LIONTRUST INCOME FUND

MANAGER'S SHORT FINAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2013

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

THE LIONTRUST CASHFLOW SOLUTION

LIONTRUST INCOME FUND
IS MANAGED BY **JAMES INGLIS-JONES, GARY WEST** AND **SAMANTHA GLEAVE**
IN ACCORDANCE WITH THEIR INVESTMENT PROCESS FOR UK EQUITY PORTFOLIOS
THE LIONTRUST CASHFLOW SOLUTION.

This unit trust aims to provide rising dividend payments and reasonable capital growth. It invests in high yielding companies with unusually strong cash flow. We know that companies often have high dividend yields because investors have low profit growth expectations; in many cases these expectations prove to be wrong. We believe companies with good cash flows are likely to beat investors' low profit expectations, and will be able to pay a high and rising dividend. The Fund seeks to provide a high level of income with capital values keeping pace with inflation. Income is distributed to investors every six months, at the end of February and August.

MARKET REVIEW

Investment Commentary

In the 12 months to 30 June 2013 the Liontrust Income Fund returned 21.4% compared with the 17.9% return from the FTSE All-Share index. The average return from funds in the IMA UK Equity Income sector was 21.3%.

The final dividend to retail unitholders was 3.22p bringing the total dividend for the year to 6.98p per unit, a 3% rise on last year's level.

For the majority of the year under review, global equity markets forged ahead despite evidence of weak growth trends for the major economies and a number of developments which triggered bouts of nervousness. This environment of largely risk-seeking behaviour was fuelled by central bank monetary easing, and only came under threat at the end of the review period as Ben Bernanke, Chairman of the US Federal Reserve, indicated that its programme of quantitative easing (QE) may be approaching its end.

In the first months of the review period markets benefited from ongoing positive sentiment resulting from the Greek election result and bailout of Spanish banks that had been implemented in June 2012. This was further boosted in September by the European Central Bank's (ECB) Outright Monetary Transactions programme - a bond buying plan aimed at containing the borrowing costs of peripheral European economies. These measures provided markets with enough impetus in the second half of 2012 to overcome the release of Spanish banks stress test results, uncertainty regarding the result of the US election and the approaching US automatic budget tightening measures referred to as the 'fiscal cliff'. A similar pattern developed in 2013, as the postponement of the 'fiscal cliff', in combination with further accommodative policy – including the relaxation of Basel III banking liquidity requirements and the Bank of Japan's introduction of a huge stimulus programme – allowed markets to make further progress in the face of headwinds such as the Cypriot banking crisis and growing evidence of a slowdown in the Chinese economy. The biggest gaining sectors in the UK market were leisure goods (+120.3%) and automobiles (+65.1%), small sectors with few constituents, while larger cyclical sectors such as general retailers (+38.6%) and household goods and home construction (+50.7%) were also prominent. The banks sector endured a volatile period, particularly in the second half of the year as the Cypriot crisis unfolded, but it retained the gains made during the first six months to register a 30.8% gain overall.

Chinese growth concerns led many commodity prices to weaken, a pattern which accelerated as investors began to anticipate that the US Federal Reserve would reduce the level of monetary stimulus it had been supplying. Copper fell by almost 13% over the 12 months and precious metals also suffered with gold dropping 24% and silver 30%. This was reflected in the FTSE All-Share sector breakdown in which industrial metals & mining (-59.2%) was the worst performer, followed by mining (-17.6%). The other sector to post a negative return was oil & gas producers (-2.7%).

MARKET REVIEW CONTINUED

The market correction in June 2013, which saw the FTSE All-Share index fall by 5%, was sparked by Ben Bernanke's statement that 'tapering' of QE could start as early as this year. The subsequent debate regarding the likely timing of a reduction in stimulus, combined with the worries over Chinese growth, was sufficient to suppress investor sentiment and precipitate equity market falls in the final weeks of the review period.

Analysis of portfolio return

The most rewarding investment strategy in the year under review was a focus on large capitalisation stocks on inexpensive valuations as measured by metrics such as their accounting net asset value and after tax profits relative to market capitalization. Usually, these measures of valuation perform well in an environment of rising optimism and enthusiasm for risky assets. Measures of company quality - such as the return generated on invested capital by a business – fared poorly in this environment as investors focused on lower quality cheap assets that provided them with greater exposure to recovery. These trends however reversed in June as the market fell. In general, the environment was not favourable for cash flow strategies. Cash flow is often seen by investors as a proxy for fundamental quality but as the markets progressed higher the attractions of company cash flows were ignored. However, the Fund's income requirement ensured that it had sufficient bias to value during a period when this area of the market generally performed very well. This exposure allowed the Fund to outperform the market over the period under review.

