

LIONTRUST FIRST INCOME FUND



Fact Sheet for third quarter 2001.

INVESTMENT COMMENTARY

I like investing in three types of stocks, when they are available:

1. those with dividend yields comfortably ahead of long-dated gilt yields and dividends that look safe;
2. those with dividend yields comfortably ahead of index-linked long-dated gilts and with dividend growth prospects at least as good as inflation;
3. those with dividend yields higher than index-linked long-dated gilts and with dividend growth prospects considerably better than inflation.

I think a stock selling at a price low enough to fulfill one of the above criteria (with the appropriate growth prospects) is an attractive investment, whatever the stock market is doing. I also think such stocks will have a decent chance of doing better than the stock market over a three to five year haul, even if the market performs strongly.

It had been tough to find attractive income stocks until relatively recently. Most stocks weren't selling at low enough prices to justify their, by recent historical standards, low growth prospects. This changed at the end of 1998 - a combination of depressed stock prices in particular areas of the market and lower gilt and index-linked yields created many more attractive stocks (despite the overall decline in average yield for the market). The Fund was made up largely of such stocks throughout 1999 and 2000, but not exclusively. I kept some lower yielding stocks to keep the Fund's sector distribution similar to the FTSE All-Share. However, at the end of 2000 I felt there were so many genuinely attractive stocks that I sold all stocks in the Fund with yields below index-linked long-dated gilts, and re-invested only in the three types of stocks listed above.

This has proven to be a good decision. The overall stock market has had a fairly torrid last twelve months, having fallen almost 10%. The return to unit holders in the First Income Fund has been much better. The combination of a reasonable overall yield (around 3.5%) and reasonable dividend growth (around 4.5%) plus the capital appreciation from some of our stocks unwinding to more sensible (i.e. less undervalued) levels has resulted in an overall return of over 20%. Despite the recent good performance there are still plenty of interesting stocks around, with attractive combinations of yield and dividend growth.

The stock market still does not look especially attractive. The average dividend yield is very low by historical standards and the growth prospects are relatively modest. Despite the recent sharp falls

of many glamour stocks, prices of many of these companies still don't look low enough. At the moment, to build a fund that has an attractive yield, with reasonable growth prospects requires a sector balance completely different to the FTSE All-Share Index.

I have gradually been increasing the number of holdings in the Fund, picking off new stocks as new cash has arrived. In volatile markets new stocks are being flung down to yield levels that interest me all the time, so I have no shortage of new ideas, but experience has taught me that patience is important. I like to buy stocks where I think other investors are too pessimistic, but over-pessimism takes time to develop. So I prefer stocks that have experienced a long run of disappointments. It is important to keep this discipline - stocks that have suffered sharp price falls can look superficially attractive.

Consequently the First Income Fund has no telecommunication holdings, only one technology stock (which had a yield higher than index-linked when I bought it) and no media stocks - generally I would like to see more bad news and lower prices before I buy. It has plenty of stocks in rather unfashionable areas like retailing, engineering, food manufacture and construction. One would have expected stocks in these areas to have performed poorly over the last twelve months, given the deteriorating economic environment. Our stocks, by and large, have not, because they were selling at prices that implied a lot of pessimism already - in my opinion too much. They have generally paid high dividends despite tough conditions and most have been able to increase those dividends. Some have delivered reasonable capital appreciation, but most sell on yields that are still very attractive.

I have constructed the First Income Fund to have a higher yield than a long-dated index-linked gilt with income growth prospects comfortably better than inflation. I think this is an attractive proposition in the lower return world we appear to find ourselves. As a result I am hopeful that I can continue to deliver a combination of a reasonable income level, with reasonable income and capital growth, as I have done over the last five years.

Jeremy Lang, Joint Investment Director, Liontrust Investment Services Limited - August 2001.

INVESTMENT OBJECTIVE

Liontrust First Income Fund aims to provide a high level of income, with capital values keeping pace with inflation.

