LIONTRUST

LIONTRUST MACRO EQUITY INCOME FUND

INTERIM REPORT AND ACCOUNTS
FOR THE PERIOD ENDED 31ST JANUARY 2014

Managed by Stephen Bailey & Jan Luthman in accordance with **The Liontrust Macro-Thematic Process**

THE LIONTRUST MACRO EQUITY INCOME FUND

THE LIONTRUST MACRO EQUITY INCOME FUND IS MANAGED BY **STEPHEN BAILEY** AND **JAN LUTHMAN**

This unit trust aims to provide investors with rising dividend payments and capital growth. The Fund is managed according to the Liontrust Macro-Thematic Process. At the core of the investment philosophy of this process lies the belief that macro-thematic analysis - the identification and interpretation of major economic, political and social developments affecting the UK and the rest of the world - offers scope to add long-term investment value. Identifying such themes, and assessing their implications for investment markets and individual industries, provides the framework for the construction of the portfolios.

INVESTMENT COMMENT

Market Review

Throughout the six months, the US Federal Reserve's timeline for tapering its programme of Quantitative Easing (QE) remained a significant influence upon equity and bond markets.

September saw a sell-off, as investors were unsettled by an unexpected delay in implementing tapering of QE. Equity markets continued to trade lower as investors digested the economic consequences of a US government shutdown and the exceptionally slim possibility of a US default, only to rally strongly from mid-October as the Republicans conceded defeat in the face of diminished public support.

In the fourth quarter of 2013, Janet Yellen – widely perceived as a 'dovish' candidate – was nominated as successor to Ben Bernanke as Federal Reserve Chairman. This, together with a more bullish interpretation of the Fed's taper deferral and the suggestion of an ECB rate cut, combined to encourage further equity market gains. Perceptions that the Bank of England would move earlier than the US and Europe in beginning to remove monetary stimulus contributed to the UK equity market lagging its peers slightly – in particular, the Bank's focus on a rapidly improving labour market and its modification of the Funding for Lending scheme.

George Osborne's Autumn Budget Statement paid lip service to the gathering pace of UK economic recovery, but provided few surprises and did little to stimulate equity markets, while the Bank of England's policy of 'forward guidance' appeared to do little other than push both yields and sterling higher.

2014 opened with a dramatic reminder that share prices may go down as well as up. Markets' apparent calm acceptance of the Federal Reserve's policy of QE tapering switched suddenly to alarm over the potential for capital flight from emerging markets, triggering an abrupt and widespread sell-off in global equity markets.

The Fund

Over the six months to 31 January 2014, the Fund returned 6.6% compared with a rise of 1.1% in the FTSE All-Share index and 3.7% average performance of funds in the IMA UK Equity Income sector.

We positioned (and continue to position) the Fund with the following broad economic trends in mind: a recovering global economy; a debt-driven UK recovery; expansion in demand for resources; continued interest by China in the UK as a 'language-friendly' and politically encouraging bridge-head into Europe; further consolidation within the telecoms industry and success in developing new 'smart applications' that encourage increased spending by users; successful launches of new drugs by the pharmaceutical industry and continued favourable political tailwinds.

The UK domestic economy has clearly enjoyed something of a recovery. However, we cannot help but notice that much of the expansion in domestic activity has been driven by expansion in debt, and not by growth in 'real' earnings. In the long term that is clearly unsustainable. In the meantime, 'austerity' has not gone away,

INVESTMENT COMMENT CONTINUED

and social disharmony seems likely to be further inflamed by political rhetoric in the run up to the General Election in 2015. We have been willing to selectively increase the Fund's exposure to the domestic economy as the recovery has gained momentum, but in general we prefer to be invested in companies and sectors which are international in their sales profile – such as telecoms and pharmaceuticals – or whose operations are confined to the UK but benefit from international demand, such as the commercial real estate stocks which form a core element of the recent *London Calling* theme.

