

JULY 2006

The Liontrust Intellectual Capital Trust
(authorised unit trust): £113m

Liontrust First Smaller Companies Fund
(offshore fund): £2m

INVESTMENT PHILOSOPHY – *THE CROSS REPORT*

- Intellectual Capital is the intangible asset base of a company. It includes customer relationships, contracts and repeat business, distribution networks, intellectual property and organisational strengths like formats, procedures and culture. Intellectual Capital is difficult to replicate.
- Intellectual Capital, therefore, helps to maintain profitability in a world where deregulation, the removal of trade barriers, easy access to capital, quick distribution and shortening product life cycles have combined to increase competition.
- Intellectual Capital is created and exploited by motivated employees. The best method of motivating employees is through equity ownership.

THE PORTFOLIO

- Companies must demonstrate that their Intellectual Capital will sustain their competitive position.
- Directors must own at least 3% of the listed equity.
- A balance is maintained between sectors and each company is given a weighting based upon risk such as customer spread and financial gearing. This has helped deliver consistent performance.

INVESTMENT COMMENTARY

Return to Basics

The June 2004 edition of *Cross Words* was entitled 'Back to Basics'. It featured four stocks that I believed would deliver strong share price growth over five years. The piece was meant as a reminder that, despite the day-to-day noise of the stock market, life for most companies chugs on. Whether they are a success or failure over the next three years depends far less upon oil prices, inflation and interest rates than the strength of their product and business model.

In June 2005 I reviewed the four same stocks and now in June 2006 I return once again to examine their prospects. This analysis has been illustrative. Each one, in its own way, shows how the stock market's valuation of companies can be somewhat arbitrary. This is particularly true in smaller companies where the expansion or contraction of individual company price to earnings multiples (PEs) can, over the short term (say eighteen months), exaggerate prospects.

At this point, those with high valuations must demonstrate that their business model is delivering the anticipated growth. If successful, they will often spend the second eighteen months growing into their valuation before the share price increases again.

It is easy to be mesmerised by a rising share price, particularly if it is accompanied by hype and excitement. It is critical, however, to assess whether the business model is showing signs of success. Given that valuations for companies deemed to have excellent prospects are frequently exaggerated, it is better to reduce a holding if there are any doubts about the business model even if over the short term (the first eighteen months) the share price continues to rise. This is because over the second eighteen months the stock market will be alarmed by a failure in the business model and a sharp de-rating of the shares will ensue.

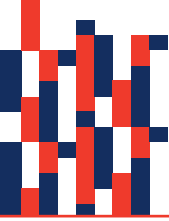
Companies deemed to have poor prospects must obviously demonstrate that their business model will produce growth. If they succeed, their share price, from a low base, will rise sharply. During the period of disappointment, the first eighteen months, the share price will grind downwards. Ideally, shares should be sold prior to or during this period. In smaller companies, however, once disappointment has materialised share dealing liquidity evaporates.

At the end of eighteen months, as long as the company's position is not terminal, the price will usually reflect such a degree of pessimism that it will stabilise. For the next eighteen months, if the trading position of the company shows no sharp deterioration, the share price will not move materially. It is during this second eighteen months that smaller companies that have previously disappointed are frequently forgotten and rarely analysed. This is particularly true of the 'micro-cap' companies capitalised below £50m. It is amongst this group that significant valuation anomalies start to occur.

Returning to our four stocks of June 2004, they are still all in the Fund.

ASOS (ASC, 89p – asos.com). *ASOS* is the second largest on-line clothing retailer in the UK. It has tapped into people's appetite for celebrity. Its buyers study the fashion of celebrities and design and source clothes that are marketed as being, for example, 'a halter waistcoat in the style of Victoria Beckham'.





