LIONTRUST

LIONTRUST SPECIAL SITUATIONS FUND

MANAGER'S SHORT INTERIM REPORT

FOR THE PERIOD ENDED 30TH NOVEMBER 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

Central bank monetary policy – particularly that of the US Federal Reserve – was probably the biggest influence on the UK equity market over the six months. The US programme of quantitative easing (QE) has, in our opinion, done much to create a benign environment for investors, leading to an understandable focus on when this support might be withdrawn. Following June comments from Fed Chairmen Ben Bernanke that the programme's asset purchases could be scaled back later in 2013, the UK market initially fell before recovering as investors became comfortable with the prospect of QE 'tapering', and a consensus formed that a reduction would be announced in September. However, the Federal Reserve subsequently decided to maintain its stimulus efforts at $85bn/month through to the end of the review period.

As well as this greater-than-anticipated monetary stimulus, a positive return for global equity markets over the period was aided by the easing of tensions over the prospect of a Western military response to events in Syria as well as the agreements reached by US politicians, firstly to end a federal government shutdown in October and secondly to extend the country's debt limit to avoid a technical debt default. The UK economy showed signs of recovery over the period, with the IMF in October increasing its 2014 UK growth forecast from 1.5% to 1.9% while downgrading its global growth forecast from 3.8% to 3.6%. UK GDP grew 0.8% in the third quarter of 2013, the fastest rate since 2010. In November, the Bank of England forecast a 50/50 chance of the unemployment dropping to 7% by the fourth quarter of 2014, a significant improvement on its previous forecast of summer 2016.

The FTSE All-Share index delivered a 3.9% total return in the six months to 30 November 2013. The top performing sectors included leisure goods (+42.5%), automobiles & parts (+26.7%) and industrial transportation (+23.0%) – all small sectors accounting for less than 0.5% of the index. More significant sector moves were the 23.0% gain for fixed line telecoms, an 18.0% rise in mobile telecoms and a 16.2% gain for media. The laggards included industrial metals (-20.6%), electricity (-9.9%), tobacco (-8.0%) and gas & water utilities (-6.5%).

Fund

The Fund returned 3.9% over the six months, in line with the FTSE All-Share index but behind the IMA UK All Companies average fund return of 7.3%.

In our last report we referred to a market environment in which low-quality companies were the biggest beneficiaries of improving sentiment. Although the market's gains were more moderate than in the previous six months, they once again appeared to be fuelled more by the prospect of an extension to exceptional liquidity provision by central banks than by consideration of underlying economic growth. This environment of positive sentiment was, however, punctuated by bouts of nervousness during which the market retreated. In June the All-Share fell as investors reacted to the prospect of QE tapering, and in the final weeks of the review period, the index lost ground as better economic data appeared to imply an earlier start to monetary tightening in the UK.

On a relative basis the Fund performed better during these episodes of risk aversion than during the sentiment-driven rallies when 'value' characteristics seemed to be in demand. This supports our view that the companies held within the Fund are higher-quality and by their nature less dependent on artificially supportive conditions. In an environment where accommodative policy is provided by governments and central banks, it is those companies that would struggle in its absence who logically stand to gain the most, and whose shares therefore often rally from their previously depressed levels. We seek to invest in high-quality companies whose prospects for growth and strong financial performance, while boosted by better economic conditions, are not reliant on them. Our Economic Advantage investment process is designed around investing in companies which we believe have assets which create strong barriers to competition, allowing them to consistently earn excess financial returns. Intangible assets are, in our opinion, the most effective barriers to competition as they are the hardest to replicate. Specifically we look for companies that possess either one, or a combination, of intellectual property, strong distribution channels or a high level of recurring business (above 70%). We also require evidence that these intangible assets are translating into strong financial returns for the company either through high margins or good returns on capital employed (ROCE).

From a sector perspective, the benefits of the Fund's low exposure to underperforming financials, basic materials (including mining) and utilities sectors in the period was offset by its lack of participation in a strong telecoms sector rally and the above-target average cash holding over the period. We estimate that the absence from the Fund of Vodafone – a UK market bellwether whose shares returned 24.6% due to the agreed sale of its 45% stake in Verizon Mobile for $130bn – alone had a negative impact on relative performance of over 80bp.

