



**LIONTRUST**

# **LIONTRUST SPECIAL SITUATIONS FUND**

**INTERIM REPORT & ACCOUNTS**  
FOR THE PERIOD ENDED 30<sup>TH</sup> NOVEMBER 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 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

## The Market

---

The UK market has been very volatile over the last six months. The overriding concern has surrounded the high levels of western sovereign and banking debt as well as the sustainability of the euro. There have been particular worries about Europe but at times the focus has shifted onto the US and UK. Allied to debt worries have been periods of pessimism about economic growth. In general the outlook for European and UK growth has worsened whilst that of the US has been more mixed. Emerging market demand has remained reasonably strong but there have been signs, more recently, that it has become more hesitant in some countries and industries. The FTSE All-Share Index dropped by 7.4% over the period.

## The Fund

---

The Fund fell by 4.4% over the period. Whilst disappointing, this performance was better than the fall in the FTSE All-Share and the average competitor fund.

*The Liontrust Economic Advantage* investment process, which has been applied since the Fund launched in November 2005, continues to be rigorously adhered to. We aim to find businesses which are either international and have built a 'world-beating' position or that have a strong domestic position which is frequently backed by high recurring income. All of our smaller companies have a motivated management who own equity in their businesses. The required

threshold is Board ownership of 3% but the average in the portfolio is much higher. We believe that equity ownership is important for motivation as well as the attention it brings to financial discipline and long-term shareholder returns. A common feature of our companies is their financial strength; this has obviously been critical since the beginning of the credit crunch.

A strong market position requires barriers to competition. Our process is built upon the premise that today's barriers are built through intangible assets. Three in particular are very powerful, and companies can only enter the Fund if they have at least one of these.

The first is Intellectual Property (patents, copyrights, trade secrets and know-how). Intellectual Property (IP) is usually legally protected and is built from accumulated spending on research and development.

The second is distribution networks. These can be either physical, such as the international distribution network built up by an engineer, or electronically embedded, which is typical of many software companies. Physical distribution networks have often been built over a number of years and cannot be replicated overnight. Embedded distribution networks form a very powerful barrier to competition because it is difficult for competitors to force out the embedded incumbent.

# MARKET REVIEW CONTINUED

The third asset is repeat business. We look for companies with 70% contracted recurring income. Such an income stream is not threatened by persistent price changes and it provides management with a certainty of income and therefore the ability to plan for the long term. Fee-based fund management companies enjoy high recurring income, as do software companies and some outsourcing businesses.

If a company has passed our test of having one, or a combination, of IP, distribution strength and repeat business, we will then evaluate other important intangible assets such as customer relationships, databases, licenses and franchises, procedures and formats, culture and brand.

We expect our businesses to demonstrate strong financial returns either through high margins or returns on capital employed (ROCE). Strong financial returns show that our required barriers to competition are working. In immature businesses such as our smaller companies the focus tends to be on gross margin, whereas with more mature businesses in the FTSE 350 the focus switches to operating margins and ROCE. With cyclical businesses, operating returns will obviously move around but during a downturn we would hope that our businesses will be gaining market share before seeing returns rise again into a recovery.

Risk plays an important part in our decision of how much of a company to buy. We grade our companies accordingly, taking into account such factors as customer spread, product

spread, financial gearing and market maturity. New holdings have to be profitable companies, headquartered in the UK and with directors that are subject to UK law.

Over the six months, there have been some very strong performers. Many of our small companies continued to deliver good trading results and saw their share prices rise. The information technology companies, *IDOX* and *NCC*, were up by over 25%. *Brainjuicer* the innovative market research company rose 16% and *RWS*, the patent translator, rose 12%. In the FTSE 250, *Rightmove* and *Domino's Pizza* were both up over 12%. The large companies *GlaxoSmithKline* and *Unilever* rose by over 6% and *Royal Dutch Shell* was up by 7%.

The poor performers were largely companies that were affected by lower levels of financial transactions or lower stock markets. These included *ICAP*, *Tullett Prebon*, *Hargreaves Lansdown* and *Brooks Macdonald*. They fell by as much as 26%. Disappointing performance was also seen by cyclical companies such as the engineer *Renishaw* and the recruiter *Michael Page*. Their experience of a deteriorating outlook is perhaps a foretaste of a broader economic slowdown.

There was no corporate activity. The Fund enjoyed a number of takeovers earlier in the year and the proceeds were invested in building up new positions in *Domino Printing* (printing and inks), *Idox* (software) and *Advanced Computer Software* (software).

# MARKET REVIEW CONTINUED

## Outlook

---

Stock markets will continue to be volatile whilst there is so much uncertainty surrounding the euro as well as the solvency of certain countries and banks. It is likely to take many years for the high levels of sovereign and personal debt to diminish across many countries.

