Lindsell Train Investment Trust

June 2006

All data as at 30th Jun 2006

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	£ 25.4mn
Net Asset Value	£ 135.14
Share Price	£ 127.00
Premium (Discount)	(6.0)
Benchmark 2½% Consol	Annual +4.4% Monthly +0.4%

Source: NAV - LTL; Price & Discount - Bloomberg. Share Price quoted is closing mid price. See Benchmark Definition

Fund Breakdown

Top 10 Holdings (% NAV)	
Lindsell Train Global Media (Dist)	10.6
HBOS 9.25% Non Cum	10.5
Barr AG	10.4
Diageo	7.8
Cadbury Schweppes	7.5
US Gov Treasury 6.25%	7.4
2½% Consolidated Loan Stock	6.9
Lindsell Train Ltd	6.6
Wolverhampton & Dudley Brew	6.0
Lindsell Train Japan (Dist)	5.5

Industry Breakdown (% NAV)	
Bonds	19.5
Preference Shares	13.6
Equity - Media	12.3
Equity - Banks & Investment Co.	6.6
Equity - Leisure & Entertainment	11.4
Equity - Food & Beverage	28.4
Equity - Consumer Goods	1.7
Investment Funds	20.4
Cash & Equivalent	(13.9)
Total	**100.0**

Fund Exposure	*Bonds*	*Prefs*	*Equity*	*Funds*	*Cash*	*Total*
UK %	12.1	13.6	49.3	4.3	(14.0)	**65.3**
USA %	7.4	-	1.3	-	5.2	**13.9**
Europe (ex UK) %	-	-	4.4	-	(2.5)	**1.9**
Japan %	-	-	5.4	5.5	(2.6)	**8.3**
Global %	-	-	-	10.6	-	**10.6**
Total %	**19.5**	**13.6**	**60.4**	**20.4**	**(13.9)**	**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 Donald Adamson Dominic Caldecott Michael Mackenzie
Secretary:	Phoenix Administration Services Limited
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*	*2005*	*YTD 2006*
LT Investment Trust NAV TR%	+3.2	-9.6	+3.1	+23.7	+16.5	+1.1
LT Investment Trust Price TR%	+18.5	-19.8	-8.7	+20.6	+27.5	-1.0
MSCI World Index GBP TR%	-18.0	-28.6	+17.6	+5.2	+20.3	-2.5

Source: LTL & S&P Micropal unless otherwise indicated. TR=Total Return. Launch date 22 Jan 2001. ❶ Source: LTL.

2005	*Jan*	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*	*YE 2005*
NAV TR%⋆	+1.4	+0.3	+1.7	+0.2	+3.4	+2.9	+0.0	+0.2	+1.0	-1.5	+2.3	+2.9	**+16.5**
Price TR%⋆	+8.6	+3.5	-3.4	+1.8	+2.6	+9.3	+0.4	-2.3	+2.4	-3.9	+1.2	+4.0	**+27.5**
Since Launch NAV TR%	+20.3	+20.7	+22.8	+23.8	+27.3	+31.1	+32.6	+31.7	+32.8	+30.7	+33.7	+37.9	
Since Launch Price TR%	+13.9	+18.0	+13.9	+15.9	+19.0	+30.4	+31.0	+27.8	+32.7	+25.7	+27.3	+32.5	

2006	*Jan*	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*	*YTD 2006*
NAV TR%⋆	+0.9	+1.9	+1.2	-1.8	-2.0	+1.8							**+1.1**
Price TR%⋆	-3.0	+7.5	+1.5	-1.4	-1.5	-2.6							**-1.0**
Since Launch NAV TR%	+39.5	+42.1	+43.3	+41.0	+36.4	+39.4							
Since Launch Price TR%	+28.4	+38.3	+40.4	+38.3	+36.2	+31.3							

Source: LTL & S&P Micropal 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.
⋆ Monthly performance sourced from Bloomberg & LTL. ❶ Source: LTL.

