



## **LIONTRUST SPECIAL SITUATIONS FUND**

**Manager's Long Final Report and Financial Statements  
for the year ended 31 May 2018**



Managed by Anthony Cross, Julian Fosh,  
Victoria Stevens and Matthew Tonge in accordance with  
**The Liontrust Economic Advantage**

**LIONTRUST FUND PARTNERS LLP**

# LIONTRUST SPECIAL SITUATIONS FUND

## Directory

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### Authorised Fund Manager ("Manager")

Liontrust Fund Partners LLP  
2 Savoy Court  
London  
WC2R 0EZ

Administration and Dealing enquiries 0330 123 3822  
Administration and Dealing facsimile 0330 123 3720  
Email [admin@liontrust.co.uk](mailto:admin@liontrust.co.uk)  
Website [www.liontrust.co.uk](http://www.liontrust.co.uk)

Authorised and regulated by the Financial Conduct Authority.

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### Investment Adviser

Liontrust Investment Partners LLP  
2 Savoy Court  
London  
WC2R 0EZ

Authorised and regulated by the Financial Conduct Authority.

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### Trustee

State Street Trustees Limited  
20 Churchill Place  
London  
E14 5HJ

Authorised and regulated by the Financial Conduct Authority.

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### Registrar

DST Financial Services Europe Limited  
DST House  
St. Nicholas Lane  
Basildon  
Essex  
SS15 5FS

Authorised and regulated by the Financial Conduct Authority.

As of 14 August 2017, DST Financial Services Europe Limited is the trading name of International Financial Data Services (UK) Ltd following the acquisition of the remaining 50% ownership interest.

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### Independent Auditors

PricewaterhouseCoopers LLP  
Atria One  
144 Morrison Street  
Edinburgh  
EH3 8EX

# LIONTRUST SPECIAL SITUATIONS FUND

## Investment Profile

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 one of these intangible assets.

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\*Collectively, these comprise the Authorised Fund Manager's Report (from herein referred to as the Manager's Report).

# LIONTRUST SPECIAL SITUATIONS FUND

## MANAGER'S INVESTMENT REPORT

### 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.

### Liontrust Asset Management PLC

Liontrust Asset Management PLC (Company) is a specialist fund management company with £11.4 billion in assets under management as at 30<sup>th</sup> June 2018. The Company takes pride in having a distinct culture and approach to running money.

The company launched in 1995 and was listed on the London Stock Exchange in 1999.

- We are an independent business with no corporate parent, our head office is on the Strand in London and we have offices in Luxembourg and Edinburgh.
- We believe in the benefits of active fund management over the long term and all our fund managers are truly active.
- We focus only on those areas of investment in which we have particular expertise. We have eight fund management teams: five that invest in UK, European, Asian and Global equities, a Global Fixed Income team, a Sustainable Investment team and one team that manages Multi-Asset portfolios.
- Our fund managers are independent thinkers and have the courage of their convictions in making investment decisions.
- Our fund managers have the freedom to manage their portfolios according to their own investment processes and market views without being distracted by other day-to-day aspects of running a fund management company.
- Each fund management team applies distinct and rigorous investment processes to the management of funds and portfolios that ensure the way we manage money is predictable and repeatable.
- Staying true to their documented investment processes helps to create an in-built risk control for our fund managers, especially in more challenging environments, by preventing them from buying stocks for the wrong reasons.
- We aim to treat investors, clients, members, employees, suppliers and other stakeholders fairly and with respect. 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 Investment Partners LLP, Liontrust Fund Partners LLP and Liontrust Investments Limited which are authorised and regulated by the Financial Conduct Authority. All members of the Liontrust Group sell only Liontrust Group products.

### Performance of the Fund

In the year to 31 May 2018 an investment in the fund returned 11.0% (retail class) and 12.1% (institutional class). This compares with a rise of 6.5% from the FTSE All-Share Index, the benchmark Index. From the Fund's launch on 10 November 2005 to 31 May 2018, an investment in the Fund rose by 374.0% (retail class) and 411.9% (primary class), compared to a rise of 142.2% by the FTSE All-Share Index.

**Source:** Financial Express, bid to bid basis, total return (net of fees, income reinvested).

A dividend of 3.72 pence per unit was paid to Retail unitholders, 6.66 pence per unit to Advised unitholders and 7.67 pence per unit to Institutional unitholders on 31 July 2018.

