



**LIONTRUST**

# **LIONTRUST FIRST LARGE CAP. FUND**

**INTERIM REPORT AND ACCOUNTS**  
FOR THE PERIOD ENDED 30TH JUNE 2010



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

# THE LIONTRUST CASHFLOW SOLUTION

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



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

# MARKET REVIEW

The first half of 2010 was disappointing for investors in the UK equity market, which was down 6.1%. Your fund fell 8% in the period under review, underperforming the FTSE All-Share Index by 1.9%. We share the disappointment of investors in the Fund with this result; however, our confidence in the process remains undimmed. We know from the evidence of the past that there are many short term periods when the process we use to run your fund, *The Liontrust Cashflow Solution*, fares less well against the market and that these episodes are inevitable. Importantly, the same analysis of past returns tells us that over the long term the process has the potential to generate returns significantly above the market.

In the first quarter of the year, the UK equity market rose significantly, up 6.4%, reflecting continuing investor optimism about global economic recovery, which was the dominant theme in 2009. Although at times during the first quarter concerns regarding tightening monetary policy in Asia and tighter fiscal policy in developed economies pushed the UK equity market lower, increasing strength in global growth and reassurance from the US that monetary policy would remain loose for an extended period drove markets significantly higher towards the end of the first quarter. As a result, portfolio performance was strong in those sectors that were likely to benefit disproportionately from growth worldwide. Cyclical sectors continued to dominate performance with Miners, Industrials and Financials enjoying strong gains. However, surging risk appetite in the first quarter detracted from performance in a number of stocks that

we held that were perceived as less sensitive to the market recovery such as *Imperial Tobacco*, *De La Rue*, *Drax Group* and *Royal Dutch Shell*.

In the second quarter of the year the UK market fell significantly, down 11.8%. The strong performance in the first quarter unwound dramatically as investors became increasingly concerned about sovereign debt risk in Europe, tightening monetary policy in emerging markets, a shift towards fiscal austerity in Europe and a decline in leading indicators and consumer confidence. Within the equity market, defensive sectors performed relatively well and investors generally focused on balance sheet strength and current earnings growth for the first time since March 2009. The best stock performers in the quarter, such as *WS Atkins*, *Petrofac*, *AstraZeneca*, *IMI*, *IG Group* and *Drax Group* reflected this trend as they each benefited from better than expected financial results or positive newsflow. However, the more cyclical stocks in the portfolio that had fared well in the first quarter performed poorly, particularly in commodity related areas. In particular, an escalation of bad news emerging from the Gulf of Mexico oil spill contributed to a dramatic decline in the value of our holding in *BP*, which fell 47% in the quarter. Furthermore, the Group announced its decision to suspend further dividends this calendar year. The perspective offered by our investment process regarding this development was that investors had probably overreacted to this event, choosing to set aside normal valuation considerations to focus instead on expert and peer opinion that things must only get worse for the Group. As a result we retained our position in *BP*.

## MARKET REVIEW CONTINUED

After the usual quiet start to the year, trading activity picked up significantly in May and June, reflecting the changing composition of the best quintile of stocks measured by our cash flow ratios. Fifty percent of UK companies report December year ends and this has a dramatic influence on the best quintile of stocks ranked by our cash flow ratios, prompting us to perform further analysis on report and accounts to assess whether or not the company merits inclusion in your portfolio. We started the year with 34 stocks in the portfolio; at the end of the first half of the year, the portfolio held 40 stocks, reflecting 5 sales and 10 purchases and an additional holding in the portfolio generated from a spin off.

To ensure that at all times your Fund adheres to our investment process, we apply a simple rule: we cannot hold an active position relative to the FTSE All-Share Index in any stock that fails to qualify in the best quintile of the market measured by our cash flow ratios. The application of this rule led to a number of sales from the portfolio. Due to deterioration in cash flow, we were obliged to sell *Admiral*, *Hunting* and *Rotork* from the portfolio. We apply a policy of equal active weights in all stocks we select relative to the FTSE All-Share index. Due to the skewed nature of the FTSE All-Share Index, to control risk at acceptable levels the portfolio holds an index 'spine' of companies drawn from the top ten holdings of the Index. These stocks are index weighted unless they score in the best quintile or worst quintile of our process, in which case an underweight or an overweight position is

called for. We are currently actively weighted in 5 'spine' stocks. We reduced *Royal Dutch Shell* and *British Gas* to an inline position, reflecting cash developments documented by their final year results, whilst reducing *HSBC* to an underweight position due to its poor score on our cash flow ratios.

