




LIONTRUST

LIONTRUST INCOME FUND

MANAGER'S SHORT FINAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2011



Managed by & James Inglis-Jones
Gary West in accordance with
The Liontrust Cashflow Solution

THE LIONTRUST CASHFLOW SOLUTION

LIONTRUST FIRST INCOME FUND
IS MANAGED BY **JAMES INGLIS-JONES**
AND **GARY WEST** IN ACCORDANCE
WITH THEIR INVESTMENT PROCESS
FOR UK EQUITY PORTFOLIOS
THE LIONTRUST CASHFLOW SOLUTION.



This unit trust aims to provide rising dividend payments and reasonable capital growth. It invests in high yielding companies with unusually strong cash flow. We know that companies often have high dividend yields because investors have low profit growth expectations; in many cases these expectations prove to be wrong. We believe companies with good cash flows are likely to beat investors' low profit expectations, and will be able to pay a high and rising dividend. The Fund seeks to achieve a higher total return than the FTSE All-Share Index, to yield more than index-linked gilts and to provide an income stream for investors that will grow faster than inflation over a five year period. Income is distributed to investors every six months, at the end of February and August.

MARKET REVIEW

Income Final

In the twelve months to 30th June 2011, the Fund rose 22.0% compared to a rise of 25.6% in the Fund's benchmark, the FTSE All-Share Index. The IMA UK Income peer group, comprising retail funds that offer a comparable dividend yield, rose 22.1% on average. The final dividend to unitholders was 3.66 pence per unit, representing year-on-year growth for the year of 10.6%. The total dividend for the year is 6.77 pence per unit which, compared to last year's dividend of 6.42 pence per unit, represents growth of 5.5% and a yield of 5.25% based on the year-end mid price of 129.0 per share.

In the first six months of the year under review the Fund and sector lagged the market, due in part to the fact that an important driver of returns for the FTSE All-Share was the Mining sector. On average, stocks in this sector have not offered attractive dividends and therefore tend not to be well represented in income portfolios. In addition, in the second half of 2010 yield strategies generally fared poorly against the market. However, in the first six months of 2011 the situation reversed with the poor relative returns of the first half of the Fund's financial year giving way to much better performance in the second half. Since the start of 2011, for example, the Fund has returned +3.4%, the peer group +2.6% and the FTSE All-Share +3.0%.

Some of the recovery in performance relative to the All-Share was related to the poor performance of Mining stocks. However, it is also worth mentioning that the improved

recent returns to yield strategies also played an important role. This has been consistent with stock market history which suggests that yield strategies tend to perform best in the post recovery phase of the market cycle. Generally, in periods of sharp market recoveries yield strategies perform poorly. However, in the aftermath of sharp recoveries yield strategies tend to perform extremely well as investors shift from a preference for through-the-cycle value measures based on book value and sales, to measures of value based on earnings and dividend yield.

Investment Environment

In the first half of the Fund's financial year economic data was generally supportive of the idea that the global economy continued to recover and, as a result, fears of a double dip recession appeared to recede. Monetary policy continued to be supportive with the Federal Reserve embarking on a new round of quantitative easing and the ECB deciding to extend its liquidity facilities and step up purchases of government bonds. The combination of the economic evidence of recovery and increasing policy stimulus was supportive of equity markets, which performed strongly.

However, this strong performance gave way to flat returns from the FTSE All-Share in the second half of the Fund's financial year as the market had to cope with a combination of weaker economic indicators and volatile geo-political developments. Political uprisings in the Middle East, a devastating Tsunami in Japan and mounting concerns regarding sovereign debt contagion in Europe's periphery created

MARKET REVIEW CONTINUED

an environment of heightened uncertainty for markets. Of further concern was growing evidence that the US economic recovery appeared increasingly fragile, with a slew of poorer than expected survey data and worse than expected job creation, whilst investors remained troubled by the potential for a slowdown in the pace of economic growth in China.

Against this backdrop markets held up remarkably well, understandably failing to make any progress but at the same time failing to give up any ground, despite the raft of disquieting newsflow. This was all the more impressive given that market valuation levels continued to remain stretched on through the cycle measures such as normalised price earnings and price relative to asset values.

Investment Focus

On a stock level the most significant contributors to the Fund's performance over the last twelve months were *Ashmore* (+70.1%), *Legal & General* (+57.6%) and *Go-Ahead* (+54.1%).

Ashmore, the emerging market asset manager, performed strongly due to a series of results in which the company highlighted better than expected assets under management and strong underlying fund performance contributing to high performance fees. Over the course of the last twelve months analysts increased their earnings estimates by approximately 20% as a result of these developments. In addition, investors exhibited a strong preference for companies with exposure to emerging markets which benefited *Ashmore*.

