

# CF LINDSELL TRAIN UK EQUITY FUND

December 2007

All data as at 31st Dec 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	11.5
Cadbury Schweppes	9.6
Diageo	8.8
Reed Elsevier	7.4
Reuters Group	6.9
Pearson	6.5
London Stock Exchange	5.7
RBS Natwest 9% Pref Stock	4.8
Rathbones	4.7
Sage	4.7

### Industry Breakdown (% NAV)

Equity - Media	24.4
Equity - Banks & Financials	28.2
Equity - Leisure & Entertainment	2.3
Equity - Food & Beverage	31.3
Equity - Consumer Goods	4.7
Preference Shares	6.2
Cash & Equivalent	2.9
<b>Total</b>	<b>100.0</b>

<b>Fund Size</b>	£78.7 mn
<b>Accumulator Price</b>	£1.1353
<b>Income Price</b>	£ 1.0908

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 (ACD):** 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 Exposure	Bonds	Prefs	Equity	Funds	Cash	Total
UK %	-	6.2	90.9	-	2.9	100.0
<b>Total %</b>	<b>-</b>	<b>6.2</b>	<b>90.9</b>	<b>-</b>	<b>2.9</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.

Standardised Discrete Quarterly Performance (%)	Jan 2007 Mar 2007	Apr 2007 Jun 2007	Jul 2007 Sep 2007	Oct 2007 Dec 2007
CF LT UK Equity Acc TR% 12m Return	+4.9	+0.7	-1.5	-1.7
CF LT UK Equity Inc TR% 12m Return	+4.9	+0.7	-1.5	-1.7

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

Calendar Year 2006 Monthly Performance	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	<b>+11.0</b>
CF LT UK Equity Inc TR%							+2.2	+2.0	+2.7	-0.7	+0.8	+3.4	<b>+10.8</b>
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	

Calendar Year 2007 Monthly Performance	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YE 2007
CF LT UK Equity Acc TR%*	+0.5	-0.6	+5.0	+2.2	+4.4	-5.6	-2.0	-1.3	+1.7	+2.7	-4.9	+0.6	<b>+2.3</b>
CF LT UK Equity Inc TR%*	+0.5	-0.6	+5.0	+2.2	+4.4	-7.1	-1.9	-1.3	+1.7	+2.3	-4.5	+0.6	<b>+2.2</b>
Since Launch Acc TR%	+11.6	+10.9	+16.5	+19.1	+24.3	+17.3	+15.1	+13.6	+15.5	+18.7	+12.8	+13.5	
Since Launch Inc TR%	+11.6	+10.9	+16.5	+19.0	+26.7	+17.7	+15.4	+14.0	+15.9	+18.6	+13.2	+13.5	

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

## Fund Manager's Comments

There is no need for us to enumerate the worries and uncertainties out there. We feel them like everyone else and can articulate as apocalyptic a bear case as the next man. But we also recall and acknowledge the force of a piece of wisdom shared by Sir John Templeton, at a seminar over 20 years ago. He said and I paraphrase, "The best time to buy sound common stocks is when economic conditions are most uncertain." A cursory glance at almost any long term stock market index demonstrates this to be good advice (although Japan is beginning to test one's patience) and it is worth reiterating why.

First, the headline on the front page of today's white Times reads – "Oil at \$100 threatens to choke the economy". Bad news is quickly incorporated into share prices and what everyone knows ceases to be useful knowledge. In the UK, economically-sensitive stocks have already been hammered. Selling more of these shares today is reactive, not preemptive, and risks aligning oneself with the community of short-selling momentum traders – and, over time, those fellows are notorious money-losers.

Next, when economic times are tough, interest rates tend to fall and are falling today – extending investors' time horizons beyond current difficulties and back to Capitalism's tendency to generate 7.0% pa real returns over time. And here Templeton's advice is subtle. To the extent that monetary authorities over-react to tough times they risk inflation and to that extent, common stocks – equity, become more attractive than cash or debt, because equity can protect against inflation. Selling sound common stocks into a slowdown, in exchange for cash, is definitely a losing strategy. Moreover, so far as UK equity investors are concerned, it is important to recall that our economic slowdowns tend to be associated with weak Sterling. The composition of the London stock market means that a falling Pound translates quickly into rising dividends and, later, earnings upgrades. Sterling's recent break below \$2.00 is very bullish.

Finally and perhaps most important, although it is beguiling to believe that stock market waves are neatly correlated with the ebbs and flows of economies – it is just not so. Equities often perform well in recession years. One reason for this is that the people who run corporations are less prone to

skittishness than stock market participants. Boards will often look to transact deals into a downturn, because this is when holders are more prone to sell. It is no accident, we think, that BHP should have bid for RTZ well after the, at least temporary, peak of industrial metal prices, nor that Santander is expressing interest in Alliance & Leicester at a time of maximum distress for the latter's shareholders.

So, while it would be wrong to imply that we have enjoyed the last six months – we haven't - and we are taken aback by the punishment meted out to some of our holdings, nonetheless, we guess there will be big positive surprises over the next 12 months and that those running big cash positions will need to be nimble or lucky.

Looking into the New Year we now offer observations, some more detailed than others, about the prospects for each holding in the portfolio, starting with the smallest position.

Hargreaves Lansdown - 0.2% Recent weakness has encouraged us to commence a holding in this private wealth savings franchise. A long association gives us the highest regard for the business and its executives and we expect 2008 to be an active year for the UK savings market and this exceptionally profitable company.

