



LIONTRUST SPECIAL SITUATIONS FUND

Manager's Long Final Report and Financial Statements
for the year ended 31st May 2011



Managed by Anthony Cross &
Julian Fosh in accordance with
The Liontrust Economic Advantage

LIONTRUST FUND PARTNERS LLP

LIONTRUST SPECIAL SITUATIONS FUND

MANAGER

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Authorised and regulated by the Financial Services Authority.

INVESTMENT ADVISER

Liontrust Investment Partners LLP, 2 Savoy Court, London WC2R 0EZ
Authorised and regulated by the Financial Services Authority.

TRUSTEE

State Street Trustees Limited, 20 Churchill Place, London E14 5HJ
Authorised and regulated by the Financial Services Authority.

REGISTRARS

The Bank of New York Mellon (International) Ltd, 12 Blenheim Place, Edinburgh EH7 5JH
Authorised and regulated by the Financial Services Authority.

AUDITORS

PricewaterhouseCoopers LLP, PO Box 90, Erskine House, 68-73 Queen Street, Edinburgh
EH2 4NH

LIONTRUST SPECIAL SITUATIONS FUND

INVESTMENT PROFILE

The Fund aims to outperform the FTSE All-Share Index on a rolling three year basis. It invests in listed companies throughout the FTSE All-Share and the smaller companies indices. It will also buy new issues. The Fund is managed in accordance with a proprietary, tried and tested investment process, The Liontrust Economic Advantage, researched and documented by the managers at Liontrust. The Fund only invests in UK companies with distinctive, intangible strengths that competitors struggle to reproduce. In a world of relentless global competition, it is these strengths that enable some companies to grow their market share, protect prices and margins and thus drive sustained profitability.

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LIONTRUST SPECIAL SITUATIONS FUND

MANAGER'S INVESTMENT REPORT

Investment Objective

The investment objective of Liontrust Special Situations Fund is to provide long-term capital growth.

To achieve this aim, the Fund will invest primarily in a concentrated portfolio of UK companies' shares. The Fund will invest where the fund manager believes there are the greatest opportunities to provide long-term capital growth. The Fund will not be restricted in choice of investment by either size or sector. The Fund may also invest in transferable securities, money market instruments, warrants, cash and near cash and deposits. The Fund may also invest up to 10% of its property in units or shares in collective investment schemes. The Fund is permitted to use derivatives for the purposes of efficient portfolio management and for investment purposes.

Liontrust Asset Management PLC

Liontrust provides portfolio management services in UK and European equities and in fixed income securities. These are managed on a long-only, long/short and absolute return basis through unit trusts, individual savings accounts (ISAs), offshore funds, pooled pension funds and segregated institutional accounts. The Group currently manages £1.3 billion (as at 14th June 2011).

We market our investment products to professional investors, predominantly in the UK and Continental Europe. These include pension funds and other institutional investors, family offices, private banks, private client managers, multi-managers, stockbrokers and financial advisers. Some private clients, to whom no advice has been given, have chosen independently to invest with us.

Performance of the Fund

Over the year to 31st May 2011 an investment in the Fund rose by 37.8%. This compares with a rise of 20.4% in the FTSE All-Share Index, the benchmark Index.

From the Fund's launch on 10th November 2005 to 31st May 2011, an investment in the Fund rose by 103.9%, compared to a rise of 38.1% by the FTSE All-Share Index.

Source: Financial Express, bid-to-bid basis, total return. Past performance is not a guide to future performance.

A dividend of 0.88 pence per unit will be paid to Retail unitholders and 1.47 pence per unit to Institutional unitholders on 31st July 2011.

LIONTRUST SPECIAL SITUATIONS FUND

MANAGER'S INVESTMENT REPORT

Market Review

The performance of the whole market picked up from mid-July, coinciding with talk that there would be a fresh bout of Quantitative Easing (QE) in the US. When the next phase of QE was confirmed, the Federal Reserve gave a clear signal that the policy was partly aimed at supporting share prices and thereby increasing consumer confidence and spending.

Debates have raged about both the effectiveness of QE in stimulating economies and its potential damaging after-effects. Meanwhile, economic growth has remained positive in western economies whilst emerging market growth has continued apace. Companies, particularly those with strong export markets, have delivered robust earnings. There have, however, been pockets of weakness, most notably in companies exposed to cuts in UK public expenditure. Sovereign debt fears drifted in and out of the market's consciousness. Overall, a confusing picture persisted but generally improved company profits kept investor spirits up.

Fund Review

The Fund performed well versus the FTSE All-Share Index and competitor funds. This further extends its strong performance track record. The investment process continues to deliver a portfolio of companies that have built barriers to competition through their intangible assets. All companies must possess one or a combination of Intellectual Property (IP), a strong distribution network or high recurring income. These assets are particularly difficult for competitors to replicate and therefore help sustain pricing power. Other intangible assets are also important but are given less prominence. These include customer relationships, licenses and franchises, procedures and formats, culture and brand.

We expect our companies to deliver strong financial returns as a validation of their barriers to competition. We look at return on capital employed for our mid and large companies. With our small companies, where there is less financial history, we focus more on gross and net margins.

Small companies represent about 30-40% of the Fund and the management of these companies own at least 3% of the listed equity. We believe that the 'owner-manager' culture that such ownership creates is an important driver of long-term shareholder returns. We also like the conservative attitude that such management tend to take towards debt and acquisitions.

We are sensitive to valuation when buying companies into the Fund for the first time. However, once companies are in the Fund we are more relaxed about valuation. We find that the Fund's blend of different businesses and valuations works well.