Legal & General performed well due to strong momentum in its UK annuities and pensions business causing acceleration in its cash flow and profits over the course of the year. In general, the focus on cash generation has caused the group's return on equity to improve, whilst also providing a solid platform to remunerate shareholders through high and rising dividend payments. We originally purchased *Legal & General* owing to its attractive cash flow generation and the focus of the management team on cash generation as a key metric of business success.

Finally, *Go-Ahead* performed strongly as the market responded well to a turnaround in the direction of analyst's profit estimates from an earnings downgrade to an earnings upgrade profile. A year ago, analysts and investors had a jaundiced view of *Go-Ahead* with concerns in October 2010 over the possible impact of the government's comprehensive spending review and the view that economic pressures on consumers would have a significantly negative impact on *Go-Ahead*'s profits. However, the comprehensive spending review was much less harsh than feared; the group managed to surprise the market with better than expected cost savings in its rail business; and, it managed, unexpectedly, to win a number of contracts in its London bus business, causing it to raise profit forecasts for the year.

The three most significant detractors from the Fund's performance were *HMV* (-80.0%), *Keller* (-7.9%) and *AstraZeneca* (+3.9%). *HMV* performed poorly due to a dramatic deterioration in its trading environment which caused the company to breach its debt covenants. The collapse in the company's trading environment was accompanied by a substantial deterioration in its cash flow which led us to sell the stock from the portfolio.

The poor performance of the international ground engineering specialist *Keller* was concentrated in May and June of this year and related to a profits warning issued by the group. In May of this year *Keller* guided analysts to a reduced profit estimate due to deterioration in pricing and margins in the US. In addition, the company cautioned that it had underestimated the one off financial impact of Australian flooding.

AstraZeneca performed less well than the market due partly to the fact that stocks investors had a preference for cyclical in the period under review. However, in addition to this negative head wind, *AstraZeneca* suffered from two pipeline setbacks in December and concerns regarding the FDA's deliberations over *Brilinta*, *AstraZeneca's* experimental blood thinning pill. Furthermore, its first quarter results showed the continued negative impact of generic drug launches which was troubling to investors and analysts.

Trading activity

Thirteen sales were made over the course of the year, arising from either a failure of a company to measure up to the cash flow characteristics we demand from an investment or a failure to provide the necessary dividend yield required by the Fund. These included *IG Group*, *Jardine Lloyd Thompson*, *HSBC*, *CML Microsystems*, *Marks & Spencer*, *Stagecoach*, *Euromoney*, *IMI*, *Severfield Rowen*, *Keller*, *BHP Billiton*, *HMV* and *Zotefoams*. These stocks were replaced by nine purchases – *British Land*, *Beazley*, *Scottish & Southern Energy*, *United Utilities*, *National Grid*, *Halfords*, *Game Group*, *De La Rue* and *Kier Group*.

These purchases and sales gave rise to a significant overweight position in Utilities over the course of the year, whilst the Fund remained overweight in Healthcare and Industrial stocks as both sectors continued to offer average strong cash flows and high dividend yields. It was notable that, after the sale of *BHP Billiton*, the Fund had no exposure to the Basic Materials sector in the UK – one of the main drivers of the FTSE All-Share in the first half of the Fund's financial year - owing to the failure of any company in that sector to offer a combination of attractive cash flow and dividend yield.

MARKET REVIEW CONTINUED

Outlook

Over the course of the next twelve months we aim to complete the planned transition to an equally weighted portfolio we have discussed in prior reports. In addition, we aim this year to take the opportunity to offer improved risk diversification by including a limited number of companies from our wider European universe in the portfolio. The inclusion of some European companies will improve portfolio diversification and improve the overall opportunity set for stock selection. We are optimistic that with a flatter and more diversified portfolio, the Fund will offer investors significantly greater potential for attractive returns over the long term.

Our investment process is based on the mistakes people make forecasting. As a consequence, forecasting future profits or future economic developments plays no role in our stock selection process. However, our intuition is that the current environment should suit the Fund and the cash flow process well. In recent months there are indications that dividend yield as a strategy has begun to perform well relative to the market. This is consistent with stock market history which reveals that dividend yield strategies tend to perform well in the aftermath of sharp stock market recoveries.

In a period of elevated stock market valuations, it is possible that investors are seeking yield as a more reliable source of return than capital appreciation. In the aftermath of the stock market recovery, investors have also begun to focus on the delivery of earnings estimates as opposed to finding stocks that offer high leverage and recovery potential. This provides a constructive backdrop for both the income sector and the particular cash flow strategy we employ which is designed to highlight companies that are likely to deliver positive earnings surprises and higher than expected return on capital.

James Inglis-Jones & Gary West

August 2011

FUND PROFILE

Investment Objective and Policy

The investment objective of Liontrust Income Fund is to provide a high level of income with capital values keeping pace with inflation.

