



LIONTRUST SPECIAL SITUATIONS FUND

MANAGER'S SHORT FINAL REPORT
FOR THE YEAR ENDED 31ST MAY 2013



Managed by Anthony Cross &
Julian Fosh in accordance with

The Liontrust Economic Advantage

THE LIONTRUST ECONOMIC ADVANTAGE

LIONTRUST SPECIAL SITUATIONS FUND
IS MANAGED BY **ANTHONY CROSS** AND
JULIAN FOSH IN ACCORDANCE
WITH THEIR INVESTMENT PROCESS
FOR UK EQUITY PORTFOLIOS,
THE LIONTRUST ECONOMIC ADVANTAGE.



The Fund is managed in accordance with a proprietary, tried and tested investment process, *The Liontrust Economic Advantage*, researched and documented by the managers at Liontrust. The Fund only invests in UK companies with distinctive, intangible strengths that competitors struggle to reproduce. In a world of relentless global competition, it is these strengths that enable some companies to grow their market share, protect prices and margins and thus drive sustained profitability.

MARKET REVIEW

The Market

The summer months of 2012 were notable for oscillations between fear and relief as investors focused on events relating to the eurozone sovereign debt crisis. The avoidance of a Greek exit from the euro helped buoy investor confidence, which was further boosted in September following the introduction of the ECB's programme of monetary expansion (OMT – Outright Monetary Transactions). As the year progressed, attention shifted to the impending US 'fiscal cliff'; as the deadline for these automatic budget cuts was postponed at the start of 2013, global equity markets rallied. Eurozone fears re-emerged in March as the Cypriot banking sector faltered. An agreement was eventually reached by which a bailout could be affected but the final deal created fears that the losses incurred by bondholders and some depositors could represent a template for any future eurozone bailouts. Despite this, equity markets continued to push upwards into May and - in the face of a mid-month wobble on concern over Chinese manufacturing data and comments from Ben Bernanke suggesting a 'tapering' of the Federal Reserve's quantitative easing – held on to gains to complete the FTSE All-Share index's 12th consecutive month in positive territory.

The Process

Since launch in November 2005, the Fund has been managed in accordance with The Liontrust Economic Advantage investment process. We aim to find businesses which either have an international footprint with a 'world-beating' position, or that have a strong domestic position which is frequently backed by high recurring income. All of our smaller companies have motivated management who own equity in their businesses; the required threshold Board ownership is 3%, but the average in the portfolio is much higher. We believe that equity ownership is important for motivation as well as the attention it brings to financial discipline and long-term shareholder returns.

A strong market position requires barriers to competition. Our process is built upon the premise that today's barriers are built through intangible assets. Three in particular are very powerful, and companies can only enter the Fund if they have at least of one these.

The first is intellectual property (patents, copyrights, trade secrets and know-how). Intellectual property (IP) is usually legally protected and is built from accumulated spending on research and development.

MARKET REVIEW CONTINUED

The second is distribution networks. These can be either physical, such as the international distribution network built up by an engineer, or electronically embedded, which is typical of many software companies. Physical distribution networks have often been built over a number of years and cannot be replicated overnight. Embedded distribution networks form a very powerful barrier to competition because it is difficult for competitors to force out the embedded incumbent.

The third asset is repeat business. We look for companies with 70% contracted recurring income. Such an income stream is not threatened by persistent price changes and it provides management with a certainty of income, and therefore the ability to plan for the long term. Fee-based fund management companies enjoy high recurring income, as do software companies and some outsourcing businesses.

If a company has passed our test of having one, or more of these key barriers to competition, we will then evaluate other important intangible assets such as customer relationships, databases, licenses and franchises, procedures and formats, culture and brand.

We expect our businesses to demonstrate strong financial returns either through high margins or returns on capital employed (ROCE). Strong financial returns show that our required barriers to competition are working. In immature

businesses the focus tends to be on gross margin, whereas with more mature businesses the focus switches to operating margins and ROCE. With cyclical businesses, operating returns will obviously move around but during a downturn we would hope that our businesses will be gaining market share before seeing returns rise again into a recovery.

Risk plays an important part in our decision of how much of a company to buy. We grade our companies accordingly, taking into account such factors as customer spread, product spread, financial gearing and market maturity. New holdings have to be profitable companies, headquartered in the UK and with directors that are subject to UK law.

The Fund

The Fund rose 27.8% in the 12 months to 31 May 2013, compared with the 30.1% return from the FTSE All-Share index.

