LIONTRUST CONTINENTAL EUROPE FUND

MANAGER'S SHORT INTERIM REPORT
For the period ended 31st October 2009

ASSET MANAGEMENT

LIONTRUST

THE LIONTRUST CASHFLOW SOLUTION

LIONTRUST CONTINENTAL EUROPE FUND IS MANAGED BY GARY WEST AND JAMES INGLIS-JONES IN ACCORDANCE WITH THEIR INVESTMENT PROCESS FOR EUROPEAN EQUITY PORTFOLIOS, *THE LIONTRUST CASHFLOW SOLUTION.*

The investment objective of the Fund is to provide long-term capital growth through a concentrated portfolio of investments primarily in European companies excluding the UK.

It invests in companies with strong cash flows which we believe are likely to beat investors' low profit expectations. Cash flows provide an accurate guide to future profits growth. They reveal valuable information about a company's investment decisions and its managers' prudence in recognising reported profits. The concentration of the portfolio could mean that the Fund will be volatile when compared with its benchmark. There are no limits on geographical or industrial sector exposures, which will not closely mirror that of the benchmark.

THE LIONTRUST CASHFLOW SOLUTION

INVESTMENT COMMENTARY

FUND REVIEW

The Fund made a strong gain in the six months to 31 October 2009, returning +20.9%. This was slightly better than the FTSE All-World Developed Europe (ex UK) Index, the Fund's benchmark, which returned +20.7%, although slightly worse than the +21.5% returned by the peer group. The third year anniversary of the Fund was reached on 15 November 2009. This report relates to the six months ending 31 October 2009 and at that point, since inception in November 2006, the Fund had returned +9.0%, the Index +0.4% and the peer group -2.3%. Therefore, since inception the Fund is 11.3% ahead of the peer group and 8.6% ahead of the Index, placing it in the top decile of funds in the IMA Europe (excluding UK) sector. The good return has been achieved steadily over the course of the past three years with strong relative returns in the year to 31 October 2007 and in the year to end October 2009 whilst flat against the peer group and Index in the year to 31 October 2008.

> **So far this year, our process has coped very well in a difficult environment.**

The dominant feature of the period under review has been the sharp recovery in markets as investors responded to growing optimism that economic collapse had been averted and recovery was underway. The very wide valuation dispersion evident in the market in March contracted significantly over the course of the six months under review. A high level of valuation dispersion in the market is normally a signal that markets are poised to favour value stocks. There is a simple logic to this – greater dispersion indicates more widespread opportunities to find mispriced stocks. 2009 has proved no exception to this general rule. Since March, returns to value based strategies have been staggering. From the market lows established in March, European markets have risen 57%. Bernstein Research calculate that stocks they define as 'low quality' value have outperformed the market by 37%. In other words a portfolio exclusively comprised of these types of stocks has nearly doubled. At the same time, the market has shunned growth strategies, and in particular those growth strategies focused on trend following. For example, companies with both the highest upgrades to analysts' 2009 earnings forecasts and with the best historic twelve month price performance (a well known trend-following growth strategy combining earnings revisions and price momentum) underperformed the rising market by 20% from the March lows. This extreme divergence in the fortunes of two widely followed investment strategies has presented particular risks for active fund managers. 2009 has provided plenty of opportunity to transform longer-term performance records for better or worse.

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So how has *The Liontrust Cashflow Solution* process used to run the Fund coped in this environment? Investors familiar with our process will know that we carry out detailed research into a company's report and accounts to identify conservatively run, cash-generative businesses with low analyst and investor expectations. When we find these companies we buy them for the portfolio adopting an equally-weighted approach (in contrast to a weighting scheme based on the size of a company that gives more emphasis in the portfolio to bigger companies). So far this year, our process has coped very well in a difficult environment. Since the beginning of the year, the Fund is up 40.4% against an Index return of +29.6% (FTSE All-World Developed Europe (excluding UK) Index) 29.6% and the universe of our peers up 33.4%. All of the outperformance generated this year accrued in the first quarter of the year, before the recovery. As markets have recovered, the Fund has slightly lagged the market. Why? Because whilst returns have benefited from exposure to cheap stocks measured by our yardstick of value - cash flow yield - the stocks you own are not the kind of cheap stocks that Bernstein define as 'low quality' that have been the predominant driving force of the market recovery. 'Low quality' stocks have typically poor cash flow and are heavily indebted; the companies you own, by contrast, have good cash flows and often have no debt.