# **LIONTRUST SPECIAL SITUATIONS FUND**

## **MANAGER'S INVESTMENT REPORT**

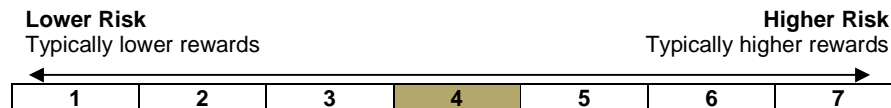
*Past performance is not a guide to future performance. The value of investments and the income from them can fall as well as rise.*

# LIONTRUST SPECIAL SITUATIONS FUND

## MANAGER'S INVESTMENT REPORT

### Risk and Reward Profile

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



- The Synthetic Risk and Reward Indicator (SRRRI) is based upon historical data and may not be relied upon to gauge the future risk profile of the Fund.
- The SRRRI 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 or a representative fund or Index's value has moved up and down in the past.
- The Fund is categorised 4 primarily for its exposure to UK companies.
- The SRRRI may not fully take into account the following 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.
- The Fund may encounter liquidity constraints from time to time. In addition the spread between the price you buy and sell units will reflect the less liquid nature of the underlying holdings.
- The Fund may invest in companies listed on the Alternative Investment Market (AIM) which is primarily for emerging or smaller companies. The rules are less demanding than those of the official List of the London Stock Exchange and therefore companies listed on AIM may carry a greater risk than a company with a full listing.
- The Fund may, under certain circumstances, make use of derivative instruments but it is not intended that their use will materially affect volatility.
- Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

# LIONTRUST SPECIAL SITUATIONS FUND

## MANAGER'S INVESTMENT REPORT

### The Market

The FTSE All-Share Index returned 6.5% in the 12 months to 31 May 2018.

UK elections proved only a brief distraction for markets, which again looked to central banks to drive the macro narrative. The US Federal Reserve raised interest rates in June and December 2017 and again in March 2018 as the US economy continued to strengthen. In the UK, the Bank of England raised interest rates for the first time in a decade in November 2017, reversing the 25 basis point cut seen in the immediate aftermath of the Brexit vote. However, expectations of a second UK rate increase in the first half of 2018 receded following soft inflation and GDP data.

At the start of 2018, there was a sell-off in global stock markets as US wage data stoked inflationary expectations and saw the market further reprice assets for a world of rising interest rates. Investors also digested intensifying trade tensions between the US and China, with the pair implementing targeted import tariffs.

Political uncertainties were not only confined to the US and China. A deterioration of Italy's political crisis in May saw financial stocks weaken as investors fretted over the risks to the Eurozone. Attempts to form a coalition government of populist parties were thrown off course as Italy's president blocked the alliance's Eurosceptic nomination for finance minister. This prompted a sharp sell off in Italian bonds and hit shares in European banks. However, as the month drew to a close, it seemed that another deal to form a government was looking likely.

Another prominent feature during the review period was the rise in oil prices. Brent crude breached the US\$80 a barrel mark for the first time since 2014, before the oil price crash. In addition to Opec supply constraints, the recent rise was also a result of geopolitical developments. Donald Trump pulled out of the nuclear deal with Iran, re-imposing sanctions on the country, which is a large oil producer. Economic turmoil in Venezuela also led the International Energy Agency to warn of a potential "double supply shortfall". The FTSE All-Share oil and gas sector, which represents almost 14% of the index, rose 30.6% during the 12 month period.

### The Fund

The Liontrust Special Situations Fund returned 12.1% (institutional class) in the year to 31 May 2018, ahead of both the FTSE All-Share Index and the 6.6% average return from funds in the IA UK All Companies Sector.

The Fund's underweight position in resource sectors was a headwind, particularly in basic materials where it has no holdings at all. Nevertheless, strong stock selection in other sectors more than offset this, helping the Fund considerably outperform the benchmark and its peers.

A strong contribution to the Fund's outperformance came from holdings which received takeover offers; shares in Fidessa Group and NEX Group both rose substantially. Shire also jumped on bid interest but overall it was still a detractor from performance due to weakness earlier in the review period. We have experienced a number of takeovers of portfolio holdings over the years; we find that the same Economic Advantage characteristics which we seek out often tend to be attractive to corporate acquirers.

While the sharp gains for these three stocks was the most noticeable feature of the year, the remainder of the portfolio on the whole made solid, if less eye-catching, progress.

The strongest stock-specific contributions to Fund performance included NEX Group (+65.0%), Smart Metering Systems (+59.9%), Fidessa Group (+59.4%), Renishaw (+46.7%) and Rotork (+44.6%).

- Financial trading technology company NEX Group approved a takeover offer from CME Group. The deal values NEX at £3.9bn and 1,000p per share, a 49% premium to the company's share price prior to the bid. CME stated it expects to generate cost synergies of US\$200m from the deal which is expected to complete later in 2018.

- Smart Metering Systems released 2017 results which showed an 18% increase in revenue, allowing the company to declare an improved dividend. Its chief executive stated that it was a year of investment in the business which was highlighted by a £150m share placing in November to help finance the ongoing roll-out of 'smart domestic' meters.

- Fidessa Group became the subject of a takeover battle. The financial software company initially agreed a £1.4bn deal with Switzerland's Temenos Group but then received higher offers from ION investment Group and SS&C Technologies Holdings, which propelled the company's share price even higher. In April, Fidessa agreed to a deal with ION worth £1.5bn.