LIONTRUST SPECIAL SITUATIONS FUND

MANAGER'S INVESTMENT REPORT

The valuation of some companies may become stretched. We may not add to them but nor do we sell them out of the Fund. Frequently, their earnings eventually catch up with their valuation and their share prices will resume their upward path. At the other end of the valuation spectrum, we have a good number of companies on single digit price earnings

ratios or at valuations that do not adequately reflect their returns on capital. As long as these companies continue to enjoy strong barriers to competition, our patient long-term view tends to be rewarded with a positive share price re-rating.

There were five new holdings over the period: *BG Group* (oil and gas), *Brainjuicer* (market research), *Domino Printing* (industrial printing equipment), *FFastFill* (software) and *Paypoint* (payment terminals). All of these companies have performed well since they were purchased.

There were many noteworthy performers over the period. Over two thirds of the Fund's constituents rose by more than the FTSE All-Share Index. Notable risers were from many different sectors and included *Dialight* (specialist LEDs), *Renishaw* (measurement), *Weir* (mining), *Petrofac* and *Wood Group* (oil services), *Brooks Macdonald* and *Hargreaves Lansdown* (financial services), *Fidessa*, *NCC* and *Workplace Systems* (IT software) as well as *Aggreko* (temporary power), *Intertek* (testing), *Michael Page* (recruitment) and *RWS* (patent translation).

Chrysalis (music publishing), *Focus Solutions* (software) and *System C Healthcare* (healthcare IT) were acquired. All three were acquired by industry rather than financial buyers. This demonstrates the valuable market positions that the companies possessed.

It was also pleasing that the strong performers came from different ends of the market. Excluding the three smaller companies that were acquired, over half of the top 20 performers came from the mid and large cap areas of the market.

The notable fallers were typically smaller holdings. *Panmure Gordon* (investment bank) continued to suffer from over capacity in its market and *Bond International* (recruitment software) was still suffering from subdued customer demand. *BP* (oil) was a poor performer following on from its rig disaster but the Fund bought more stock at low levels which helped offset earlier declines.

Outlook

We continue to experience good results from our international businesses and our UK businesses with high contracted recurring income. We are underweight in struggling consumer facing companies. The economic picture remains uncertain because the recovery in demand has been distorted by QE. The affects of reduced QE and its inflationary impact are far from certain. More recently concerns about the levels of sovereign debt in the southern European countries have resurfaced and this coupled with some poor US economic data has unsettled markets.

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MANAGER'S INVESTMENT REPORT

Our process takes a long-term view and this is reflected in low levels of stock turnover within the Fund. We do not take macroeconomic bets but instead focus on the underlying strengths of each business. The companies have defensible barriers against competition and are frequently exposed to fast-growing markets. The pricing power that our companies generally enjoy is proving to be very important as inflationary pressures continue to build.

Over the last five years the investment process has delivered very strong absolute performance which has translated into highly attractive annualised returns. We look forward to maintaining this record.

Anthony Cross & Julian Fosh

Partners, Liontrust Investment Partners LLP

July 2011

The manager's investment report, together with information on the authorised status of the Fund, the objectives of the Fund and the information on page 1, comprise the Manager's Report.

LIONTRUST SPECIAL SITUATIONS FUND

NET ASSET VALUE PER UNIT AND COMPARATIVE TABLE

Net Asset Values and Total Expense Ratios

The table below shows the number of income units in issue, the total net asset value of the property of the Fund, the net asset value per unit and the total expense ratio for each of the unit types. The institutional units were created on the 1st November 2010

Date	Units in issue	Net asset value of Fund	Net asset value per unit	Total expense ratio *
Retail units				
31st May 2009	7,497,007	£7,463,891	99.56 pence	1.98%
31st May 2010	9,654,967	£13,072,849	135.40 pence	1.96%
31st May 2011	41,493,199	£78,396,331	188.94 pence	1.94%
Institutional units‡				
31st May 2011	9,428,609	£17,865,109	189.48 pence	0.94%

The calculation of the net asset value for the current year uses bid prices in line with the requirements of the Statement of Recommended Practice (SORP) for Authorised Funds issued by the IMA in October 2010.

* The Total Expense Ratio ('TER') is the total expenses paid by each unit class in the year against its average net asset value.

Capital (unit prices) and income (net distribution per unit)

The table below shows the highest buying price, the lowest selling price of units and the net income distributions made by each share class of unit over the last five years or since launch.

Retail units

Year	Highest offer (buying) price	Lowest bid (selling) price	Net income per unit	Net income per £1,000 invested at 3rd January 2006
2006	132.97 pence	102.43 pence	0.19 pence	£1.73
2007	147.99 pence	122.76 pence	0.11 pence	£1.00
2008	135.24 pence	85.94 pence	0.20 pence	£1.82
2009	137.50 pence	83.86 pence	1.33 pence	£12.11
2010	185.94 pence	129.86 pence	0.97 pence	£8.83
2011 (to 31.05)	203.53 pence	174.82 pence	0.88 pence	£8.01

Institutional units‡

Year	Highest offer (buying) price	Lowest bid (selling) price	Net income per unit	Net income per £1,000 invested at 1st November 2010
2010	177.18 pence	160.91 pence	-	-
2011 (to 31.05)	194.80 pence	174.25 pence	1.47 pence	£8.52

‡ The institutional unit class was launched on the 1st November 2010.

The Fund distributes income once per annum, on 31st July. The ex-dividend date is 1st June each year.