In the second half of the year, the Fund returned 11.5% while the index gained 15.3%. Such short-term periods of relative performance divergence from the index are consistent with the manner in which the Fund is managed; we do not weight holdings to match the stock or sector exposure of the FTSE All-Share index. We concentrate on absolute performance, which has been strong over both the short and long term. Since launch, the Fund has returned 177%, compared with 65% for the FTSE All-Share index.

MARKET REVIEW CONTINUED

Around the turn of the year in particular, the market environment was one where companies with low-quality balance sheets were the biggest beneficiaries of improving sentiment. Sectors such as banks, life insurance and general retailers – which are perceived as possessing high exposure to economic conditions – dominated the market rally in December 2012 and January 2013. We have few holdings in these market-sensitive sectors as they tend to possess few of the ‘economic advantage’ characteristics that our investment process seeks to identify.

The performance of portfolio holdings over the review period was strong. 39 holdings enjoyed double-digit share price gains with nine gaining over 50%. The biggest risers in the Fund were *Smart Metering Systems*, *Hargreaves Lansdown*, *Savills*, *UK Mail*, *Wilmington Group* and *Advanced Computer Software*.

Only five companies registered double-digit share price falls: *World Careers Network*, *Brainjuicer*, *Aggreko*, *NCC Group* and *Petrofac*. In contribution terms, Aggreko’s share price fall was the most significant. It followed a December 2012 trading update which warned of poor business visibility moving into 2013 for the provider of temporary power, but we believe that its long term growth prospects continue to be very strong.

Two stocks were sold from the Fund in the review period, both following the receipt of takeover offers. Media company *Aegis* received an approach in the first half of the Fund’s year, while *Ffastfill*, the derivatives software provider, received a recommended cash offer in February 2013.

In addition to the three stocks added in the first six months (*Iomart*, *UK Mail*, and *Reed Elsevier*), a further three positions were initiated. We bought into weakness in the share prices of *Spectris* (a manufacturer of precision control instruments) and *Spirent* (a provider of test solutions whose applications include cyber security solutions and automotive industry systems) in April after both companies reported challenging current market conditions, which we believe to be temporary rather than structural.

Outlook

The FTSE All-Share index’s rise over the year appears to suggest that some investors think the problems the economy faces have somehow disappeared. For much of the last year we observed a growing disconnect between an uncertain economic picture being painted by many corporates in their outlook statements and the robust gains made by the stockmarket.

MARKET REVIEW CONTINUED

We try to look through cyclicality when investing in companies. We aim to invest in companies whose strengths allow them to prosper in a low growth environment and who we believe are capable of delivering superior returns across the cycle. In our opinion, there are currently substantial opportunities for investment in UK companies that have desirable economic advantage characteristics. We believe that the economic advantages we seek in the companies that we invest in are key in driving long-term performance. We remain committed to adopting this long-term approach to the assessment of stocks, which means that we may invest in

a company even if it faces temporarily tough market conditions, and we adhere to the requirement that holdings possess at least one of the three economic advantage characteristics. Our long-term view is reflected in the low levels of stock turnover in the Fund.

Anthony Cross & Julian Fosh

Partners, Liontrust Investment Partners LLP
July 2013

Past performance is not a guide to future performance.

FUND PROFILE

Investment Objective and Policy

The investment objective of Liontrust Special Situations Fund is to provide long-term capital growth. To achieve this aim, the Fund will invest primarily in a concentrated portfolio of UK companies' shares. The Fund will invest where the fund manager believes there are the greatest opportunities to provide long term capital growth. The Fund will not be restricted in choice of investment by either size or sector. 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

The Fund is managed in accordance with a proprietary, tried and tested investment process, The Liontrust Economic Advantage, researched and documented by the managers at Liontrust. The Fund only invests in UK companies with distinctive, intangible strengths that competitors struggle to reproduce. Based on the belief that in the modern economy today's barriers to competition are built through intangible assets, three have been identified as very powerful - intellectual property, distribution networks and repeat business. Companies are only selected for the Fund if they possess at least of one these intangible assets.

Risk Profile

The Fund is invested exclusively in UK securities. A significant proportion of the Fund is invested in smaller companies, which may be less liquid than larger companies. The price swings may therefore be greater than in those portfolios comprising only shares of larger companies. Furthermore, the Fund can also invest in companies which are traded on the Alternative Investment Market (AIM). The nature of AIM investments is such that prices can be volatile and realisations may not achieve current book value, especially when such sales represent a significant proportion of that company's market capital. A concentrated portfolio could mean that the Fund's returns are volatile when compared with the FTSE All-Share Index.