- Engineering and healthcare technology company Renishaw bounced back from disappointing interim results, released in January, by increasing full-year revenue and profit forecasts in May 2018. The company grew revenue

# LIONTRUST SPECIAL SITUATIONS FUND

## MANAGER'S INVESTMENT REPORT

by 12% in the nine months to 31 March 2018, a top-line uplift which dropped through to an almost 40% expansion in adjusted profit before tax. The strength of trading led it to upgrade its full-year financial forecasts. Revenue guidance has been increased from £575m - £605m to £585m - £605m while the profit before tax range has been raised from £127m - £147m to £135m - £150m.

- Stronger than expected Q1 order intake at actuator manufacturer Rotork contributed to it raising its 2018 revenue guidance to "mid to high single digit growth". Order intake rose 21% year-on-year, which the company attributes to a continuation of the more favourable market trends seen in Q4 2017. The order book grew to £228m, 12% higher than the previous year. The rise in order intake was particularly stark in its Fluid Systems business, which saw 46% growth as conditions improved in key end markets such as the oil & gas industry.

The biggest detractors from the Fund's performance in the review period were IDOX (-52.0%), AA (-45.1%), Reckitt Benckiser Group (-25.6%), Brooks Macdonald (-21.1%) and Aggreko (-15.9%).

- Information management services provider IDOX suffered from two profit warnings in as many months as a result of contract delays and accounting errors. The company warned in November that contract delays meant 2017 results would fall short of expectations and in December revealed that its review of end-year accounts (for the period to 31 October 2017) had uncovered certain revenue items which should not have been included in FY2017 forecasts. The stock was later sold due to management's share ownership falling below 3%, the threshold level we require of smaller companies in the Fund.

- AA endured a tough time after announcing that its Executive Chairman Bob Mackenzie had been removed from his role with immediate effect due to "gross misconduct". The shares were also hit when new CEO, Simon Breakwell, outlined a strategic plan that would involve additional operational and capital expenditure of £45m this year. We are monitoring developments keenly in the expectation that AA's high recurring cash flow can be used to pay down the debt pile. The unexpected management succession and rebasing of earnings expectations has depressed the share price, but the new strategy has yet to been given a chance to yield results.

- Household goods giant Reckitt Benckiser's full-year results were poorly received in February. Net revenue rose to £11.5bn, up 15% in constant exchange rates but flat on a like-for-like basis. Adjusted operating profit increased 12% to £3.12bn. Margins were squeezed by 70bps to 27.1%. Outlook comments included an expectation of 2-3% like-for-like revenue growth and further margin pressures in 2018.

- Brooks Macdonald shares were unable to recover from its announcement in July 2017 that the company was set to see increasing costs due to upcoming additional regulation, as well as unhelpfully revealing a £6.5m charge related to legacy matters from its former Channel Islands-based Spearpoint business. In a more recent update, the company reported a slight drop in funds under management in the quarter to end March 2018 due to weaker markets.

- Temporary power supplier Aggreko suffered in the wake of its third quarter update. It reported higher revenue for the period, but its Power Solutions Utility business saw a 15% decrease in revenue due to repricing and off-hires in Argentina. The issues in Argentina weighed on the company's 2017 results which showed a pre-tax profit decline of 12%.

### Portfolio Changes

In keeping with our long-term, low turnover approach, only a few changes were made to the Fund's portfolio of holdings in the period. Sanne Group and IDOX were sold from the Fund as in each instance management ownership had fallen below our required threshold of 3%. Sepura also exited the portfolio as Hytera Communications completed its 20p/share acquisition of the company. Sepura had found itself in a distressed position after experienced contract delays which threatened its funding position.

The Fund initiated three new positions: Caretech Holdings, IntegraFin and Kainos Group.

Caretech is a provider of care homes to "high acuity" patients on behalf of local authority and health services commissioners throughout the UK. Such individuals – either adults suffering from learning disabilities and mental health problems, or children and young people with behavioural disorders or requiring foster care – typically stay in care homes for a much longer period of time than elderly patients (10 years on average), providing annuity type revenue streams to the group. Caretech has a network of 450 care homes and has also built up a valuable network of vitally important relationships with local authorities in different regions.

The Fund participated in the Initial Public Offering of IntegraFin in February 2018 at 196p per share. The stock had a strong debut, and ended the review period at 360p. The company owns the Transact investment wrap platform, and in our view possesses intangible Economic Advantage assets in the form of its distribution network and high level of recurring revenues.



# LIONTRUST SPECIAL SITUATIONS FUND

## MANAGER'S INVESTMENT REPORT

Kainos Group is an independent digital technology company with three separate strands to its business. The largest of these is the provision of outsourced IT design and support services to the public sector, benefiting heavily from the UK government's agenda to digitise public services. The firm also provides mobile-enabled healthcare solutions to the NHS via its Evolve software, while its third leg is involved in the provision of implementation and support to fast-growing US enterprise resource planning software provider Workday. Possessing strong know-how in software development, Kainos has used internal resources to develop IP-rich software products which are increasingly profitable and also provide the company with a sticky data-driven distribution network advantage.

