Lindsell Train Global Equity Fund

All data at 31 March 2020

Fund Assets
£6,744m

Share Price

A	£3.0713
B	£3.3933
D	£2.3178
C	$1.7371
E	€1.1671

Source: Lindsell Train Limited and Link Fund Administrators Limited.

Portfolio Managers


Michael Lindsell


Nick Train


James Bullock

Fund Objective & Policy

To increase the value of Shareholders' capital over the longer term from a focused portfolio of global equities, primarily those listed or traded on Recognised Exchanges in developed countries world-wide. The Fund's investment performance is compared with the MSCI World Index (Developed Markets) and is reported in Sterling.

Fund Profile

The portfolio is concentrated, with the number of stocks ranging from 20-30, and has low turnover.

Calendar Year Performance (%) £	*2015*	*2016*	*2017*	*2018*	*2019*
LT Global Equity Fund (B)	+19.5	+23.8	+26.1	+11.1	+19.4
MSCI World Index (developed markets)	+4.9	+28.2	+11.8	-3.0	+22.7

Cumulative Performance (%) £ 31 March 2020	*Since Launch*	*5yr*	*3yr*	*1yr*	*YTD*	*3m*	*1m*
LT Global Equity Fund (B)	+271.6	+88.9	+38.9	-4.1	-11.0	-11.0	-3.3
MSCI World Index (developed markets)	+128.5	+40.4	+6.8	-5.8	-15.7	-15.7	-10.6

Source: Morningstar Direct. Fund performance is based on B Class shares. Total return (with dividends reinvested) is provided net of fees and based on a 12 noon valuation point. Past performance is not a guide to future performance.

Top 10 Holdings (% NAV)	
Unilever	8.17
Diageo	7.45
Heineken	7.22
London Stock Exchange	7.18
Nintendo	6.33
Mondelez International	4.95
PepsiCo	4.93
RELX	4.85
Kao Corp	4.70
Walt Disney	4.70

GICS Sector Allocation (% NAV)	
Communication Services	18.8
Consumer Discretionary	4.9
Consumer Staples	44.2
Financials	13.7
Healthcare	2.7
Industrials	4.9
Information Technology	9.3
Cash	1.5
Total	**100.0**

Country of Listing Allocation (% NAV)	
Europe ex-UK	8.6
Japan	21.9
UK	35.0
USA	30.8
Other	2.2
Cash	1.5
Total	**100.0**

Fund Information

Type of Scheme: Dublin OEIC (UCITS)

Launch Date: 18 March 2011

Classes: A, B, D (£), C (US$), & E (€)

Base Currency: GBP (£)

Benchmark: MSCI World Index (Developed Markets)

Dealing & Valuation: 12 noon each Dublin & UK Business Day

Year End: 31 December

Dividend XD dates: 1 Jan, 1 Jul **Pay Dates:** 31 Jan, 31 Jul

Minimum Investment:

A: £1,500 C: $250,000
B: £150,000 D: £200m
E: €100,000

Management Fees:

A: 1.10% p.a.
B, C & E: 0.60% p.a.
D: 0.45% p.a.

Ongoing Charges Figure (OCF)*:

A: 1.15% p.a.
B, C & E: 0.65% p.a.

ISIN:

A: IE00B644PG05
B: IE00B3NS4D25
C: IE00BK4Z4V95
D: IE00BJSPMJ28
E: IE00BF2VFW20

Sedol:

A: B644PG0
B: B3NS4D2
C: BK4Z4V9
D: BJSPMJ2
E: BF2VFW2

*The OCF is a measure of the Fund's total operating expenses over 12 months, including management fee, as a percentage of the Fund's net assets. The OCF incorporates a reduction in the investment management fee, effective 1 July 2019, and is indicative, based on expenses and average assets for the year ending 31 December 2019. It is calculated by the Fund Administrator and published in the KIID dated 14/02/2020. It is an indication of the likely level of costs and will fluctuate as the Fund's expenses and average net assets change. The OCF excludes any portfolio transaction costs. A copy of the latest prospectus and the Key Investor Information Document for each class is available from www.lindselltrain.com

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Board of Directors: Alex Hammond-Chambers, David Dillon, Gerald Moloney, Lesley Williams & Keith Wilson

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Regulated by the Central Bank of Ireland

Depositary & Custodian: The Bank of New York Mellon SA/NV
Regulated by the Central Bank of Ireland

Portfolio Manager's Comments

The Fund NAV fell 3.3% in March but that was thankfully less than the benchmark index that was down by 10.6% during a traumatic month for markets.

