LIONTRUST GLOBAL INCOME FUND

(Formerly the Liontrust Income Fund)

MANAGER'S SHORT INTERIM REPORT
FOR THE PERIOD ENDED 31ST DECEMBER 2013

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

THE LIONTRUST CASHFLOW SOLUTION

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

The Fund is managed in accordance with the Cashflow Solution investment process, which is based on the belief that the most important determinant of shareholder return is company cash flows. The fund managers believe that cash flows determine the ability of a business to grow in a self-sustaining way and to return money to shareholders through dividend yield and share buybacks. They aim to find companies that generate significant free cash flows from their asset base and are lowly valued, whilst being run by company managers that allocate their cash flows in an intelligent way. The Fund is populated by companies that fit this description whilst also offering an attractive yield.

MARKET REVIEW

In the six months to 31 December 2013 the Liontrust Global Income Fund returned 13.0% compared with the 5.9% average return from funds in the IMA Global Equity Income sector.

Equity market movements over the six months under review continued to be dominated by US monetary policy. The Fund's last financial year finished with markets selling off following comments from US Federal Reserve Chairman Ben Bernanke which raised the prospect of a 'tapering' of quantitative easing (QE). Equity markets subsequently rallied through July as the Bank of England, European Central Bank and Federal Reserve all appeared to commit to supportive policy, allowing investor confidence to recover and a consensus opinion formed that the Fed was likely to scale back QE at its September meeting. However, the Fed surprised investors by choosing to maintain the same rate of asset purchases; it eventually announced in December that QE would be reduced by $10bn to $75bn/month from January 2014.

Speculation regarding the timing and effects of the removal of this stimulus had an impact on a number of markets. Government bond yields, which had spiked in June, continued to rise (UK 10 year gilt yields rose by 60bp to 3.1% during the period) and emerging market equities and currencies – especially those of countries with current account deficits – came under pressure as international investors withdrew funds. Developed market equities largely fared better as investors enjoyed the longer than expected period of supportive policy, and came to terms with the inevitability of its eventual removal.

As bond yields rose, some high yielding equity sectors suffered – the utilities and consumer staples sectors of the MSCI World index fell 3.6% and 0.1% respectively. The best performing sectors were more cyclical: information technology (+10.9%), industrials (+10.9%) and consumer discretionary (+9.1%).

Analysis of portfolio return

Stocks on inexpensive valuations as measured by metrics such as their accounting net asset value and sales relative to market capitalization continued to outperform those that scored highly on measures of company quality, such as the return generated on invested capital by a business. The environment was again unfavourable for strategies based on cash flow, which is usually seen by investors as an indicator of fundamental quality. However, the Fund's income requirement ensured that it had sufficient bias to value during the period to allow it to perform well. Some high-yielding but low growth sectors of the equity market – such as utilities – came under pressure due to their bond proxy characteristics, but the Fund's focus on companies whose strong cashflows support growth as well as income generation insulated it from this effect.

Positive contributors to performance over the six months included: Genworth (+35.2%), Aviva (+31.5%) and Vesuvius (+26.6%).

Canadian insurance company Genworth saw its shares rally strongly over the period, boosted by a good set of Q3 results in October in which it reported 12% year-on-year growth in net operating income and a 9% increase in its dividend. The company's insurance loss ratio was only 22%, down from 30% a year earlier. Aviva's interim results showed a slight deterioration in its combined ratio from 95.5 a year earlier to 96.2, but its operating profit of £1.01bn was ahead of the £933m analyst consensus, leading its shares to rise on the announcement. The company enjoyed a robust re-rating of its shares in 2013 but fell out of the top quintile of our cashflow solution screens in our annual review. Following the shares moving ex-dividend in October we were able to sell the holding and take advantage of a full valuation – its dividend yield had compressed to around 3.4%. Shares in Vesuvius appreciated after announcing interim results which stated that all its business divisions performed better than, or in-line, with their end markets. The company has successfully focused on cash and working capital management, resulting in a free cash flow increase from £2.2m in the first half of 2012 to £38.2m in the first half of 2013.