It is hard to find Intellectual Capital in retailers but I find *ASOS* interesting for three reasons. First, it has a database of over 880,000 registered users (last year it was 580,000). Its customers, aged 18 to 30, can be targeted via e-mail. Promotions can be easily advertised and stock more effectively managed. In addition, broadband internet connections are growing and this is improving the on-line shopping experience. Second there is a high level of repeat business with only a fraction of registered users only having bought once. Third, celebrity-based magazines such as *Heat* and *Now* provide the company with an ideal advertising medium through which they can reach their target market.

The behaviour of the shares in *ASOS* fits with the two eighteen month periods I described earlier. From June 2002 until December 2004 the shares rose from 13p to 78p; from December 2004 until June 2006 the shares rose to 94p, underperforming the FTSE Small Cap. Index. The company has continued to deliver in terms of registered users but profit growth has been disrupted. There was a distribution problem over Christmas 2004 caused by too many small warehouses. Ironically, distribution problems reoccurred last Christmas when the new warehouse was damaged by the explosion at the Buncefield oil depot.

With its high valuation (a forecast PE of over 20x) and risks surrounding distribution, the Fund reduced its holding in *ASOS* at an average price of 87p at the beginning of 2006. I have preferred to sit on the sidelines. I think, however, that we have now reached a critical time. The new warehouse is up and running again and the logistics have been outsourced. Hits to the website continue to grow (the number of site visits can be found on Google) and the expansion of the product offering has had long enough to prove its success. If the next set of results demonstrates the expected growth then the shares will start to rise again. The Fund currently has 0.2% in *ASOS*. *(As an addendum, results have just been reported. Growth is coming through and registered users have increased to 960,000. However, the company has flagged that extra costs to support the expansion will limit earnings growth for the next two years. This has been a surprise to some overly optimistic analysts. It has been right to sit on the sidelines and I will continue to do so.)*

Romag (ROM, 120p). The company produces laminated glass and plastics that are used in security, transport and buildings. The security products include bullet and bomb resistant glass used in military vehicles, armoured limousines, security vehicles and banks. The transport products include impact resistant screens, used, for example, in high speed trains. The building products include toughened glass and new solar 'photovoltaic' panels.

The specialist glass continues to show steady growth. A deliberate move away from lower margin more standard glass for buildings has blunted turnover growth but boosted margins and profit.

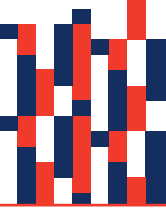
Whilst the security business is an attractive business, the real excitement surrounding *Romag* is its photovoltaic panels. The company's skills in laminating glass and its alliance with BP, who provide the solar cells, have resulted in a product called 'Powerglaze'. This solar power product can form part of a roof, façade or window and it has the advantage over the competition of being an integrated building product as opposed to an addition that is bolted on.

Sales of Powerglaze are starting to accelerate. In the first half of the year to September 2005 they were £0.5m. In the second half sales were £0.9m and profit was around breakeven. In the first half of this year sales rose to £1.1m but were held back by a shortage in supply of BP solar cells.

The availability of grants, legislation and the cost of alternative energies will be important drivers in *Romag's* success. These are outside the company's control so they add a high degree of uncertainty with regard to profit forecasts. The shares have risen from 64p to 120p over the last eighteen months. I would expect them to consolidate at these levels for a similar period unless profit growth is much faster than expected. The Fund continues to hold *Romag* (1.5%) but has not added to its position since December 2004 at 48p.

UBC Media (UBC, 20p). The company is a profitable media business with interests in radio broadcasting, programme making and advertising as well as software for digital radio. There is also an early stage 'conceptual' aspect to the business. Part of the digital radio spectrum carries data. *UBC* has developed and is now trialling a service that will allow digital listeners to download music onto their radio device as they listen to the radio. I use the term 'device' rather than radio as there will be a convergence of radio along with mobile telephones, the internet and television onto a single product. *UBC* plans to launch their service towards the end of the year when their software will be incorporated into devices that contain digital radio chips. Consumer interest will be stimulated by radio companies who will receive a share of the revenue. Agreement has been reached with all major record companies and a number of major radio stations. A music download will cost 125p (discounted to 99p in year 1). This compares with 79p at iTunes. The download will be sent to the mobile device chip as well as via e-mail to the user's PC. The net contribution per download to *UBC* will be 16p and the company expects to be in profit with 660,000 users downloading 5 times per month. With all 'concept stocks' the numbers are always subject to change but *UBC* are not being overly aggressive in the 10% market share they hope to grab.