ESSENTIAL FUND FACTS

Total size	: £31.6 million	Number of holdings	: 64
Initial offer price	: 50 pence	Launch date	: 2 July 1990
Initial charge	: 5.0%	Estimated net annual yield	: 4.06%
Annual management fee	: 1.5%	Payment dates	: End February 31 August
Bid/offer spread	: 6.0%	Unit type	: Income units only (<i>Investors may reinvest income at creation price.</i>)
Minimum investment	: £2,500		

THE FUND'S CALENDAR

Accounting dates:	Interim: 31 December.	Final: 30 June.
Manager's Report posted:	Interim: end February.	Final: 31 August.
Ex-dividend date:	Interim: 1 January.	Final 1 July
Payment date:	Interim: end February.	Final: 31 August.

PERFORMANCE RECORD

Source: Lipper, bid to bid basis, net income reinvested at ex-dividend date. Figures to 31.08.01

	One Year	Three Years	Since 1.8.96*	Since Launch (2.7.90)
Liontrust First Income Fund	+16.9%	+46.9%	+121.6%	+290%
FTSE All-Share Index	-17.3%	+14.0%	+59.7%	+213%
UK equity income sector average	-3.6%	+22.5%	+70.7%	+210%
Sector quartile ranking	1st	1st	1st	1st

(*Jeremy Lang assumed management of the Fund on this date).

INCOME DISTRIBUTION HISTORY

Accounting period	:	1995	1996	1997	1998	1999	2000	2001
Net income per unit (pence)	:	2.12	1.873	3.483	3.832	3.948	4.001	4.172
Net income per £1,000 invested on 1.1.95	:	£35.27	£31.16	£57.95	£63.76	£65.69	£66.57	£69.42

TOP TWENTY HOLDINGS (representing 44.7% of the portfolio)

1 BP	4.8%	8 City Centre Restaurants	2.0%	15 Imperial Tobacco	1.8%
2 Lloyds TSB Group	3.5%	9 Shell Transport & Trading	2.0%	16 Devro	1.8%
3 Telewest Communications	3.1%	10 GlaxosmithKline	1.9%	17 Sainsbury	1.8%
4 Abbey National	2.6%	11 Northern Foods	1.9%	18 Carpetright	1.8%
5 Royal Bank of Scotland	2.5%	12 Yule Catto & Company	1.9%	19 Rexam	1.7%
6 Boots	2.4%	13 Macfarlane Group	1.8%	20 AWG	1.7%
7 ICAP	2.1%	14 Debenhams	1.8%		

SECTOR ALLOCATION

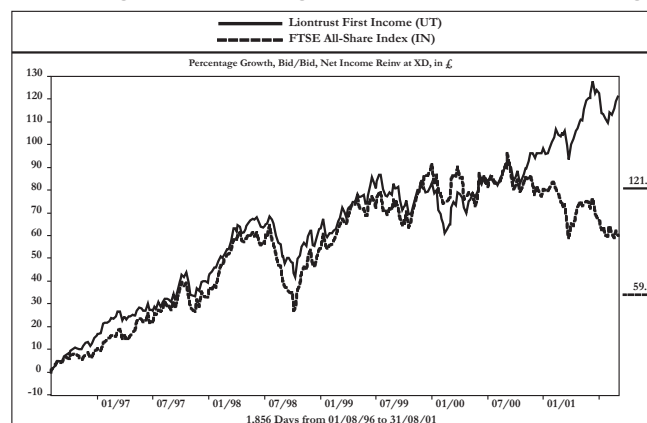
Resources	9%	Non-Cyclical Consumer Goods	14%	Information Technology	2%
Basic Industries	10%	Cyclical Services	24%	Financials	14%
General Industrials	12%	Non-Cyclical Services	2%	Fixed Interest	5.5%
Cyclical Consumer Goods	0%	Utilities	2%	Cash	5.5%

MARKET CAP. WEIGHTINGS

FTSE 100 Index	28%	FTSE Mid 250 Index	28%	FTSE Small Cap. Index	30%	Fixed Interest	5.5%	Others	3%	Cash	5.5%
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LIONTRUST FIRST INCOME FUND

Since Jeremy Lang assumed management of the Fund on 1st August 1996.



The value of investments can fall as well as rise. Past Performance is no guarantee of future performance

KEY FEATURES

ITS AIMS

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

YOUR INVESTMENT

Investment in this Fund is by lump sum only. The minimum initial investment is £2,500 whilst the minimum additional investment is £1,000. You may sell your units back to us at any time. If you wish to sell part of your investment the minimum is £500 provided you maintain a balance of £2,500. You may add to your investment at any time.