Income can be reinvested to purchase units at no initial charge.

LIONTRUST SPECIAL SITUATIONS FUND

AUTHORISED STATUS

The Fund is an authorised unit trust scheme (“the Scheme”) under Section 243 of the Financial Services and Markets Act 2000 (authorisation orders) and the Financial Services Authority’s Collective Investment Schemes Sourcebook and is categorised as a UCITS scheme.

STATEMENT OF THE MANAGER’S RESPONSIBILITIES

in respect of the Report and Accounts of the Scheme:

The Financial Services Authority’s Collective Investment Scheme Sourcebook (‘the Regulations’) require the Manager to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of the Scheme and of its net income/expenses and the net gains/losses on the property of the Scheme for the period. In preparing the financial statements the Manager is required to:

- select suitable accounting policies and then apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in October 2010;
- follow generally accepted accounting principles and applicable accounting standards;
- keep proper accounting records which enable it to demonstrate that the financial statements, as prepared, comply with the above requirements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Scheme will continue in operation.

The Manager is responsible for the management of the Scheme in accordance with its Trust Deed, Prospectus and the Regulations, and has taken all reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT OF THE TRUSTEE’S RESPONSIBILITIES

The Trustee is under a duty of care to take into its custody or under its control all of the property of the Scheme and to hold it in trust for the holders of units. Under the rules in the Financial Services Authority’s Collective Investment Schemes Sourcebook relating to Reports, it is also the duty of the Trustee to enquire into the conduct of the Manager in the management of the Scheme in each annual accounting period and report thereon to unitholders in a report which shall contain the matters prescribed by the rules.

The Trustee’s report is included below.

TRUSTEE’S REPORT

to the unitholders of the Liontrust Special Situations Fund ("the Fund")

Having carried out such procedures as we considered necessary to discharge our responsibilities as Trustees of the Scheme it is our opinion, based on the information available to us and the explanations provided, that the Manager has in all material respects managed the Scheme during the period in accordance with the investment and borrowing powers and restrictions applicable to the Scheme, and otherwise in accordance with the provisions of the Trust Deed and the rules in the Financial Services Authority’s Collective Investment Schemes Sourcebook.

State Street Trustees Limited

20 Churchill Place

London E14 5HJ

27 July 2011

LIONTRUST SPECIAL SITUATIONS FUND

Change to Registration Fees

The cost of the maintenance of the register and the sub-register fees for ISA unitholders is paid out of the property of each Fund and for all funds is currently levied at 0.0720% per annum of the value of each Fund. Following a review of the level of this fee, with effect from 1 July 2011 the fee levied has increased to 0.0800% per annum, an increase of 0.0080%, which is less than 1% of the Total Expense Ratio.

Change of Legal Status

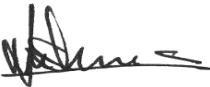
On the 8th July 2010 The Manager Liontrust Investment Funds Limited ('LIF') was converted to a Limited Liability Partnership: Liontrust Fund Partners ('LFP'). On this date LFP was authorised by the Financial Services Authority and LIF ceased to be authorised. On the same day the Investment Adviser, Liontrust Investment Services Limited ('LIS'), also converted to a Limited Liability Partnership: Liontrust Investment Partners ('LIP'). From this date LIP was authorised by the FSA and LIS ceased to be authorised.

Change of Fund Name

On the 30th September 2010 the Fund changed its name from Liontrust First Opportunities Fund to Liontrust Special Situations Fund.

CERTIFICATION OF ACCOUNTS BY DIRECTORS OF THE MANAGER

We certify that this Manager's Report has been prepared in accordance with the Financial Services Authority's Collective Investment Schemes Sourcebook.



John Ions
Chief Executive



Antony Morrison
Partner, Head of Finance

Liontrust Fund Partners LLP.

27 July 2011

LIONTRUST SPECIAL SITUATIONS FUND

INDEPENDENT AUDITORS REPORT

to the unitholders of the Liontrust Special Situations Fund ("the Fund")

We have audited the financial statements of the Liontrust Special Situations Fund for the year ended 31st May 2011 which comprise the Statement Of Total Return, the Statement Of Change In Net Assets Attributable To Unitholders, the Balance Sheet, the related notes and the Distribution Tables. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice 'Financial Statements of Authorised Funds' issued by the Investment Management Association (the "Statement of Recommended Practice for Authorised Funds").

Respective responsibilities of the Manager and Auditors

As explained more fully in the Authorised Fund Manager's Responsibilities Statement the Authorised Fund Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Trust's unitholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit and the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Trust's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authorised Fund Manager; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Liontrust Special Situations Fund Long Final Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Trust at 31st May 2011 and of the net revenue and the net gains of the property of the Trust for the year then ended; and
- have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds, the Collective Investment Schemes Sourcebook and the Trust Deed.

LIONTRUST SPECIAL SITUATIONS FUND

INDEPENDENT AUDITORS REPORT

Opinion on other matters prescribed by the Collective Investment Schemes sourcebook

In our opinion

- we have obtained all the information and explanations we consider necessary for the purposes of the audit; and
- the information given in the Authorised Fund Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Collective Investment Schemes sourcebook requires us to report to you if, in our opinion:

- proper accounting records for the Trust have not been kept; or
- the financial statements are not in agreement with the accounting records and returns.

PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
Edinburgh

27 July 2011

- (a) The maintenance and integrity of the Liontrust website is the responsibility of the Manager; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

LIONTRUST SPECIAL SITUATIONS FUND

PORTFOLIO STATEMENT

as at 31st May 2011 (Ordinary shares except where otherwise stated)

	Holding	Market Value £'000	Percentage of total net assets %
Listed Securites			
UNITED KINGDOM		86,873	90.25
(31.05.10: 92.83%)			
Consumer Goods			
(31.05.10: 3.01%*)			
Unilever	142,867	2,814	2.92
		2,814	2.92
Consumer Services			
(31.05.10: 15.61%*)			
Aegis	1,606,181	2,271	2.36
<i>BrainJuicer</i>	573,243	1,462	1.52
Carpetright	36,997	265	0.28
Compass	647,293	3,809	3.96
Domino's Pizza	228,245	915	0.95
<i>Next Fifteen Communications</i>	3,188,812	2,615	2.72
Wilmington	1,183,817	1,400	1.45
		12,737	13.24
Financials			
(31.05.10: 14.03%*)			
<i>Brooks MacDonald</i>	186,184	2,504	2.60
Hargreaves Lansdown	441,485	2,781	2.89
ICAP	340,274	1,651	1.72
<i>Panmure Gordon</i>	988,789	208	0.22
Savills	252,879	1,054	1.10
Tullett Prebon	697,144	2,647	2.75
		10,845	11.28
Health Care			
(31.05.10 6.87%*)			
AstraZeneca	104,819	3,330	3.46
GlaxoSmithKline	270,152	3,559	3.70
		6,889	7.16

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PORTFOLIO STATEMENT

as at 31st May 2011 (Ordinary shares except where otherwise stated)

	Holding	Market Value £'000	Percentage of total net assets %
Industrials			
(31.05.10 20.22%*)			
Aggreko	131,648	2,466	2.56
Dialight	260,612	1,968	2.04
Domino Printing Sciences	176,683	1,191	1.24
Intertek	97,621	1,987	2.06
Michael Page International	325,343	1,737	1.80
PayPoint	559,761	2,802	2.91
Renishaw	127,426	2,169	2.25
Rotork	125,621	2,190	2.28
RWS	736,158	2,865	2.98
Spirax-Sarco Engineering	140,500	2,810	2.92
Weir	145,538	2,896	3.01
<i>World Careers Network</i>	94,600	71	0.07
		25,152	26.12
Oil & Gas			
(31.05.10 9.79%*)			
BG	235,698	3,316	3.45
BP	717,732	3,370	3.50
John Wood	242,928	1,532	1.59
Petrofac	34,350	549	0.57
Royal Dutch Shell	165,975	3,623	3.76
		12,390	12.87
Technology			
(31.05.10 23.30%*)			
<i>Bango</i>	1,400,456	1,414	1.47
<i>Bond International Software</i>	1,985,549	874	0.91
<i>Concurrent Technologies</i>	5,129,730	2,411	2.50
<i>Craneware</i>	180,876	986	1.02
<i>FFastFill</i>	11,730,526	1,320	1.37
Fidessa	44,426	849	0.88
<i>IDOX</i>	5,807,018	1,161	1.21
NCC	455,623	2,460	2.56
Rightmove	162,424	1,785	1.85
<i>Statpro</i>	1,720,806	1,996	2.07
Triad	415,265	71	0.07
<i>Workplace Systems International</i>	5,749,737	719	0.75
		16,046	16.66

LIONTRUST SPECIAL SITUATIONS FUND

PORTFOLIO STATEMENT

as at 31st May 2011 (Ordinary shares except where otherwise stated)

	Holding	Market Value £'000	Percentage of total net assets %
IRELAND			
(31.05.10: 4.66%)		4,379	4.55
Cash Deposits			
(31.05.10: 4.66%)			
SSgA Cash Management Fund*	4,378,846	4,379	4.55
		<u>4,379</u>	<u>4.55</u>
Portfolio of investments		91,252	94.80
Net other assets		<u>5,010</u>	<u>5.20</u>
Total net assets		<u><u>96,262</u></u>	<u><u>100.00</u></u>

All securities are approved securities traded on eligible securities markets, as defined by the Collective Investment Scheme sourcebook, except those stocks in italics which are listed on the Alternative Investment Market.

* In order to maintain appropriate levels of interest received on any large cash balances held by the Fund, cash balances are reviewed on a daily basis and any excess cash is transferred into the SSgA Cash Management Fund. The units in the SSgA Cash Management Fund are readily transferable back into cash at any time as required for the operation of the Fund. This investment is a related party, as disclosed in note 14.

LIONTRUST SPECIAL SITUATIONS FUND

STATEMENT OF TOTAL RETURN

for the year ended 31st May 2011

	Note	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Income:					
Net capital gains	4		9,412		2,788
Revenue	5	1,050		289	
Expenses	6	(709)		(205)	
Finance costs: Interest	8	(1)		-	
Net revenue before taxation		340		84	
Taxation	7	-		-	
Net revenue after taxation			340		84
Total return before distribution			9,752		2,872
Finance costs: Distributions	8		(339)		(84)
Change in net assets attributable to unitholders from investment activities			9,413		2,788

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

for the year ended 31st May 2011

	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Opening net assets attributable to unitholders		13,073		7,464
Amounts receivable on issue of units	77,705		3,113	
Amounts payable on cancellation of units	(4,505)		(288)	
		73,200		2,825
Dilution Levy		594		-
Stamp duty reserve tax		(18)		(4)
Change in net assets attributable to unitholders from investment activities		9,413		2,788
Closing net assets attributable to unitholders		96,262		13,073

LIONTRUST SPECIAL SITUATIONS FUND

BALANCE SHEET

as at 31st May 2011

	Note	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Assets					
Investment assets			91,252		12,745
Debtors	9	5,218		93	
Cash and bank balances		<u>1,795</u>		<u>364</u>	
Total other assets			<u>7,013</u>		<u>457</u>
Total assets			98,265		13,202
Liabilities					
Creditors	10	1,500		35	
Distribution payable on income units		<u>503</u>		<u>94</u>	
Total liabilities			2,003		129
Net assets attributable to unitholders			<u><u>96,262</u></u>		<u><u>13,073</u></u>

LIONTRUST SPECIAL SITUATIONS FUND

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting and distribution policies

A Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice (SORP) for Financial Statements of Authorised Funds issued by the IMA in October 2010.