Fund Manager's Comments

The Trust's performance faltered in the first quarter of its new financial year with the net asset value falling by 2%. Equity markets in general did worse falling by 7% (MSCI Index in Sterling). Government bonds continued their downward trajectory both in the USA and UK in response to the global tightening of monetary policy, falling by 4% and the preference shares dropped by more, 6%. Although some equities fell in line with the markets others proved resilient, notably AG Barr and Nintendo, which rose 7% and 9% respectively. Two other big holdings, Wolverhampton and Dudley Breweries and Diageo were unchanged. The Japan Fund, reversing some of its poor performance in 2005, rose 7%. We have been particularly inactive over the quarter, even by our standards, as bonds appear too low to sell at current prices and our selected equities not cheap enough to buy.

Although commodity prices, in general, have retreated from the heady levels of earlier this year (see the May monthly review) it is notable that the price of oil is just 2% below its peak in early May. The concern is that a far greater deceleration of the world economy is needed before oil prices are able to stabilise or fall. What induces that slowdown will probably be a combination of tighter monetary policy and the deleterious effect of high oil prices and higher interest rates on demand. There are now some obvious examples of companies (e.g. airlines and tyre manufacturers) that are particularly exposed to oil input costs whose profit margins have been hit badly just recently. The effect is likely to spread. Also as time passes the full burden of rising oil prices and interest rates will likely force changes in consumer spending patterns to the detriment of overall household consumption. This combination of rising input costs and slower demand growth should dent overall corporate profitability. The warning sign will be a rise in credit spreads (the difference between the yield on AAA government debt, for instance, issued by the USA and UK governments and the debt of companies and less highly-rated nations, especially emerging markets.). Thus far credit spreads remain relatively low, signalling little distress. The JP Morgan Emerging Market spread over sovereign issues is approximately 2%, just above the low, versus highs of 10% in 2002 and 2003. If profits fall, we would expect spreads to widen once again.

The exceptionally low level of credit spreads has been a boon to the private equity industry as investments in businesses able to generate ample short term cash flow combined with greater than normal leverage has vastly improved returns on investment. As a result investor capital in search of such opportunities is so plentiful that there are increasing instances of private equity groups bidding for quoted equity businesses. AB Ports is but the latest example. This activity has helped inflate the transaction value of businesses in the quoted market thus adding support to its overall level.

Even though it has been suggested that such private equity activity is crowding out genuine corporate buyers we were pleasantly surprised by the relatively high sales values recorded on the consumer healthcare businesses of Boots last year and Pfizer last month. Both contained some important brands, Strepsil Lozenges and Listerine mouthwashes, and both were sold to industry buyers, Reckitt Benckiser and Johnson and Johnson at 3.7x and 4.3x sales respectively. It would be hard to imagine that private equity groups were not involved in the bidding process at some stage. What it does reinforce is what a well timed purchase Cadbury made of Adams confectionary, which included Hall's lozenges and other consumer brands, back in 2003 at just 2.2x sales.

What are the implications of rising credit spreads and falling corporate profitably? Declining corporate earnings are likely to negatively affect the market value of most corporations and rising funding costs will lessen the projected returns from private equity investments, causing investor activity to fall. We would hope our companies are less affected as earnings should remain relatively stable and those businesses that fund with debt do so only prudently. However, crucial to the valuation of our companies will be the behaviour of the long-term government bond market. Slower economic growth, declining profits and a flight to quality should be positive for government bond prices. Should such prices rise, would the fall in yields have the effect of lowering the implied discount rate for valuing the far-out cash flows of the type of businesses we own, thus increasing their market value? We think it might, simply because the quality and longevity of the cash flows are more analogous to the guaranteed income from a government bond rather than the cyclical income from less predicable businesses whose cash flows should, we think, be discounted at a rate comparable to higher yielding corporate issues.

All data as at 30th Jun 2006

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