The Fund has 1.7% in *UBC*. The share price of *UBC* has suffered from the general malaise in the radio sector. On top of weak advertising revenue (which has not applied to *UBC*) there is uncertainty about how the radio industry will emerge from the switch from analogue to digital broadcasting. Also, whilst there is enthusiasm about the potential for *UBC*'s music downloads, the shares are unlikely to perform until this enthusiasm translates into revenue.

Workplace Systems (WSI, 5.0p). In June 2004, I described *Workplace* as a classic forgotten soul from the technology boom of 1999/2000. Between June 2004 and June 2005 its shares rose from 12.5p to 14p (12%). Since then its share price performance has been less impressive. In March, a shareholder accepted a bid outside the market price and the shares immediately fell from 9p to 6p. It provides a good example of the danger of poor share liquidity in a smaller company. The unlucky sales director had only four months earlier spent £150,000 buying shares at 9p.

Workplace's software addresses all areas of labour management, including staff forecasting, scheduling, budgeting and productivity and performance reporting. The products are relevant to all market sectors but the current focus is on retail, hospitality, emergency services, health, retail, finance and transport. The company is rich in Intellectual Capital. First, its software has been built and is further refined through a large spend on research and development. Over 45% of employees are involved directly in the development of this intellectual property. Second, recurring revenues represent 49% of total revenue.

During 2005 and into 2006 *Workplace* has been investing an extra £1m in sales and marketing personnel. The need for this increased spend was a surprise to me as I had not appreciated the extent to which the company had pared back investment in these areas during the technology downturn. As a result of this investment the company has been unprofitable and is not expected to reach breakeven until late in 2006.

Just as operational gearing has clobbered the company on the downside, profits should return strongly if the investment in sales and marketing bears fruit.

Workplace has started that second eighteenth month period where it will become forgotten and rarely analysed. I still believe that the company has a strong product offering and a new ASP offering will be attractive to smaller businesses such as the hospitality trade. The longer-term potential of *Workplace* remains intact. It has a market capitalisation of £7m and net cash of just under £4m. Turnover is around £7-8m of which, as stated earlier, 49% is recurring support and maintenance. The current market capitalisation is too low. The company's enterprise value (market capitalisation minus net cash) is equivalent to 50% of the value of its recurring revenue. With gross margins of over 90% it takes only a few extra licence sales to move back into profit. *Workplace* reminds me of some of those neglected companies back in 2002. The Fund currently has 0.8% in *Workplace Systems*.

The Fund

It has been a difficult and frustrating six months but I am confident that performance will start to improve.

The last quarter, in share price terms, has been poor for smaller companies. After a strong first quarter, worries about rising interest rates, inflation and economic growth dented confidence. Generally share prices were down.

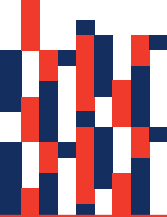
In the Fund there have been, as always, some general positives and negatives.

Datamonitor (market research) has been a great performer for the Fund. Having significantly increased the holding in the dark days of 2002 the shares have risen from a low of 20p to over 400p. *Datamonitor*'s shares have performed strongly this year to the benefit of the Fund. Recently, however, directors have sold shares; in particular the chief executive sold over £10m worth. My investment process requires directors to own at least 3% of the equity. If ownership falls below this level or there are significant sales by a director (over £10m) the shares will be sold. The Fund no longer has a holding in *Datamonitor*.

Concurrent (specialist computer boards) issued a very positive AGM. It is a good example of an undervalued and somewhat neglected smaller company of which I talk more about later.

YouGov (market research) has performed well. It produced strong interims in April and announced that it would beat market expectations in June. It continues to benefit from its pioneering use of the internet as a mechanism for communicating with its research panels.





