Lindsell Train Investment Trust

February 2005

All data as at 28th Feb 2005

Market Capitalisation	£ 22.9mn
Net Asset Value	£ 117.40
Share Price	£ 114.50
Premium (Discount)	(2.5%)
Benchmark 2½% Consol	Annual +4.8% Monthly +0.4%

Source: NAV - LTIT; 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)	
Barr AG	10.4
US Gov Treasury 6.25%	10.3
HBOS 9.25% Non Cum	9.7
Lindsell Train Global Media (Dist)	9.5
Lindsell Train Japan (Dist)	8.2
2½% Consolidated Loan Stock	7.7
Cadbury Schweppes	7.3
UK Treasury 2.5%	5.7
Wolverhampton & Dudley Brew	5.7
Diageo	5.4

Industry Breakdown (% NAV)	
Bonds	23.7
Preference Shares	14.3
Equity - Media	9.0
Equity - Banks & Investment Co.	3.8
Equity - Leisure & Entertainment	9.5
Equity - Food & Beverage	23.1
Investment Funds	22.1
Cash & Equivalent	(5.5)
Total	**100.0**

Fund Exposure	*Bonds*	*Prefs*	*Equity*	*Funds*	*Cash*	*Total*
UK %	13.5	14.3	36.9	4.2	(3.9)	**65.0**
USA %	10.8	-	1.6	-	3.4	**15.8**
Europe (ex UK) %	-	-	-	-	-	**0.0**
Japan %	-	-	4.0	8.6	(3.4)	**9.2**
Global %	-	-	-	10.0	-	**10.0**
Total %	**24.3**	**14.3**	**42.5**	**22.8**	**(3.9)**	**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 Michael Mackenzie Donald Adamson Michael Lindsell
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*	*YTD 2005*
LT Investment Trust NAV %	+3.2	-9.6	+3.1	+23.7	+2.1
LT Investment Trust Price %	+18.5	-19.8	-8.7	+20.6	+13.2
MSCI World Index GBP	-18.0	-28.6	+17.6	+5.2	+0.3

Source: S&P Micropal unless otherwise indicated. Based in GBP with dividends reinvested, unadjusted. Launch date 22 Jan 2001.

2004	*Jan*	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*	*YE 2004*
NAV %	+1.8	+3.3	+0.3	+2.3	-0.1	+2.1	-2.0	+4.8	+3.8	+1.4*	+0.0*	+3.7	**+23.7**
Price %	-2.3	+6.0	-0.6	+0.6	+2.3	+2.7	+0.5	+0.5	+8.6	+3.0	-1.9	+0.0	**+20.6**
Since Launch NAV %	-2.1	+1.2	+1.5	+3.8	+3.7	+6.0	+3.8	+8.8	+12.9	+14.5*	+14.5	+18.7	
Since Launch Price %	-15.3	-10.3	-10.8	-10.3	-8.2	-5.7	-5.2	-4.7	+3.6	+6.7	+4.6	+4.6	

2005	*Jan*	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*	*YTD 2005*
NAV %	+1.4	+0.8											**+2.1**
Price %	+8.9	+3.6											**+13.2**
Since Launch NAV %	+20.3	+21.3											
Since Launch Price %	+13.9	+18.0											

Source: S&P Micropal unless otherwise indicated. Based in GBP with dividends reinvested, unadjusted. Launch date 22 Jan 2001. * Source: Lindsell Train Ltd.

Fund Manager's Comments

LINDSELL TRAIN
INVESTMENT TRUST

All data as at 28th Feb 2005

In previous monthly reviews, notably December 2001, June 2002 and April 2004, we outlined our expectation that developed world inflation should remain low as a key justification for investing a proportion of the Trust in long-term fixed interest: US and UK bonds and preference shares. Over the last 4 years the Trust's US bond has declined in yield by 1%, the UK bonds by 0.25% and the Halifax preference shares by 1%. Together with the income earned, the performance of these assets has comfortably beaten our benchmark in local currency terms. Now that long-term interest rates are close to their lowest points since the Trust began we think it important to review this expectation.

Annual inflation in both the UK and USA has averaged 2.4% and 2.2% respectively over the 4 year period, surprisingly low, we guess, for many observers given the extent of policy stimulus (negative or zero real rates in 2002/3 and a massive expansion of government debt) and the recent significant rise in commodity prices, especially oil. More concerning is the long term effect of these simulative policies on demand. Today's debt funded spending from consumers and the government alike borrows from future demand when the competitive capacity of emerging economies in terms of infrastructure and technology, will be better harnessed to compete more effectively with the developed world. It is not obvious how developed countries will avoid the disinflationary impact when end demand moderates.

We continue to believe that whatever monetary stimulus central banks provide, now or in the future, there is negligible chance that it would generate a wage price spiral unless trade barriers are erected to limit the flow of goods and services between the developed and the emerging world. The supply of labour in the emerging world is too large to allow wages to rise in the developed world. Take China as an example. Its labour force is bigger than the OECD's at 760m people in 2003. Conservatively, excess labour is estimated at 150m people. With 9m new jobs created per annum, it is hardly able to cope with the new workers entering the labour force let alone the migrants from rural areas looking for work. As a result the booming economic growth of the last 10 years may have quintupled exports to 35% of GDP but wages at the costal export factories have barely changed. It will take decades before Chinese surplus labour is absorbed. And then there is India; by 2035 it will have a working population greater than China.

It is obviously unrealistic to directly compare the skill sets of Chinese workers with those in developed country like the US and the UK. It takes time for the influence of competitive forces to be harnessed and brought to bear over the 7,000 miles that separate these nations. However the UK and US manufacturing sector will bear testament to the indirect influence that cheap Chinese competition is having on manufacturing as do the trade figures which show over the last 5 years a two fold rise in Chinese exports to the UK and US versus a 50% rise in UK imports and a 125% rise in US imports to China. The advances in technology and communications will if anything hasten competition in the future and broaden China and India's threat to services, the dominant part of both the US and UK economies.

With these longer-term considerations in mind it is not surprising that long-term bond yields continue to trade near historical lows even when the monetary authorities in both countries are raising interest rates and squeezing liquidity (Greenspan's conundrum). The UK bond market already exhibits a negative sloped yield curve (long term interest rates lower than short term ones). In the US bond market the spread between short rates and long rates at 2% is still positive but we would expect that difference to narrow in 2005 as short term rates rise. We believe that at some juncture higher interest rates may well cause demand in both economies to moderate. Coincidently inflationary expectations may start falling again, allowing long term interest rates to continue their decent towards 3%, our ultimate long term target for the yield on our holdings in government bonds.

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