



- Top decile performer over 3 months, 6 months, 1, 2, 3 and 5 years.*
- 'AA' rating from Standard & Poors Fund Research.
- ★★★★★ rating from Micropal.

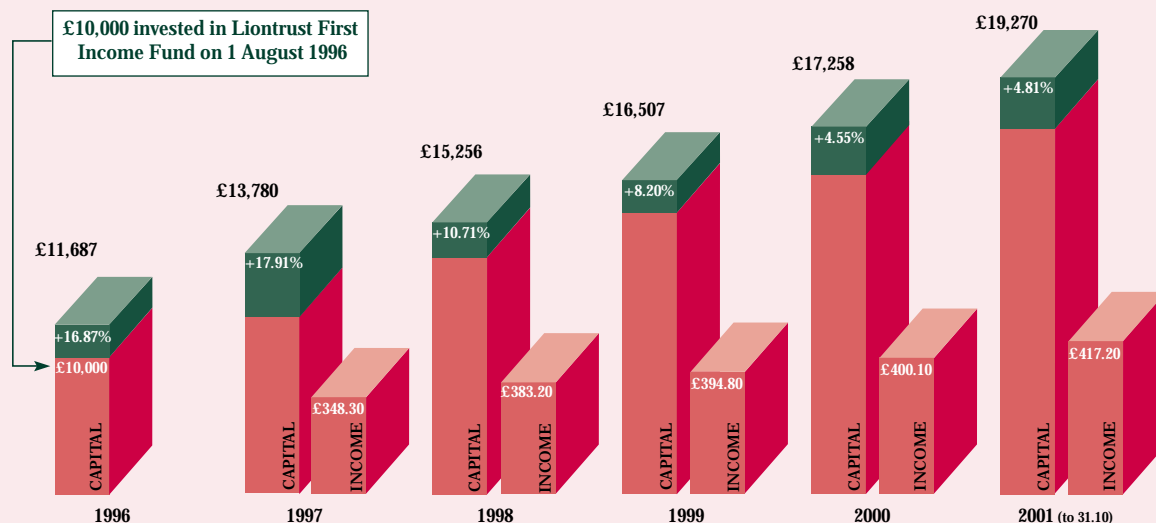


- medal from Lipper ARC Limited, measured on three years risk-adjusted performance, and awarded to just 1-3% of c. 3,500 AUTIF-recognised Funds.
- Included in every edition since 1996 of the "White List", a list of recommended equity income funds produced by *Principal Premier*, the Bath-based unit trust portfolio service.

	6 months	1 year	2 years	3 years	5 years
Liontrust First Income Fund	-1.5%	+9.8%	+20.8%	+34.1%	+88.9%
FTSE All-Share Index	-14.8%	-19.6%	-12.9%	+3.5%	+40.6%
Average UK equity income unit trust	-12.8%	-10.6%	-1.6%	+11.5%	+49.5%
Position in sector	1st/92	1st/88	5th/87	5th/81	3rd/76
Decile } Quartile }					

*All figures to 31.10.01 bid to bid basis, net income reinvested at ex-dividend date. Source: Lipper Limited.

How an investment of £10,000 would have performed under Jeremy Lang's management:



Bar charts are not to scale. Capital performance figures bid to bid basis, net income withdrawn, source: Lipper Limited. Income figures source: Liontrust Investments Funds Limited.

■ Represents the capital growth of the Fund each calendar year.

Top ten Holdings:

Rank	Company	%
1.	BP	4.8
2.	Telewest Comms (5.25% CV '07)	3.8
3.	Lloyds TSB	3.1
4.	GlaxoSmithKline	2.9
5.	Royal Bank of Scotland	2.4
6.	Abbey National	2.3
7.	Shell Transport & Trading	2.1
8.	ICAP	2.0
9.	City Centre Restaurants	2.0
10.	Boots Company	2.0

Total: 27.4% (72.6% held in a further 56 stocks and cash)

Sector Breakdown:

Sector	Fund %	FTSE All-Share Index %
Resources	16.0	9.4
Basic Industries	2.6	9.0
General Industries	2.3	10.2
Cyclical Consumer	0.2	0
Non-Cyclical Consumer	20.1	14.2
Cyclical Services	13.2	24.7
Non-Cyclical Services	12.9	1.7
Financials	27.1	13.6
Utilities	4.0	1.9
IT	1.6	2.7
Fixed Interest	0	6.0
Cash	N/A	6.6

Market Cap. Weightings:

FTSE 100 Index	FTSE Mid 250 Index	FTSE Small Cap. Index	Fixed Interest	Others	Cash
27.2%	26.8%	29.8%	6.0%	3.6%	6.6%

All figures to 31.10.01, bid to bid basis, net income, reinvested at ex-dividened date. Source: Lipper.

Issued by Liontrust Investment Funds Limited, regulated by the FSA. The price of units, and the income from them, can fall as well as rise and is not guaranteed and investors may not get back the amount originally invested. Past performance is not a guide to future performance. The annual management fee of Liontrust First Income Fund is deducted from capital. Whilst the estimated yield quoted above is higher than would be the case were the annual management fee charged to income, the potential for capital growth may be reduced. The issue of units may be subject to an initial charge and this is likely to have an impact on the realisable value of your investment, particularly in the short term. You should always regard unit trust investment as long term.



LIONTRUST

Liontrust Investment Funds Limited

2 Savoy Court, London WC2R 0EZ

Telephone: 020-7412 1700, Facsimile: 020-7412 1779

Regulated by the FSA.

Man with a passion for the unloved

Jeremy Lang explains how Liontrust First Income fund benefits from irrational attitudes in the market

Current stock market conditions have provided a wealth of buying opportunities for Jeremy Lang, manager of the £35m Liontrust First Income fund, whose approach is to buy into stocks that have fallen in value as a result of irrational investor behaviour.

Lang, who has managed the fund since August 1996, aims to exploit investor psychology which has been ideal in the current market climate where there has been plenty of over-reaction. Over three years, his fund is ranked 17th of 80 trusts in the UK equity income sector, delivering 23% after charges, compared with the sector average of 4.9%, according to statistics provider Standard & Poor's. Over the past 12 months, it is ranked sixth of 86 funds, delivering minus-0.5% returns after charges, compared with a sector average loss of 15%.

Lang speaks to Jenne Mannion about his unique approach.

Why is now a particularly opportune time for your investment style?

I look for over-reaction or too much pessimism in the market, and there is a lot of that around at the moment. My approach involves comparing a stock's dividend yield with a non-stock market benchmark and, if it meets certain hurdles, then I consider there is a good chance that the market is behaving irrationally towards it.

The first of the three categories of stocks that I consider represents the deepest over-reaction and relates to stocks that have a current dividend yield comfortably ahead of the yield on the long-dated government gilt, which is 4.5%. I define being comfortably ahead of that as 2% or more, so the yield must be more than 6.5%. I'm only interested, however, if the dividend is reasonably safe and unlikely to be cut imminently.

It is unusual for stocks to sell on yields as high as 6.5%. It only tends to happen when there is extreme pessimism and has only occurred three times since the second world war. The first two times were in the recessions of 1974 and the early 1990s and the third time is now.

So while there are normally only a handful of stocks that would deliver a dividend yield of that level, there are now probably more than 100 that are managing it. Because there is such a prolific number of high-yielding stocks, I expect to make spectacular one-, three- and five-year returns.

What are the characteristics of these higher-yielding stocks?

These are typically unloved companies.



Jeremy Lang: 'The emphasis on all the things I am trying to exploit is about being patient and waiting long enough for the fundamentals to reassert themselves'

They would have expended a lot of bad news in the past five years and the share price would have been hammered over that period.

'It is often quite difficult to get over a strong case for liking the company'

These higher-yielding stocks are unlikely to be good companies, but the market is viewing them as complete basket cases. The truth probably lies somewhere in between – which is where the pricing anomaly comes in.

It is often quite difficult to get over a strong case for liking the company. But the point is that you like the stock not for its fundamentals, but because the price being paid for a fairly low-grade asset is ridiculously cheap.

Being paid at least 6.5% a year upfront is a fat-risk premium to enjoy.