At its absolute discretion, Liontrust Investment Funds Limited may vary the minimum investment levels.

Until their abolition on 6 April 1999, the Fund was eligible for inclusion within the Liontrust Unit Trust Personal Equity Plan ("Liontrust PEP"). From 6 April 1999 PEPs were replaced by Individual Savings Accounts ("ISAs"). PEPs can continue to be held with the same tax advantages as ISAs but no new or additional subscriptions are permitted. Investors can transfer existing General PEPs in cash into the Fund within the Liontrust PEP, however. The Fund is eligible for inclusion in an ISA.

RISK FACTORS

Investors should be aware of the following risks involved when investing in this Fund:

It is important to remember that the price of units, and the income from them, can fall as well as rise and is not guaranteed and that investors may not get back the amount originally invested.

The past performance of the Fund should not be considered a guide to future performance.

The Fund deducts its annual management fee from capital. This results in the income paid by the Fund being higher than would be the case were the annual management fee deducted from income. As a result the capital growth of the Fund will be constrained by the same amount as the annual management fee. A higher level of income may also increase your tax liability.

Changes in the rate of exchange of currencies, particularly where overseas securities are held, may also affect the value of your investment.

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.

You may qualify for cancellation rights, if you have received advice through an authorised financial adviser, which enables you to cancel your investment within fourteen days. You should be aware, however, that under this method your monies are invested immediately and if the value of the investment has fallen due to a downward movement in the stockmarket, you will receive back the amount originally invested less an amount commensurate with the fall in the Fund.

The levels and bases of, and reliefs from, taxation can change under future legislation and the value of such relief depends upon the individual circumstances of the investor.

QUESTIONS AND ANSWERS

How do I invest ?

You can invest through an independent financial adviser or alternatively you can invest with Liontrust direct by sending us a cheque and accompanying instruction of how you would like to register your investment. An application form is available upon request.

If you wish to invest in the Fund by transferring existing General PEPs in cash into the Fund within the Liontrust PEP you should complete the Transfer Form.

What information will I receive after I invest ?

Once you have invested you will be sent a contract note which will contain details of the number of units you have purchased, the price you have paid for them and a form requesting your registration and bank details (if income is to be paid out). Within the next fourteen days of receiving your payment and registration details you will be sent a Confirmation of Ownership together with a Form of Renunciation which should be completed when you wish to dispose of your investment. We do not issue certificates. Every six months you will be sent a copy of the Fund's Manager's Report and Financial Statements. This gives you full information about the Fund's portfolio, how we have managed the Fund and our market outlook.

If you have invested in the Fund through the Liontrust PEP you will be sent a statement of the valuation of your investment as at 5 April and 5 October within twenty five working days of these two dates. You will also receive the Fund's Manager's Report and Financial Statements every six months.

How will my holdings be registered?

Units purchased in the Fund will be registered in your own name. Investments held in the Liontrust PEP are registered in the name of Henderson PEP Nominees Limited.

How do I monitor my investment ?

We publish the prices and movements of all our unit trusts in *The Financial Times* and *The Daily Telegraph* every business day. You can also telephone our Client Investment Services Department on 020-7412 1766 if you wish to find out further information.

If you have any queries about your Liontrust PEP investment you can telephone our PEP Investor Services Department on 020-7452 1372.

Can I reinvest any income from my investment ?

If you wish you can choose to reinvest any income rather than have it paid out to you. If you reinvest income you will simply purchase extra units which will be notified to you at the distribution date which is twice per annum, at the end of February and on 31 August. Simply let us know at the time you initially invest. You are free to change your mind and elect to have income reinvested or paid out at any time.

The estimated net distribution yield on the Fund at the date of issue of these Key Features was 4.06%. This figure is after the deduction of our annual management fee but net of UK income tax.

If you have invested in the Fund through the Liontrust PEP, income can be automatically reinvested to purchase additional units to add to your holding, or

distributed to you half-yearly on or before 10 January and 10 July in respect of the half-year ended at the end of the previous month.

Income released from the Fund into the Liontrust PEP pending distribution or reinvestment will be held on deposit, earning interest, which will be paid to you.

Can I switch between this Fund and Liontrust's other unit trusts?