### Outlook

The UK economic outlook remains uncertain with the true impact of Brexit unlikely to be known for some time yet. During periods of market or economic uncertainty, we believe that it is more important than ever to focus on company fundamentals rather than macroeconomic noise. Successfully predicting macroeconomic events is exceptionally difficult and we adhere to an investment process where this kind of forecasting plays no role.

The Economic Advantage investment process is unashamedly bottom-up. This is not to say that investor sentiment will not have an impact, but over the long term the greatest influence on the type of companies we invest in will be their ability to successfully execute growth plans and compound profits. Looking ahead, we expect the economic and corporate landscape to continue to be disrupted by technology, and in this respect we will look to the investment process to both identify investment opportunities and provide barriers against competition. These barriers to competition – IP, distribution networks and recurring revenues – afford companies the time to respond to technological advances and seize the opportunities of the digital economy for themselves.

**Anthony Cross & Julian Fosh**  
Fund Managers

July 2018

### Manager's Report

The manager's investment report, together with information on the authorised status of the Fund, the objectives and policy of the Fund, the information on page 1 and the portfolio statement, comprise the Manager's Report.

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

# LIONTRUST SPECIAL SITUATIONS FUND

## Authorised Status

The Fund is an authorised unit trust scheme ("the Scheme") under Section 243 of the Financial Services and Markets Act 2000 (authorisation orders) and the Financial Conduct Authority's Collective Investment Schemes Sourcebook and is categorised as a UCITS scheme.

## Statement of the Manager's Responsibilities

### in respect of the Report and Financial Statements of the Scheme:

The Financial Conduct Authority's Collective Investment Scheme Sourcebook ('the Regulations') require the Manager to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of the Scheme and of its net income/expenses and the net gains/losses on the property of the Scheme for the period. In preparing the financial statements the Manager is required to:

- select suitable accounting policies and then apply them consistently;
- comply with the requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in May 2014;
- follow generally accepted accounting principles and applicable accounting standards;
- keep proper accounting records which enable it to demonstrate that the financial statements, as prepared, comply with the above requirements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Scheme will continue in operation.

The Manager is responsible for the management of the Scheme in accordance with its Trust Deed, Prospectus and the Regulations, and has taken all reasonable steps for the prevention and detection of fraud and other irregularities.

## Statement of Trustee's Responsibilities

The Depositary in its capacity as Trustee of Liontrust Special Situations Fund must ensure that the Trust is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Financial Services and Markets Act 2000, as amended, (together "the Regulations"), the Trust Deed and Prospectus (together "the Scheme documents") as detailed below.

The Depositary must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Trust and its investors.

The Depositary is responsible for the safekeeping all custodial assets and maintaining a record of all other assets of the Trust in accordance with the Regulations.

The Depositary must ensure that:

- the Trust's cash flows are properly monitored and that cash of the Trust is booked in cash accounts in accordance with the Regulations;
- the sale, issue, repurchase, redemption and cancellation of units are carried out in accordance with the Regulations;
- the value of units of the Trust are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Trust's assets is remitted to the Trust within the usual time limits;
- the Trust's income is applied in accordance with the Regulations; and
- the instructions of the Authorised Fund Manager ("the AFM") which is the UCITS Management Company, are carried out (unless they conflict with the Regulations).

The Depositary also has a duty to take reasonable care to ensure that Trust is managed in accordance with the Regulations and the Scheme documents of the Trust in relation to the investment and borrowing powers applicable to the Trust.

# LIONTRUST SPECIAL SITUATIONS FUND

## Trustee's Report

to the unitholders of the Liontrust Special Situations Fund ("the Scheme")

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Trust, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Trust, acting through the AFM:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Trust's units and the application of the Trust's income in accordance with the Regulations and the Scheme documents of the Trust; and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Trust in accordance with the Regulations and Scheme documents of the Trust.

**State Street Trustees Limited**

**20 Churchill Place**

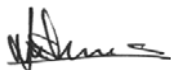
**London E14 5HJ**

7 August 2018

# LIONTRUST SPECIAL SITUATIONS FUND

## **Certification of Financial Statements by Directors of the Manager**

We certify that this Manager's Report has been prepared in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook.



**John Ions**  
Chief Executive



**Antony Morrison**  
Partner, Head of Finance

Liontrust Fund Partners LLP

7 August 2018

# ***Independent Auditors' Report to the Unitholders of Liontrust Special Situations Fund***

## **Report on the audit of the financial statements**

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### **Opinion**

In our opinion, Liontrust Special Situations Fund's financial statements:

- give a true and fair view of the financial position of the Trust as at 31 May 2018 and of the net revenue and the net capital gains on its scheme property for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), the Statement of Recommended Practice for UK Authorised Funds, the Collective Investment Schemes Sourcebook and the Trust Deed.