The presentation of these Financial Statements has been changed from the previous period to comply with the requirements of the IMA SORP (2010).

Noteable change from the SORP for Authorised Funds issued by the IMA in November 2008:

- PTR ratios are no longer required to be disclosed and have now been removed from the performance history.

B Recognition of revenue

- (i) UK dividends classified as franked investment income are shown net of attributable tax credits when the securities are quoted ex-dividend.
- (ii) Special dividends are treated as income or capital according to the nature of the event giving rise to the payment.
- (iii) Bank interest and stock lending income are recognised on an accruals basis.
- (iv) Stock dividends received in lieu of cash dividends are recognised as income of the Fund and form part of the distribution. Any enhancement above the cash dividend is treated as capital and is not distributable.

C Expenses

Dealing charges and stamp duty reserve tax are deducted from capital. All other expenses are charged against income. All expenses are accounted for on an accruals basis.

D Distribution

Income produced by the Fund's investments accumulates during each accounting period. If at the end of the accounting period income exceeds expenses, the net income of the Fund is available to be distributed to unitholders. The Manager will seek to distribute this income in a manner that will maximise the total returns to holders of the majority of units.

E Basis of valuation of investments

All investments have been valued at 12 midday, on 31st May 2011. Listed investments have been valued at bid-market value, net of any accrued income.

F Taxation

Provision is made for taxation at current rates on the excess of investment income over expenses, with relief taken for overseas taxation where appropriate.

G Deferred taxation

Deferred tax is provided for in respect of all timing differences that have originated but not reversed by the Balance Sheet date. Deferred tax is not recognised on permanent differences.

Deferred tax assets are recognised only to the extent that it is more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted.

LIONTRUST SPECIAL SITUATIONS FUND

NOTES TO THE FINANCIAL STATEMENTS

H Equalisation

Equalisation is the accrued income included in the price of units purchased during the distribution period (Group 2 Units) which is refunded as a part of a unitholder's first distribution, so as to provide the same distribution for all units of the same type. As a repayment of capital it is not liable to Income Tax and should be deducted from the cost of units for Capital Gains Tax purposes.

2 Risk Management Policies

In accordance with the investment objectives and policies the Fund holds certain financial instruments. These comprise:

- equity shares;
- cash and short-term debtors and creditors that arise directly from its operations;
- units in SSgA Management Fund; and
- unitholders' funds which represent investors' monies which are invested on their behalf.

In accordance with the requirements of the rules in the Financial Services Authority's Collective Investment Schemes Sourcebook, the Fund is not permitted to trade in other financial instruments. The Fund's use of financial instruments during the year satisfies these regulatory requirements.

The main risks arising from the Fund's financial instruments are market price risk, interest rate risk, foreign currency risk, liquidity risk, and credit and counter-party risk. The Manager's policies for managing these risks are summarised below. These policies have remained unchanged since the beginning of the year to which these financial statements relate and during the prior year.

Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Manager reviews the portfolio in order to consider the asset allocation implications and to minimise the risk associated with particular countries or industry sectors whilst continuing to follow the Fund's investment objective. An individual fund manager has responsibility for monitoring the existing portfolio, in accordance with the overall asset allocation parameters described above and seeks to ensure that individual stocks also meet an acceptable risk reward profile.

Interest rate risk

Interest receivable on bank deposits and short term deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates. The interest rates earned on sterling deposits are earned at a rate linked to LIBOR.

The majority of the Fund's financial assets are equity shares and other investments which neither pay interest nor have a maturity date. The floating rate financial assets and liabilities comprise sterling denominated bank balances and overdrafts that bear interest based on LIBOR.

The floating rate financial assets and liabilities comprise bank balances and overdrafts that bear interest based on LIBOR (sterling denominated) .

Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates.

LIONTRUST SPECIAL SITUATIONS FUND

NOTES TO THE FINANCIAL STATEMENTS

Foreign currency risk

The Manager has identified three principle areas where foreign currency risk could impact the Fund

- Movements in exchange rates affect the value of investments;
- Movements in exchange rates affect short term timing differences; and,
- Movements in exchange rates affect the income received.

The Fund may be subject to short-term exposure to exchange rate movements, for instance where there is a difference between the date an investment purchase or sale is entered into and the date when settlement of the proceeds occurs.

The Fund may receive income in currencies other than sterling and the sterling values of this income can be affected by movements in exchange rates. The Fund converts all receipts of income into sterling on or near the date of receipt; it does not, however, hedge or otherwise seek to avoid exchange rate risk on income accrued but not received.

However, in line with the Fund's objectives of investing primarily in the UK and Ireland, the Fund is expected to have only minimal foreign currency exposures.

Liquidity risk

The Fund's assets mainly comprise securities that can be readily sold. The main liability of the Fund is the redemption of any units that investors wish to sell.

