# Lindsell Train Investment Trust

December 2008

*All data as at 31st Dec 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.

| | |
|---|---|
| **Market Capitalisation** | £33mn |
| **Net Asset Value** | £163.77 |
| **Share Price** | £144.00 |
| **Premium (Discount)** | (12.1%) |
| **Benchmark 2½% Consol** (see definition below) | Annual +4.6%<br>Monthly +0.4% |

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

| | |
|---|---|
| **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 above the gross annual yield of the 2½% Consolidated Loan Stock. |
| **The Board:** | Rhoddy Swire<br>Donald Adamson<br>Dominic Caldecott<br>Michael Mackenzie<br>Michael Lindsell |
| **Secretary:** | Phoenix Administration Services Limited |
| **ISIN:** | GB0031977944 |
| **Bloomberg:** | LTI LN |
| **Listing:** | London Stock Exchange |

## Fund Breakdown

| ***Top 10 Holdings (% NAV)*** | |
|---|---|
| LT Global Media (Dist) | 11.3 |
| Nintendo | 11.1 |
| AG Barr | 10.7 |
| LT Japan (Dist) | 9.8 |
| Diageo | 6.8 |
| 2½% Consolidated Loan Stock | 6.4 |
| Cadbury Schweppes | 6.1 |
| Lindsell Train Ltd | 5.6 |
| UK Treasury 2½% | 4.9 |
| HBOS 9.25% Non Cum Pref | 4.8 |

| ***Investment Allocation (% NAV)*** | | |
|---|---|---|
| Bonds | | 12.3 |
| Equities - | Consumer Goods | 0.9 |
| | Financial Services | 6.7 |
| | Food & Beverage | 30.3 |
| | Internet | 1.3 |
| | Investment Funds | 23.5 |
| | Leisure & Tourism | 1.8 |
| | Media & Photography | 17.4 |
| Preference Shares | | 5.5 |
| Cash & Equivalent | | 0.9 |
| **Total** | | **100.0** |

| ***Fund Exposure %*** | ***Bonds*** | ***Prefs*** | ***Equity*** | ***Funds*** | ***Cash*** | ***Total*** |
|---|---|---|---|---|---|---|
| UK | 11.4 | 4.8 | 41.0 | 2.4 | (12.5) | **47.1** |
| USA | 1.0 | - | 1.3 | - | 14.3 | **16.6** |
| Europe (ex UK) | - | - | 4.1 | - | (1.0) | **3.1** |
| Japan | - | - | 11.9 | 9.8 | 0.2 | **21.9** |
| Global | - | - | - | 11.3 | - | **11.3** |
| **Total** | **12.4** | **4.8** | **58.3** | **23.5** | **1.0** | **100.0** |

## 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 (%)*** | ***Dec 2003 Dec 2004*** | ***Dec 2004 Dec 2005*** | ***Dec 2005 Dec 2006*** | ***Dec 2006 Dec 2007*** | ***Dec 2007 Dec 2008*** |
|---|---|---|---|---|---|
| Lindsell Train Investment Trust NAV 12m Return | +23.5 | +16.2 | +13.7 | +16.5 | -3.1 |

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 | **+16.5** |
| 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 | **+8.0** |
| 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. [T] Revised Figures

| ***Calendar Year Performance 2008*** | ***Jan*** | ***Feb*** | ***Mar*** | ***Apr*** | ***May*** | ***Jun*** | ***Jul*** | ***Aug*** | ***Sep*** | ***Oct*** | ***Nov*** | ***Dec*** | ***YE 2008*** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| NAV TR%⋆ | -5.7 | +0.4 | -1.4 | +1.1 | +1.3 | -4.5 | -4.2 | +7.6 | -6.3 | -0.8 | +0.9 | +9.7 | **-3.1** |
| Price TR%⋆ | -8.4 | +11.9 | -4.5 | -2.5 | +2.6 | -14.9 | +2.6 | +0.0 | +3.3 | -1.8 | +4.4 | +0.3 | **-9.3** |
| Since Launch NAV TR%⋆ | +72.3 | +72.9 | +70.4 | +72.4 | +74.7 | +66.8 | +59.8 | +72.0 | +61.1 | +59.9 | +61.3 | +76.9 | |
| Since Launch Price TR%⋆ | +57.5 | +76.2 | +68.2 | +64.0 | +68.2 | +43.1 | +46.8 | +46.8 | +51.7 | +49.0 | +55.5 | +56.0 | |

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.

# LINDSELL TRAIN INVESTMENT TRUST

*All data as at 31st Dec 2008*

## Fund Manager's Comments

We underperformed our benchmark in calendar 2008, with the annual average yield on the 2.5% Consolidated Loan Stock delivering a return of 4.6%, (though this hurdle is increasing at a slower rate today, as 2008 progressed and the gilt went up in price). By contrast the total NAV performance for the Trust was down 3.2%, including its dividend of £2.10.