Elsewhere in the world, China's economic growth rate is moderating, but its focus is shifting from export to domestic consumption - something that should be of benefit to those UK (and other) exporters with appropriate skills, products and pricing structures. The USA is benefitting from decades of painful downward wage readjustment, much lower energy costs as the result of shale gas and oil, and arguably the most fluid labour market in the world. Within the eurozone, there is growing talk of 'green shoots of recovery' and, while we continue to view the eurozone banking system as perilously frail and dangerously intertwined with sovereign borrowers, we would make the point that there are other banks and other lenders well able to provide commercial and retail finance.

The absence from the Fund of the most interest rate sensitive stocks, such as utilities and tobacco, conferred an element of 'taper resilience', which boosted relative performance as investor concerns over the topic grew.

The majority of our macro themes added value over the six months to 31 January 2014. The *asset management* theme proved particularly beneficial, as companies in which the Fund was invested continued to benefit from rising equity markets and fund inflows: Henderson Group (+35.8%), Polar Capital (+28.4%) and Jupiter Fund Management (+16.3%) led the way. The *Prudence and her children* theme also delivered a good return in the period - with Close Brothers Group (+29.8%), Galliford Try (+21.0%) and Telford Homes (+15.0%) prominent - albeit diluted slightly by weakness in J. Sainsbury (-11.3%) due to softer supermarket sales trends. On a relative basis, the themes of *avoiding incumbent banks, utilities and tobacco* all made positive contributions: tobacco (-12.6%), banks (-8.0%), electricity producers (-10.7%) and gas & water utilities (-6.8%) sectors were in negative territory.

The telecoms theme's performance was mixed with the UK holdings performing well as Vodafone's (+16.5%) agreement of a deal to sell its Verizon mobile stake and BT's (+15.8%) move into the provision of sports TV content were well received, but shares in Verizon (-8.5%) and AT&T (-10.5%) moved lower. Despite a positive return from our holding in Rio Tinto (+11.6%), the basic resources theme remained a slight drag on performance – shares in BHP Billiton (-2.5%), in which we have a larger position, underperformed.

Portfolio Activity

The initiation of the *London Calling* theme saw the purchase of shares in British Land, Land Securities, Shaftesbury and Assura, all real estate investment trusts (REITs). We also built a position in Capital & Counties, a real estate developer focused on Covent Garden and Earls Court in London.

We increased exposure to the *Prudence and her children* theme through new positions in Secure Trust Bank, the only UK-quoted pure-play challenger bank, and in both Kier Group and ISG Group which are exposed to the impact of Help to Buy through residential construction activities and services.

The *asset management* theme was supplemented with Ashmore Group, the emerging market specialist, while Novartis was the latest addition to the ongoing *pharmaceuticals* theme. We completed the closure of the mature *readjustment of global wages and currencies* theme through the sale of the remaining consumer goods holdings – Reckitt Benckiser and Unilever.

Other new additions to the portfolio included: BP (a business intent upon capital efficiency, with a realistic prospect of enhanced returns to shareholders) and Melrose (a late cycle recovery play which, amongst other factors, is positioned to benefit from the transition to domestic smart-metering).

Other sales included: BG Group (which has developed an unfortunate track record of missing market expectations), DS Smith (whose valuation looked full in the wake of the successful acquisition and integration of SCA Packaging), Fenner (its prospects seem diminished by the mining sector's concerted focus on capex discipline), Millenium & Copthorne (which has little intention to use cash on its balance sheet for more efficient purposes), Pearson (suffering from continued pressure on US education spend), Reed Elsevier (the shares were trading at a premium to its professional publishers peer group), Rexam (facing ongoing weakness in many of its core geographical markets), Shire (fully valued), Smiths Group (profit-taking with a break-up of the business looking unlikely in near term) and Weir Group (same rationale as Fenner).

The Macro Themes

In this section we outline some of the most prominent themes currently active within the Fund. This list is not exhaustive; at any given time we tend to have a number of smaller themes within the portfolio, while many of the themes are also inter-connected.

Prudence and her Children

The government's commitment to financial prudence is opening the door to the establishment and expansion of new, smaller, challenger banks, orientated towards retail and SME clients. We remain disenchanted with the large incumbent banks, which face shrinkage in their share of the retail/SME market, and lower margins due to increased competition.