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. Those that have a UK focus often have high levels of contracted recurring income

and when compared to our benchmark we are underweight in UK consumer sectors. We also have no exposure to retail banks or mining companies. The balance sheets of our businesses tend to have net cash and we are attentive to the dangers of leverage. Our smaller companies continue to have management who, via their own equity ownership, are committed to delivering shareholder returns. We remain very optimistic about the long-term attractions of our investment process.

### **Anthony Cross & Julian Fosh**

Partners, Liontrust Investment Partners LLP  
January 2012

# 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 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

	30th November 2011	31st May 2011
Class R income units	1.92%	1.94%
Class I income units*	0.92%	0.94%

\* launched 1st November 2010

## Fund Calendar

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

# PERFORMANCE

<b>Net Asset Values pence per unit</b>			
	<b>30th November 2011</b>	<b>31st May 2011</b>	<b>% Change</b>
Class R income units	180.53	188.94	-4.45
Class I income units*	182.06	189.48	-3.92

<b>Distributions pence per unit</b>		
	<b>31st May 2011</b>	<b>31st May 2010</b>
Class R income units	0.88	0.97
Class I income units*	1.47	–

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.

<b>Total Return (%)</b>			
	<b>6 months to 30.11.11</b>	<b>3 years to 30.11.11</b>	<b>Since launch† to 30.11.11</b>
Liontrust Special Situations Fund	-4.4	102.8	94.8
FTSE All-Share Index	-7.4	47.9	27.9
Quartile Ranking	1	1	1

<b>Discrete Years' Performance (%)</b>					
<b>To previous quarter, 12 months ending:</b>	<b>Dec '07</b>	<b>Dec '08</b>	<b>Dec '09</b>	<b>Dec '10</b>	<b>Dec '11</b>
Liontrust Special Situations Fund	0.2	-25.9	41.2	36.1	7.5
FTSE All-Share Index	5.3	-29.9	30.1	14.5	-3.5

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](http://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

† Launch date 10.11.05

# PORTFOLIO

Top 10 Holdings			
As at 30th November 2011	%	As at 31st May 2011	%
BP	4.16	Compass	3.96
BG	4.10	Royal Dutch Shell	3.76
Royal Dutch Shell	4.09	GlaxoSmithKline	3.70
AstraZeneca	4.08	BP	3.50
Compass	4.04	AstraZeneca	3.46
GlaxoSmithKline	4.01	BG	3.45
Unilever	3.76	Weir	3.01
Weir	3.36	RWS	2.98
Spirax Sarco	3.20	Unilever	2.92
RWS	2.78	Spirax Sarco	2.92
<b>Total</b>	<b>37.58</b>	<b>Total</b>	<b>33.66</b>

Sector Weightings				
	FTSE All-Share Index		Liontrust Special Situations Fund	
	30th November 2011	%	30th November 2011	31st May 2011
		%	%	%
Basic Materials	11.42		–	–
Consumer Goods	13.37		3.76	2.92
Consumer Services	9.71		12.91	13.24
Financials	19.48		7.92	11.28
Healthcare	7.92		8.09	7.16
Industrials	7.53		27.45	26.12
Oil & Gas	18.59		15.53	12.87
Technology	1.48		16.67	16.66
Telecommunications	6.44		–	–
Utilities	4.06		–	–
Short Term Deposits	N/A		2.31	N/A
			<b>94.64</b>	<b>90.25</b>
<b>Cash (including SSgA* cash deposits)</b>			<b>5.36</b>	<b>9.75</b>
			<b>100.00</b>	<b>100.00</b>

\* State Street Global Advisors

# FURTHER INFORMATION

## Liontrust Asset Management Plc

---

Liontrust provides portfolio management services in UK, European, Asian and Emerging Markets 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 £1.354 billion (as at 10th November 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](http://www.liontrust.co.uk).

## The Manager

---

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

Administration & Dealing enquiries **0844 892 1007**

Facsimile **0844 892 0560**

Email **[info@liontrust.co.uk](mailto:info@liontrust.co.uk)**

Website **[www.liontrust.co.uk](http://www.liontrust.co.uk)**

Authorised and regulated by the Financial Services Authority.





**LIONTRUST FUND PARTNERS LLP**

2 Savoy Court, London WC2R 0EZ

Liontrust and Fund Enquiries **+44 (0)20 7412 1700**

Email **[info@liontrust.co.uk](mailto:info@liontrust.co.uk)**

Administration and Dealing Enquiries **0844 892 1007**

Administration and Dealing Facsimile **0844 892 0560**

Administration and Dealing Email **[admin@liontrust.co.uk](mailto:admin@liontrust.co.uk)**

**[www.liontrust.co.uk](http://www.liontrust.co.uk)**

Authorised and regulated by the Financial Services Authority.