In general, the Investment Adviser manages the Fund's cash to ensure it can meet its liabilities. Where investments cannot be realised in time to meet any potential liability, the fund may borrow up to 10% of its value to ensure settlement.

Credit and counter-party risk

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment (purchase) or cash (sale) after the Fund has fulfilled its responsibilities.

The Fund only buys and sells investments through brokers which have been approved by the Manager as an acceptable counter-party. This list is reviewed annually.

3 Unit classes

The Fund has two unit classes in issue. The original retail unit class and the institutional unit class launched on 1st November 2010.

The net asset value of each unit class, the net asset value per unit and the number of units in each class are given in the Net Asset Value Per Unit and Comparative Table on page 7.

LIONTRUST SPECIAL SITUATIONS FUND

NOTES TO THE FINANCIAL STATEMENTS

4 Net capital gains

	2011 £'000	2010 £'000
Non-derivative securities	9,424	2,790
Transaction charges	(12)	(2)
Net capital gains	<u>9,412</u>	<u>2,788</u>

5 Revenue

	2011 £'000	2010 £'000
UK dividends	1,038	286
Bank interest	2	1
Offshore investment revenue*	9	2
Stocklending income	1	-
	<u>1,050</u>	<u>289</u>

*This is revenue received from investment in the SSgA Cash Management Fund as disclosed in note 14.

6 Expenses

	2011 £'000	2010 £'000
Payable to the Manager, associates of the Manager and agents of either of them:		
Manager's periodic charge	634	184
Registration fees	27	6
	<u>661</u>	<u>190</u>
Payable to the Trustee, associates of the Trustee and agents of either of them:		
Trustee's fees	14	3
Wire charges	1	1
Safe custody fees	3	-
	<u>18</u>	<u>4</u>
Other expenses		
Performance measurement fee	4	-
Printing fee	1	2
Audit fee	9	9
Administration fee	16	-
	<u>30</u>	<u>11</u>
Total expenses	<u>709</u>	<u>205</u>

LIONTRUST SPECIAL SITUATIONS FUND

NOTES TO THE FINANCIAL STATEMENTS

7 Taxation

	2011 £'000	2010 £'000
(i) Analysis of charge for the year :		
Total taxation	<u>-</u>	<u>-</u>
(ii) Factors affecting current tax charge for the year :		
The tax assessed for the year is lower than the standard rate of corporation tax in the UK for authorised unit trusts of 20% (2010: 20%). The differences are explained below:		
Net revenue before taxation	<u>340</u>	<u>84</u>
Corporation tax at 20%	<u>68</u>	<u>17</u>
Effects of:		
UK dividends*	(207)	(57)
Movement in excess management expenses	<u>139</u>	<u>40</u>
	<u>(68)</u>	<u>(17)</u>
Current tax charge for the year (see note 7(i))	<u>-</u>	<u>-</u>

* As an authorised Unit Trust, these items are not subject to corporation tax.

Authorised Unit Trusts are exempt from tax on capital gains. Therefore, any capital return is not included in the above reconciliation.

(iii) Deferred tax

At the year end, there is a potential deferred tax asset of £325,105 (31st May 2010: £185,138) in relation to excess management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the year or the prior year.

LIONTRUST SPECIAL SITUATIONS FUND

NOTES TO THE FINANCIAL STATEMENTS

8 Finance costs

Distribution and interest

The distribution takes account of income received on the creation of units and income deducted on the cancellation of units, and comprises:

	2011 £'000	2010 £'000
Final	503	94
Amounts deducted on cancellation of units	-	1
Amounts received on issue of units	(164)	(11)
Net distribution for the year	<u>339</u>	<u>84</u>
Finance costs: Interest	1	-
Total finance costs	<u>340</u>	<u>84</u>
Reconciliation of net revenue after taxation to distribution:		
Net revenue after taxation	340	84
Less: Income carried forward	(1)	-
Net distribution for the year	<u>339</u>	<u>84</u>

Details of the distribution per unit are set out in the table on page 26.

9 Debtors

	2011 £'000	2010 £'000
Accrued revenue	249	29
Amounts receivable for dilution levy	38	-
Amounts receivable on creation of units	4,931	64
	<u>5,218</u>	<u>93</u>

10 Creditors

	2011 £'000	2010 £'000
Accrued expenses	154	34
Accrued stamp duty reserve tax	3	1
Purchases awaiting settlement	1,343	-
	<u>1,500</u>	<u>35</u>

11 Commitments, contingent liabilities and contingent assets

On 31st May 2011, the Fund had no capital commitments (31st May 2010: £nil) and no contingent liabilities (31st May 2010: £nil).

LIONTRUST SPECIAL SITUATIONS FUND

NOTES TO THE FINANCIAL STATEMENTS

12 Securities on loan

The aggregate value of securities on loan at 31st May 2011 was £2,104,706 (31st May 2010: £196,316). Securities on loan are included in the Portfolio Statement and no account is taken of any collateral held. The aggregate value of collateral held at 31st May 2011 is £2,211,189 (31st May 2010: £203,696). This collateral is in the form of equities and cash.

The gross earnings and fees paid for the year are £1,642 (31st May 2010: £49) and £985 (30 April 2008: £20).

13 Post balance sheet events

There are no post balance sheet events which have a bearing on the interpretation of the financial statements.

14 Related parties

The Fund Manager and Trustee are related to the Fund as defined by Financial Reporting Standard 8, Related Party Disclosures, and are named on page 1.

