



LIONTRUST FIRST LARGE CAP. FUND

MANAGER'S SHORT INTERIM REPORT

For the period ended 30th June 2009

ASSET MANAGEMENT

LIONTRUST





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 concentrated portfolio of 30-50 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.

LIONTRUST



INVESTMENT COMMENTARY

*Following the resignation of William Pattison as manager of Liontrust First Large Cap. Fund, **Gary West and James Inglis-Jones** assumed the management of the Fund on 25th March 2009. In this interim review of the portfolio, Gary and James lay out their objectives for the Fund and its prospects in current market conditions.*

Markets in the UK got off to a dismal start in 2009. The FTSE All-Share Index was down 9.1% in the first quarter, whilst Liontrust First Large Cap. Fund was down 10.1% in the same period. It is very disappointing to have to report to investors a fall in the value of the Fund and underperformance relative to the All-Share Index. Although the general trend in the market has been down, it has been volatile, with sharp swings in sentiment driving returns. Unusually some of the more defensive sectors have suffered the worst this year, with some very poor returns being generated by the utilities and health care sectors, whilst the consumer discretionary sector and materials stocks have performed well. This may seem, at a first glance, perverse. However, many defensive companies had become too expensive on a relative basis in the aftermath of the extreme turbulence in the world's markets that unfolded last year. In the second half of last year it was defensive companies that were seen by investors as a safe haven for their capital as the market collapsed. As a result, these kinds of companies became overvalued and vulnerable to price declines.

We took control of Liontrust First Large Cap. Fund on the 25th March. We are now in the first stages of applying our process – *The Cashflow Solution* – to the portfolio. We are very pleased to have the opportunity to apply our process to a UK fund as we believe it will be very rewarding for investors. We already manage all of our own money using our cash flow approach.

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MARKET BACKGROUND

After seven consecutive quarters of negative returns, equity markets enjoyed some respite during the second quarter of 2009, bouncing sharply (albeit tailing off in June, -3.2% over the month). Corporate assets were strong, not because of an imminent robust recovery, but because the rate of deterioration appeared to be slowing sharply. The financial system is still on life support and government drip, but confidence has returned to a degree and a lot of companies rated as 'basket cases' have been able to raise capital and resist imminent danger of insolvency. This led to a strong 'mean-reverting' bounce in riskier assets and poor returns from assets perceived as 'safe'. Government bonds (gilts), for example, were the weakest asset class, down by 1.3% over the quarter.

What might appear counter-intuitive is that the equity market strength in the second quarter was framed against the announcement of terrible economic data. At the end of the quarter, official figures confirmed the UK had suffered its worst slump in output for 50 years. Economists warned Britain would almost certainly have to wait at least two years before it regained the output lost over the past year. The figures showed a 2.4% quarter on quarter fall in gross domestic product (GDP) for the first three months of 2009. However, since the end of March, there have been signs that the economy is stabilising. Manufacturing output grew in March and April, while survey data suggested that the economy has returned to growth. As the equity market is a discounting mechanism, this subtle improvement in economic condition held sway over the reality of a severe economic contraction which had already been priced into markets.

Despite the strong performance of equity markets, the best performing asset class in the UK was corporate bonds, up 11.3% over the second quarter. UK equity returns were close behind with the FTSE All-Share Index returning +10.9%, despite being held back by the relatively mundane returns from the UK's biggest companies. The FTSE 100 Index managed a return of +9.7%, mid cap stocks fared better (FTSE Mid 250 Index up a very desirable +17.5%) but these were eclipsed by small companies where the FTSE Small Cap (ex Investment Trust) Index rose a startling 32.7% over the quarter.

Having been the weakest sector of the UK equity market in the first quarter, financials enjoyed a complete turnaround in fortunes to become the strongest contributor to performance in the second quarter. This was led by the banks (up 22% relative) closely followed by life insurers (up 21% relative). By contrast oil and gas was the worst contributing sector over the quarter. Oil and gas producers were down 8% over the period. *BG Group* was down 12% relative, and the two oil majors, *Royal Dutch Shell* (-8% relative) and *BP* (-7% relative) also did badly. As a general case, as previously mentioned, perceived 'safe' assets did poorly so naturally defensive sectors such as oil and gas, telecoms, pharmaceuticals, tobacco and food companies all underperformed, while more cyclical and leveraged plays were the focus of the rebound.