Whilst we were compelled to sell three stocks entirely from the portfolio owing to deteriorating cash flow, our analysis of Report and Accounts highlighted the attractions of nine new stocks. During the period under review, we purchased *Reckitts Benkiser*, *Premier Farnell*, *Computacenter*, *Kingfisher*, *Legal & General*, *Restaurant Group*, *Next*, *Intercontinental Hotels Group* and *Tate & Lyle*. These new inclusions in the portfolio came from a diverse group of sectors although they were all united in having strong cash flow and low investor expectations. For example, we purchased *Tate & Lyle* further to our analysis of its final results revealing significant positive change in the group viewed through the prism of our process. *Tate & Lyle* had a history of heavy and unprofitable investment into bio-ethanol production. Significant peer investment into bio-ethanol resulted in overcapacity in the industry. New company management at *Tate & Lyle* resolved to shelve further investment in bio-ethanol and focus attentions instead on cost control, working capital control and free cash generation. This positive change gave us confidence that the improved cash flow was sustainable, and as a result we included the stock in your Fund.

The focus on cash generation we noted at *Tate & Lyle* was also a feature that came to our attention when we analyzed the final results reported by *Premier Farnell* - the electronics distributor. *Premier Farnell* has been enjoying a strong profits recovery aided by a 20% group revenue exposure to developing markets and the shift of its distribution from catalogue to online. What emerges clearly from its Report and Accounts, is that *Premier Farnell's* impressive cash generation has resulted not just from the profits recovery underway but a group-wide focus on free cash flow. Senior management at *Premier Farnell* have determined that a key performance indicator for the group is working capital control and free cash flow generation. Similar to *Tate & Lyle*, the company managers' focus on cash generation at Premier Farnell gave us confidence that the strong cash flows could be sustained.

Sometimes the qualities of a business model can result in strong cash flow as measured by our cash flow ratios. This was the case with *Intercontinental Hotels Group*. The company managers have been working assiduously to move its business towards a highly cash-generative franchised and management-fee-

based business model. Their success has been demonstrated by increasingly impressive cash generation which, by their own admission, is more than sufficient for their business needs. As a result of this transformation, *Intercontinental Hotels Group* ranks very highly on our cash flow ratios and due to the underpinning of their business model we are confident its strong cash generation can be sustained.

---

## Outlook

We would expect to make a number of further changes to the portfolio as we complete our analysis of UK annual results; particularly those companies in the UK reporting later in the year with non-December year ends. We remain optimistic that our investment process will perform better in the near future, as investors focus more carefully on growth prospects and earnings delivery. We base this judgement on historic, post-war patterns of stock market performance and the performance of our process through market inflection points. The difficulty is to pinpoint exactly when this shift will happen as, although economic and stock markets exhibit recurring patterns, each cycle is unique.

### **Gary West & James Inglis-Jones**

Joint Managing Directors

Liontrust European Investment Service Limited

August 2010

# FUND PROFILE

## Investment Objective and Policy

---

The objective of the Fund is to provide long-term capital growth through investment in a portfolio of UK equities in companies which at the time of investment have market capitalisations which place them in the largest 350 companies ranked by market capitalisation listed on the Official List of the London Stock Exchange.

## Investment Approach

---

This unit trust aims to provide long-term capital growth through investing in large capitalisation UK companies. The Fund holds a portfolio of UK companies, broadly equally weighted. It invests in companies with strong cash flows which we believe are likely to beat investors' low profit expectations. Cash flows provide an accurate guide to future profits growth. They reveal valuable information about a company's investment decisions and its managers' prudence in recognising reported profits. There are no limits on the Fund's industrial sector exposure, which will not closely mirror that of the benchmark.

## Risk Profile

---

The Fund is invested exclusively in UK equities. It is invested in stocks throughout the FTSE 350 Index, with no sector bias. The principal risks are those associated with stock market investments.