We have audited the financial statements, included within the Manager's Long Final Report and Financial Statements (the "Annual Report"), which comprise: balance sheet as at 31 May 2018; the statement of total return and the statement of change in net assets attributable to unitholders for the year then ended; the distribution tables; and the notes to the financial statements, which include a description of the significant accounting policies.

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### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We remained independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Manager's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Manager has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Trust's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Trust's ability to continue as a going concern.

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### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Manager is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

### **Manager's Report**

In our opinion, the information given in the Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Responsibilities for the financial statements and the audit**

### *Responsibilities of the Manager for the financial statements*

As explained more fully in the Statement of the Manager's Responsibilities set out on page 9, the Manager is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Manager is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Trust's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to wind up or terminate the Trust, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinions, has been prepared for and only for the Trust's unitholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes Sourcebook and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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## **Other required reporting**

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### **Opinion on matter required by the Collective Investment Schemes Sourcebook**

In our opinion we have obtained all the information and explanations we consider necessary for the purposes of the audit.

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### **Collective Investment Schemes Sourcebook exception reporting**

Under the Collective Investment Schemes Sourcebook we are required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Edinburgh  
7 August 2018

# LIONTRUST SPECIAL SITUATIONS FUND

## Comparative Tables

as at 31 May 2018

	31/05/18 (p)	31/05/17 (p)	31/05/16 (p)
<b>Advised Income</b>			
<b>Change in net assets per unit</b>			
Opening net asset value per unit	378.33	305.69	305.65
Return before operating charges*	48.97	82.39	8.84
Operating charges	(4.17)	(3.83)	(3.30)
Return after operating charges*	44.80	78.56	5.54
Distributions on income units	(6.66)	(5.92)	(5.50)
Closing net asset value per unit	416.47	378.33	305.69
*after direct transaction costs of:	0.43	0.49	0.39
<b>Performance</b>			
Return after charges	11.84%	25.70%	1.81%
<b>Other information</b>			
Closing net asset value (£'000)	7,765	6,354	4,305
Closing number of units	1,864,411	1,679,485	1,408,378
Operating charges	1.07%	1.10%	1.11%
Direct transaction costs	0.11%	0.14%	0.13%
<b>Prices</b>			
Highest offer (buying) unit price	438.19	395.65	321.57
Lowest bid (selling) unit price	364.91	293.39	273.19
	31/05/18 (p)	31/05/17 (p)	31/05/16 (p)
<b>Institutional Income</b>			
<b>Change in net assets per unit</b>			
Opening net asset value per unit	379.75	306.76	306.87
Return before operating charges*	49.25	82.79	8.74
Operating charges	(3.21)	(2.97)	(2.58)
Return after operating charges*	46.04	79.82	6.16
Distributions on income units	(7.67)	(6.83)	(6.27)
Closing net asset value per unit	418.12	379.75	306.76
*after direct transaction costs of:	0.43	0.50	0.40
<b>Performance</b>			
Return after charges	12.12%	26.02%	2.01%
<b>Other information</b>			
Closing net asset value (£'000)	3,369,169	2,542,824	1,559,784
Closing number of units	805,787,842	669,606,993	508,473,557
Operating charges	0.82%	0.85%	0.88%
Direct transaction costs	0.11%	0.14%	0.13%
<b>Prices</b>			
Highest offer (buying) unit price	432.27	390.25	317.13
Lowest bid (selling) unit price	366.39	294.47	274.61

# LIONTRUST SPECIAL SITUATIONS FUND

## Comparative Tables

as at 31 May 2018

	31/05/18 (p)	31/05/17 (p)	31/05/16 (p)
<b>Retail Income</b>			
<b>Change in net assets per unit</b>			
Opening net asset value per unit	376.94	304.77	303.07
Return before operating charges*	48.49	81.83	10.39
Operating charges	(7.01)	(6.36)	(5.48)
Return after operating charges*	41.48	75.47	4.91
Distributions on income units	(3.72)	(3.30)	(3.21)
Closing net asset value per unit	414.70	376.94	304.77
*after direct transaction costs of:	0.42	0.49	0.39
<b>Performance</b>			
Return after charges	11.00%	24.76%	1.62%
<b>Other information</b>			
Closing net asset value (£'000)	210,235	216,855	185,674
Closing number of units	50,695,703	57,530,075	60,921,680
Operating charges	1.82%	1.85%	1.88%
Direct transaction costs	0.11%	0.14%	0.13%
<b>Prices</b>			
Highest offer (buying) unit price	446.14	403.05	327.67
Lowest bid (selling) unit price	363.26	292.42	271.00



# LIONTRUST SPECIAL SITUATIONS FUND

## Portfolio Statement

as at 31 May 2018 (Ordinary shares except where otherwise stated)