INVESTMENT COMMENT CONTINUED

The exclusion of mortgage lending from the Bank of England's Funding for Lending scheme is likely to place greater emphasis on attracting retail deposits, benefiting comparison websites such as Moneysupermarket.com, which is also (through its Money Savings Expert division) benefiting from intense focus on electricity and gas prices. The need to support recovery in the housing market and house-building industry, while also enforcing prudent lending by banks has led to the Mortgage Guarantee Scheme.

London Calling

The central London property market stands at the confluence of several powerful macro trends: the city has a long established standing as the commercial bridgehead into Europe and as a centre of international finance; a status cemented by the continued importance of English as the lingua franca of business. In addition, capital values and rental growth in the commercial sector are underpinned by scarcity of supply and the significant lead times required for planning permission and construction. Furthermore, cyclical factors are increasingly supportive, with the UK and European economies showing signs of life after several years of painful re-adjustment. Such favourable conditions for central London property have attracted the attentions of informed overseas buyers motivated by the need for portfolio diversification and the desire for trophy assets, which can only serve as a backstop to asset class valuations. The Fund now holds a number of commercial and residential real-estate plays.

Global Healthcare

This remains a major macro theme within the Fund. We see the potential for a substantial upward rerating of the pharmaceuticals sector to be viewed as a 'growth' rather than 'income' sector. Successful negotiation of the so-called 'patent cliff', rapid growth in late stage pipeline drugs, and a profound shift in political sentiment towards the pharmaceutical industry, aided by rapidly growing awareness of the extreme hazards posed to global health by new 'bugs without drugs', is encouraging the industry to return to its core activities of discovering and developing new drugs, and to dispose of low-risk, low-return consumer orientated operations acquired during the past decade. Market valuations, principally in the USA, have moved ahead strongly in the past year, but, in our view, appear to have further headroom.

Asset Managers

As global economic activity recovers, we expect corporate earnings to improve, equity markets to rise and interest rates to increase – and therefore bond prices to weaken. In such a scenario, asset managers enjoy a triple benefit: (a) rising fees from rising markets, (b) new inflows to equity funds as investor confidence improves and (c) a shift from (low fee) bond funds to (higher fee) equity funds. This theme has been pleasingly successful, and our relatively positive view of the outlook for equity markets suggests that the theme has the potential to run further.

Telecoms

We believe there will be rapid growth in non-voice data traffic, driven by smart phones, video-on-demand, social networking sites, on-line television, the expansion of commercial telecommunication etc. Well-publicised network capacity constraints provide pricing power and strategic advantage for those possessing bandwidth. We believe the battle ground is shifting away from the acquisition of new users to persuading existing users to spend more (i.e. increasing ARPU) by introducing innovative 'smart apps'.

Basic Resources

The long-term driver of this theme is, in our opinion, still valid - the need for security of supply and/or ownership. There is a (re)expansion of manufacturing activity in the USA, a substantial backlog of infrastructure repair and maintenance in the USA and Europe, and an ongoing need for China (and other rapidly expanding but relatively young economies) to build-out their industrial capital.

Avoiding utilities

We remain unconvinced that current valuations adequately reflect political and regulatory risks such as how the costs of 'green' power policies are to be shared between customers, shareholders and taxpayers in the run up to a General Election. Indeed, Ed Miliband's promise to freeze energy prices has exposed the extreme political risk attached to power utilities in this country. In addition, utilities' share valuations are driven to some extent by the relationship between gilt yields and dividend yields; any further rise in bond yields could undermine share prices.

Avoiding incumbent banks

We view banks as being driven by political and regulatory imperatives, rather than free market forces, while the true state of their financial health remains obscure. Our downbeat assessment of the outlook for incumbents is matched by our positive interpretation of the outlook for 'challenger banks' as expressed in the *Prudence and her Children* theme.

Avoiding tobacco

The tide of opinion in emerging markets – the growth engine that has preserved tobacco companies' business over the last decade – seems to be turning in favour of anti-tobacco legislation. If we see a similar scale of attitude shift to that which took place in developed markets over the last generation, this could mean that the sector can finally be consigned to the ex-growth bucket. In developed markets, tobacco companies have seen their volumes come under pressure from government health campaigns, the spread of smoking bans in public places and, most recently, the introduction of a ban on cigarette branding in Australia and Ireland (and its consideration in the UK). Even if plain drab packaging does not persuade smokers to quit, it seems likely to damage tobacco companies' ability to promote premium brands, and thus to command premium pricing - in short, margins and earnings are likely to be impaired.