THE PORTFOLIO

We have reshaped the portfolio to bring it into line with the results from our investment process, *The Cashflow Solution*. While the stocks we inherited were of high quality and soundly financed, many would not score in the most attractive decile (10%) on our cash flow measures, and were thus sold. As many of these stocks largely did not participate in the (low quality) mean-reverting rally from March through to May, we were careful not to be whipsawed by a sudden reversal in the market's fortunes. Indeed this has proved to be validated as the market fell in June and more defensive companies have started to outperform again.

Taking on the management of Liontrust First Large Cap. Fund in March this year, the second quarter was dominated by the portfolio's transition to *The Cashflow Solution* model. While the stocks we inherited were of high quality and soundly financed, many would not score in the most attractive decile (10%) on our cash flow measures, and were thus sold.

It is worth noting that just over half of UK companies have December financial year ends, publishing their report and accounts during March and April. Around a further 20% have March year ends. Since the cash flow ratios in our investment process are updated using audited financial information, most of which becomes available between the end of February and late May, we conduct a full annual portfolio review and generate most of our new buy ideas over the course of this period.

The restructuring of the portfolio started in earnest towards the end of April, and continued to a lesser extent through May and June. This involved a number of complete disposals and acquisitions as well as the rebalancing of a number of other holdings. Within financials, we purchased new holdings in insurance companies *Aviva* and *Hiscox* as well as insurance broker *Jardine Lloyd Thompson*, while the holding in *International Personal Finance* was sold.

In the industrial sector a number of new holdings were added, including *Balfour Beatty*, *IMI*, *Keller Group* and *Regus*. Sales included *Aggreko*, *BAe Systems*, *Bunzl*, *Capita Group* and *Cobham*.

All of the stocks purchased achieved best quintile scores on our combined cash flow measures and have been further researched to ensure their strong cash flow scores are representative of the characteristics we are looking for.

In consumer goods we sold the holding in *Imperial Tobacco*, and in the consumer services sector we sold *Compass Group*, *N. Brown*, *Pearson* and *Reed Elsevier*. In the oil and gas sector we sold the holding in *Amecc*. *BT* was sold in the telecommunications sector. In technology we purchased *Rightmove* while selling *ARM Holdings*.

Finally, in the utilities sector we sold *Severn Trent* and *United Utilities* in favour of *Drax*.

All of the stocks purchased achieved best quintile scores on our combined cash flow measures and have been further researched to ensure their strong cash flow scores are representative of the characteristics we are looking for. Thus, all these stocks fulfil our criteria of good cash flow companies that we believe are likely to produce subsequent positive earnings surprises. By contrast, the sales occurred because they do not fulfil our criteria of scoring in the most attractive decile.

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OUTLOOK

Having completed the transition of the portfolio in accordance with our recent annual review, it is noticeable that the portfolio has a bias towards value stocks – more than was the case in our portfolios last year. Last year there was a clear bias towards growth stocks that this year is not present. The process now appears to have a marginal preference for value in the aftermath of last year's sell off.

We remain confident that the year ahead will continue to provide unexpected outcomes for investors and that the Fund is well placed to profit from these developments as they unfold.

GARY WEST AND JAMES INGLIS-JONES

LIONTRUST EUROPEAN INVESTMENT SERVICES LIMITED

August 2009

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FUND PROFILE

INVESTMENT OBJECTIVE & 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 concentrated portfolio of 30-50 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.

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: 1.63% (31st December 2008: 1.63%)

FUND CALENDAR

Ex-dividend date	1st January
Income payment date	End of February
Accounting period ends	30th June (interim) 31st December (final)

PERFORMANCE

NET ASSET VALUES

	NAV as at 30 June 2009	NAV as at 31 December 2008	% Change
Income units <i>pence per unit</i>	93.18	97.19	-4.13

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 a dividend distribution for the year ended 31st December 2008 of 2.41 pence per unit (31st December 2007: 1.56 pence per unit).

TOTAL RETURN %

	6 months to 30.6.09	Since launch (14.10.99) to 30.6.09
Liontrust First Large Cap. Fund	-4.3	11.6
FTSE All-Share Index (total return)	0.8	4.8
Average UK All Companies unit trust	4.4	10.0

DISCRETE YEARS' PERFORMANCE %

	1 year to 30.6.05	1 year to 30.6.06	1 year to 30.6.07	1 year to 30.6.08	1 year to 30.6.09
Liontrust First Large Cap. Fund	12.9	22.3	14.2	-3.9	-27.7
FTSE All-Share Index	18.8	19.7	18.4	-13.0	-20.5

Up-to-date 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), 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, bid to bid basis, total return.