	Holdings	Market Value £'000	Percentage of total net assets %
<b>UNITED KINGDOM (91.72%*)</b>		<b>3,300,106</b>	<b>92.00</b>
<b>CONSUMER GOODS (12.45%*)</b>		<b>398,106</b>	<b>11.10</b>
Diageo	5,343,475	147,346	4.11
Reckitt Benckiser	1,925,239	113,916	3.18
Unilever	3,257,788	136,844	3.81
<b>CONSUMER SERVICES (16.32%*)</b>		<b>594,897</b>	<b>16.58</b>
AA	33,108,417	41,551	1.16
Compass	8,826,369	142,413	3.97
Domino's Pizza	19,185,733	73,098	2.04
GlobalData	8,249,838	47,024	1.31
Next Fifteen Communications	5,206,530	26,137	0.73
RELX	8,329,515	137,479	3.83
Rightmove	1,672,474	82,854	2.31
YouGov	10,077,424	44,341	1.23
<b>FINANCIALS (9.16%*)</b>		<b>291,904</b>	<b>8.14</b>
Brooks Macdonald	1,342,189	25,904	0.72
Hargreaves Lansdown	5,427,450	104,207	2.91
IntegraFin	4,194,347	15,058	0.42
Mortgage Advice Bureau	4,103,493	24,867	0.69
NEX	1,723,009	17,540	0.49
Savills	4,685,795	45,241	1.26
Tullett Prebon	14,048,228	59,087	1.65
<b>HEALTH CARE (9.37%*)</b>		<b>338,908</b>	<b>9.45</b>
AstraZeneca	1,743,353	95,257	2.66
CareTech	7,502,077	28,208	0.79
GlaxoSmithKline	9,415,823	143,610	4.00
Shire	1,745,421	71,833	2.00
<b>INDUSTRIALS (24.29%*)</b>		<b>930,311</b>	<b>25.93</b>
Aggreko	6,515,418	46,403	1.29
Clipper Logistics	7,458,895	32,819	0.92
Intertek	1,697,459	93,836	2.62
PageGroup	12,533,896	66,618	1.86
PayPoint	6,243,346	61,996	1.73
Renishaw	1,769,237	93,416	2.60
Rotork	35,975,352	121,597	3.39
RWS	21,323,291	78,576	2.19
Smart Metering Systems	7,253,094	57,445	1.60
Spectris	3,720,133	105,577	2.94
Spirax-Sarco Engineering	1,742,941	108,062	3.01
Weir	2,926,170	63,966	1.78

# LIONTRUST SPECIAL SITUATIONS FUND

## Portfolio Statement

as at 31 May 2018 (Ordinary shares except where otherwise stated)

	Holdings	Market Value £'000	Percentage of total net assets %
<b>OIL &amp; GAS (9.85%*)</b>		<b>352,679</b>	<b>9.83</b>
BP	24,638,640	141,106	3.93
<i>Plexus</i>	9,316,226	5,403	0.15
Royal Dutch Shell 'B' Shares	5,136,736	137,793	3.84
John Wood	10,263,761	68,377	1.91
<b>TECHNOLOGY (8.46%*)</b>		<b>328,799</b>	<b>9.17</b>
<i>Bango</i>	5,891,009	10,192	0.28
<i>Bond International Software***</i>	3,327,918	-	-
<i>Craneware</i>	2,596,217	48,030	1.34
<i>dotdigital</i>	28,300,642	20,377	0.57
<i>EMIS</i>	6,079,455	55,931	1.56
Fidessa	2,871,845	110,422	3.08
<i>iomart</i>	10,392,281	42,504	1.19
Kainos	7,652,375	30,150	0.84
<i>StatPro</i>	6,395,705	11,193	0.31
<b>TELECOMMUNICATIONS (1.82%*)</b>		<b>64,502</b>	<b>1.80</b>
<i>Gamma Communications</i>	8,811,723	64,502	1.80
<b>IRELAND (4.81%*)</b>		<b>171,920</b>	<b>4.79</b>
<b>MONEY MARKET FUNDS (4.81%*)</b>			
SSgA Cash Management Fund**	171,920,431	171,920	4.79
<b>SHORT-TERM DEPOSITS (0.37%*)</b>		<b>10,242</b>	<b>0.29</b>
Lloyds 0.65% Sterling Deposit	5,133,995	5,134	0.15
Nationwide 0.47% Sterling Deposit	5,108,186	5,108	0.14
<b>Portfolio of investments</b>		<b>3,482,268</b>	<b>97.08</b>
<b>Net other assets</b>		<b>104,901</b>	<b>2.92</b>
<b>Total net assets</b>		<b>3,587,169</b>	<b>100.00</b>

All securities are approved securities traded on eligible securities markets, as defined by the Collective Investment Scheme sourcebook, except those stocks in italics which are listed on the Alternative Investment Market.

\* Comparative figures shown in brackets relate to 31 May 2017.

\*\* In order to maintain appropriate levels of interest received on any large cash balances held by the Fund, cash balances are reviewed on a daily basis and any excess cash is transferred into the SSgA Cash Management Fund. The units in the SSgA Cash Management Fund are readily transferable back into cash at any time as required for the operation of the Fund.

