

CF LINDSELL TRAIN UK EQUITY FUND

February 2009

All data at 27th Feb 2009

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)	
Unilever	11.0	Equity	Banks & Financials 22.5
Cadbury	10.6		Consumer Goods 4.8
Diageo	9.7		Food & Beverage 37.4
Pearson	8.8		Leisure & Entertainment 3.1
Reed Elsevier	7.3		Media 23.7
Schroders	5.0		Retail 2.8
Sage Group	4.8		Preference Shares 0.2
Fidessa	4.8		Cash & Equivalent 5.5
Thomson Reuters	4.6	Total	100.0
Hargreaves Lansdown	4.2		

Fund Exposure	Bonds	Prefs	Equity	Funds	Cash	Total
UK %	-	0.2	94.3	-	5.5	100.0
Total %	-	0.2	94.3	-	5.5	100.0

Fund Performance

Past performance is not a guide to future performance. The price of shares 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 Accumulation & Income Classes.
 - The CF LT UK Equity Fund performance is based on total returns (dividends reinvested), net of fees.
- The CF LT UK Equity Fund price and performance is based on 10 a.m. valuation point

Standardised Discrete Five Year History (%)	Feb 2004 Feb 2005	Feb 2005 Feb 2006	Feb 2006 Feb 2007	Feb 2007 Feb 2008	Feb 2008 Feb 2009
CF LT UK Equity Fund	NA	NA	NA	-6.5	-24.6
FTSE All Share Index	NA	NA	NA	-2.6	-32.3

Source: Bloomberg and Lindsell Train

Standardised Discrete Quarterly Performance (%)	Mar 2008 May 2008	June 2008 Aug 2008	Sep 2008 Nov 2008	Dec 2008 Feb 2009
CF LT UK Equity Fund	-1.2	-6.4	-16.5	-2.3
FTSE All Share Index	3.9	-5.9	-24.8	-7.9

Source: Bloomberg and Lindsell Train.

Calendar Year 2008 Monthly Performance	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YE 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	-0.6	5.3	-25.8
FTSE All Share Index	-8.7	+0.7	-2.1	+6.3	-0.2	-7.1	-3.6	+5.0	-13.2	-11.9	-1.6	3.7	-29.9

Calendar Year 2009 Monthly Performance	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD 2009
CF LT UK Equity Fund	-2.6	-4.7											-7.2
FTSE All Share Index	-5.8	-6.5											-11.9

Source: Lindsell Train.

Fund Size £108.8mn

Accumulation Share Price £0.7823

Income Share Price £0.7234

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: Accumulation & 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% p.a.

Authorised Corporate Director (ACD): Capita Financial Managers Limited

Administrator: Capita Financial Administrators Limited

ISIN: Acc: GB00B18B9X76
Inc: GB00B18B9V52

Bloomberg: Acc: LTIKEQALN
Inc: LTIKEQA LN

Sedol: Acc: B18B9X7
Inc: B18B9V5

Lipper: 65022060

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To date in calendar 2009 over 70% of the constituents of the portfolio by value have declared a dividend. We are encouraged. Admittedly there has been one cut, Lloyds Bank Group – whose final dividend has been replaced by a puny scrip issue. Lloyd's ordinary shares currently represent 1.0% of the portfolio. As to the Lloyd's preference shares – another 0.4% of the total, we do not yet know their fate, but note that one of their other preference issues, which we don't own, was allowed to go "xd" earlier in the February – indicating Lloyd's current intention to service its preference obligations, at least for now.

Next, three dividends are unchanged on the equivalent last year. Of these Celtic (1.2% of the portfolio) continued its policy of not paying an ordinary dividend at all – but its interim results demonstrated improved profitability and a marked reduction in its borrowings, suggesting that the Celtic convertible preference shares which are part of our exposure to the club, will pay their dividends. In addition, Hargreaves Lansdown and Schroders (9.6% of the total combined), two fund management companies, announced static final dividends. The decisions were understandable and prudent. It is worth noting that both had increased their interim payments and Hargreaves rewarded its shareholders with a special dividend in 2008/9. With net cash on their balance sheets, the pair continue to offer participation in any recovery in the stock market and or increase in the savings ratio, with low risk of financial embarrassment and still relatively low risk, we think, of dividend cut.