Biotrace International (hygiene testing) appears to be demonstrating a return to organic growth. I was attracted to its high level of repeat business and have been building the Fund's position.

Results/statements from *Brewin Dolphin* (private client broking), *Charles Taylor Consulting* (insurance services) were good, as were those from *Dialight* (LEDs for signals and illumination), *Empressaria* (recruitment), *Next Fifteen* (technology public relations), *RWS* (patent translation) and *Walker Crips Weddle Beck* (private client broking).

Sirius Financial Solutions (insurance software) is making good progress and is increasing its amount of repeat revenue, as is *World Careers Network* (recruitment software).

Panmure Gordon (investment banking) issued a positive AGM statement although they did allude to the need to achieve a strong second half. I have been steadily selling down the holdings in *Panmure* and *Numis Corporation*. They are both highly exposed to the volume of corporate transactions and new issues. Good returns have been made, particularly in *Numis*, and at some point they will probably make good investments again.

During the quarter shares in *Erinaceous* (property services) were sold. It has performed well for the Fund. The company has been highly acquisitive. I do not mind small bolt on acquisitions but larger acquisitions tend to be more troublesome. The company has also suffered from a fraud in one its acquired subsidiaries.

The disappointments over the quarter were varied and company specific. They do not give clues as to the health of the wider economy.

Bango has developed a platform that enables providers of products and services (commonly called 'content') to sell to customers via mobile phones. Its key attraction is that it simplifies the financial transaction between the supplier and the end customer. It deals with credit checking as well as the providers of credit, namely the credit card companies or mobile phone operators. In line with my assessment of risk, the Fund's holding has always been small. It started at 0.2% but, frustratingly, prior to its results, I moved it up to 0.4%. The results showed good progress in signing up suppliers of content but these suppliers, particularly in the US, have been slower than expected in actively marketing content to customers. *Bango's* shares fell by 40%. The potential for growth in transactions is strong. Mobile phones will increasingly become 'mobile devices', incorporating for example, internet, digital radio and television, and the variety of content that can be purchased will broaden significantly. I will be looking for a growing momentum in transactions in the next set of results. The recent AGM statement has been more positive.

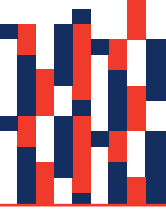
Belgravium makes handheld computers that are used in logistics. It has always suffered from lumpy orders. This has meant that results have tended to be unpredictable and a good result is too often followed by a poor one. Its recent AGM statement said that it was experiencing limited order visibility and some pricing pressure in part of its business. The Fund's holding was less than 1% and the shares fell 45%. *Belgravium* needs to be part of a larger business which can absorb the fluctuation in orders. The recent broker update suggests that order levels have improved and the shares have rebounded 20% since the end of the quarter.

CML Microsystems was a disappointment. It produces semi-conductors. Historically, its products were used in areas such as two-way radio and fixed line telephony. After the acquisition of a German business called Hyperstone, the company also developed products in flash memory. This flash memory business has grown strongly, particularly via Infinion, and represented 50% of group turnover. In setting my risk weight at 2%, I focussed too much on the breadth of end product across the whole company and not enough on *CML's* reliance on Infinion as the intermediary customer of its intellectual property in flash memory. Infinion are floating the subsidiary called Qimonda that *CML* supplies. Due to some switching around in production schedules this has caused a temporary (according to *CML*) cutback in demand. This was a surprise to *CML* who have been building up their German business and were starting to have success in broadening the intermediary customer base away from Infinion. The loss of sales has significantly reduced profit forecasts for this year. *CML's* shares fell 22%. I will continue to hold *CML* as its intellectual property is strong, but I will be looking for a recovery in Qimonda sales as well as a broadening of its customer base.

IDOX (local government software and recruitment) has suffered from 'management issues'. Without going into too much detail, the profit forecasts by the chief executive were unrealistic. Management has been changed and is now focused on realising shareholder value. *IDOX* was a 1.5% holding and fell 50%.

