINSELL TRAIN INVESTMENT TRUST

*All data as at 31st Oct 2008*

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management and earnings. However, the Board is cognizant of the recent severe falls in the share prices of quoted fund management companies. In these circumstances, the Board believes it prudent to adjust down the funds under management component of the valuation formula, from 2% to 1.5%.

The resultant value of LTL is £2,773 per share, a decrease of 10.9%, which is already included in the weekly calculation of the Company's NAV. At 30<sup>th</sup> September LTL's FUM were £457m. LTL continues to see opportunities to grow its FUM, particularly in our Japan strategy but also Global Equities, both areas where our performance has been particularly competitive.

## Risk Warning

This factsheet is intended for use by shareholders of the Lindsell Train Investment Trust ("LTIT") and/or persons who are authorised by the UK Financial Services Authority or those who are permitted to receive such information in the UK. Any opinion expressed whether in general or both on the performance of individual securities and in a wider economic context represents Lindsell Train's views at the time of preparation. They are subject to change without notice and should not be construed as investment advice or investment recommendation. Past performance is not a guide to future performance and may not be repeated. The value of investments and income from them can go down as well as up and you may not get back the amount originally invested. Lindsell Train Investment Trust plc is an investment trust company listed on the London Stock Exchange. Investment trusts have the ability to borrow to invest which is commonly referred to as gearing. Companies with higher gearing are subject to higher risks and therefore the investment value may change substantially. The net asset value ("NAV") per share and its performance of an investment trust may not be the same as its market share price per share and performance.