

INVESTMENT IN THE COMPANY'S KEY SERVICE PROVIDERS

Investment trusts have a somewhat unusual structure compared to most limited companies in the corporate world. They frequently have an entirely non-executive board of directors and contract out the management services they need to one or more third party service providers.

In the Company's case it employs Lindsell Train Limited ("Lindsell Train") to provide portfolio management and Frostrow Capital LLP ("Frostrow") to act as AIFM and provide corporate administration, secretarial services, investor relations and marketing. These two firms are the Company's most important service providers. Nick Train, one of the directors of Lindsell Train, heads the fund management team looking after the portfolio and Alastair Smith, Managing Partner of Frostrow, heads the team that oversees the range of services listed above. Alastair Smith and Nick Train do therefore effectively provide the senior executive management of the Company and are an essential part of its successful operations. When the Company first started working with them, the Board felt it was of great importance to take a meaningful participation in each of their businesses. This was done not just to align the Company's commercial interests with theirs but to bind them in to the future prosperity of the Company.

When the Board approached Lindsell Train in 2000 to discuss with them taking on the investment mandate for the Company, they were in the process of establishing The Lindsell Train Investment Trust plc ("LTIT") which was to take a 25% interest in Lindsell Train. The balance of Lindsell Train is held by the founding directors Michael Lindsell and Nick Train together with some of their key colleagues. The option of taking a stake directly in Lindsell Train was not open to the Company, but taking a significant shareholding in their new investment trust was. The Company invested £1,000,000 in January 2001 into LTIT. At 30 September 2021, that holding was worth £14,350,000 (2020: £11,300,000), due in no small part to LTIT's holding in Lindsell Train.

When Alastair Smith established Frostrow in 2007, the Board was able to negotiate with him that the Company took a 10% direct participation in Frostrow at a cost of £150,000, of which £75,000 has been repaid. The Company has also received very tax-efficient profit distributions totalling £3,536,000 from Frostrow since inception. It is of course an unlisted investment, but using well established industry norms, the Company has valued that holding at £5,200,000 (2020: £3,950,000) at 30 September 2021.

That valuation includes £900,000 (2020: £750,000) of regulatory capital that the Board agreed to have made available to Frostrow when the firm became AIFM to the Company in 2014 in addition to existing services provided. This capital contribution is made alongside other Frostrow partners to ensure the firm complies with regulatory capital requirements under the AIFM Directive. The capital is made available in return for a priority profit share of 9%, in line with the long-term annualised total rate of return delivered by Lindsell Train to the Company since 2001.

By any measure these investments in Lindsell Train and Frostrow have been hugely successful but that should not obscure the great strategic importance of them. The success of the Company is very largely due to the skill and commitment both these organisations bring to us, something the Board values even more highly than the investment return the Company has made on the holdings.