SSgA (State Street Global Advisors) are the investment management arm of State Street Corporation. The SSgA Cash Management Fund, an investment company with variable capital incorporated with limited liability in Ireland, listed on the Dublin stock exchange, invests in at least A-rated sterling denominated securities. The investment strategy of the fund is primarily capital preservation and liquidity while maximising current income.

The income outstanding at 31st May 2011 on the SSgA Cash Fund Deposit was £1,955 (31st May 2010: £205).

The Fund received interest on deposits held with the Trustee during the year as disclosed in note 5 on page 20 of which £328 was outstanding at 31st May 2011 (31st May 2010: £37). At 31st May 2011 the Fund held cash balances with the Trustee as disclosed in the Balance Sheet on page 16.

The charges made by the Manager, Trustee and the Registrar during the period are disclosed in note 6. At 31st May 2011 £119,241, £9,877 and £4,767 were due to the Manager, Trustee and Registrar respectively (31st May 2010: £19,807, £1,283 & £578). These amounts are included under 'Accrued expenses' in note 10.

At 31st May 2011 there were creation monies due from the Manager of £4,930,959 (31st May 2010: £64,460). There were cancellation monies due to the Manager of £nil at 31st May 2011 (31st May 2010: £nil).

By virtue of the Regulations governing authorised unit trusts, the Manager is party to every transaction in respect of units of the Fund, which are summarised in the Statement of Change in Net Assets Attributable to Unitholders.

LIONTRUST SPECIAL SITUATIONS FUND

NOTES TO THE FINANCIAL STATEMENTS

15 Risk disclosures

The policies applied in the management of financial instruments are set out in note 2.

Interest rate risk

The interest rate risk profile of the Fund's financial assets and liabilities at 31st May 2011 was:

Currency	Floating rate financial assets	Fixed rate financial assets	Financial assets not carrying interest	Financial liabilities not carrying interest	Total financial assets
	£'000	£'000	£'000	£'000	£'000
US Dollar	-	-	66	-	66
UK Sterling	1,795	-	96,404	(2,003)	96,196
Total	1,795	-	96,470	(2,003)	96,262

Currency	Floating rate financial assets	Fixed rate financial assets	Financial assets not carrying interest	Financial liabilities not carrying interest	Total financial assets
	£'000	£'000	£'000	£'000	£'000
UK Sterling	364	-	12,839	(130)	13,073
Total	364	-	12,839	(130)	13,073

Maturity profile of financial liabilities

All financial liabilities of the Fund at the year end are due to settle in one year or less, or on demand.

Short-term debtors and creditors

Other short-term debtors and creditors have been excluded from disclosures of financial instruments.

Fair value of financial assets and liabilities

Securities held by the Fund are valued at bid-price. The difference between this value and the fair value of the securities is immaterial. There is also no material difference between the value of other financial assets and liabilities of the Fund included in the balance sheet and their fair value. Securities are valued at bid and offer prices for calculating the cancellation and creation prices at the Fund's daily valuation point.

LIONTRUST SPECIAL SITUATIONS FUND

NOTES TO THE FINANCIAL STATEMENTS

16 Purchases, sales and transaction costs

	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Purchases excluding transaction costs		69,317		4,564
Commissions	89		6	
Taxes	<u>344</u>		<u>21</u>	
Total purchase transaction costs		433		27
Purchases including transaction costs		<u><u>69,750</u></u>		<u><u>4,591</u></u>
	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Sales excluding transaction costs		4,437		2,373
Commissions	<u>(1)</u>		<u>(2)</u>	
Total sales transaction costs		(1)		(2)
Sales net of transaction costs		<u><u>4,436</u></u>		<u><u>2,371</u></u>

LIONTRUST SPECIAL SITUATIONS FUND

DISTRIBUTION TABLES

for the year ended 31st May 2011:

Group 1: Units purchased prior to 1st June 2010

Group 2: Units purchased on or after 1st June 2010

	Net income	Equalisation	Distribution payable	
	2011	2011	2011	2010
Income units - Retail	Pence	Pence	Pence	Pence
	per unit	per unit	per unit	per unit
Group 1	0.88	-	0.88	0.97
Group 2	0.51	0.37	0.88	0.97

Information for Corporate Unitholders

For corporate unitholders, of the distribution payable on 31st July 2011:

100.00% of the total income distribution together with the tax credit is received as franked investment income.

0.00% of the income distribution is received as an annual payment (non-foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is unfranked investment income.

0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue and Customs.

The Fund's net liability to corporation tax is £nil.

LIONTRUST SPECIAL SITUATIONS FUND

DISTRIBUTION TABLES (continued)

for the year ended 31st May 2011:

Group 1: There were no Group 1 units during the year

Group 2: Units purchased on or after 1st November 2010

	Net income	Equalisation	Distribution payable	
	2011	2011	2011	2010
Income units - Institutional‡	Pence	Pence	Pence	Pence
	per unit	per unit	per unit	per unit
Group 2	1.09	0.38	1.47	-

Information for Corporate Unitholders

For corporate unitholders, of the distribution payable on 31st July 2011:

100.00% of the total income distribution together with the tax credit is received as franked investment income.

0.00% of the income distribution is received as an annual payment (non-foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is unfranked investment income.

0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue and Customs.

The Fund's net liability to corporation tax is £nil.

‡ Institutional units were offered for sale for the first time on 1st November 2010.

LIONTRUST SPECIAL SITUATIONS FUND

ADDITIONAL INFORMATION

Trust Deed: The Fund was established by a Trust Deed made between the Manager and the Trustee dated 5th September 2005.