Wogen is a metals trader. It deals in specialist metals that are not traded via metal exchanges. I bought the company at flotation with the knowledge that trading could be volatile. The company has suffered from a sharp fall in the prices of specialist metals but also, importantly for a trader that takes principal positions, there has been no clear trend in prices. The company has attractive longer-term





growth plans which include expansion into China. It also has a high dividend yield that lends share price support in more difficult trading conditions. *Wogen* represented 0.8% of the Fund and fell 40% over the quarter.

To put these disappointments into perspective, the rise in *Datamonitor's* share price prior to its sale made up for over half of their loss. So whilst these companies have been a disappointment, their dent to performance given that they were not large holdings does not fully account for the extent of the underperformance so far this year.

There are three reasons why it has proved to be particularly difficult.

First, particularly in the early part of the year there was great deal of bid speculation. This speculation pushed up the share prices of a number of the larger smaller companies as well as companies within the FTSE Mid 250 Index (where many smaller companies funds also invest). The reason why the smallest companies miss out on such speculation is that private equity funds increasingly prefer to execute larger deals. The Fund tends not to own companies that are the natural prey of private equity. It has always (we are now in our ninth year) had a bias towards the bottom end of the market capitalisation scale where I find greater value. It also focuses on owner-manager businesses. Typically at some stage owner-manager businesses are looking for a cleaner exit than private equity. Some managers have lived through private equity before and have no desire to return to the days of leverage and stress whilst others would find it uncomfortable to work for a private equity boss.

The Fund does get its fair share of actual bids but they have come from other companies. In 2005, *Comino* (software), *Domnick Hunter* (filtration), *EPIC* (training) and *XN Checkout* (retail software) were taken over. Early in 2006, *NCipher*, a large holding, received an offer at 300p. Unfortunately the bid lapsed when it was surprisingly referred to the competition authorities.

Second, resources companies, despite more recent setbacks, have generally been in favour this year. Followers of the Fund know that I find it difficult to find Intellectual Capital in resources companies. I will not rehearse my previously stated arguments about the extent of resources speculation on the Alternative Investment Market but I am comfortable not to be riding that particular wave.

Third, without wishing to sound whinging, a lot of companies at the bottom end of the market capitalisation scale are suffering from neglect. I wrote in my previous quarterly review that around 25% of the Fund is in companies that trade on PEs of less than 14x. Neglect is unsurprising given the ever expanding number of listed smaller companies, but I also detect a general lack of interest in smaller market capitalisation companies unless they have a striking point of difference. *YouGov*, for example, in on-line polling has attracted investor interest. It has beaten market forecasts and trades on a PE over 20x.

I am optimistic that performance will improve because the neglect I have described will lead to corporate activity. Quite simply companies will get taken over. Ironically, having missed out on the speculation earlier in the year, I would expect to see a number of takeovers in the Fund over the next 12 months. The companies I own have attractive characteristics. They often have a combination of repeat business and strong customer relationships, intellectual property, databases and distribution networks. They generally have good margins and are cash generative. The management own equity and I sense they have a growing frustration about the valuation of their companies. They understand that with a low valuation the idea of using their quoted paper to buy businesses is a non starter. They are therefore receptive to the idea that they should be acquired in order to realise greater shareholder value.

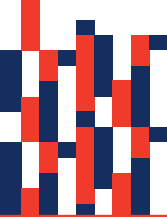
Generally, a corporate buyer of a small company can afford to be fairly generous, particularly in relation to the prevailing share price. On top of any strategic fit there are sizeable management and public company costs that can be saved. For companies making £2-5m in profit these cost savings are obviously quite material.

Overall, it has been a tough six months (my toughest for the Fund in 8½ years) but having analysed the reasons and worked out how the performance is likely to improve, I am confident that the Fund will start to turn the corner.

Anthony Cross
Director, Liontrust Investment Services Limited.

July 2006.