What are the other two types of stocks you like to own?

The next tier down involves stocks with a dividend yield at least 2% higher than the running yield on government index-linked long-dated gilts, currently around 2.2%. So I am looking for yields above 4.2%, but also expect dividend growth of 1%-2% a year, in line with inflation.

The third category involves stocks that have a dividend yield at least as high as an index-linked gilt at 2.2%. I am only prepared to accept this lower yield if the company can grow its dividend comparatively quickly, which I define as

7% for the next three to five years.

In my portfolio there is 40% in each of the first and second categories and 20% invested in the third category. This is no set rule; it ebbs and flows according to available opportunities. To have 40% of the fund invested in the extremely high-yielding category is high by my standards and is a result of the prolific opportunities in the marketplace now.

What are some examples of these companies that you have bought and why do you hold them?

One company is SHL, which was yielding 10.5% when I bought it. The company is involved in psychometric testing to profile the character traits of potential employees. It has issued several profit warnings and consistently failed to deliver on its promises.

It bombed out due to a combination of poor management and nervousness about companies tied to the recruitment cycle. So there is a lot of pessimism, but I am being paid a high dividend yield in the meantime. And, fundamentally, it is an attractive business and it is likely there could be a re-rating in three to five years, when the economic situation is different and there is possibly new management at SHL.

So, with all companies I hold, I look for recent bad news and understand why the share price has been driven down. Then I ensure I am getting paid enough risk premium to invest in it and check out the finances to ensure it is in reasonable shape. Then I roll forward three or five years and ask whether the world could be better for this company in the future.

An example of the second category is Boots, which I bought 18 months ago. At that time it was on a dividend yield of about 4.5%. I wouldn't be able to buy a company on this type of yield unless it was considered below average. However, if it

can grow its dividends at least as fast as inflation, I'm buying an average company at a below-average price.

Boots' share price has struggled due to the perceived threat of supermarkets, but I believe the impact of this will be minimal and over three to five years investors will realise it has not been such a bad thing for the company and its share price will be re-rated.

GlaxoSmithKline is an example of a third category stock. I bought it last year on a yield of 2.4%. This company will not have any problems growing its dividends at 7%-10% over the next few years. It simply became very cheap because it was affected by stock market fashion at a time investors were chasing cyclical companies.

What are some of your other key holdings?

They include the oil majors BP and Shell, which together account for 8% of the portfolio; Lloyds TSB, Royal Bank of Scotland and Abbey National, which in total comprise 8.7%; and money brokers ICAP (formerly Garban Intercapital) which is a 2% holding.

Among the others are hedge fund manager Man Group, at 1.8%; GlaxoSmithKline, which makes up 3% of the portfolio; City Centre Restaurants at 2%; and Devro, a 1.8% investment.

How often do you visit the companies in which you are interested?

Never. It is not necessary. My approach is about using publicly-available information and looking at the company in a dispassionate way. My common sense tells me whether a company is priced dreadfully and whether its fundamentals are really that bad.

Does your contrarian style mean you are biased toward mid and small-cap companies?

The portfolio at the moment is skewed toward the smaller end of the market and about 30% is invested in each of the mid-cap and small-cap indices with the remainder in Footsie stocks, plus a small holding in fixed interest. There are 55 companies in the portfolio in total.

In addition to these "buy" disciplines, do you have strict "sell" disciplines?

Whenever I buy a company, I hold it for at least a year. That is because the emphasis on all the things I am trying to exploit is about being patient and waiting long enough for the fundamentals to reassert themselves.

© Sunday Business

This press article is reproduced as it appeared. It constitutes an investment advertisement and is issued by Liontrust Investment Funds Limited. The price of units, and income from them, can fall as well as rise and is not guaranteed, and investors may not get back the amount originally invested. Past performance is not a guide to future performance.

Reproduced by permission of Sunday Business. 11th November 2001.

Liontrust Investment Funds Limited. Regulated by the FSA.

2 Savoy Court, London WC2R 0EZ, Telephone: 020-7412 1766 E-mail: info@liontrust.co.uk Facsimile: 020-7412 1779 Website: www.liontrust.co.uk