Prospectus: Copies of the Fund's Prospectus are available free of charge from the Manager upon request, and from our website, www.liontrust.co.uk.

Unit type: The Fund issues income units only. Investors can elect at any time to have any income either paid out or automatically reinvested to purchase units at no initial charge.

Pricing and dealing: A buying price (the price at which you have bought the units in the Fund and being the higher) and a selling price (the price at which you can sell the units back to the Manager and being the lower) are always quoted for the Fund. The buying price includes the Manager's initial charge.

Dealing in all unit trusts operated by Liontrust Fund Partners LLP may be carried out between 08.30 and 17.00 hours on any business day. Professional investors and advisers may buy and sell units over the telephone; private investors are required to instruct the Manager in writing for initial purchases, but can deal over the telephone thereafter. Prices are quoted on a 'forward' basis. This means that all deals are based on a price that is calculated at the next valuation point (which is 12.00 hours on each business day) following receipt of instructions. Instructions received before 12.00 hours will be priced at 12.00 hours that day, whilst those deals taken later in the day will receive the next dealing price which is fixed at 12.00 hours on the following business day.

In the case of large deals of £15,000 and over, the Manager has the discretion to quote a special price within limits laid down under the Regulations.

The minimum initial lump sum investment in the Fund is £1,000, the minimum additional investment is £1,000 and the amount you may sell back to the Manager at any one time is £500, providing you maintain a balance of £2,500. At its absolute discretion, the Manager may accept a lower minimum amount for the purchase and sale of units.

A contract note in respect of any purchase will be issued the day following the dealing date. Unit certificates will not be issued. Instructions to sell your units may be required to be given by telephone and then confirmed in writing to Liontrust Customer Services Team, PO Box 23850, Edinburgh EH7 5FY. A contract note confirming the instruction to sell will be issued the day following the dealing day. Following receipt of a correctly completed Form of Renunciation, a cheque in settlement will be sent directly to you or your bank/building society, if proof of ownership of the account has been received by us, in four business days. Liontrust does not make or accept payments to or from third parties unauthorised by the Financial Services Authority.

Management charges, spreads and yields: The initial charge and annual management fees per unit class are detailed below. The difference between the bid and the offer prices is currently 6% which includes the initial charge.

Initial Charge	%	Annual Management Charge	%
Retail class	5.00	Retail class	1.75
Institutional class	-	Institutional class	0.75

The net estimated yields on the classes are shown below, these are calculated and published daily.

Yield	%		%
Retail class	0.51	Institutional class	0.84

Certain other expenses are met by the Fund, all of which are detailed in the Prospectus.

LIONTRUST SPECIAL SITUATIONS FUND

ADDITIONAL INFORMATION

Commission: Commission is payable to authorised intermediaries on purchases of units in the Fund at a rate of up to 3%. A discount is available when switching between Liontrust's range of unit trusts.

Publication of prices: The price of units in the Fund is quoted on our website, www.liontrust.co.uk, other industry websites such as www.trustnet.com, and the website of the Investment Management Association (the industry trade body), www.investmentuk.org. Daily and historic Fund prices are available from our Dealing and Administration team on 0844 892 1007.

Stamp Duty Reserve Tax: Stamp Duty Reserve Tax ("SDRT") is a 0.5% tax that is payable by the Trustee of a unit trust when unitholders sell their units in that unit trust. This may have an effect on you as the unitholder depending on how the unit trust manager treats this particular charge. Any SDRT liability incurred by the Trustee on the Liontrust Special Situations Fund is charged to the Fund, which could mean that less of your money will be invested for potential capital and income growth.

Capital Gains Tax: As an authorised unit trust, the Fund is exempt from UK Capital Gains Tax. An individual's first £10,600 of net gains on disposals in the 2011-2012 tax year are exempt from tax.

Income Tax: UK tax resident individuals are entitled to tax credits in respect of dividend distributions received and are subject to income tax on the aggregate of the distribution and the tax credit. In the case of a distribution the current value of the tax credit is equal to one ninth of the net dividend received and the distribution plus tax credits are treated as the top slice of an individual's income.

UK resident individuals who are not liable to tax are not able to reclaim the tax credits from the HM Revenue and Customs. In the case of UK resident individuals who are liable to starting or basic rate tax only, the tax credit will match his or her liability on the distribution and there will be no further tax to pay and no right to claim repayments to the HM Revenue and Customs. In the case of a higher rate tax payer, the tax credit will be set against, but not fully match, his or her tax liability on the distribution. Such people will have an additional tax liability to pay.

Corporate Unitholders: Ordinary dividends distributed by the Fund to corporate unitholders will be treated as part-franked investment income and part unfranked investment income, in the corporate unitholders' hands. The precise split will be calculated by the Manager and will be detailed on the distribution vouchers accompanying the distribution.

For unitholders chargeable to UK corporation tax, income allocations representing the UK dividends received by the Fund will not be subject to corporation tax in the unitholders' hands. Income allocations representing other types of income received by the Fund will be taxable as if they were annual payments received after the deduction of tax at the rate of 20 per cent of the gross distribution.

Important information: It is important to remember that the price of units, and the income from them, can fall as well as rise and is not guaranteed and that investors may not get back the amount originally invested. Past performance is not a guide to future performance. The issue of units may be subject to an initial charge and this is likely to have an impact on the realisable value of your investment, particularly in the short term. You should always regard unit trust investment as long term.



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Liontrust Fund Partners LLP is authorised and regulated by the Financial Services Authority.