1. PERFORMANCE

The Liontrust Intellectual Capital Trust

Cumulative years

Source: Lipper, bid to bid basis, net income reinvested at ex-dividend date. Figures to 30.6.06.

| | 1 year | 2 years | 3 years | 5 years | Since launch (8.1.98) |
|--|--------|---------|---------|---------|-----------------------|
| The Liontrust Intellectual Capital Trust | +7.8% | +28.2% | +71.0% | +45.1% | +167.0% |
| FTSE Small Cap. Total Return Index (excluding investment trusts) | +17.0% | +32.3% | +66.6% | +29.3% | +76.1% |
| Average UK smaller companies sector unit trust | +19.1% | +42.4% | +87.8% | +42.0% | +119.8% |
| Performance vs. benchmark | -9.2% | -4.1% | +4.4% | +15.8% | +90.9% |
| Sector quartile ranking | 4th | 4th | 4th | 3rd | 1st |

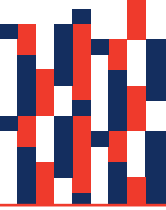
Discrete years

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

| | 1 year to 30.6.02 | 1 year to 30.6.03 | 1 year to 30.6.04 | 1 year to 30.6.05 | 1 year to 30.6.06 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| The Liontrust Intellectual Capital Trust | -19.1% | +4.8% | +33.4% | +19.0% | +7.8% |
| FTSE Small Cap. Total Return Index (excluding investment trusts) | -18.2% | -5.2% | +25.9% | +13.1% | +17.0% |
| Average UK smaller companies sector unit trust | -19.9% | -6.8% | +31.9% | +20.1% | +19.1% |
| Performance vs. benchmark | -0.9% | +10.0% | +7.5% | +5.9% | -9.2% |
| Sector quartile ranking | 3rd | 1st | 2nd | 3rd | 4th |

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. Some smaller companies may be less liquid than larger companies and the price swings in smaller company funds may therefore be greater than in large company funds.





2. SECTOR ALLOCATION versus FTSE SMALL CAP. INDEX

The Liontrust Intellectual Capital Trust

| Sector | FTSE Small Cap. Index (%) | Intellectual Capital Trust (%) | Relative Weights (%) |
|-------------------|---------------------------------|--------------------------------------|----------------------------|
| Technology | 10.6 | 23.8 | +13.2 |
| Health Care | 8.9 | 9.2 | +0.3 |
| Utilities | – | – | – |
| Consumer Services | 17.9 | 17.0 | -0.9 |
| Oil & Gas | 1.2 | 0.2 | -1.0 |
| Telecoms | 1.7 | – | -1.7 |
| Financials | 18.4 | 16.4 | -2.0 |
| Basic Materials | 3 | 0.5 | -2.5 |
| Industrials | 32.1 | 27.4 | -4.7 |
| Consumer Goods | 6.2 | – | -6.2 |
| Cash | – | 5.5 | – |

3. MARKET CAP. WEIGHTINGS

The Liontrust Intellectual Capital Trust

| | | | |
|-----------------------|-------|-------------------------------|-------|
| FTSE 100 Index | – | Alternative Investment Market | 46.0% |
| FTSE Mid 250 Index | 3.5% | Others | 1.1% |
| FTSE Small Cap. Index | 27.9% | Cash | 5.5% |
| FTSE Fledgling Index | 16.0% | | |

4. TOP TWENTY HOLDINGS

The Liontrust Intellectual Capital Trust

| | (%) | | (%) |
|----------------------------|------|---------------------------------|------|
| 1. RWS Holdings | 3.5% | 11. Next Fifteen Communications | 2.5% |
| 2. Renishaw | 3.5% | 12. Parkmead Group | 2.3% |
| 3. Royalblue | 3.4% | 13. Chrysalis | 2.2% |
| 4. BPP Holdings | 3.4% | 14. Walker Crips Weddle Beck | 2.2% |
| 5. Clarkson | 3.1% | 15. Brewin Dolphin | 2.2% |
| 6. Wilmington | 3.0% | 16. Charles Taylor Consulting | 2.0% |
| 7. Huntleigh Technology | 3.0% | 17. Charles Stanley | 2.0% |
| 8. NCipher | 3.0% | 18. Sirius Financial Solutions | 2.0% |
| 9. Waterman Group | 2.8% | 19. NSB Retail Systems | 2.0% |
| 10. Biotrace International | 2.8% | 20. Concurrent Technologies | 1.9% |

