

# CF LINDSELL TRAIN UK EQUITY FUND

August 2007

All data as at 31st August 2007

## Fund Objective

To invest in the securities of companies which are listed, quoted or dealt on any of the markets of the London Stock Exchange, including the Alternative Investment Market (AIM), with the objective of achieving capital and income growth and providing a total return in excess of that of the FTSE All Share Index.

## Fund Breakdown

### Top 10 Holdings (% NAV)

Unilever	9.1
Cadbury Schweppes	8.7
Diageo	8.2
Reuters Group	7.5
Pearson	6.7
Reed Elsevier	6.5
HBOS	5.8
Rathbone Brothers	5.1
Sage	5.0
RBS Natwest 9% Pref	5.0

### Industry Breakdown (% NAV)

Equity - Media	24.5
Equity - Banks & Investment Co.	30.0
Equity - Leisure & Entertainment	2.3
Equity - Food & Beverage	27.3
Equity - Consumer Goods	5.5
Preference Shares	6.4
Cash & Equivalent	4.0
<b>Total</b>	<b>100.0</b>

Fund Exposure	Bonds	Prefs	Equity	Funds	Cash	Total
UK %	-	6.4	89.6	-	4.0	100.0
<b>Total %</b>	<b>-</b>	<b>6.4</b>	<b>89.6</b>	<b>-</b>	<b>4.0</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.

5 Year History (Fixed Calendar Year)	2006	YTD 2007
CF LT UK Equity Acc TR%	+11.0	+2.3
CF LT UK Equity Inc TR%	+11.0	+2.7
FTSE All Share Index TR%	+9.0	+3.7

Source: Bloomberg and Lindsell Train. Fund was launched on 10th July 2006. TR=Total Return (with dividends reinvested)

Standardised Discrete Performance Information	31 Aug 06 to 31 Aug 07
CF LT UK Equity Acc TR% 12m Return	+9.0
CF LT UK Equity Inc TR% 12m Return	+9.4
FTSE All Share Index TR% 12m Return	+11.8

Source: Bloomberg. Fund was launched on 10th July 2006. TR=Total Return (with dividends reinvested)

2006	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YE 2006
CF LT UK Equity Acc TR%							+2.2	+2.0	+2.7	-0.7	+0.8	+3.6	+11.0
CF LT UK Equity Inc TR%							+2.2	+2.0	+2.7	-0.7	+0.8	+2.4	+10.8
Since Launch Acc TR%							+2.2	+4.2	+7.0	+6.3	+7.2	+11.0	
Since Launch Inc TR%							+2.2	+4.2	+7.0	+6.3	+7.2	+11.0	

2007	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD 2007
CF LT UK Equity Acc TR%	+0.5	-0.6	+5.0	+2.2	+4.4	-5.6	-2.0	-1.3					+2.3
CF LT UK Equity Inc TR%	+0.5	-0.6	+5.0	+2.2	+4.4	-7.1	-1.9	-1.3					+2.7
Since Launch Acc TR%	+11.6	+10.9	+16.5	+19.1	+24.3	+17.3	+15.1	+13.6					
Since Launch Inc TR%	+11.6	+10.9	+16.5	+19.0	+26.7	+17.7	+15.4	+14.0					

Source: Bloomberg and Lindsell Train. Fund was launched on 10th July 2006. TR=Total Return (with dividends reinvested)

<b>Fund Size</b>	£ 85.4mn
<b>Accumulator Price</b>	£ 1.1360
<b>Income Price</b>	£ 1.1045

Source: Lindsell Train Limited and Capita Financial Administrators Limited.

**Investment Advisor:** Nick Train

**Fund Type:** FSA Authorised Collective Investment Scheme

**Type of Scheme:** Non UCITS Retail

**Class:** Accumulator & Income Units

**Launch Date:** 10 Jul 2006

**Base Currency:** Sterling

**Min Investment:** £500,000  
Subsequent: £1,000

**Year End:** 31 May

**Dividend:** XD dates: 30 Nov; 31 May  
Paydates: 31 Jan; 30 Sep

**Benchmark:** FT All Share

**Initial Charge:** (subject to ACD discretion 0%-2%)

**Management Fees:** Annual Fee 0.65%

**Authorised Corporate Director:** Capita Financial Administrators Limited

**Administrator:** Capita Financial Administrators Limited

**ISIN:** Acc: GB00B18B9X76  
Inc: GB00B18B9V52

**Bloomberg:** Acc: LTUKEQI LN  
Inc: LTUKEQI LN

**Lipper:** 65022060

The former name of the Fund was ACDS Lindsell Train UK Equity Fund. This has been replaced with CF Lindsell Train UK Equity Fund from 1st April 2007.