Negative contributors to performance included: VTech (-17.6%), Giordano (-13.9%) and Ladbrokes (-8.5%).

VTech announced a 5% increase in interim profit before tax, driven by revenue growth and lower cost of materials. Its North American and Asia Pacific regions performed well but shares in the company weakened on concerns over a flat European market for the company's products – educational electronics for children. VTech stated that its advertising spend will be increased in the second half of its year to protect its market share in conditions it describes as challenging. Hong-Kong retailer Giordano announced Q3 sales growth of 5%, but much of this was due to the inclusion of acquired stores in the Middle East. Shares in the company moved lower on weaker trends in mainland China; the company reduced its shop network in the region by 10 stores. Giordano expects the decline in store numbers in mainland China to stabilise, with the number of stores increasing next year. *Ladbrokes* has experienced tough trading in the second half of 2013, particularly within its digital business, and it issued an update in September in which it stated that profits for this division would be below analysts' expectations.

Portfolio activity

We made a number of changes to the portfolio of stocks held in the Fund to reflect not only the results of our annual review of company reports and accounts, but also the expansion of the geographical remit of the Fund in July to allow us to select stocks from a global universe of companies. This expansion has enabled us to achieve greater diversification of stocks and sectors, and therefore we anticipate it will improve the quality of returns from our portfolio of holdings.

Portfolio changes in the first weeks of the review period included the sale of holdings in CSM, JM AB and Leoni. Positions were initiated in RR Donnelley & Sons (a US provider of communications and logistics services), Vodacom (the South African mobile telecoms operator) and Vesuvius (a UK-listed supplier of pipes, valves and castings to steel and foundry industries). We were also able to increase our exposure to French integrated oil & gas company Total.

The yield objective of the Fund makes it prudent to consider the dividend payment calendar of our companies when managing the annual restructuring of the portfolio and for this reason, some divestments were delayed in order to allow the shares to trade ex-dividend. The result of this phasing is that changes to the Fund tend to take place across both the second and third quarters of the calendar year. Portfolio changes that were phased in this manner due to the timing of dividend receipts included the sale of holdings in Aviva, Stagecoach, Drax and Provident Financial. The proceeds were reinvested in new international positions: Genworth, a Canadian mortgage insurance provider; Hugo Boss, the German premium women's and men's fashion retailer which we believe to be a high-quality cash-generative growth business; TeliaSonera, the Swedish mobile telecoms network operator; UPM Kymmene, the Finnish pulp, paper and timber company; Giordano International, a Hong Kong-listed clothes retailer; and VTech, the Hong Kong based manufacturer of electronic educational devices for children.

The portfolio changes over the six months have taken the international allocation of the Fund to over 40%. We now have 12 international holdings out of a portfolio of 27 stocks and a flatter sector profile consistent with better stock diversification. We do not anticipate making further substantial changes to the Fund's portfolio before the next annual review process. The current ranking of the global universe of stocks by our proprietary measures suggests that UK and European stocks are likely to remain prominent unless there is a marked shift in relative value in global equity markets.

Outlook

In an environment of low interest rates, investors in this Fund are able to access a concentrated global list of companies that pay generous dividends which we believe are supported by strong balance sheets and healthy corporate cash flows. The reduction of the extraordinary stimulus measures being applied globally may result in a greater focus on company fundamentals and provide a supportive environment for our cashflow-driven investment process. After the strong performance of value investment styles the dispersion of valuations in the equity market has collapsed, implying that contrarian value strategies have less potential to perform well.

The Fund will continue to be concentrated and focused only on the best worldwide examples of companies generating significant cash flows with the discipline to return these cash flows to shareholders through attractive dividends and share buy backs. Investing in companies with these characteristics may prove timely if, as we believe, the reduced scope for a further re-rating of equities leads to an increased emphasis on dividends as a source of total return.

MARKET REVIEW CONTINUED

The regions of the world today that contain the greatest proportion of strongly cash generative high yielding companies are western Europe and the UK. European markets are currently trading on a cyclically adjusted price/earnings ratio of close to 15, compared to almost 25 for the US. Our proprietary cash flow screens also indicate that European companies are acting prudently in their use of cash, which is encouraging for income investors. Companies in this region are not over-investing in their businesses, and the number growing in an uncontrolled or over-optimistic manner remains very low.