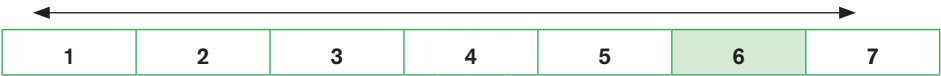
FUND PROFILE CONTINUED

Risk and Reward Profile

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

Lower Risk
Typically lower rewards

Higher Risk
Typically higher rewards



- 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 larger and smaller UK 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*		
	31 st May 2013	31 st May 2012
Class R income units	1.88%	n/a
Class I income units	0.89%	n/a
Class A income units	1.11%	n/a

* To comply with the requirements of the UCITS IV Directive the Total Expense Ratio has been replaced with an Ongoing Charges Figure. I class launched 1st November 2010 and A class launched 17th December.

FUND PROFILE CONTINUED

Fund Calendar	
Ex-dividend date	1 st June
Income payment date	31 st July
Accounting period ends	30 th November (interim) 31 st May (final)

PERFORMANCE

Net Asset Values <i>pence per unit</i>*			
	31st May 2013	31st May 2012	% Change
Class R income units	252.48	198.93	+26.92%
Class I income units	254.00	199.77	+27.15%
Class A income units	253.58	n/a	n/a

Distributions <i>pence per unit</i>*		
	31st May 2013	31st May 2012
Class R income units	1.73	1.65
Class I income units	4.06	3.58
Class A income units	2.24	n/a

The Fund distributes income once per annum, on 31st July. The ex-dividend date is 1st June each year. Income can be reinvested to purchase units at no initial charge.

* I class launched 1st November 2010 and A class launched 17th December 2012.

Total Return as at 31.05.2013 (%)					
	6 months	1 year	3 years	5 years	Since launch†
Liontrust Special Situations Fund	11.5	27.8	87.1	109.7	176.9
FTSE All-Share Index	15.3	30.1	44.1	35.2	65.4
Quartile Ranking	4	3	1	1	1

Discrete Years' Performance					
To previous quarter, 12 months ending:	Jun-09	Jun-10	Jun-11	Jun-12	Jun-13
Liontrust Special Situations Fund	-11.3	33.2	42.1	7.3	22.1
FTSE All-Share Index	-20.5	21.1	25.6	-3.1	17.9

† Launched 10th November 2005.

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. A proportion of the portfolio is invested in smaller companies and companies traded on the Alternative Investment Market. These stocks may be less liquid and the price swings greater than those in, for example, larger companies. 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 (based on retail units).

PORTFOLIO

Top Ten Holdings

30 th May 2013	%	30 th May 2012	%
GlaxoSmithKline	4.03	Royal Dutch Shell 'B' Shares	3.91
BG	4.00	GlaxoSmithKline	3.89
Compass	3.94	Unilever	3.81
Diageo	3.91	Compass	3.72
Unilever	3.82	BG	3.67
BP	3.72	AstraZeneca	3.61
Royal Dutch Shell 'B' Shares	3.69	Diageo	3.43
AstraZeneca	3.35	BP	3.35
Advanced Computer Software	2.92	Aggreko	2.98
Reed Elsevier	2.86	Intertek	2.96
Total	36.24	Total	35.33

Sector Weightings

	FTSE All-Share Index	Liontrust Special Situations Fund	
	30 th May 2013 %	30 th May 2013 %	30 th May 2012 %
Basic Materials	8.06	–	–
Consumer Goods	14.14	7.73	7.24
Consumer Services	9.96	12.17	12.90
Financials	23.70	6.88	7.42
Healthcare	7.56	7.38	7.50
Industrials	9.53	26.15	26.67
Oil & Gas	15.25	14.66	14.51
Technology	1.64	16.44	14.79
Short Term Deposits	–	3.44	1.05
Telecommunications	6.26	–	–
Utilities	3.90	–	–
Portfolio of investments		94.85	92.08
Cash (including SSgA* cash deposits)		5.15	7.92
		100.00	100.00

* State Street Global Advisors

FURTHER INFORMATION

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 scalable 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 Funds Partners LLP, 2 Savoy Court, London WC2R 0EZ.

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Authorised and regulated by the Financial Conduct Authority.



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