Of course, knowing now the fate of many other strategies, we cannot be but a bit satisfied in restricting the loss to a manageable one. However, this year was yet another reminder to us that our investment objective – to exceed the yield on a long -dated government stock (into which is priced, we believe, an understandably cautious expectation about long term rates of inflation) – is by no means a trivial task.

In addition, we are more conscious than usual about the contribution luck makes to our investment performance. Looking back on 2008 a number of factors went well for us that we would not or could not have predicted. Buffett says somewhere that if you put together a high quality portfolio of undervalued assets "good things tend to happen to you".

This is as maybe, but the ascent of the Yen against Sterling – up 40% in 2008, was unlooked for and baled us out, to a degree, for our stubbornness in not selling more of our major holding in Nintendo which fell 45%, after its gains of preceding years.

In similar fashion, we were fortunate, we think, that A G Barr should have put in such a banner year, up 25% for a very substantial holding (10.7% at year-end). Barr is in the "right" corner of the equity market – cash generative consumer brands, with a rock-solid balance sheet – and pulled off a promising acquisition half way through 2008. But plenty of other more or less worthy small caps got vaporized last year. Mind you, Barr is becoming less of a small cap. The final spurt in its price, up 17% in December can be ascribed to the shares' recent elevation to the FTSE 250 Index and the need for index investors to get access to the stock, whatever the valuation. This last is definitely "low-quality" price appreciation, which we expect to unwind at some point – although we as yet see no strategic reason to exit this investment.

Finally, one might argue that we got lucky last year that Her Majesty's Government took such a doveish stance toward the effectively insolvent HBOS. The decision to recapitalise the institution with tax-payers money was the most we might have hoped for, with a more draconian policy, up to and including full nationalization, very much a possibility. What matters to your Company is the fate of the HBOS preference shares and here the authorities chose to permit the bank to continue to service its preference dividends, while putting a stop on payment of ordinary ones. As a result, the HBOS pref not only held up much better than the ordinary, but better than virtually any other financial share we might have owned in 2008 – and, we must admit here, in past years we have given serious consideration to investing in both Citigroup and Merrill Lynch. There but for the grace…

The HBOS preferred holding remains a cause of concern for us, as we enter 2009. The good news is that the paper is turning into a Lloyd's Group instrument, as part of the merger process, gaining access for preference shareholders to the profit pool of the combined entity, rather than just HBOS' doubtless sorely depleted earnings. What is more, Lloyds is paying a modest cash sweetener in order to win preference shareholder consent for this transition – another unanticipated fillip. On the other hand, the risk of the complete collapse of Lloyd's Group, laid low by HBOS' compromised balance sheet, is still not trivial. We will alert shareholders to any change in our thinking on this asset, via the monthly reports.

Looking forward, we stick with the implementation of last year's strategy. This involves selling out of our remaining holdings in government bonds, preferably and quite feasibly, into higher prices, while using the proceeds to bulk up the newer equity positions we initiated last year. Last month we sold US Treasuries, yielding less than 3% gross to redemption, starting a holding in the UK listing of Unilever, at a starting dividend yield of 3.7% net. Thereby we accessed a higher income stream for the Trust, with the prospect for future growth in income, in both nominal and real terms.

Now more than ever seems to be a time to heed Sir John Templeton's advice – "The best time to buy sound common stocks is when economic conditions are most uncertain."

Today indeed, it's hard to remember a time when conditions have been more uncertain.

Templeton's advice accords with something one of our most thoughtful clients put to us recently – "High quality companies offer protection against both deflation and inflation." Sound companies, like Unilever, may negotiate a recession relatively unscathed, coming out the other side stronger, while their pricing power offers significant comfort against the (surely inevitable) coming monetary inflation.

Pursuing this thinking, I recently asked Mike – a veteran of a two decade deflationary bear market in Japan – how Diageo shares might have performed from 1990, if the quote had been on the Tokyo Exchange and had offered a dividend yield of 3.5% (as they do today). His opinion? They would have gone up a lot.

In conclusion, deflation gets a bad press from financial commentators (a deflationary slump is another matter). Falling prices benefit cash-rich or cash generative companies and consumers, because the spending power of their cash increases. There is no reason why the shares of such advantaged companies should not go up. In an environment where the income returns on competing assets, like US Treasuries, have fallen to multi-year lows, those companies capable of delivering cash generative growth are extraordinarily attractive.

We hope that much of your portfolio will turn out to comprise of such companies – we certainly intend it to.


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