James Inglis-Jones & Samantha Gleave
Fund Managers
February 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

On 3 July 2013 the Fund's investment objective and policy changed to allow the fund managers to select companies on a global basis. The Fund moved from the IMA UK Equity Income sector to the IMA Global Equity Income sector on 1 August 2013. The Fund changed its name from the Liontrust Income Fund to the Liontrust Global Income Fund on 21 January 2014.

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

The Fund invests primarily in listed securities of global companies. 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 the Cashflow Solution investment process, which is based on the belief that the most important determinant of shareholder return is company cash flows. The fund managers believe that cash flows determine the ability of a business to grow in a self-sustaining way and to return money to shareholders through dividend yield and share buybacks. They aim to find companies that generate significant free cash flows from their asset base and are lowly valued, whilst being run by company managers that allocate their cash flows in an intelligent way. The Fund is populated by companies that fit this description whilst also offering an attractive yield.

FUND PROFILE CONTINUED

Risk Profile

The Fund invests primarily in listed securities of global companies. The principal risks are those associated with stock market investments and foreign currency risk. The Fund can also hold fixed-interest bearing securities.

Risk Rating

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

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 Fund invests in assets which are in currencies other than the Fund's accounting currency (sterling). The exchange rate between the value of those assets – both capital and any income received will fluctuate. This will benefit or adversely affect the Fund's price depending upon those currency exchange rates.

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	31st December 2013	30th June 2013
Class A income units	1.16%	1.16%
Class I income units	0.92%	0.90%
Class R income units	1.67%	1.65%

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*			
	31st December 2013	30th June 2013	% Change
Class A income units	154.28	139.37	10.70%
Class I income units	153.52	138.50	10.84%
Class R income units	149.08	135.03	10.41%

Distributions *pence per unit*			
	31st December 2013	30th June 2014	Total
Class A income units	3.65	–	3.65
Class I income units	3.64	–	3.64
Class R income units	3.55	–	3.55
	31st December 2012	30th June 2013	Total
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
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 Global Income Fund	13.0	22.3	38.3	97.9	128.1
IMA Global Equity Income**	5.9	20.4	29.4	73.6	91.1

Discrete Years' Performance % To previous quarter, 12 months ending:	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Liontrust Global Income Fund	25.1	14.4	-3.7	17.4	22.3
IMA Global Equity Income**	17.4	14.3	-2.1	9.7	20.4

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

** The Fund moved from the IMA UK Equity Income sector to the IMA Global Equity Income sector on 1st August 2013.

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 (based on retail units) as at 31.12.2013.

PORTFOLIO

Top 10 Holdings

As at 31st December 2013	%	As at 30th June 2013	%
Restaurant Group	5.96	Next	8.56
RR Donnelley & Sons	5.16	Provident Financial	6.70
British Sky Broadcasting	4.83	Ladbrokes	5.48
Genworth MI Canada	4.71	Drax	5.28
Total	4.55	GlaxoSmithKline	4.92
Next	4.49	Restaurant	4.74
Royal Dutch Shell ‘B’ Shares	4.25	AstraZeneca	4.59
AstraZeneca	4.25	Go-Ahead	4.59
Hugo Boss	4.18	Premier Farnell	4.32
Vodacom	4.13	Tesco	4.25
Total	**46.51**	**Total**	**53.43**

Geographical Weightings

	As at 31st December 2013 %	As at 30th June 2013 %
Hong Kong	5.36	–
Canada	4.71	–
Finland	2.68	–
France	6.85	6.08
Germany	4.18	1.89
Netherlands	–	1.75
Norway	3.28	3.15
South Africa	4.13	–
Sweden	3.67	1.87
Switzerland	2.69	2.31
United Kingdom	56.26	81.20
United States	5.16	–
Portfolio of investments	**98.97**	**98.25**
Cash (including SSgA* cash deposits)	**1.03**	**1.75**
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 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.

FURTHER INFORMATION CONTINUED

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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