Positive contributors to performance over the year included Restaurant Group (+73.5%), Halfords (+51.2%) and Next (+46.1%).

Shares in Restaurant Group, operator of restaurant brands including Garfunkels and Frankie & Benny's, rose steadily throughout the year. In February 2013, the company released 2012 results which showed a like-for-like sales increase of 4.5% and adjusted earnings per share growth of 10%. It announced in May that sales in the first 19 weeks of 2013 were 11% ahead of the previous year, and 4.5% higher on a like-for-like basis. It plans to open between 30 and 35 new restaurants in 2013. After warning early in the review period that summer sales had been "unusually quiet", trends at Next picked up in the autumn allowing the company to increase its profit guidance range for its financial year to January 2013. Sales in the first 14 weeks of its new financial year were up 2.2%, and the company expects growth for the year to be in the 1%-4% range. Halfords shares performed well despite losing 16% in a day in May following an unexpected dividend cut. The company's new CEO cut the dividend by 35% to fund investments in driving sales growth. Shares in the company had previously rallied after the announcements in October 2012 of an upgrade to profit guidance following strong sales momentum and the appointment of a new CEO. The share price subsequently recovered as investors became more comfortable with the company's plan to boost growth and its rebased dividend level.

Negative contributors to relative performance included BHP Billiton (-20.4%), De La Rue (-3.36%) and Ashmore (+2.8%)

BHP Billiton suffered alongside other basic resources stocks as slowing growth in China and the threat of tapering in QE threatened to reduce demand for commodities. Prior to its sale from the Fund, De La Rue announced weak first half results which included some worrisome developments in its working capital position and the announcement of a delay of a large customer contract. Shares in asset manager Ashmore performed well for much of the year, and recorded a positive return over the period, but underperformed the market particularly in the May/June setback when the company suffered from its exposure to emerging markets and fixed income assets at a time of risk aversion and rising bond yields as a result of the expectation of a reduction of US QE.

Portfolio activity

Portfolio changes resulting from the annual review of company accounts and reports were implemented in May of 2012, with some trades – such as the purchase of Micro Focus and the sale of the remaining holdings in Beazley and SMA Solar – carrying over to the start of the period under review.

During the course of the year we sold the Fund's holdings in a selection of stocks – Atkins, British Land, Bolsas Y Mercados, De La Rue, Hays, Mobistar, SSE and United Utilities – as their cash flow attractions waned.

We used the proceeds of these sales to fund new investments: BHP Billiton, BSkyB, GlaxoSmithKline, Tesco and Vivendi.

In July the geographical remit of the Fund was expanded to allow us to select stocks from a global universe of companies. This is a positive development for unitholders allowing the Fund to access a much more diverse list of stocks with, we believe, greater return potential. Analysis of the historic returns of our process suggests that there is a significant risk and return benefit of widening the universe of stocks. In a historic setting both greater returns and lower risk were achieved in simulations when our process was applied to a global list of stocks relative to the risk and returns on offer in a UK setting. It is wise to be cautious when extrapolating historic returns into the future. However the risk diversification benefit of applying our process to a global list of stocks – enabling the Fund to have a much wider sector and geographic exposure – is difficult to ignore.

We expect the results of this year's research into company reports and accounts – which typically take shape from May onwards due to the December financial year ends of a large proportion of our investment universe (and the March/April release of reports) and the phasing of dividend payments – to be implemented in the initial weeks and months of the new financial year starting 1 July 2013. The portfolio is likely to change to reflect both our research into 2012 report and accounts and the widened geographic scope of the

Fund. We are not expecting a dramatic shift in geographic exposure. The region of the world today that contains the greatest proportion of strongly cash generative high yielding companies is western Europe. Our expectation therefore is that the portfolio will continue to have a significant exposure to western Europe until such time as more compelling relative valuations occur in other parts of the globe. The portfolio will continue to be concentrated and focused only on the best worldwide examples of companies generating significant cash flows with the discipline to return those cash flows to shareholders through attractive dividends and share buy backs.

Outlook

After the strong performance of value investment styles over the course of the year under review the dispersion of valuations in the equity market has narrowed dramatically. Logically this implies that contrarian value strategies have less potential to perform well. In addition, the elevated expectations of recovery now embedded in valuations may cause investors to scrutinise financial results as they unfold over the course of the year with more care – looking for tangible evidence of improvement. We would welcome a greater focus on fundamental outcomes as it would provide a more constructive environment for our process.

The recent turbulence around Fed commentary would seem to affirm that prospects for further multiple expansion at the market level now appear dimmer, especially as the markets start to reflect on the likely endgame for quantitative easing. In an environment of reduced scope for a further re-rating of equities, investors may need to depend more on dividends as a source of return.