INVESTMENT COMMENT CONTINUED

Outlook

Despite the many and obvious risks that exist within the world in which we all live and work, we continue to believe that investment in industries that provide the world and its people with the goods and services that they want and need, at prices that they are prepared to pay, is likely to prove rewarding for the patient, long-term investor. We expect to see considerable variation in performance between different industries in different markets, but see attractive valuations in a range of areas, coupled with healthy corporate balance sheets and macro indicators that suggest the global economy is gathering a measure of sustainable strength. There will continue to be short-term swings in investor sentiment and volatility in equity markets, but we will continue to manage the Fund in accordance with our interpretation of long-term macro trends – a process that has proved rewarding to our longer-term unit-holders.

Over the coming years, UK-based corporations will face a demographic challenge, with rapidly falling numbers of young people entering the job market, and rapidly growing numbers reaching retirement age. That is, of course, thoroughly good news for those hoping for lower levels of unemployment, particularly amongst the young. However, it also suggests the re-emergence of labour shortages and, more particularly, skills shortages. Given extreme political and social sensitivity over the issue of immigration, it seems not unlikely that companies with UK-based workforces may face rising employment and training costs.

Having said all of that, we remain positive on the long-term outlook for UK-based investors, who enjoy the benefit of being able to invest in major international companies that derive a significant proportion of their business from international markets, and which are listed in the UK. We remain 'fundamental' investors, and welcome signs that markets are returning to an environment in which valuations are driven not by prospects of quantitative easing, but by the ability of companies to generate and grow their earnings on behalf of their shareholders.

Jan Luthman & Stephen Bailey
Fund Managers
March 2014

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 the Liontrust Macro Equity Income Fund is to provide Unitholders with a rising level of income, together with capital growth. In providing an above average level of income, particular attention will be paid towards capital security and maintenance. There is no restriction on the economic sectors or geographical areas in which the Fund may invest, however, the investments will be predominantly in ordinary shares of UK companies, although the Fund may also invest in other transferable securities, collective investment schemes, warrants, money market instruments and deposits. 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 investors with rising dividend payments and capital growth. The Fund is managed according to the Liontrust Macro-Thematic Process. At the core of the investment philosophy of this process lies the belief that macro-thematic analysis - the identification and interpretation of major economic, political and social developments affecting the UK and the rest of the world - offers scope to add long-term investment value. Identifying such themes, and assessing their implications for investment markets and individual industries, provides the framework for the construction of the portfolios.

Risk Profile

The Fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces (from its financial instruments) are market movement, stock specific events, foreign currency and interest rate risk. Stock specific risk is mitigated, although not eliminated, through a portfolio of diversified holdings. The Manager reviews the policies for managing these risks in order to follow and achieve the Investment Objective as summarised above.

FUND PROFILE CONTINUED

Risk Rating

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

Lower Risk Typically lower rewards						**Higher Risk** Typically higher rewards
1	2	3	4	5	6	7

- 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 equities.
- This indicator is based on historical data and may not be relied upon to gauge the future risk profile of the fund.
- The lowest category (1) does not mean risk free.
- The risk and reward profile shown is not guaranteed to remain the same and may shift over time.
- For full details of the Fund's risks, please see the prospectus which may be obtained from Liontrust or online at www.liontrust.co.uk

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 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.

Ongoing Charges Figure

	31st January 2014	31st July 2013
Class I Income	0.91%	0.89%
Class A Income	1.14%	1.15%
Class R Income	1.65%	1.61%
Class I Accumulation	0.91%	0.90%
Class A Accumulation	1.15%	1.14%
Class R Accumulation	1.66%	1.61%

Fund Calendar

Ex-dividend date	1st February, 1st August	
Income payment date	31st March, 30th September	
Accounting period ends	Final: 31st July	Interim: 31st January