The forced curtailment of economic activity is as unprecedented as it is widespread. The disruption to the pattern of lives brought about by the measures to combat the coronavirus outbreak will have a significant impact on most of our companies for a good part of 2020 and perhaps extending into 2021. There is no end date to the disruption and no template to work from in recent history, which makes the ultimate effect difficult to predict. All we can say, echoing last month's review, is that our investment approach steers us away from capital intensive manufacturing businesses, those reliant on commodity prices to sustain revenues and those dependent on high operational leverage. Some of our companies have super strong balance sheets with no net debt and almost all others (except for Juventus, on which we comment below) sustain prudent levels of debt matched by strong cashflows. That's important because in times like these being able to invest when many others are not in a position to do so will help to ensure survival and success in the future.

In last month's review we highlighted some companies at the forefront of the crisis. We update our views below and additionally comment on all our other holdings, focusing particularly on key areas of risk at this time.

We continue to believe that Disney, Juventus, Celtic, World Wrestling Entertainment ('WWE') are likely to be the worst affected with the shutdown of their various forms of live entertainment. Last year **Juventus** bolstered its balance sheet, raising €300m of new equity. Even so debt still exceeds equity and net debt will be increasing now given the lack of match day income with the football season postponed. Sponsors and broadcasters will demand concessions if matches are cancelled – we understand that Juventus has already agreed similar reductions from players' wages. Juventus has drawn down on 25% of its credit lines so has more borrowing capacity and we suppose has the implicit backing of its major shareholder Exor. The effect of the disruption will impinge on the season next year, on the values of players and potentially engagement as customers continue to shun crowded public places for a time. **Celtic** will be under the same pressure as Juventus but importantly has a stronger balance sheet with a net cash position at the last reporting date.

Not surprisingly **WWE** cancelled its 2020 guidance. WWE's big annual event, Wrestlemania, is due in two weeks' time and will be behind closed doors without the 80,000 live audience they would normally expect. Ongoing content, Smackdown and Raw for instance, viewed on Fox and USA cable respectively, is also audience free so lacks its regular hype but is at least drawing loyal audiences and generating broadcasting revenue. Life will get tougher if WWE is required to suspend events entirely. The company has $300m in cash and $200m in uncommitted borrowing facilities so think they have access to ample liquidity even if the situation worsens. WWE are building an expensive new corporate HQ and spending on this is being deferred until the situation becomes clearer. The company has no permanent COO and CFO, putting a strain on management resources in the short term.

Disney theme parks are closed across the world, as are cinemas and most sports events. ESPN will see a collapse in advertising revenues until live sports begin again. Offsetting this should be greater engagement with Disney+, the company's new direct to consumer service and Hulu, a similar service aimed at a more mature audience. Arguably Disney+'s launch in Europe this month will be enhanced by the current "lockdown" situation. But overall, brokers' current estimates indicate revenues could be at least 15% lower than previously anticipated. Operating profits could halve. It's most likely that debt will rise as the company draws down on current facilities. The dividend could be under threat. We would prefer that the company continues to invest and preserves cash rather than maintaining dividends.

Diageo, **Brown Forman** and **Heineken** will all suffer from the fall in sales in on-premise locations offset to some extent by increasing off-premise sales. All have a proportion of sales that are premium products (the Heineken brand internationally, reserve brands within Diageo – which represent 20% of total sales - and Brown Forman) and given constraints on consumer incomes and the negative wealth effect from declining markets, premium sales might suffer more than more mainstream products. This will also be the case for **Shiseido** and **Prada**. 40% of Shiseido's cosmetics are prestige products and Prada sells luxury goods at high price points. Prada also has a network of physical stores (with the capital intensity that that implies), many of which have had to be closed. For what it's worth Prada announced 2019 encouraging results. But looking to the future it also cut its dividend - a sensible move to preserve as much cash as possible given the strictures enforced on the company and its supply chains in Northern Italy.

eBay's online site should benefit from increased activity with physical retailers closed. On the other hand the proposed repositioning of the business, including the sale of the classifieds business, might be delayed and its value impaired. We also worry about the health of the small business sellers that are core to the site. Finally, it is concerning that there is no permanent CEO yet at a time when the company requires clear direction.