We highlighted in our interim report that, in our opinion, Europe continues to be the most attractive region worldwide both in terms of corporate allocation of cash flows and cash flow valuations. Following the expansion of the Fund's investment remit to a global mandate, the portfolio is still likely to display a strong bias to Europe and the UK. While the geographic expansion will allow greater diversification, we believe that Europe and the UK continue to offer the most attractive combination of cash flow and yield. In an environment of almost zero interest, investors in this Fund are now able to access a concentrated global list of stocks. These companies pay generous dividends that are supported by strong balance sheets and corporate cash flows at a time when not only dividends as a source of investor return may assume greater importance, but also a greater focus on company fundamentals may prove a more constructive environment for our cashflow driven investment process.

The Cashflow Team
Liontrust Investment Partners LLP
August 2013

Past performance is not a guide to future performance. The value of investments and the income from them can fall as well as rise.

FUND PROFILE

Investment Objective and Policy

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

Although the Fund may invest in all economic sectors in all parts of the world, it is intended that it will currently invest primarily in securities in companies listed on the International Stock Exchange of the UK and Ireland. The Fund may also invest in shares issued by companies incorporated in any European Economic Area ("EEA") Member State other than the UK which are listed on a recognised stock exchange of an EEA Member State. The Fund may also invest in transferable securities, money market instruments, warrants, cash and near cash and deposits. The Fund may also invest up to 10% of its property in units or shares in collective investment schemes. The Fund is permitted to use derivatives for the purposes of efficient portfolio management and for investment purposes.

Investment Approach

This unit trust aims to provide rising dividend payments and reasonable capital growth. It invests in high yielding companies with unusually strong cash flow. We know that companies often have high dividend yields because investors have low profit growth expectations; in many cases these expectations prove to be wrong. We believe companies with good cash flows are likely to beat investors' low profit expectations, and will be able to pay a high and rising dividend. The Fund seeks to provide a high level of income with capital values keeping pace with inflation. Income is distributed to investors every six months, at the end of February and August.

Risk Profile

Although the Fund may invest in all economic sectors in all parts of the world, the fund is invested primarily in companies listed on the FTSE All-Share Index, but its focus on high yielding equities can mean that its portfolio can differ significantly from the sector breakdown of the Index. The principal risks are those associated with stock market investments. The Fund can also hold fixed-interest bearing securities.

Risk Rating

The Risk disclosures are in accordance with ESMA guidelines and are consistent with rating disclosed in the KIID.

Lower Risk — Typically lower rewards

Higher Risk — Typically higher rewards

1	2	3	4	5	6	7

- The indicator is based upon historical data and may not be relied upon to gauge the future risk profile of the Fund.
- The risk and reward indicator shown is not guaranteed and may shift over time.
- The lowest category (1) does not mean 'risk free'.
- The Fund's risk and reward category has been calculated using the methodology set by the European Commission. It is based upon the rate by which the Fund's value has moved up and down in the past.
- The Fund is categorised 6 primarily for its exposure to securities (equity) of high yielding companies.

The risk and reward indicator does not take into account the following Fund risks:

- That a company may fail thus reducing its value within the Fund.
- Any company which has high overseas earnings may carry a higher currency risk as for valuation purposes, local receipts may require conversion into the currency of the Fund, which is pounds sterling.
- The Fund will comprise both growth and value companies as appropriate.
- The Fund may, under certain circumstances, make use of derivative instruments but it is not intended that their use will materially affect volatility.

Ongoing Charges Figure*	30th June 2013	30th June 2012
Class A income units	1.16%	n/a
Class I income units	0.90%	n/a
Class R income units	1.65%	n/a

* To comply with the requirements of the UCITS IV Directive the Total Expense Ratio has been replaced with an Ongoing Charges Figure. A class launched 17th December 2012.

Fund Calendar		
Ex-dividend date	Interim: 1st January	Final: 1st July
Income payment date	Interim: End of February	Final: 31st August
Accounting period ends	Interim: 31st December	Final: 30th June

PERFORMANCE

Net Asset Values *pence per unit*			
	30th June 2013	30th June 2012	% Change
Class A income units	139.37	n/a*	n/a
Class I income units	138.50	119.27	16.12%
Class R income units	135.03	117.17	15.24%

Distributions *pence per unit*			
	31st December 2012	30th June 2013	Total 2013
Class A income units	0.23*	3.53	3.76
Class I income units	3.82	3.33	7.15
Class R income units	3.76	3.22	6.98
	31st December 2011	30th June 2012	Total 2012
Class A income units	n/a*	n/a*	n/a
Class I income units	3.14	3.72	6.86
Class R income units	3.11	3.66	6.77

The Fund distributes income twice per annum, an interim dividend paid at the end of February and a final dividend paid on 31st August. The ex-dividend dates are 1st January and 1st July each year. Income can be reinvested to purchase units at no initial charge.