PORTFOLIO

TOP 10 HOLDINGS

As at 30 June 2009	%	As at 31 December 2008	%
1 Royal Dutch Shell 'B' Shares	9.35	Royal Dutch Shell 'B' Shares	9.78
2 BP	8.62	BP	8.53
3 HSBC	7.59	GlaxoSmithKline	5.99
4 GlaxoSmithKline	5.53	Vodafone	5.95
5 AstraZeneca	5.49	HSBC	5.60
6 BG	5.46	British American Tobacco	5.13
7 Vodafone	4.97	AstraZeneca	4.94
8 BHP Billiton	4.22	BG	4.32
9 Aviva	3.26	BHP Billiton	3.54
10 British American Tobacco	2.88	Imperial Tobacco	2.95
Total	57.37	Total	56.73

SECTOR WEIGHTINGS

	FTSE All-Share Index	Liontrust First Large Cap Fund	
	30 June 2009	30 June 2009	31 December 2008
	%	%	%
UNITED KINGDOM			
Basic Materials	9.79	6.00	4.13
Consumer Goods	11.85	8.62	13.63
Consumer Services	9.87	7.59	12.53
Financials	22.11	19.05	11.11
Health Care	8.56	11.02	10.93
Industrials	6.92	9.72	8.84
Oil & Gas	19.46	26.19	25.40
Technology	1.42	0.80	0.23
Telecommunications	6.12	4.97	6.78
Utilities	3.90	2.82	2.00
		96.78	95.58
Cash (including SSgA cash deposits)		3.22	4.42
		100.00	100.00

* State Street Global Advisors

FURTHER INFORMATION

UNITHOLDER NOTICE

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.

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 and global equity solutions. 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 approximately £1.1 billion. Its management covers segregated and pooled institutional fund accounts, unit trusts, offshore funds, absolute return funds and individual savings accounts on behalf of over 12,000 investors.

FURTHER INFORMATION, REPORT & FINANCIAL STATEMENTS

Further information on the Fund and its portfolio, the Manager's Long Final and Interim Report & 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 Investment Funds Limited, 2 Savoy Court, London WC2R 0EZ

Authorised and regulated by the Financial Services Authority.

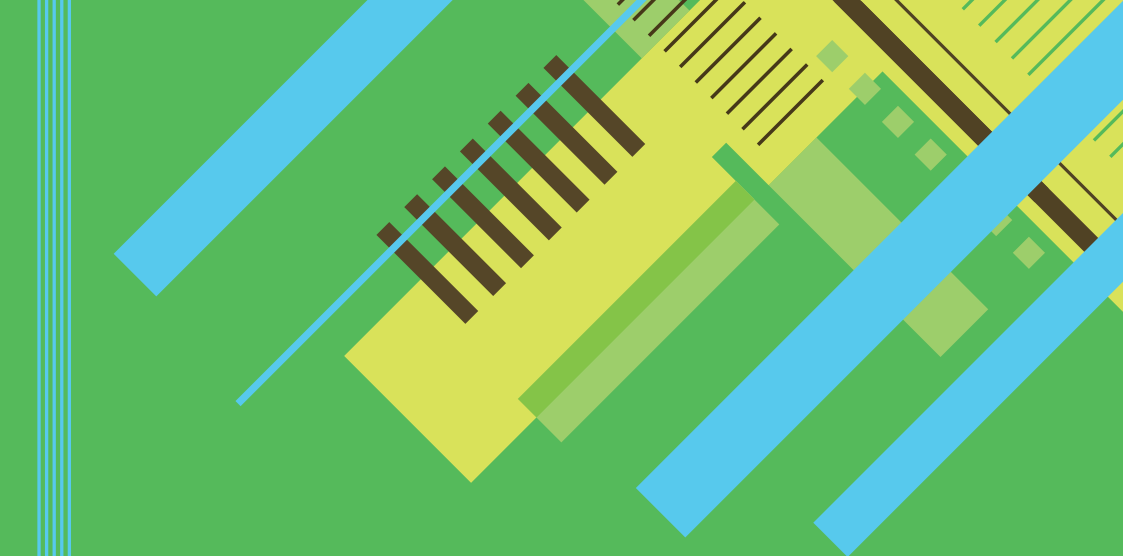
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