The best performing portfolio holdings included: NCC Group (+54.2%), Wilmington (+41.1%), Shire (+27.9%), Rightmove (+24.6%) and Michael Page (+24.3%).

MARKET REVIEW CONTINUED

NCC Group (+54.2), a provider of escrow services, experienced good trading during the period. Shares in the company rose sharply following the release of a strong set of full year results in July and continued to appreciate throughout the period. Further impetus was provided by an October trading statement which stated that in the previous four months revenues had grown by 20% with an organic growth contribution of 16%. The company's management also stated its confidence in meeting investor expectations for the financial year to 31 May 2014.

Wilmington (+41.1%) provides compliance and education services to professional markets such as banking, insurance and healthcare. The company has successfully restructured to focus on higher margin business areas with a high degree of recurring revenues, as displayed by financial results for the year to 30 June in which revenues were flat but adjusted operating profit increased 8%.

Shire (+27.9%), a pharmaceutical large-cap, was added to the Fund in June and its shares performed well for the remainder of the period. Third quarter results released in October showed 13% product sales growth, which was better than had been anticipated. The company also upgraded its full year earnings guidance for 2013 to the 'mid-to-high teens' range.

Rightmove (+24.6%) shares continued to benefit from a buoyant housing market. Interim results at the end of July revealed a 16% rise in revenues year-on-year as page impressions on its website rose 22% while the number of advertisers rose 3.5% to 18,916 over the six months and average revenue per advertiser increased 14%. At the time of writing, Rightmove's latest index results (for November) showed a 4.0% rise in house prices over the last year, driven by the London market and with the effects of the Government's changes to Help to Buy yet to have fed through. The company also announced that it had renewed its membership agreement with Countrywide – the UK's largest estate agency – through to the end of 2018.

Shares in recruitment company Michael Page (+24.3%) – one of the more cyclical stocks held within the Fund – responded well to signs of improving economic conditions. Quarterly updates during the period confirmed that market conditions for the company are still difficult, but gross profit is showing signs of stabilising. It is seeing improvement in markets including North America, but expects short-term conditions to remain tough in many of its markets.

The portfolio's worst performing stocks included Concurrent Technologies (-28.7%), Bango (-27.5%), Dialight (-27.3%), Domino's Pizza (-21.3%) and EMIS Group (-18.7%).

AIM-listed Concurrent Technologies (-28.7%) issued a profit warning in August citing UK government export controls as hampering exports of its products, which contain encryption technology, to emerging markets. The company subsequently released interim results which showed turnover growth in the first half, but again warned that 2013 results would be negatively affected by the export issue.

Mobile payments provider Bango (-27.5%) saw its shares weaken after releasing interim results. Despite reporting 74% growth in end user spend, a 57% increase in gross profit and issuing upbeat outlook comments, the numbers fell short of the level of growth that had been anticipated in the run up to the announcement.

Shares in Dialight – a provider of LED lighting products – experienced a volatile six months but ultimately finished the period in negative territory. The company announced its first order for its new Cellphone Tower system from a 'major operator' in North America in August, in a deal worth just under $1m initially, but delays on other contracts led Dialight to downgrade its financial expectations for 2013. It still expects these contracts to feed through in next year's results.

Shares in Domino's Pizza (-21.3%) suffered due to some concerns that its fledgling international operations are not experiencing the same level of growth as the company's UK stores. Expansion in new markets involves initially running 'corporate' stores before transitioning to a fully-franchised store model over time. These corporate stores tend to lag the performance of the franchised stores as they concentrate on test menus and marketing. In July the company stated that losses associated with the operation of corporate stores in Germany would be greater than it had expected.

Trading at EMIS Group (-18.7%) was reasonably solid with 11% revenue growth in the first six months of 2013, although operating profit was flat. Shares in the company weakened as £27m was raised through a placing of shares at 615p – about 40p below the previous market price – to partially fund the acquisition of Ascribe, a business which boosts the portfolio of software services EMIS can offer GP practices.

