



LIONTRUST

LIONTRUST SPECIAL SITUATIONS FUND

MANAGER'S SHORT FINAL REPORT
FOR THE YEAR ENDED 31ST MAY 2011



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

THE LIONTRUST ECONOMIC ADVANTAGE

LIONTRUST SPECIAL SITUATIONS FUND IS MANAGED BY **ANTHONY CROSS** AND **JULIAN FOSH** IN ACCORDANCE WITH THEIR INVESTMENT PROCESS FOR UK EQUITY PORTFOLIOS, **THE LIONTRUST ECONOMIC ADVANTAGE.**



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.

MARKET REVIEW

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.

MARKET REVIEW CONTINUED

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.

MARKET REVIEW CONTINUED

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.

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

FUND PROFILE

Investment Objective and Policy

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.

Investment Approach

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.

Risk Profile

The Fund is invested exclusively in UK securities. A significant proportion of the Fund is invested in smaller companies, which may be less liquid than larger companies. The price swings may therefore be greater than in those portfolios comprising only shares of larger companies. Furthermore, the Fund can also invest in companies which are traded on the Alternative Investment Market (AIM). The nature of AIM investments is such that prices can be volatile and realisations may not achieve current book value, especially when such sales represent a significant proportion of that company's market capital. A concentrated portfolio could mean that the Fund's returns are volatile when compared with the FTSE All-Share Index.

FUND PROFILE CONTINUED

Total Expense Ratio

	31st May 2011	31st May 2010
Class R income units	1.94%	1.96%
Class I income units*	0.94%	N/A

* Launched 01.11.10

Fund Calendar

Ex-dividend date	1st June
Income payment date	31st July
Accounting period ends	30th November (interim) 31st May (final)

PERFORMANCE

Net Asset Values *pence per unit*

	31st May 2011	31st May 2010	% Change
Class R income units	188.94	135.40	+39.54
Class I income units*	189.48	N/A	N/A

Distributions *pence per unit*

	31st May 2011	31st May 2010
Class R income units	0.88	0.97
Class I income units*	1.47	N/A

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.

Total Return (%)

	1 year to 31.05.11	3 years to 31.05.11	Since launch† to 31.05.11
Liontrust Special Situations Fund	37.8	54.4	103.9
FTSE All-Share Index	20.4	13.0	38.1
Quartile Ranking	1	1	1

Discrete Years' Performance (%)

To previous quarter, 12 months ending:	June '07	June '08	June '09	June '10	June '11
Liontrust Special Situations Fund	32.1	-16.3	-11.3	33.2	42.2
FTSE All-Share Index	18.4	-13.0	-20.5	21.1	25.6

Up-to-date past performance information 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.

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.

Performance data source: Financial Express, total return, bid-to-bid basis.

* Launched 01.11.10

† Launched 10.11.05

PORTFOLIO

Top 10 Holdings			
As at 31st May 2011	%	As at 31st May 2010	%
Compass	3.96	Brooks Macdonald	4.70
Royal Dutch Shell	3.76	Compass	4.60
GlaxoSmithKline	3.70	Royal Dutch Shell	3.55
BP	3.50	Craneware	3.49
AstraZeneca	3.46	GlaxoSmithKline	3.46
BG	3.45	Dialight	3.41
Weir	3.01	AstraZeneca	3.41
RWS	2.98	Statpro	3.37
Unilever	2.92	Concurrent Technologies	3.34
Spirax Sarco	2.92	Next Fifteen Communications	3.31
Total	33.66	Total	36.64

Sector Weightings				
	FTSE All-Share Index		Liontrust Special Situations Fund	
	31st May 2011		31st May 2011	31st May 2010
	%		%	%
Basic Materials	13.05		–	–
Consumer Goods	11.69		2.92	3.01
Consumer Services	9.65		13.24	15.61
Financials	22.37		11.28	14.03
Healthcare	7.23		7.16	6.87
Industrials	7.57		26.12	20.22
Oil & Gas	16.96		12.87	9.79
Technology	1.75		16.66	23.30
Telecommunications	5.98		–	–
Utilities	3.75		–	–
			90.25	92.83
Cash (including SSgA* cash deposits)			9.75	7.17
			100.00	100.00

* State Street Global Advisors

FURTHER INFORMATION

Unitholder Notice:

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 1st 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.

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.

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

Liontrust Fund Partners LLP, 2 Savoy Court, London WC2R 0EZ.

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Authorised and regulated by the Financial Services Authority.



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