PERFORMANCE

Net Asset Values *pence per unit*		
	31st January 2014	31st July 2013
Class I Income	188.50	179.87
Class A Income	162.19	180.50
Class R Income	184.73	176.93
Class I Accumulation	279.07	260.77
Class A Accumulation	277.79	259.96
Class R Accumulation	275.78	258.73

Distributions *pence per unit*		
	31st January 2014	31st July 2013
Class I Income	3.95	3.54
Class A Income	3.99	3.64
Class R Income	3.89	3.50
Class I Accumulation	5.71	5.03
Class A Accumulation	5.72	5.01
Class R Accumulation	5.68	5.01

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

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	Since launch*
Liontrust Macro Equity Income Fund	6.6	18.1	34.9	108.5	189.3
FTSE All-Share Index	1.1	10.1	27.6	100.9	134.0
IMA UK Equity Income	3.7	16.0	36.2	100.5	129.6

Discrete Years' Performance % To previous quarter, 12 months ending:	Dec 09	Dec 10	Dec 11	Dec 12	Dec 13
Liontrust Macro Equity Income Fund	30.6	16.5	-1.5	6.3	29.4
FTSE All-Share Index	30.1	14.5	-3.5	12.3	20.8
IMA UK Equity Income	22.9	14.6	-2.9	14.0	25.2

* The Fund launched 31.10.2003.

Up-to-date past performance information may be obtained from the Fund's most recent factsheet, available on our website (www.liontrust.co.uk) or by calling our Administration and Dealing team on 0844 892 1007.

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Performance data source: Financial Express, bid-to-bid basis, total return as at 31.01.2014 (based on retail class accumulation units).

PORTFOLIO

Top Ten Holdings

As at 31st January 2014	%	As at 31st July 2013	%
BT	4.94	BT	4.89
Royal Dutch Shell 'B' Shares	4.89	Royal Dutch Shell 'B' Shares	4.52
Vodafone	4.83	GlaxoSmithKline	4.46
GlaxoSmithKline	4.77	Vodafone	4.39
BP	4.50	Pfizer	4.34
Aberdeen Asset Management	4.27	BHP Billiton	4.34
AstraZeneca	4.24	Aberdeen Asset Management	3.84
J Sainsbury	4.16	PayPoint	3.57
BHP Billiton	4.12	Merck	3.55
PayPoint	3.80	Reckitt Benckiser	3.47
Total	**44.52**	**Total**	**41.37**

Classification of Investments

	As at 31st January 2014 %	As at 31st July 2013 %
Basic Materials	9.29	9.08
Consumer Goods	1.25	6.31
Consumer Services	9.97	9.49
Financials	25.09	17.21
Healthcare	10.07	9.67
Industrials	9.66	13.37
Oil & Gas	9.39	6.32
Technology	0.00	0.02
Telecommunications	9.77	9.28
United States	12.88	18.28
Switzerland	1.57	0.00
Portfolio of investments	**98.94**	**99.03**
Cash (including SSgA* cash deposits)	**1.06**	**0.97**
Net assets	**100.00**	**100.00**

*State Street Global Advisors

FURTHER INFORMATION

Unitholder Notice

From 1 June 2014 there will be a change to the allocation of payments policy whereby all charges referred to in the prospectus that have up to this point been taken from income will in future be taken from the capital account. Currently for many of the Fund's fees and expenses the prospectus allows for the fees and expenses to be taken from “scheme property” without clarifying if these will be charged to the income or capital property of the Fund. As this fund is an “Income Fund” the Manager believes that the majority of unitholders have invested on the basis of receiving a steady income stream, by amending the prospectus to allow the funds to charge the fees from capital rather than income will allow unitholders to benefit from a higher level of income on these funds. Note that this has the effect of increasing the Fund's Income distribution but will constrain capital performance by an equivalent amount.

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 £3.6 billion (as of 31 December 2013) in UK, European, Asian and Global equities, Global Credit and Multi-Asset. 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.

Liontrust Asset Management PLC is the parent company of Liontrust Fund Partners LLP, Liontrust Investment Partners LLP and Liontrust Investment Solutions Limited, which are authorised and regulated by the Financial Conduct Authority.

FURTHER INFORMATION CONTINUED

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.

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Authorised and regulated by the Financial Conduct Authority.

NOTES

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