Fund turnover in the six months was again low. Aside from the addition of Shire, the only other change to the portfolio was the sale of Petrofac, the oilfield services company, following a reassessment of our outlook for the company's growth in light of political turmoil in the Middle East.

Outlook

Those companies that have benefited the most from structural support may struggle if it is removed, especially if economic growth fails to accelerate. The scale of the equity market rally seems to have exceeded the level of improvement in trading conditions which companies have so far pointed towards when releasing their financial results. As ever, we are happy to leave predictions over the future direction of the economy to others, and concentrate on investing in companies that can perform well over the cycle, and in tough market conditions as well as benign environments. To this end, we are very comfortable with the prospects for the Fund's portfolio of companies.

When the level of monetary stimulus applied globally is eventually and inevitably phased out we believe that our emphasis on companies capable of delivery high-quality growth will be beneficial as it is likely that valuations will revert to fundamentals. If the cyclical rally fades, and the economy moves into a steady state of economic growth, we would expect our companies to perform relatively well in this environment; equally, if equities struggle as supportive policy is withdrawn, we would expect our companies to prove more dependable than the wider market.

Anthony Cross and Julian Fosh
Fund Managers
January 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 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.

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

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 5 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*		
	30th November 2013	31st May 2013
Class R income units	1.88%	1.88%
Class I income units	0.88%	0.89%
Class A income units	1.14%	1.11%

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

FUND PROFILE CONTINUED

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

PERFORMANCE

Net Asset Values ***pence per unit****			
	30th November 2013	**31st May 2013**	**% Change**
Class R income units	263.08	252.48	+4.20%
Class I income units	266.32	254.00	+4.85%
Class A income units	265.33	253.58	+4.63%

Distributions ***pence per unit****		
	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 30.11.2013 (%)					
	6 months	**1 year**	**3 years**	**5 years**	**Since launch†**
Liontrust Special Situations Fund	3.9	15.9	64.4	199.5	187.6
FTSE All-Share Index	3.9	19.8	37.8	98.7	73.0
Quartile Ranking	4	4	1	1	1

Discrete Years' Performance					
To previous quarter, 12 months ending:	**Dec-09**	**Dec-10**	**Dec-11**	**Dec-12**	**Dec-13**
Liontrust Special Situations Fund	41.2	36.1	7.5	22.4	20.0
FTSE All-Share Index	30.1	14.5	-3.5	12.3	20.8

† 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

30th November 2013	%	31st May 2013	%
Compass	4.08	GlaxoSmithKline	4.03
BG	3.86	BG	4.00
GlaxoSmithKline	3.67	Compass	3.94
Diageo	3.57	Diageo	3.91
BP	3.56	Unilever	3.82
Unilever	3.26	BP	3.72
Reed Elsevier	3.23	Royal Dutch Shell 'B' Shares	3.69
AstraZeneca	3.21	AstraZeneca	3.35
Royal Dutch Shell 'B' Shares	3.19	Advanced Computer Software	2.92
Advanced Computer Software	3.06	Reed Elsevier	2.86
Total	**34.69**	**Total**	**36.24**

Sector Weightings

	FTSE All-Share Index	Liontrust Special Situations Fund	
	30th November 2013 %	30th November 2013 %	31st May 2013 %
Basic Materials	7.81	0.00	0.00
Consumer Goods	13.49	6.83	7.73
Consumer Services	10.71	14.61	12.17
Financials	24.21	7.91	6.88
Healthcare	7.40	9.87	7.38
Industrials	9.91	25.77	26.15
Oil & Gas	14.27	12.76	14.66
Technology	1.55	15.19	16.44
Short Term Deposits	–	3.44	3.44
Telecommunications	7.12	0.00	0.00
Utilities	3.52	0.00	0.00
Portfolio of investments		**96.38**	**94.85**
Cash (including SSgA* cash deposits)		**3.62**	**5.15**
		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 £3.6 billion (as of 11 November 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 North Investment Partners Limited, which are authorised and regulated by the Financial Conduct Authority.

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

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Authorised and regulated by the Financial Conduct Authority.

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