You can switch between our range of unit trusts at any time by telephoning or writing to us. A discount of 4% is generally available on the offer price of the Fund switched into. You should be aware that a switch constitutes a disposal for Capital Gains Tax purposes.

What are my tax liabilities ?

Investment in the Unit Trust.

These depend on your personal circumstances and the nature of the distributions paid by the unit trust. Liontrust First Income Fund distributes dividend distributions:

Dividend distributions

Dividend distributions received by you, or reinvested on your behalf, will be subject to income tax on the aggregate of the distribution and associated tax credit. The current value of the tax credit is equal to one ninth of the dividend receipt and the aggregate of the dividend receipt plus tax credit will form part of your investment income, which will be treated as the top slice of your total income for UK tax purposes.

If you are a UK resident individual who is not liable to tax, you are no longer able to reclaim the tax credits from the Inland Revenue. If you are a UK tax resident individual, liable to tax at the Starting or Basic rates of tax only, you will have no additional tax liability as the tax credit will satisfy your UK income tax liability. If you are a Higher rate taxpayer you will have an additional tax liability to pay.

If you are a non-UK tax resident individual you may be entitled to reclaim part of the tax credit in certain circumstances.

Capital Gains

The investments within a unit trust are exempt from UK Capital Gains Tax. You may, however, be liable for Capital Gains Tax when you sell your units if your gains exceed the tax year's Capital Gains Tax exemption limit.

Stamp Duty Reserve Tax

Stamp Duty Reserve Tax ("SDRT") is a 0.5% tax that is payable to a Trustee of a unit trust when unitholders sell their units in that unit trust. This may have an effect on you as the unitholder depending on how the unit trust manager will be treating this particular charge. Any SDRT liability incurred on Liontrust First Income Fund will be charged to the Fund, which could mean that less of your money will be invested for potential capital growth.

Investment using a PEP.

If you have invested in the Fund through the Liontrust PEP, income distributions are not liable for income tax and any future capital growth is not liable for Capital Gains Tax. Unfranked income accruing within the Fund is liable for Corporation Tax. This income has suffered a tax charge which is claimed back on your behalf by Liontrust Investment Services Limited, the PEP Manager.

Dividend distributions

Dividend distributions received by you, or reinvested on your behalf, will not be subject to income tax.

If you have chosen to receive, or reinvest, PEP distributions, you will continue to be entitled to repayment of the tax credit until 5 April 2004. We will recover these credits from the Inland Revenue on your behalf. When these have been received, and you have chosen to reinvest, they will be added to your holding to purchase additional units at the same price as that prevailing on the distribution date.

No tax credit will apply, however, on the equalisation element of the first income distribution which you receive after purchasing units. Equalisation is the accrued income included in the price of units purchased during the distribution period (Group 2 units) which is refunded as a part of a unitholder's first distribution, so as to provide the same distribution for all units of the same type. As a repayment of capital it is not liable to income tax and should be deducted from the cost of units for Capital Gains Tax purposes. Therefore since no income tax is deducted, no tax credit will apply.

Can I change my mind after I have invested ?

If you have received financial advice from an authorised financial adviser you will receive a notice of your right to cancel your investment within fourteen days following receipt of our acknowledgement of your investment. If the value of the investment has fallen because of a movement in the stockmarket, you will receive back the amount commensurate with the fall in the price of the units.

HOW WILL CHARGES AND EXPENSES AFFECT MY INVESTMENT?

An 'offer' price (the price at which you buy units in the Fund and being the higher) and a 'bid' price (the price at which you sell units and being the lower) are always quoted for the Fund. The difference between these two prices is known as the 'spread'. The offer price includes the Manager's initial charge which is 5%. At the date of issue of these Key Features the spread of the Fund was 6.0%.

The annual management fee is 1.5%. There are also other expenses which include fees to Custodians (0.0075% per annum), Trustees (0.04% plus VAT per annum), registrars (£9.60 plus VAT registration fee per annum), auditors and regulators (both have fixed costs which will therefore have a proportionately smaller impact per individual investment as the Fund grows in size). At the date of issue of these Key Features, all these charges combined have the effect of increasing the total annual management fee to 1.65%. This is deducted from capital.