ACTIVITY

In our annual review we reported to you a number of changes to your portfolio that occurred as a consequence of our analysis of annual report and accounts. We commented that the Fund had become more concentrated and turnover had reduced relative to our experience in 2008. Subsequent to the end of April we made some further modest changes to the portfolio. We sold *Wincor Nixdorf*, *Lufthansa*, *Outotec*, *EADS*, *Oesterreich Post* and *Konecranes*. These stocks failed to qualify for inclusion in the portfolio based upon our analysis of their cash flow characteristics. At the same time we purchased four new stocks: *Gamesa*, *MTU Aero Engines*, *Sodexo* and *Eramet*. *Gamesa* is the third largest wind turbine manufacturer in the world. Demand for the group's product has suffered this year from a combination of customer caution - against a backdrop of economic recession - and the lack of credit availability. We were attracted to *Gamesa*, however, on the basis of its strong cash generation and the clear focus on cash flow demonstrated by the company managers. *MTU* develops and manufactures engines and offers commercial engine services and support.

Apart from the obvious attraction of buying a company on a cash flow yield of 18%, like *Gamesa*, we found that the company managers of *MTU* were focused on working capital control and cash generation. Indeed the remuneration of the company managers of *MTU* is partially dependent upon cash flow targets being met. This gave us reassurance that the company managers would do their best to sustain the strong cash flow record of the group. We have invested in *Sodexo* in the past and were pleased to see the company score in the best quintile of our measures this year. *Sodexo* is structurally highly cash generative, owing in part to their service and gift voucher business that requires customers to provide cash up front for services yet to be provided. *Eramet* is a mining and metallurgical group, focusing mainly on nickel and manganese. The company is approximately one third family owned and has historically generated significant cash flows resulting in 20% of group net assets in cash. Unlike some of their counterparts, *Eramet's* capital spending programme appears well controlled and the group have expressed a determination to fund future internal investments entirely from their own resources.

With the vast bulk of annual results behind us we are unlikely to change the portfolio very much until next year's annual review. We commented in our last review that the portfolio had shifted from a growth to a value style and this shift has undoubtedly helped performance of the Fund in 2009. The equally weighted structure of the Fund has also helped. Valuation dispersions have now contracted in the market from an extreme position but remain high. This should mean that value styles continue to perform well. However, it is also likely that we will see a return to success of the trend-following strategies that have fared so poorly so far this year. Why? Because investor expectations for many stocks have risen significantly from the market lows reached in early Spring. Whether a company achieved earnings expectations mattered less in the early stages of stock market recovery. However, with the markets almost 60% higher, it is likely to become much more important for companies to justify higher investor expectations by meeting their profit expectations. The objective of *The Liontrust Cashflow Solution* is to identify the hidden clues in cash flow to predict unexpected changes in company profits. We believe the process is well positioned to do well in a market where investors become more discerning.

JAMES INGLIS-JONES & GARY WEST
DIRECTORS, LIONTRUST EUROPEAN INVESTMENT SERVICES LIMITED
December 2009

OUTLOOK

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THE LIONTRUST CASHFLOW SOLUTION

FUND PROFILE

INVESTMENT OBJECTIVE AND POLICY

The investment objective of the Fund is to provide long-term capital growth through a concentrated portfolio of investments primarily in European companies excluding the UK.

Although the Fund may invest in all economic sectors in all parts of the world, it is intended that it will currently invest primarily in equities in companies incorporated in any European Economic Area ("EEA") Member State, together with Switzerland, but other than the UK, which are listed on a recognised stock exchange of an EEA Member State or Switzerland.

CHANGE TO THE FUND'S INVESTMENT OBJECTIVE AND POLICY

There has been a minor change to the Fund's Investment Objective. In common with the Fund's Prospectus and its promotional literature to date, the Objective now describes the Fund's portfolio as "concentrated", on account of the number of stocks in which the portfolio has tended to invest over the life of the Fund. As the concentrated nature of the portfolio has been regularly communicated to investors to date, this change to the Objective is effective immediately. Please note that the change has been made to clarify the Objective; it has no impact on the way the Fund's managers invest and their construction of the portfolio.

INVESTMENT APPROACH

This Fund aims to provide long-term capital growth through investment in a concentrated portfolio of mainly European companies (excluding the UK), broadly equally weighted. It invests in companies with strong cash flows which we believe are likely to beat investors' low profit expectations. Cash flows provide an accurate guide to future profits growth. They reveal valuable information about a company's investment decisions and its managers' prudence in recognising reported profits. The concentration of the portfolio could mean that the Fund will be volatile when compared with its benchmark. There are no limits on geographical or industrial sector exposures, which will not closely mirror that of the benchmark.

RISK PROFILE

The Fund is invested exclusively in European securities (excluding the UK). The principal risks identified by the manager are those associated with foreign currency risk and stock market investments. The Fund has a concentrated portfolio, which could mean that its returns are volatile when compared with its benchmark the FTSE All-World Developed Europe ex UK Index.