Celtic - 0.6% There has been a flurry of stake building in the club, with John Fisher, son of the founder of GAP Clothing, a newly declared 3% shareholder (and in the process thwarting our attempts to buy more). Celtic is a mighty "trophy" asset, valued far more lowly in the stock market than comparable franchises.

Daily Mail - 0.9% An outstanding collection of newspaper and online brands, which is deeply out of favour, with a share price nearly 60% below its 2000 peak. We are adding to a still modest holding and give thanks that the stock market, in its passions, throws up opportunities like this – to own a piece of, say, the Daily Mail newspaper on 10x earnings, or an earnings yield of 10%, because, temporarily, earnings are "under pressure".

Bradford & Bingley - 1.2% Rumoured to be interested in all or part of Northern Rock, rumoured to be a merger partner

for Alliance & Leicester, the B&B board appears to be doing the right thing – looking for value-creating opportunities in a period of investor uncertainty. The British banking industry is about to consolidate and B&B is not a negligible franchise.

A.G. Barr - 1.2% A cash-generative drinks business, with great brands, net cash on its balance sheet, a decent growth outlook and a dividend yield above the market average adds up to a buying opportunity, we think. The shares will not perform in the current environment, because investors are cautious of smaller UK companies with domestic earnings. However, this does not make Barr a bad company, nor anything but a fine long term investment.

Marstons - 1.8% All the pubcos are derating, as investors discount a slowdown in UK consumer spend and the real estate market cools. Marstons has been a weak share, as a result. Nonetheless, integrated regional brewing remains a reliable business model. The recent private equity bid for water utility Kelda reminds us that there are still buyers for the "utility-like" cash generation of pubs.

Euromoney - 2.7% This business-to-business publisher is majority owned by Daily Mail. In December DMGT lifted its holding in the company from 61% to 66%. For us this decision confirms the undervaluation of Euromoney today and increases the likelihood that one day DMGT will acquire the minority. In the meantime, the shares yield more than a gilt.

Fidessa - 3.6% Shares have fallen 21% since mid-October. This is understandable, given that Merrill Lynch is a corporate shareholder (will it be a forced seller?) and that its biggest customers are investment banks. Indeed, 85% of all tier-one global equity houses now rely on Fidessa's software to enable them to process still exploding volumes of share transactions. We believe investors underestimate the reliability of this entrenched market position and its strategic value.

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Lloyds Bank - 4.0% Offered a comforting trading update and is a bank likely to emerge from current sector woes stronger (because it has not expanded its balance sheet into troubled areas). We dream of a significant domestic acquisition, which would allow the company to capture more economies of scale.

Schroders - 4.4% A cash-rich, globally-recognised investment management franchise, with an inbuilt profit driver – the transition from low margin institutional business to higher fee, retail funds. A proxy for better markets and, particularly, the bull market in Asia, where Schroders is especially strong.

HBOS - 4.5% Dividend cover of 2.3x on now confirmed 2007/8 earnings. Dividend yield 6.5%. Of course, loan growth will slow and bad debts will rise, but lots of discretionary consumer spending will be cut before people default on their mortgages. Savings division likely to enjoy several years of counter-cyclical growth.

Sage - 4.6% A 95% dividend increase for 2007, announced in late November, puts the shares on a yield premium to the All-Share, probably for the first time in its quoted history. Reliably and exceptionally cash-generative, Sage is a big beneficiary of Sterling weakness. The 30,000 calls received every business day from its 5.5 million small company customer base confirms how crucial Sage is to them.

Rathbone - 4.7% A cash-rich, well-reputed asset manager offering a dividend yield higher than the All-Share. Only the perma-bears would want to sell it at current levels.

LSE - 5.6% Up 10% in December, as trading volumes rise and stake builders jockey for influence and, probably, control.

Pearson - 6.5% Shares weak on fears of pending cuts in US state education budgets, although this is pure supposition. We assume Pearson Education is a steady growth business, about to benefit from integration of recently acquired assets from Reed. 62%-owned US subsidiary IDC was up 18% in Q4, now represents 16% of Pearson's market cap. Gap between latter and break-up value very wide.

Preference Shares - 6.1% Systemic worries about global banks have outweighed the high and, we expect, safe yields on these instruments. HBOS pref dividends covered 17x by ordinary dividends and over 200x for RBS. In any "normal" bad debt cycle these pref dividends are secure. Falling UK interest rates likely to increase investor hunger for income and these instruments, yielding over 8.0%, could generate attractive returns.

Reuters - 6.8% Shares performing well into likely regulatory approval of merger with Thomson. Still a double digit arbitrage profit to be earned from holding on.

Reed Elsevier - 7.3% A wonderfully positioned business for 2008. Cash-generative, non-cyclical growth, with significant Dollar earnings and an imminent return of capital. Likely to be at the start of a prolonged period of outperformance.

Diageo - 8.8% If interest rates and Sterling fall, Diageo could sustain a higher rating on higher earnings.

Cadbury - 9.8% Shares unchanged on Trian increasing its stake to 4.5% and challenging Board, by public letter, to be more aggressive in releasing value. Trian's indicated target price of £9.70 not dissimilar to our own and suggesting significant strategic

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mispricing. Cadbury will see corporate action in 2008, if only demerger of US drinks.

Unilever - 11.6% A 7.5% share gain in December shows that investors begin to recognize the attractions of this business. Highly stable revenues, with an Emerging Market growth story and a developed world margin improvement opportunity. Another beneficiary of Sterling weakness.

## Risk Warning

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