## Fund Manager's Comments

Amidst the recent alarms in the stock market we wonder whether investors have fully digested the strength of the interim results season, unfolding over the torrid Summer. From our perspective it was very satisfactory, particularly as regards dividend growth. We have analysed the latest announcements from our holdings and discover that over 50% of the portfolio by value recently increased dividends by 12% or more, while 90% of it grew distributions by at least 5%, well in excess of current and, we think, likely future rates of UK inflation. Meanwhile, c.7% sits in the preference shares of AA-rated issuers, offering a dividend yield of 6.5% net and we hold 3% in cash, which is being committed on down days. Notable dividend increases were delivered by, for instance, Fidessa, up 40%. Fidessa's annual payment, of 14.8p, is now 6.5x its maiden annual distribution of just ten years ago and its business opportunity is, in our opinion, rather greater today than in 1997. Cadbury, HBOS, LSE, Marston's, Rathbone, Reuters, Sage and Schroders all hiked recent dividends by at least 17%, with these eight alone accounting for over 43% of total portfolio value.

Diageo maintained its recent policy of increasing the dividend by "only" 5%, still a "real" uplift of course; however it also reaffirmed its commitment to additional cash return via equity retirement. Last year Diageo spent £1.4 billion on buybacks, over 5% of its current market capitalisation. Added to the 3% dividend yield on the shares, this amounts to an 8% total cash return to Diageo shareholders, which in no way prevented the company investing successfully for growth in its operating profits, predicted to accelerate to 9% next year, with net earnings up even more, as a result of the shrinkage in the shares outstanding. It looks as though Diageo will buy another £1.0 billion of its stock in 2007/8, which we believe is highly accretive for non-selling shareholders, because the equity remains undervalued.

Lloyds Bank was another 5% dividend grower where the apparently modest increase masks bullish fundamentals. This was the first hike since 2001. It is always significant when a long-maintained dividend changes, either up or down and we regard the Lloyds board's decision to start growing the distribution again to be an important signal. As a UK-oriented retail bank, Lloyds is likely to have limited exposure to the liquidity problems plaguing the sector, while it is well-positioned for what we expect to be one of the strongest

UK domestic economic themes – the recovery in the savings ratio. Lloyds reported an increase in its RoE to 27%, as reductions in its cost base combine with high margin sales of bancassurance and investment products. For us this franchise looks cheap, on a P/E of 10x and a growing dividend yield of 6.5%.

Real dividend growth is what we expect to be the key determinant of the long-term total return from our strategy and our confidence in the capacity of the portfolio to deliver growing streams of dividends at a rate higher than inflation, from a starting overall dividend yield higher than UK inflation has improved over the Summer – notwithstanding the macro scares.

You will know that one distinctive feature of the portfolio is its exposure to companies in the media and technology sectors, long out of favour and, we think, undervalued – including Daily Mail, Euromoney, Fidessa, Pearson, Reed, Reuters and Sage (33% of the total portfolio by value). On this point, we think it significant that, of late, the tech-rich NASDAQ index has begun to outperform other US benchmarks, rising 1.9% in the troubled month of August and now up over 8% in 2007. As cyclical sectors of the global economy begin to slow, led by US housing (the US housing industry employs 10% of the nation's workforce), we expect the secular growth offered by some technology and media companies to become more attractive to investors. In addition, we expect the tech/media sectors to attract more bids and mergers than others, because values are depressed – witness Steria's offer for fallen UK tech star Xansa in July, at a price 70% above the latter's market quote and at a historic P/E of over 30x; also the interest in Emap's assets, up for auction, which have pushed its shares up 30% from its lows for 2007.

The price of the UK Treasury 2.5% irredeemable gilt has gained 9% from its lows of mid June. This instrument is one of the most sensitive to long-term inflation expectations in the Sterling capital markets. We see its recent rally as supportive of Alan Greenspan's recently reported view that the current disturbances in financial markets are akin to those of 1987 and 1998 and represent a buying opportunity. In other words, that these disturbances represent the unconscious efforts of market participants to ensure an abatement in inflation expectations. Now these expectations have begun to decline, as

## CF LINDSELL TRAIN UK EQUITY FUND

*All data as at 31st August 2007*

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signalled by the gilt market, we look for what may well become new lows in long-dated Anglo Saxon government bond yields and new highs in the valuation of Equity, in this bull market, which, arguably, began as long ago as 1980.

## Risk Warning

The CF Lindsell Train UK Equity Fund (previously known as ACDS Lindsell Train UK Equity Fund) (the "Fund") is an open ended investment company (OEIC) authorised and regulated by the Financial Services Authority under Regulation 14 of the OEIC Regulations 2001. This factsheet is intended for use by shareholders of the Fund or UK authorised persons or those who are permitted to receive such information. Nothing in this factsheet should be construed as giving investment advice or any offer, invitation or recommendation to subscribe the Fund. Any decision to subscribe should be based on the Fund's current Scheme Particulars or its Key Features document. Past performance is not a guide or guarantee to future performance. The value of investments and income from them may go up as well as down and you may not get back the amount originally invested. Opinion expressed whether in general or both on the performance of individual securities and in a wider economic context represents the view of Lindsell Train Ltd at the time of preparation. They are subject to change and should not be interpreted as investment advice. The information provided in this document was captured on the date issued below and therefore is not current. Current prices or details of fund holdings can be obtained from the fund administrator.