* A class launched 17th December 2012.

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. Investment in the Fund involves a foreign currency and may be subject to fluctuations in value due to movements in exchange rates. A portion of the Fund's expenses are charged to capital. This has the effect of increasing the distribution and constraining the Fund's capital performance. 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.

Total Return % (capital and income)	6 months	1 Year	3 Years	5 Years	Fund Manager Inception*
Liontrust Income Fund	8.2	21.4	44.5	39.2	101.80
FTSE All-Share Index	8.5	17.9	43.5	38.2	93.90
Quartile Ranking	4	2	3	3	2

Discrete Years' Performance %

To previous quarter, 12 months ending:	Jun 09	Jun 10	Jun 11	Jun 12	Jun 13
Liontrust Income Fund	-20.8	21.7	22.0	-2.5	21.4
FTSE All-Share Index	-20.5	21.1	25.6	-3.1	17.9

* The Cashflow Team took over management of the Fund on 25th March 2009.

Up-to-date past performance information 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. Investment in the Fund involves a foreign currency and may be subject to fluctuations in value due to movements in exchange rates. A portion of the Fund's expenses are charged to capital. This has the effect of increasing the distribution and constraining the Fund's capital performance. 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 as at 30.06.2013 (based on retail units).

PORTFOLIO

Top 10 Holdings

As at 30th June 2013	%	As at 30th June 2012	%
Next	8.56	Next	6.20
Provident Financial	6.70	De La Rue	5.95
Ladbrokes	5.48	SSE	5.82
Drax	5.28	Provident Financial	5.73
GlaxoSmithKline	4.92	United Utilities	5.32
Restaurant Group	4.74	Drax	5.28
AstraZeneca	4.59	Ladbrokes	4.44
Go-Ahead	4.59	AstraZeneca	4.35
Premier Farnell	4.32	Atkins	4.31
Tesco	4.25	Hays	3.97
Total	**53.43**	**Total**	**51.37**

Geographical Weightings

	As at 30th June 2013	As at 30th June 2012
	%	%
Belgium	0.00	1.36
France	6.08	3.87
Germany	1.89	1.88
Netherlands	1.75	1.56
Norway	3.15	2.77
Spain	0.00	2.10
Sweden	1.87	1.59
Switzerland	2.31	1.62
United Kingdom	81.20	80.64
	98.25	**97.39**
Cash (including SSgA* cash deposits)	**1.75**	**2.61**
	100.00	**100.00**

*State Street Global Advisors

FURTHER INFORMATION

UNITHOLDER NOTICE

Effective 3 July 2013, the Liontrust Income Fund's investment objective and policy changed to allow the fund managers to select companies on a global basis. The Fund moved to the IMA Global Equity Income sector on 1 August.

Liontrust Asset Management Plc

Liontrust, which was founded in 1994, is an independent fund management group whose shares are quoted on the London Stock Exchange. Liontrust manages £3.3 billion (as of 30 June 2013) in UK, European and Asian equities and Global Credit. We take pride in having a distinct culture and approach to asset management. This comes through the following factors:

- Liontrust is an independent business with no corporate parent.
- Liontrust specialises in those asset classes where it believes it has particular expertise and fund managers have strong long-term track records rather than try to be all things to all people.
- Liontrust uses rigorous investment processes that are robust and scaleable to ensure they are capable of delivering superior long-term performance. Using these investment processes ensures the way we manage money is predictable and repeatable.
- We aim to provide a culture that gives all fund managers the freedom to manage their portfolios according to their own investment processes and market views
- We have created an environment in which fund managers can focus on running money and not get distracted by other day-to-day aspects of running a fund management business, particularly administration.
- We aim to treat clients, investors, members, employees and suppliers fairly and with respect. Therefore, we are committed to the principles of Treating Customers Fairly (TCF) and they are central to how we conduct business across all our functions.

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 Key Investor Information Document (KIID) are available free of charge from the Manager upon request, and from www.liontrust.co.uk.

The Manager

Liontrust Fund Partners LLP, 2 Savoy Court, London WC2R 0EZ.

Administration & Dealing enquiries **0844 892 1007**
Facsimile **0844 892 0560**
Email **admin@liontrust.co.uk**
Website **www.liontrust.co.uk**

Authorised and regulated by the Financial Conduct Authority.

NOTES

LIONTRUST

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 & Dealing Enquiries **0844 892 1007**
Administration & Dealing Facsimile **0844 892 0560**
Administration & Dealing Email **admin@liontrust.co.uk**
www.liontrust.co.uk