\*\*\* Delisted securities.

# LIONTRUST SPECIAL SITUATIONS FUND

## Securities Financing Transactions (SFTs)

as at 31 May 2018

### GLOBAL DATA

<b>Proportion of securities and commodities on loan</b>	<b>£'000</b>	<b>%</b>
Total lendable assets excluding cash and cash equivalents:	3,237,831	
Securities and commodities on loan	160,267	4.95%
<b>Assets engaged in SFTs and total return swaps</b>	<b>£'000</b>	<b>%</b>
Fund assets under management (AUM)	3,668,326	
Absolute value of assets engaged in:		
Securities lending	160,267	4.37%

### CONCENTRATION DATA

#### **Top 10 Collateral Issuers**

<b>Name and value of collateral and commodities received</b>	<b>£'000</b>
Cash Collateral	46,105
Republic of France	11,686
Government of United Kingdom	8,415
Sky	5,820
Safran	3,839
Federal Republic of Germany	3,463
United States of America Treasury	3,092
Eni	2,695
Kingdom of Netherlands	2,373
Crown Castle International	1,889

#### **Top 10 Counterparties**

<b>Name and value of outstanding transactions</b>	<b>£'000</b>
<b>Securities lending</b>	
Deutsche Bank	57,501
Merrill Lynch International	22,126
Goldman Sachs International	19,357
HSBC Bank	17,150
UBS	14,780
ING Bank	10,052
Barclays Capital Securities	6,339
Credit Suisse Securities (Europe)	6,038
Bank of Nova Scotia	3,735
Societe Generale	2,532

# LIONTRUST SPECIAL SITUATIONS FUND

## Securities Financing Transactions (SFTs)

as at 31 May 2018

### AGGREGATE TRANSACTION DATA

#### Type, Quality and Currency of Collateral

Type	Quality	Currencies	£'000
<b>Securities lending</b>			
Equity	Traded on recognised exchange	Sterling	21,348
Equity	Traded on recognised exchange	Australian dollar	513
Equity	Traded on recognised exchange	Bermudian dollar	1
Equity	Traded on recognised exchange	Canadian dollar	2,528
Equity	Traded on recognised exchange	Chinese yuan	133
Equity	Traded on recognised exchange	Danish krone	381
Equity	Traded on recognised exchange	Euro	21,240
Equity	Traded on recognised exchange	Hong Kong dollar	4,549
Equity	Traded on recognised exchange	Japanese yen	6,279
Equity	Traded on recognised exchange	New Israeli sheqel	2
Equity	Traded on recognised exchange	Norwegian krone	489
Equity	Traded on recognised exchange	Singapore dollar	10
Equity	Traded on recognised exchange	Swedish krona	503
Equity	Traded on recognised exchange	Swiss franc	726
Equity	Traded on recognised exchange	US dollar	35,765
Bonds	Investment Grade	Sterling	8,415
Bonds	Investment Grade	Australian dollar	1,031
Bonds	Investment Grade	Canadian dollar	563
Bonds	Investment Grade	Euro	19,837
Bonds	Investment Grade	Swedish krona	46
Bonds	Investment Grade	US dollar	3,136
Cash	Cash Collateral	Euro	46,105
<b>Total collateral held</b>			<b>173,600</b>

#### Maturity Tenor of Collateral (remaining period to maturity)

Type	Less than one day £'000	One day to one week £'000	One week to one month £'000	One to three months £'000	Three months to one year £'000	Above one year £'000	Open maturity £'000	Total £'000
Securities lending	46,105	-	7	1,583	1,860	29,578	94,467	173,600
	46,105	-	7	1,583	1,860	29,578	94,467	173,600

#### Counterparty details

Type	Countries of counterparty establishment	Settlement and clearing	£'000
Securities lending	Canada	Bi-lateral	161
Securities lending	Switzerland	Bi-lateral	412
Securities lending	United Kingdom	Bi-lateral	46,109
Securities lending	Canada	Tri-party	3,866
Securities lending	France	Tri-party	2,736
Securities lending	Germany	Tri-party	62,853
Securities lending	Netherlands	Tri-party	10,984
Securities lending	Switzerland	Tri-party	15,886
Securities lending	United Kingdom	Tri-party	30,593
<b>Total collateral held</b>			<b>173,600</b>

# LIONTRUST SPECIAL SITUATIONS FUND

## Securities Financing Transactions (SFTs)

as at 31 May 2018

### Maturity Tenor of SFTs and Total Return Swaps (remaining period to maturity)

Type	Less than one day £'000	One day to one week £'000	One week to one month £'000	One to three months £'000	Three months to one year £'000	Above one year £'000	Open transactions £'000	Total £'000
Securities lending	-	-	-	-	-	-	160,267	160,267
	-	-	-	-	-	-	160,267	160,267

### RE-USE OF COLLATERAL

The Fund does not engage in re-use of collateral.