Total: 53.0% (47.0% held in a further 42 stocks and cash)



5. RISK ANALYSIS

| <i>Five years to 30.6.06, bid to bid basis, net income reinvested at ex-dividend date.</i> | FTSE Small Cap. Index | Intellectual Capital Trust |
|--|--------------------------|-------------------------------|
| Mean annual return | 7.11% | 9.44% |
| One month low | -20.18% | -21.56% |
| One month high | 13.25% | 10.96% |
| Maximum drawdown | -40.64% | -34.59% |
| Percentage of positive months | 55.00% | 58.33% |
| Alpha (annual basis) | 0 | 2.52 |
| Beta | 1 | 0.93 |
| Correlation Coefficient | 1 | 0.96 |
| R Squared | 1 | 0.92 |
| Relative Risk | 1 | 0.98 |
| Risk adjusted performance (annual) | 0 | 2.40 |
| Sharpe ratio (annual) | 0.15 | 0.27 |

Source: Asset Risk Consultants © 2005.

Glossary of Terms

MEAN ANNUAL RETURN : An arithmetic average (mean) of the monthly returns during the review period, multiplied by twelve.

MAXIMUM DRAWDOWN : The greatest loss that could have been experienced by an investor over the entire review period.

ALPHA : A measure of the portfolio's expected return when the benchmark produces no movement.

BETA : The amount the Fund is expected to gain or lose when the benchmark moves by one unit. It takes account of the relative risk of the Fund as well as the correlation of movements between the Fund and the benchmark.

CORRELATION : Measures the coincidence of movement that occurs between the Fund and the benchmark. Correlation coefficients can take values from +1 to -1. Correlation of +1 would indicate that the two portfolios move in perfect unison. A correlation of zero would indicate no relationship between the two. A negative correlation would indicate that they move in opposite directions.

R SQUARED : Measures the degree of explanation that can be made about movement in the Fund by a movement in the benchmark. A value of 100 equals 100% explanation. R Squared is also known as 'goodness of fit'.

RELATIVE RISK : The risk of the Fund measured in relation to the benchmark's risk which has a value of 1.00. Calculated by dividing the volatility of the Fund by that of the benchmark.

RISK ADJUSTED PERFORMANCE : The difference between the Fund and the benchmark return where the benchmark's return has been adjusted to the level of risk of the Fund. It is thought of as a measure of 'value-added' by a manager.

SHARPE RATIO : A measure of the annual excess return divided by the annualised standard deviation of returns of the benchmark. Excess returns are those in excess of the risk-free rate of return.

Bulletin Board News from Liontrust

JEREMY LANG - 10 YEARS AT LIONTRUST

Jeremy Lang passes his 10th anniversary as manager of Liontrust First Growth Fund and Liontrust First Income Fund.

A ten year track record - how many other fund managers can boast a continuous record as long as this? A recent survey showed that 62% of fund managers have changed jobs in the last three years.

Jeremy Lang and William Pattison, Liontrust's Joint Investment Directors, first started working together twenty years ago.

- William has managed Liontrust First Large Cap. Fund since its launch in 1999.
- Anthony Cross has managed The Liontrust Intellectual Capital Trust for 8 years since its launch in January 1998.
- Our two new fund managers, Gary West and James Inglis-Jones, have worked together for 9 years, many of those with William prior to his arrival at Liontrust in 1999.

We understand the importance to investors of stability in an investment team. We strive to do as much as we can, both in working environment and through incentivisation, to ensure the stability of the fund management team.