Then Cadbury, Diageo, Fidessa, Pearson, Rathbone, Reed, Thomson Reuters and Unilever – totaling 61%, the backbone of the Fund, have all increased their most recent dividends, by a minimum of 4%, this from Rathbone, another cash-rich investment manager. There were double digit hikes from Fidessa (41%), Reed and Unilever, albeit the latter's was boosted by Sterling's weakness against the Euro – Unilever's "home" currency.

We have an investment-principled preference for cash generative, predictable businesses. And this means that this satisfactory dividend performance is not entirely a surprise. But even we must admit to some relief, conscious, as are most investors, of the swathing cuts and abandoning of payments by companies across many industry sectors in recent weeks. In passing, we are amazed at the vulnerability of dividends in the recently high-flying metals sector, with already three FTSE 100 miners passing or savagely cutting their final, only a matter of a few months since the peak in commodity prices. The comment by Anglo

American's finance director at his results meeting – that he doubts whether a progressive dividend policy is consistent with an industry as cyclical as mining – was an eye-opener.

However, we cannot be complacent. If economic conditions continue to deteriorate at the current rate we are sure other Fund holdings, or some of the above, will reconsider their dividend policy. For example, we are alert to Daily Mail, Euromoney and Marstons (5.0% of the whole) all being possibly vulnerable payers, although our recent meeting with the last of these revealed how committed the board remains to its dividend record.

In truth, as investors and corporations have come to recognize the severity of the downturn, dividends have, quite rightly, come to take lower precedence. Survival or avoidance of ruinous dilution of equity interest by rights issue are what really count today. Dividends are nice, but they can always resume in happier times, although only if a given corporation gets through this torrid episode. For this reason, we were happy to advise Marstons, for instance, to cut or pass its dividend – if paying it threatens the integrity of its equity, or if the cash could be better used taking advantage of the much more severe distress in other quarters of the pub sector.

We continue to believe that companies that can not only survive, but demonstrate organic growth, however modest, in coming years, are very materially undervalued by punch-drunk investors. The secular, non-cyclical growth presented to us over the last month or two, by our Media and Software investments – Fidessa, Pearson, Reed, Sage and Thomson Reuters is very cheaply valued, in our opinion and their shares could be materially rerated in any circumstance of generally improving investor confidence. Fidessa seems to us to be on track to becoming an important global business and is one that could become a major FTSE 100 constituent if this promise is fulfilled.

We understand investors' current caution towards Cadbury, Diageo and Unilever, reflected in their shares, which have fallen in 2009, after a very strong period of relative gain through H2 2008. Their caution is based on a suspicion that even "defensive" earnings, such as offered by these three, will be hit by a consumer slowdown. In addition, investors appear to hope that the next profitable stock market trade will be in the beaten-up, cyclical sectors of the market. However, we disagree and take advantage to add to our holdings in the three when we can. These cash generative companies will survive. They will offer protection against any forthcoming acceleration

Head Office:

CF Lindsell Train UK Equity Fund
Ibex House, 42-47 Minorities,
London EC3N 1DX

Fund Administrator:

Capita Financial
Administrators Limited
+44 113 224 6000

Investment Manager:

Lindsell Train Limited
2 Queen Anne's Gate Buildings
Dartmouth Street
London SW1H 9BP

Limited Company Registered in
England No. 3941727
Registered Office as above

Phone: +44 20 7227 8200
Fax: +44 20 7227 8299
Enquiry@LindsellTrain.com

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in monetary inflation. Finally, they will deliver steady growth from their interests in Developing Economies, several of which appear much better placed than their ruinously over-borrowed Anglo-Saxon counterparts. A question – which even I as a close follower of the company would have underestimated – what proportion of Cadbury's sales derive from Emerging Markets? The number has increased with the demerger of the US beverage business and stands at 37%. Cadbury has a resilient domestic business – small, affordable treats – and exposure to the favorable demographics of Asia and Latin America. A wonderful investment opportunity.

Risk Warning

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