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 securities in companies listed on the International Stock Exchange of the UK and Ireland. The Fund may also invest in shares issued by companies incorporated in any European Economic Area (“EEA”) Member State other than the UK which are listed on a recognised stock exchange of an EEA Member State. 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

This unit trust aims to provide rising dividend payments and reasonable capital growth. It invests in high yielding companies with unusually strong cash flow. We know that companies often have high dividend yields because investors have low profit growth expectations; in many cases these expectations prove to be wrong. We believe companies with good cash flows are likely to beat investors' low profit expectations, and will be able to pay a high and rising dividend. The Fund seeks to achieve a higher total return than the FTSE All-Share Index, to yield more than index-linked gilts and to provide an income stream for investors that will grow faster than inflation over a five year period. Income is distributed to investors every six months, at the end of February and August.

FUND PROFILE CONTINUED

Risk Profile

The Fund is invested exclusively in UK securities. It is invested primarily in companies listed on the FTSE All-Share Index, but its focus on high yielding equities can mean that its portfolio can differ significantly from the sector breakdown of the Index. The principal risks are those associated with stock market investments. The Fund can also hold fixed-interest bearing securities.

Total Expense Ratio (%)	30 th June 2011	30 th June 2010
	Class R income units	1.62
Class I income units*	0.88	–

Fund Calendar		
Ex-dividend dates	Interim: 1 st January	Final: 1 st July
Income payment dates	Interim: End of February	Final: 31 st August
Accounting period ends	Interim: 31 st December	Final: 30 th June

* Launched 1st November 2010

PERFORMANCE

Net Asset Values pence per unit			
	30th June 2011	30th June 2010	% Change
Class R income units	127.19	109.87	+15.76%
Class I income units*	128.16	–	–

Distributions pence per unit			
	Interim 31st December 2010	Final 30th June 2011	Total 2011
Class R income units	3.11	3.66	6.77
Class I income units*	3.11	3.68	6.79
	Interim 31st December 2009	Final 30th June 2010	Total 2010
Class R income units	3.11	3.31	6.42

The Fund distributes income twice per annum, an interim dividend paid at the end of February and a final dividend paid on 31st August. The ex-dividend dates are 1st January and 1st July each year. Income can be reinvested to purchase units at no initial charge.

Total Return % (capital and income)					
	6 months to 30.06.11	1 Year to 30.06.11	3 Years to 30.06.11	5 Years to 30.06.11	Fund Manager Inception to 30.06.11**
Liontrust Income Fund	3.4	22.0	17.6	-2.1	70.5
FTSE All-Share Index	3.0	25.6	21.0	24.6	69.7
Quartile Ranking	2	2	3	4	1

Discrete Years' Performance %					
To previous quarter, 12 months ending:	June '07	June '08	June '09	June '10	June '11
Liontrust Income Fund	14.4	-27.2	-20.8	21.7	22.0
FTSE All-Share Index	18.4	-13.0	-20.5	21.1	25.6

* Launched 1st November 2010

** James Inglis-Jones and Gary West took over management of the Fund on 25th March 2009. 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 & Dealing team on **0844 892 1007**.

Performance data source: Financial Express, bid-to-bid basis, 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

Top 10 Holdings			
As at 30 th June 2011	%	As at 30 th June 2010	%
Vodafone	6.07	AstraZeneca	8.91
AstraZeneca	5.97	Royal Dutch Shell 'B' Shares	7.90
BP	5.88	Vodafone	5.75
Ashmore	5.65	IMI	5.13
Royal Dutch Shell 'B' Shares	5.32	Electrocomponents	4.75
Legal & General	4.93	BP	4.66
Scottish & Southern Energy	4.89	Ashmore	3.87
Tate & Lyle	4.72	Tate & Lyle	3.84
Go-Ahead	4.21	IG	3.79
Electrocomponents	4.13	Next	3.74
Total	51.77	Total	52.34

Sector Weightings	FTSE All-Share Index		Liontrust Income Fund	
	30.06.11 %	30.06.11 %	30.06.10 %	30.06.10 %
Basic Materials	13.25	-	3.15	
Consumer Goods	11.77	4.72	3.84	
Consumer Services	9.58	12.41	14.56	
Financials	22.14	23.77	24.60	
Healthcare	7.26	9.52	12.30	
Industrials	7.57	15.35	20.55	
Oil & Gas	17.04	11.20	12.56	
Technology	1.75	-	0.34	
Telecommunications	5.85	6.07	5.75	
Utilities	3.79	16.21	2.89	
		99.25	100.54	
Cash (including SSgA* cash deposits)		0.75	-0.54	
		100.00	100.00	

* State Street Global Advisors

FURTHER INFORMATION

UNITHOLDER NOTICE

Change of Fund Name

On 30th September 2010 the Fund changed its name from Liontrust First Income Fund to Liontrust Income Fund.

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.

Change of Investment Adviser

On 1st July 2011, Liontrust Investment Partners LLP replaced Liontrust European Investment Services Limited as investment adviser to Liontrust Income Fund.

FURTHER INFORMATION CONTINUED

Liontrust Asset Management PLC

Liontrust provides portfolio management services in UK and European equities. 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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