

ACDS LINDSELL TRAIN UK EQUITY FUND

February 2007

All data as at 28th Feb 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 FT All Share Index.

Fund Breakdown

Top 10 Holdings (% NAV)

Diageo	8.2
Unilever	8.0
Cadbury Schweppes	7.4
HBOS	7.2
Reed Elsevier	7.0
Pearson	6.8
Lloyds TSB	5.9
RBS Natwest 9% Pref	5.9
Rathbone Brothers	5.2
Sage Group	5.2

Industry Breakdown (% NAV)

Equity - Media	23.0
Equity - Banks & Investment Co.	33.7
Equity - Leisure & Entertainment	1.9
Equity - Food & Beverage	25.7
Equity - Consumer Goods	5.5
Preference Shares	8.3
Cash & Equivalent	1.9
Total	100.0

Fund Exposure	Bonds	Prefs	Equity	Funds	Cash	Total
UK %	-	8.3	89.8	-	1.9	100.0
Total %	-	8.3	89.8	-	1.9	100.0

Fund Size	£ 47.0mn
Accumulator Price	£ 1.1094
Income Price	£ 1.0964

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: Div Ex 30 Nov 2006
Paydate 31 Jan 2007

Benchmark: FT All Share

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

Management Fees: Annual Fee 0.65%

Authorised Corporate Director: ACD Services Ltd.

Administrator: Capita Financial Administrators Limited

ISIN: GB00B18B9X76

Bloomberg: LTUQEQL LN

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

2006 2007

ACDS LT UK Equity TR% Not available

FT All Share TR%

Current regulations do not permit us to publish historical performance data in the first year of the fund's life.
TR=Total Return (with dividends reinvested)

2006	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YE 2006
ACDS LT UK Equity TR%	Not available												
FT All Share TR%													
Since Launch Price TR%													
Since Launch Index TR%													

2007	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD 2007
ACDS LT UK Equity TR%	Not available												
FT All Share TR%													
Since Launch Price TR%													
Since Launch Index TR%													

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Fund Manager's Comments

February was a "bouncy" month for UK equities and closed on a weak note – a tendency extending into the early days of March. Your Fund lost some absolute and relative ground through February, but remains ahead of the FT All-Share Index for the calendar year to date and since inception.

Recent jitters have been ascribed to various macro-economic factors and some more lugubrious commentators have taken them as a portent of much tougher times ahead. Our views – conscious though we are of how clichéd they may read – are that nothing goes up in a straight line, that there is always something to worry about if you are an economist and that longer term investors should ignore the squalls that can periodically sink speculative strategies. These views may amount, in the end, to little more than complacency on our part, but at least we don't get bounced in and out of holdings.

Actually, from our perspective, February was a great month for the Fund. This is because of the rich crop of final dividends that were announced by major portfolio constituents. In the long run the capital performance of the strategy will be driven by this dividend growth. The fattest increase came from one of the lowest dividend yielding assets - as it quite properly should, if we are to justify owning a stock with a starting dividend yield lower than the market average. This was Royalblue, the software company, which raised its distribution by 27.0%, in recognition of an outstanding year for the business. Royalblue's dividends have increased more than 5-fold since its maiden payment back in 1997/8. The "book dividend yield" on our 4.5% portfolio holding in Royalblue – calculated from this year's dividend compared to the book cost of the position – is only 1.5%. However it will not take many years of 27.0% dividend growth for this yield to catch up with that of the All-Share. Meanwhile, Royalblue's share price is up 30.0% on our book cost – one of the best performances in the Fund to date. Royalblue is, without question, a very good company, as even a cursory examination of its market position reveals. It may be in the process of becoming a great company – which is a claim we make in full consciousness of how rare it is for small companies to achieve big company greatness.

Five other portfolio positions delivered double digit dividend growth (or very near) – Bradford & Bingley, Cadbury, HBOS, Pearson and Reed Elsevier. In each case the increase

marked an acceleration in the recent rate of growth, suggesting, in turn, increased confidence from each Board in the outlook for each business. Reed's decision to divest its educational publishing business was well received by investors and will tend, we believe, to improve the growth rate of the company. The key fact about Reed, in our opinion, is that on a pro-forma basis, after the disposal of education, online sales will represent 43.0% of the whole, offering scope for a rerating, as its returns to capital improve.

Diageo and Unilever lifted their dividends by 5-6.5%, although both are returning cash to their shareholders by other routes too – a buyback from Diageo and the special dividend recently paid by Unilever. Diageo's buyback, extended by another £1.0 billion for another twelve months – circa 4.0% of current market capitalisation – is very accretive for long term investors like us, we think, because stock is being cancelled at a price well below our estimate of intrinsic value, lifting the per share value of the remaining float. Institutional investors often dismiss buybacks as the action of a management team that has run out of growth ideas and use them as a source of easy liquidity by which to reduce giant holdings. For us, buybacks are not only a significant source of value but a welcome confirmation that a given corporate management "thinks like an owner" and recognises strategic undervaluation when it sees it. The most exciting aspect of Unilever's results – and really it is exciting – was the proportion of group revenues now deriving from Emerging Markets, which rose another 8.0%, as they have over each of the last 16 years, to 41.0%, a record. The FT's Lex column commented the next day that Unilever's challenge is to kick-start its 59.0% of sales in developed markets. Lex is a notoriously cussed and downbeat set of journalists and we think this damns Unilever with faint praise. To us the fact the company has already got its business to over 40.0% in the most dynamic regions of the world is worthy of congratulation and excitement.

Lloyds Bank announced the only unchanged dividend in our portfolio, but we were encouraged by the growth in its Scottish Widows subsidiary and believe that, if sustained, this could lead to a dividend increase from the parent in the current financial year. Commentators have noted that one feature of the banks' results season has been a marked uplift in their savings business, with HBOS, for instance, declaring

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itself now the UK's biggest supplier of savings products – ahead of Legals, Norwich Union, Pru et al. We agree that the UK savings ratio should rise and we agree with the observation of Archie Kane, chief executive of Scottish Widows that "when you have a network of branches across the country, you have a headstart." The retail banks are a great way to play a UK savings cycle, in our opinion.

Risk Warning

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