The Fund's Trust Deed permits the initial charge and annual management fee to be increased to a maximum of 7% and 2% respectively, with any proposed increases subject to three months' notice to unitholders. There are currently no plans to increase these charges.

For investors invested in the Fund through the Liontrust PEP there are no additional charges except for a £30 fee (plus VAT if applicable) for partial withdrawals, transfer to another PEP Plan Manager or termination by the Investor. There is also a £100 fee (plus VAT if applicable) for the cancellation of a duplicate or void plan.

The basis of the calculations

The calculations are based on our minimum investment of £2,500 in the unit trust and £3,000 in the Liontrust PEP. First we deducted our initial charge, which is the difference between the buying (offer) price of units and the price you would get if you sold immediately. Second, we assumed that the unit trust investment grows at 6% per year and the Liontrust PEP investment grows at 7% per year. These are standard growth rates used by all investment companies to allow you to compare their charges. We also made allowance for the annual charges that are deducted from the capital of the Fund. The income column shows how much would be paid out. For the purposes of the tables the income is based on the yield at the time this Key Features Document was produced. A standard yield assumption makes no allowance for growth of income over time. The figures do not allow for any discount that you may receive when you invest.

The effect on an investment of £2,500 assuming a growth rate of 6% per year is set out below. The figures are not guaranteed and are used only for the purposes of demonstrating the effect of charges on an investment of £2,500.

At end of year	Investment to date (£)	Effect of the deductions to date (£)	Income to date (£)	What you might get back at 6% p.a. (£)
1	2,500	199	90	2,359
3	"	307	272	2,378
5	"	429	455	2,397
10	"	807	918	2,444

The last line in the table shows that over ten years the effect of total charges and expenses could amount to £807.

Putting it another way, if the growth rate were to be 6%, which is in no way guaranteed, this would have the effect of reducing it to 3.64% a year.

The effect on an investment of £3,000 assuming a growth rate of 7% per year is set out below. The figures are not guaranteed and are used only for the purposes of demonstrating the effect of charges and expenses on an investment of £3,000.

At end of year	Investment to date (£)	Effect of the deductions to date (£)	Income to date (£)	What you might get back at 7% p.a. (£)
1	3,000	241	109	2,858
3	"	379	331	2,935
5	"	540	560	3,014
10	"	1,064	1,158	3,222

The last line in the table shows that over ten years the effect of total charges and expenses could amount to £1,064.

Putting it another way, if the growth rate were to be 7%, which is in no way guaranteed, this would have the effect of reducing it to 4.50% a year.

HOW MUCH WILL ANY ADVICE COST ?

If you purchase units in the Fund through a financial adviser we will pay commission to him for introducing this investment to us. This rate will normally be up to a maximum of 4%. This commission will normally be paid for out of the charges.

Renewal commission of 0.5% will be paid to authorised intermediaries. This will be paid twice yearly, reflecting balances as at the end of June and end of December. Commission will be paid within four weeks of these dates.

If you transfer existing PEP proceeds and purchase the Fund through the Liontrust PEP through a financial adviser we will pay commission to him for introducing the investment to us. This commission will be up to 4% on initial subscriptions and renewal commission of 0.5% per annum of the value of the PEP. The renewal commission will be payable from the annual management fee of the underlying Fund.

No advice will be provided by Liontrust in respect of this Fund.

FURTHER INFORMATION

How to deal in the Fund

You may buy or sell units in the Fund on any business day between 0900 and 1730. Prices are always quoted on a 'forward' basis. This means that all deals are based on a price that is calculated at the next valuation point (which is 1400 hours on each business day) following the purchase or sale of units. All deals made during the day up to this valuation point will be dealt at this forward price whilst those deals taken later in the day will receive the next dealing price which is fixed at 1400 hours on the following business day.

Prices of units in the Fund and the latest estimated net distribution yield are calculated and published daily in *The Financial Times*. The Fund's prices are also listed in *The Daily Telegraph*.

In the case of large deals of £15,000 and over, the Manager has the discretion to quote a special price within the limits laid down under the Regulations.

When you sell your units a contract note confirming the instruction to sell will be issued immediately. Following receipt of correctly completed Form of Renunciation, a cheque in settlement will be sent direct to you or your bank/building society within four business days.

Instructions to buy and sell units may be given by professional investors and advisers via telephone whilst private investors are required to instruct us in writing at all times.