**Total Expense Ratio:** 1.65% (31st December 2009: 1.65%)

---

### Fund Calendar

Ex-dividend date	1st January
Income payment date	End of February
Accounting period ends	31st December

---

# PERFORMANCE

## Net Asset Values *pence per unit*

	30th June 2010	31st December 2009	% Change
	103.30	112.18	-7.92%

## Distributions

The Fund distributes income once per annum, at the end of February. The ex-dividend date is 1st January each year. Income can be reinvested to purchase units at no initial charge.

At the end of February 2009, the Fund paid dividend distribution for the year ended 31st December 2009 of 3.10 pence per unit (31st December 2008: 2.41 pence per unit).

## Total Return

	6 months to 30.06.10	5 years to 30.06.10
Liontrust First Large Cap. Fund	-8.0	11.0
FTSE All-Share Index	-6.1	18.7

## Discrete Years' Performance

	1 year to 30.06.10	1 year to 30.06.09	1 year to 30.06.08	1 year to 30.06.07	1 year to 30.06.06
Liontrust First Large Cap. Fund	13.9	-27.6	-3.8	14.2	22.4
FTSE All-Share Index	21.1	-20.5	-13.0	18.4	19.7

Up-to-date past performance information (to the last calendar quarter end) may be obtained from the Fund's most recent fact sheet, available on our website ([www.liontrust.co.uk](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.

# PORTFOLIO

Top 10 Holdings			
As at 30th June 2010	%	As at 31st December 2009	%
Royal Dutch Shell 'B' Shares	7.02	Royal Dutch Shell 'B' Shares	8.65
GlaxoSmithKline	5.74	HSBC	8.08
AstraZeneca	5.13	BP	8.07
Vodafone	4.94	BHP Billiton	6.38
BHP Billiton	4.25	AstraZeneca	5.61
HSBC	4.18	GlaxoSmithKline	5.60
BP	4.11	Vodafone	4.89
Reckitt Benckiser	3.20	BG Group	3.87
Imperial Tobacco	3.10	Rio Tinto	3.33
Rio Tinto	3.06	IMI	3.27
<b>Total</b>	<b>44.73</b>	<b>Total</b>	<b>57.75</b>

Sector Weightings			
	FTSE All-Share Index	Liontrust First Large Cap. Fund	
	30 June 2010 %	30 June 2010 %	31 December 2009 %
Basic Materials	11.52	9.11	12.51
Consumer Goods	12.02	9.11	2.58
Consumer Services	10.15	11.92	3.48
Financials	23.38	17.72	24.06
Health Care	8.16	10.87	11.21
Industrials	7.66	11.99	12.22
Oil & Gas	15.42	15.69	24.18
Technology	1.72	3.17	2.35
Telecommunications	6.11	4.94	4.89
Utilities	3.86	2.13	2.49
		<b>96.65</b>	<b>99.97</b>
<b>Cash (including SSgA* cash deposits)</b>		<b>3.35</b>	<b>0.03</b>
		<b>100.00</b>	<b>100.00</b>

# FURTHER INFORMATION

## Charges, Fees and Expenses – 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 0.0565% per annum of the value of each Fund. Following a review of the level of this fee, with effect from 1 July 2010 the fee levied will increase to 0.0720% per annum, an increase of 0.0155%, 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.

## Liontrust Asset Management PLC

---

Liontrust Asset Management PLC is the holding company of a specialist UK and European equities fund management group, now offering world class fixed income. It provides process-driven portfolio management services to a range of funds which are targeted primarily at professional investors and advisers. The Group currently manages £1.1 billion (as at 15th June 2010). Its management covers segregated and pooled pension fund accounts, unit trusts, offshore accounts, absolute return funds and individual savings accounts on behalf of 10,000 investors.

## Further Information, Report & Financial Statements

---

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

## The Manager

---

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 **+44 (0)844 892 1007**

Administration and Dealing Facsimile **+44 (0)844 892 0560**

Administration and Dealing E-Mail **[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.

# NOTES





**LIONTRUST FUND PARTNERS LLP**

2 Savoy Court, London WC2R 0EZ

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

Email **info@liontrust.co.uk**

Administration and Dealing Enquiries **+44 (0)844 892 1007**

Administration and Dealing Facsimile **+44 (0)844 892 0560**

Administration and Dealing E-Mail **admin@liontrust.co.uk**

**www.liontrust.co.uk**

Authorised and regulated by the Financial Services Authority