TOTAL EXPENSE RATIO: 1.62% (30th April 2009: 1.62%)

FUND CALENDAR	
Ex-dividend date	1st May
Income payment date	30th June
Accounting period ends	31st October (interim) 30th April (final)

PERFORMANCE

NET ASSET VALUES

	31st October 2009	30th April 2009	% Change
Income units *pence per unit*	99.15	82.00	+20.91

DISTRIBUTIONS

The Fund distributes income once per annum, on 30th June. The ex-dividend date is 1st May each year. Income can be reinvested to purchase units at no initial charge.

On 30th June 2009, the Fund paid a distribution for the year ended 30th April 2009 of 1.74 pence per unit (2008: 3.19 pence per unit).

TOTAL RETURN

	6 months to 31.10.09	Since launch (15.11.06) to 31.10.09
Liontrust Continental Europe Fund	20.9	9.0
FTSE All-World Developed Europe (ex UK) Index	20.7	0.4
Performance vs Benchmark	+0.2	+8.6

DISCRETE YEARS' PERFORMANCE

	1 year to 30.9.05	1 year to 30.9.06	1 year to 30.9.07	1 year to 30.9.08	1 year to 30.9.09
Liontrust Continental Europe Fund	-	-	-	-23.4	21.4
FTSE All-World Developed Europe (ex UK) Index	29.9	19.3	20.1	-19.7	16.8

Up-to-date past performance information (to the last calendar quarter end) may be obtained from the Fund's most recent fact sheet, available on our website (**www.liontrust.co.uk**) or by calling our Administration and Dealing team on **0844 892 1007**.

Performance data source: Financial Express, total return. Past performance is not a guide to future performance. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally subscribed. The issue of units in the Fund may be subject to an initial charge, which is likely to have an impact on the realisable value of the investment, particularly in the short term. Equity investment should always be considered as long-term.

PORTFOLIO

GEOGRAPHICAL BREAKDOWN

Country	FTSE All-World Developed Europe (ex UK) Index 31st October 2009 %	Liontrust Continental Europe Fund 31st October 2009 %	Liontrust Continental Europe Fund 30th April 2009 %
Austria	0.79	-	2.22
Belgium	2.24	9.58	10.27
Denmark	2.20	3.41	3.64
Finland	2.24	2.85	7.21
France	24.56	25.36	15.59
Germany	16.91	11.03	13.83
Greece	1.39	-	-
Ireland	0.66	4.85	3.61
Italy	8.28	-	-
Netherlands	5.14	5.28	7.62
Norway	1.85	8.27	8.31
Portugal	0.99	-	-
Spain	11.03	6.87	4.39
Sweden	5.70	4.16	7.07
Switzerland	16.02	12.83	13.52
		94.49	97.28
Cash (including SSgA* cash deposits)		5.51	2.72
Net Assets		100.00	100.00

*State Street Global Advisors

TOP TEN HOLDINGS

As at 31st October 2009	%	As at 30th April 2009	%
Ekornes	4.87	Zurich Financial Services	4.80
Paddy Power	4.85	Colruyt	4.77
Technip	4.58	Bolsas y Mercados	4.38
Zurich Financial Services	4.55	AstraZeneca	4.27
Wacker Chemie	4.34	Tandberg	4.16
AstraZeneca	4.16	Ekornes	4.13
Bolsas y Mercados	4.07	Publicis Groupe	4.05
Publicis Groupe	3.92	Wacker Chemie	4.03
Vallourec	3.81	Technip	4.01
Mobistar	3.69	Muenchener Rueckversicherungs	3.81
Total	42.84		42.41

FURTHER INFORMATION

UNITHOLDER NOTICE

Investment & Borrowing Powers – Investment in other Collective Investment Schemes

Paragraph 13 (e) of the Fund's Prospectus sets out the limitations for the Fund investing in other Collective Investment Schemes. We have amended the rule references in this clause of the Prospectus so that they reflect the COLL regulations of the FSA Handbook, which replaced the CIS regulations, as previously noted within this clause. Whilst this has the potential to widen the universe of available collective investment schemes available, it is not intended that this will affect the way the fund is currently invested. The investment limits have not changed.

LIONTRUST ASSET MANAGEMENT PLC:

Liontrust Asset Management PLC is the holding company of a specialist UK and European equities fund management group, now offering world class fixed income and global equity solutions. It provides process-driven portfolio management services to a range of funds which are targeted primarily at professional investors and advisers. The Group currently manages £1.2 billion. Its management covers segregated and pooled pension fund accounts, unit trusts, offshore accounts, absolute return funds and individual savings accounts on behalf of 12,000 investors.

FURTHER INFORMATION, REPORT & FINANCIAL STATEMENTS

Further information on the Fund and its portfolio, the Manager's Long Final and Interim Reports & Financial Statements and the Prospectus and Simplified Prospectus are available free of charge from the Manager upon request, and from www.liontrust.co.uk.

THE MANAGER

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Authorised and regulated by the Financial Services Authority.

LIONTRUST

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