All instructions to buy and sell units held within the Liontrust PEP must be given in writing to our PEP Investor Services Department. Dealing in units takes place once a week, normally on a Wednesday, or the next business day if this is a public holiday.

Authorisation

The Fund is an authorised unit trust scheme within the meaning of the Financial Services Act, 1986. It is a Securities Fund under the Financial Services (Regulated Schemes) Regulations 1991.

Scheme Particulars

Copies of the Fund's Scheme Particulars are available free of charge upon request from the Manager.

Manager

Liontrust Investment Funds Limited, 2 Savoy Court, London WC2R 0EZ. Regulated in the conduct of investment business by the Investment Management Regulatory Organisation Limited and the Personal Investment Authority Limited. Member of the Association of Unit Trusts and Investment Funds.

Investment Adviser

Liontrust Investment Services Limited, 2 Savoy Court, London WC2R 0EZ. Regulated in the conduct of investment business by the Investment Management Regulatory Organisation Limited.

Trustee

Bankers Trustee Company Limited, Great Winchester House, 1 Great Winchester Street, London EC2N 2DB. Regulated in the conduct of investment business by the Investment Management Regulatory Organisation Limited.

Registrar

Liontrust Investment Funds Limited, 2 Savoy Court, London WC2R 0EZ. Regulated in the conduct of investment business by the Investment Management Regulatory Organisation Limited and the Personal Investment Authority Limited. Member of the Association of Unit Trusts and Investment Funds.

Auditors

PricewaterhouseCoopers, P.O. Box 90, Erskine House, 68-73 Queen Street, Edinburgh EH2 4NH.

Custodian

Bankers Trust Company Limited, Great Winchester House, 1 Great Winchester Street, London EC2N 2DB. Regulated in the conduct of investment business by the Investment Management Regulatory Organisation Limited.

PEP Manager

Liontrust Investment Services Limited, 2 Savoy Court, London WC2R 0EZ. Regulated in the conduct of investment business by the Investment Management Regulatory Organisation Limited.

Your right of complaint

If you are dissatisfied with your investment at any time you have the right to complain and we have established a procedure for the effective investigation of complaints. Initially you should complain in writing to the Compliance Officer, Liontrust Investment Funds Limited, 2 Savoy Court, London WC2R 0EZ. You also have the right to complain direct to the Office of the Investment Ombudsman, 183 Marshall Wall, London E14 9SR. (Telephone: 020-7796 3065).

Compensation

The Manager and the Investment Adviser are members of the Investors Compensation Scheme, Gavrelle House, 2-14 Bunhill Row, London EC1Y 8RA (Telephone: 020-7638 1240).

Data Protection Act

We will not disclose your details outside the Liontrust Asset Management Group, its associated companies and sub-contractors or agents acting on our behalf. Those details may be added to a mailing list to enable you to receive details of the Group's products. If you prefer not to receive such details, please write to us.

Telephone calls

For your protection telephone calls may be recorded.

Money Laundering

We need, in certain circumstances, to investigate the identity of prospective investors.

The Fund's calendar

Launch date:	2 July 1990.	
Accounting dates:	Interim: 31 December.	Final: 30 June.
Manager's Report posted:	Interim: end February.	Final: 31 August.
Ex-dividend dates:	Interim: 1 January	Final: 1 July.
Payment dates:	Interim: end February	Final: 31 August.

Further Information

For further information about this, or any of our other funds please write to :

Client Investment Services Department
Liontrust Investment Funds Limited,
2 Savoy Court
London WC2R 0EZ

Telephone: 020-7412 1766

Facsimile: 020-7412 1779

Issued by Liontrust Investment Funds Limited, regulated by IMRO and the PIA.

February 2001.



LIONTRUST ASSET MANAGEMENT PLC

Liontrust Asset Management PLC is the holding company of specialist UK equities fund management group providing process driven portfolio management services to a range of funds which are targeted primarily at professional investors and advisers. The Group currently manages approximately £1.6 billion in segregated and pooled pension fund accounts, own branded unit trusts, investment trusts, offshore funds, individual savings accounts, personal equity plans and externally managed funds on behalf of over 14,000 investors.

CONTACT ADDRESS & TELEPHONE NUMBERS

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