

# LINDSELL TRAIN INVESTMENT TRUST

September 2009

All data as at 30th September 2009

## 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)

AG Barr	12.1
LT Global Media (Dist)	11.7
LT Japan (Dist)	8.8
Cadbury	7.7
Diageo	6.5
Nintendo	6.4
Lindsell Train Limited (Unlisted)	5.8
2½% Consolidated Loan Stock	5.6
Heineken Holdings	5.2

### Investment Allocation (% NAV)

Bonds	9.9
Equities - Consumer Goods	1.1
Financial Services	11.9
Food & Beverage	34.7
Internet	2.6
Investment Funds	23.3
Leisure & Tourism	3.0
Media & Photography	13.3
Preference Shares	0.0
Cash & Equivalent	0.2
<b>Total</b>	<b>100.0</b>

Fund Exposure %	Bonds	Prefs	Equity	Funds	Cash	Total
UK	9.9	-	51.3	2.7	(15.0)	<b>49.0</b>
USA	-	-	2.6	-	15.7	<b>18.3</b>
Europe (ex UK)	-	-	5.2	-	(0.5)	<b>4.7</b>
Japan	-	-	7.5	8.8	0.1	<b>16.3</b>
Global	-	-	-	11.7	-	<b>11.7</b>
<b>Total</b>	<b>9.9</b>	<b>-</b>	<b>66.6</b>	<b>23.3</b>	<b>0.2</b>	<b>100.0</b>

<b>Market Capitalisation</b>	£34.4mn
<b>Net Asset Value</b>	£172.21
<b>Share Price</b>	£157.50
<b>Premium (Discount)</b>	(8.5%)
<b>Benchmark 2½% Consol</b>	Annual +4.4%
(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.

**The Board:** Rhoddy Swire  
Donald Adamson  
Dominic Caldecott  
Michael Mackenzie

Michael Lindsell

**Secretary:** Phoenix Administration Services Limited

**ISIN:** GB0031977944

**Bloomberg:** LTI LN

**Listing:** London Stock Exchange

## 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 (%)	Sep 2004	Sep 2005	Sep 2006	Sep 2007	Sep 2008
	Sep 2005	Sep 2006	Sep 2007	Sep 2008	Sep 2009
Lindsell Train Investment Trust NAV 12m Return	+17.6	+14.0	+15.7	-1.1	+18.0

Source: Bloomberg. Launch date 22 Jan 2001. TR=Total Return (with dividends reinvested). Return net of fees and expenses.

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	<b>-3.1</b>
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	<b>-9.3</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	+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. † Revised Figures

Calendar Year Performance 2009	Jan^	Feb^	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD 2009
NAV TR%*	-6.6	-3.0	-0.1	+2.3	-1.9	0.0	+4.4	+5.0	+8.1				<b>+7.5</b>
Price TR%*	1.4	-3.8	0.0	-2.1	+2.9	-7.1	+15.0	+1.4	+5.4				<b>+12.1</b>
Since Launch NAV TR%*	+65.1	+60.1	+59.9	+63.6	+60.5	+60.5	+67.4	+75.9	+90.1				
Since Launch Price TR%*	+58.4	+52.4	+52.4	+49.1	+53.5	+42.5	+63.5	+66.1	+74.9				

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. ^ Restated figures

# LINSELL TRAIN INVESTMENT TRUST

*All data as at 30th September 2009*

## *Registered Address:*

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The Trust has had a nicely timed fillip from two of our long-standing holdings. Following AG Barr's good results its share price responded rising 21% in the month but Cadbury was the best performer, up 38%, following an announcement of a bid approach from Kraft. Kraft's bid was not only pleasing in its contribution to performance but it also provided an important validation of our core working hypothesis that exceptional and durable businesses tend to be undervalued by most investors most of the time. Our longer standing shareholders know that we have held Cadbury since the Trust began and they will have been bombarded with all manner of comments in previous monthlies justifying its ownership and lamenting on why others could not recognise the value we saw in the company. As a reminder, we believe that it has always been undervalued and remains so today, although by less than ever before.

## Why?

First, we have always considered that other investors have not appreciated just how rare a franchise such as Cadbury is, with its wide range of chocolate, confectionery and gum brands many of which have been around - and we anticipate will continue to be around - for generations. Surprisingly few quoted companies meet this test of durability, as evidenced by the high attrition rate for constituents of equity indices - our analysis suggests that over 20 year periods only 20% of companies in major market indices survive in the same form.

Next, it is important to recognise that its rarity and survivorship is a product of the ability of the company to grow its cash flow in real terms consistently over such multi-year, actuarial time horizons. Over the 34 years from 1975 to 2009 (longest data available) Cadbury grew its real dividends (a good proxy for cash flow) by 5.7% per annum, an exceptional performance when one considers that over the 50 years from 1950-2001 the real growth in dividends in the UK market was approximately 2.3% per annum. During this period there was only one cut in the annual dividend, in 2002, and even

then dividends exceeded their previous levels by the next year.

And finally, we think it is wrong to apply an equity risk premium to a discounted cash flow valuation of a company such as Cadbury, as most other investors explicitly or implicitly must do. Why should Cadbury be valued at a yield premium to a long-term UK gilt, when it promises - and has had a history of delivering over many years through good times and bad - a growing stream of real income.

Events like Kraft's bid for Cadbury confirm to us that there are other investors who recognise such exceptional stores of value. Kraft knows a lot about the value of brands and it is a welcome validation of our hypothesis when such an informed corporate buyer sees the same value in an asset we own. And clearly the full value of Cadbury is above the initial bid price; probably Kraft's tactical first shot. In all likelihood Kraft have budgeted for an uplift from the initial offer in order to win the bid and, even then, in order to buy the company and extract value from the investment for their shareholders, prudence would suggest that the final offer must be pitched at a discount to what they believe is the true full value.

For what it is worth, we think Cadbury is worth about £10 per share versus the £5.70 it was trading at before the bid.

Contrary to our prediction in the last monthly, there have been no further developments on Cadbury. But next month there will be, as Kraft has until 9<sup>th</sup> November to submit a formal bid or withdraw for six months. Also, Cadbury have a trading update next week which should give us clues on how the business is doing.

## 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.