Hargreaves Lansdown derives most of its revenues from ad valorem fees based on the value of assets that will in some cases have fallen considerably. On the other hand it also generates transaction revenue that will have increased. Moreover, the company has net cash so is in a strong position to continue to invest and grow in the current environment. **The London Stock Exchange** ('LSE') also derives ad valorem revenues from its index products used by ETFs, which will have fallen - but again, it has a greater proportion of its revenues geared to trading and clearing. **The Japan Exchange Group** ('JPX') derives the biggest proportion of revenues from trading, and with volumes better than expected, has revised its 3/2020 earnings upward. JPX has plentiful cash but the LSE will have more debt than normal due to its acquisition of Refinitiv.

Astellas's drug sales should be relatively unaffected by events. Its cash backing has reduced following the acquisition of Audentes Therapeutics late last year.

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Portfolio Manager's Comments

Mondelez, Unilever, Pepsi and **Kao** all sell everyday goods to a wide range of consumers. Normal distribution channels have been disrupted which will mean the companies could be more affected as compared to past recessions. In-home consumption is up, out of home down. It's good for snacks, chocolate and cookies but bad for gum. Emerging markets pose particular issues given their generally poorer infrastructure. Online sales are booming but even so still represent a low proportion of sales for these companies, aside from geographies such as China where the proportion is 15-20%. Except for Kao, these companies carry debt that is at least backed by substantial cash flows.

PayPal seems relatively immune from events other than a slowdown in transactions and payment volumes. Our only real concern is the company's book of loans and consumer credit. It sold its c.$6bn book of domestic consumer credit to Synchrony in 2016 but retains an interest in the profits and potentially the losses should they occur. The existing book of international consumer credit and domestic loans and working capital finance is c.$4bn and is obviously vulnerable to deterioration in the ongoing economic crisis. We expect to see provisions increase which could in extremis be an embarrassment for the company but not a critical one in our view as PayPal has net cash on its balance sheet and shareholders' equity of $17bn.

Pearson will lose revenue from the closure of its VUE testing and certification centres and from US state testing contracts now that exams have been cancelled. More online engagement and learning should lead to a greater take-up of online courseware which is where the company has invested in the last three years. If new products and services pass muster, sales here should grow. The company cancelled its share buyback and we would be happy if the dividend was cut to prioritise a super strong balance sheet and investment in new digital product.

RELX's exhibition business will suffer but the key businesses of scientific and legal publications and risk products rely in the main on repeatable subscription revenues that should hold up. We rather wish there was less debt but given the predictability of the cash flows it should not present a problem.

Intuit derives its revenue from tax filing services in the USA and subscriptions to its small business online accounting services around the world. Tax filing should be relatively unaffected as all Americans are obliged to file and most have an incentive to do so as they are due tax rebates. Indeed online services such as Intuit's could win out over physical tax stores that can't open and anyway are more expensive. In other words this crisis could accelerate the analogue to digital switch, benefitting Intuit. Churn in small business accounting customers mainly occurs through business failures. We expect these to rise quickly, associated perhaps with some bad debts in cases where Intuit has been facilitating working capital loans.

It is important to highlight the risks our companies are currently facing but it is equally important to remind you that these are companies that on average have endured the vicissitudes of life – wars, economic depressions and other threats at least as bad as today's - for more than 115 years. And it's in those difficult times when endurance counts and weaker competitors falter or fail. On that basis, we believe our companies have every chance of coming out of this crisis stronger than ever.

Michael Lindsell, Lindsell Train Ltd, 2 April 2020

Source Data: Lindsell Train Ltd, Morningstar & Bloomberg

The top three contributors to the Fund's performance in March were Nintendo, Kao and Japan Exchange Group and the top three detractors were WWE, Heineken and Walt Disney.

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