

CF LINDSELL TRAIN UK EQUITY FUND

October 2008

All data at 31st Oct 2008

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)		Industry Breakdown (% NAV)	
Diageo	11.5	Equity	Banks & Financials 23.0
Unilever	10.6		Consumer Goods 4.0
Cadbury	10.3		Food & Beverage 38.9
Pearson	7.1		Leisure & Entertainment 1.7
Reed Elsevier	6.4		Media 19.8
Schroders	4.8		Retail 1.3
Lloyds TSB Group	4.3		Preference Shares 1.5
Rathbone	4.1		Cash & Equivalent 9.8
Sage	4.0	Total	100.0
Fidessa	3.6		

Fund Exposure	Bonds	Prefs	Equity	Funds	Cash	Total
UK %	-	1.5	88.7	-	9.8	100.0
Total %	-	1.5	88.7	-	9.8	100.0

Fund Size	£115 mn
Accumulator Share Price	£0.8053
Income Share Price	£0.8083

Source: Lindsell Train Limited and Capita Financial Administrators Limited.

Portfolio Manager:	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:	0%-2%, subject to ACD's discretion
Management Fees:	Annual Fee 0.65%
Authorised Corporate Director: (ACD)	Capita Financial Managers Limited
Administrator:	Capita Financial Administrators Limited
ISIN:	Acc: GB00B18B9X76 Inc: GB00B18B9V52
Bloomberg:	Acc: LTUKEQALN Inc: LTUKEQA LN
Lipper:	65022060

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.

- CF LT UK Equity Fund comprises the Accumulator & Income Classes.
- The CF LT UK Equity Fund performance is based on total returns (dividends reinvested), net of fees.

Standardised Discrete Five Year History (%)	Oct 2003 Oct 2004	Oct 2004 Oct 2005	Oct 2005 Oct 2006	Oct 2006 Oct 2007	Oct 2007 Oct 2008
CF LT UK Equity Fund	NA	NA	NA	+11.7	-32.1
FTSE All Share Index	NA	NA	NA	+13.6	-34.4

Source: Bloomberg and Lindsell Train

Standardised Discrete Quarterly Performance (%)	Nov 2007 Jan 2008	Feb 2008 Apr 2008	May 2008 Jul 2008	Aug 2008 Oct 2008
CF LT UK Equity Fund	-13.2	-1.9	-11.1	-10.4
FTSE All Share Index	-12.8	+4.9	-10.6	-19.7

Source: Bloomberg and Lindsell Train.

Calendar Year 2007 Monthly Performance	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YE 2007
CF LT UK Equity Fund	+0.5	-0.6	+5.0	+2.2	+4.4	-5.6	-2.0	-1.3	+1.7	+2.7	-4.9	+0.6	+2.3
FTSE All Share Index	-0.3	-0.2	+3.3	+2.5	+2.8	-0.6	-3.3	-0.3	+1.9	+4.4	-4.7	+0.3	+5.3

Calendar Year 2008 Monthly Performance	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD 2008
CF LT UK Equity Fund	-9.3	+0.7	-3.8	+1.3	+1.4	-11.9	-0.5	+6.8	-8.3	-8.5			-29.1
FTSE All Share Index	-8.7	+0.7	-2.1	+6.3	-0.2	-7.1	-3.6	+5.0	-13.2	-11.9			-31.3

Source: Lindsell Train.

All data at 31st Oct 2008

Fund Manager's Comments

By mid-October I'd had enough. I tidied up my diary and set off on a long walk. The journey I chose was the Ridgeway, running 87 miles from The Sanctuary, a sacred prehistoric site at Overton Hill, Wiltshire up to the Ivinghoe Beacon, the final eminence of the Chilterns, a sharp pull up from Tring in Buckinghamshire. I touched the Beacon's trig point by lunchtime on the fifth day – foot-sore, but refreshed and pleased, above all, to have let the stock market exhaust its convulsions in my absence. October contained not only a full-scale bear market, down 22% to its low, but a full year's decent return, up 13% in its last four trading days. However, my personal "5 standard deviation" event for the month was the overnight snowfall on Tuesday 28th, that gave as perfect a day of winter's walking as I've ever had in England – snow blanket underfoot, with the beech woods still ablaze. The first such fall in October in the South East since 1974.

En route I was reassured by the volume of trade being done at the numerous pubs where I took refreshment. I took care to favour Brakspear, Fullers and Pedigree houses – all ales brewed by Lindsell Train investments. The dining room at Marston's Red Lion at Wendover was notably busy, this on a Wednesday evening. Of course, these are anecdotal observations and we know that the pressures on the British pub trade are intense, however my experience left me unsurprised on my return to read the following conclusion from a piece of research carried out by Capital Economics. Over the last 40 years, they note, if British consumer expenditure has a beta of "1", then spending on consumer durables exhibits a beta of 2.4 – giving significant volatility around trend. Meanwhile, spending in Pubs and Restaurants has a beta of 0.7 – far less cyclical than the average. People will always visit pubs. Doubtless some pubcos have over-reached themselves, putting dividends and even covenants at hazard, but it is hard to think of a beaten-up sector where investor sentiment could be more sensitive to falls in the Oil price or mortgage costs. Put a few extra quid in the pockets of Middle England and sales of flat-screen TVs may barely flicker, but extra pints will be pulled and chickens in baskets consumed. Marston has been a poor investment for your Fund, but with a twice covered historic dividend yield of over 13% and interest covered 2.3x by operating profits, we are tempted to buy more –

perhaps funded by sales of bank preference shares, which have held up relatively well and now offer lower dividend yields than several equity candidates for the portfolio.

A handful of our stocks registered gains in October, including manufacturers of "consumer staples" – Barr, Cadbury and Diageo, an important block, amounting to 24% of month-end NAV. Unilever did not join in, down a still relatively respectable 8%, as investors penalise it for its hefty exposure to Developing Economies. Unilever stands at 10.5% of Fund assets, helping push total investment in consumer branded goods companies to over 40%. We expect this allocation to continue relatively defensive, but it will likely only make money for our investors once confidence returns to the emerging markets.

The other portfolio winner was Pearson, perhaps a surprise, given its exposure to both financial and consumer publishing, via FT Group and Penguin. But in the short term at least, the market panic has been beneficial, with the company reporting record usage of FT products and services – monthly unique users of FT.com up 250% year-on-year for instance. Meanwhile, education, Pearson's dominant division, continues to trade well – and, consider, an Obama presidency is likely to favour text books over tactical nuclear warheads. In addition, there are hints emerging from the company about accelerating change in its business – change liable to improve economic returns. In October Pearson was able to report that 2.1 million students of the academic cohort 2008/9 had signed on to its MyLab online learning programs, taking the total for the calendar year up to 3.8 million, a 48% increase on last year. More than 500,000 students log on daily – making this a valuable stretch of cyber real estate.

Pearson, Reed and Sage, 17.5% of the Fund, have proven relatively secure in 2008 – Reed hitting an all-time peak against the FT All-Share, but only because they have fallen less than the average. If bull markets necessarily begin as a surprise to other investors – otherwise the gains would already have happened, we still expect positive surprises from these companies and their exploitation of the Internet, which could trigger material gains.

Risk Warning

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Reports can be found on our
website at www.LindsellTrain.com

During the month we switched a further 1/3rd of our HBOS ordinary holding into Lloyd's Bank – thinking that if the deal proceeds both shares should do well, but if it founders, the risk in HBOS is much the greater. As a result, the HBOS ord position at month end was 0.2%, with an additional 0.6% in HBOS preferred stock. The Lloyds holding is 4.3%.