### SAFEKEEPING OF COLLATERAL RECEIVED

Names and value of custodians safekeeping collateral	£'000
JP Morgan	73,255
State Street	46,681
Bank of New York	35,644
Crest	18,020

Number of custodians safekeeping collateral 4

### SAFEKEEPING OF COLLATERAL GRANTED

The Fund does not borrow stock from counterparties; therefore, no collateral has been granted.

### RETURN AND COST

	Collective Investment Undertaking £'000	Manager of Collective Investment Undertaking £'000	Third Parties (e.g. lending agent) £'000	Total £'000
<b>Securities lending</b>				
Gross return	297	31	109	437
% of total gross return	68.00%	7.00%	25.00%	100.00%
Cost*	-	-	-	-

\*All direct costs from securities lending are borne by lending agent.

# LIONTRUST SPECIAL SITUATIONS FUND

## Statement of Total Return

for the year ended 31 May 2018

	Note	01/06/17 to 31/05/18		01/06/16 to 31/05/17	
		£'000	£'000	£'000	£'000
Income					
Net capital gains	4		319,180		465,760
Revenue	5	88,149		64,160	
Expenses	6	(28,164)		(21,229)	
Interest payable and similar charges		-		-	
Net revenue before taxation		59,985		42,931	
Taxation	7	-		-	
Net revenue after taxation			59,985		42,931
<b>Total return before distribution</b>			379,165		508,691
Distribution	8		(60,193)		(43,188)
<b>Change in net assets attributable to unitholders from investment activities</b>			<u>318,972</u>		<u>465,503</u>

## Statement of Change in Net Assets Attributable to Unitholders

for the year ended 31 May 2018

	01/06/17 to 31/05/18		01/06/16 to 31/05/17	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to unitholders</b>		2,766,033		1,749,763
Amounts receivable on issue of units	678,012		595,014	
Amounts payable on cancellation of units	<u>(180,391)</u>		<u>(47,904)</u>	
		497,621		547,110
Dilution adjustment		4,543		3,657
Change in net assets attributable to unitholders from investment activities		<u>318,972</u>		<u>465,503</u>
<b>Closing net assets attributable to unitholders</b>		<u>3,587,169</u>		<u>2,766,033</u>

# LIONTRUST SPECIAL SITUATIONS FUND

## Balance Sheet

as at 31 May 2018

	Note	31/05/2018 £'000	31/05/2017 £'000
<b>Assets</b>			
<b>Fixed assets</b>			
Investments		3,482,268	2,680,159
<b>Current assets</b>			
Debtors	9	31,703	27,217
Cash and bank balances	10	141,017	119,397
<b>Total assets</b>		<u>3,654,988</u>	<u>2,826,773</u>
<b>Liabilities</b>			
Distribution payable on income units		63,814	47,732
Other creditors	11	4,005	13,008
<b>Total liabilities</b>		<u>67,819</u>	<u>60,740</u>
<b>Net assets attributable to unitholders</b>		<u><u>3,587,169</u></u>	<u><u>2,766,033</u></u>

# LIONTRUST SPECIAL SITUATIONS FUND

## Notes to the Financial Statements

### 1. Accounting and distribution policies

#### (a) Basis of preparation

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, in compliance with the Financial Conduct Authority's Collective Investments Schemes Sourcebook. They have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 (The Financial Reporting Standard Applicable in the UK and Republic of Ireland "FRS 102"), Trust Deed and in accordance with the Statement of Recommended Practice (SORP) for Financial Statements of Authorised Funds issued by the Investment Management Association in May 2014 ('the 2014 SORP'). The financial statements are prepared on the going concern basis.

#### (b) Recognition of revenue

- (i) UK dividends classified as franked investment income are shown net of attributable tax credits when the securities are quoted ex-dividend.
- (ii) Special dividends are treated as income or capital according to the nature of the event giving rise to the payment.
- (iii) Bank interest is recognised on an accruals basis.
- (iv) Stock lending revenue is recognised on an accruals basis.
- (v) Interest on short-term deposits is recognised on an accruals basis.

#### (c) Expenses

The transaction charges, safe custody fees and wire charges are deducted from capital. All other expenses are charged against income. All expenses are accounted for on an accruals basis.

#### (d) Distribution

Income produced by the Fund's investments accumulates during each accounting period. If at the end of the accounting period income exceeds expenses, the net income of the Fund is available to be distributed to unitholders. The Manager will seek to distribute this income in a manner that will maximise the total returns to holders of the majority of units.

#### (e) Basis of valuation of investments

All investments have been valued at 12 midday, on 31 May 2018. Listed investments have been valued at bid-market value, net of any accrued income.

#### (f) Taxation

Provision is made for taxation at current rates on the excess of investment income over expenses, with relief taken for overseas taxation where appropriate.

#### (g) Deferred taxation

Deferred tax is provided for in respect of all timing differences that have originated but not reversed by the Balance Sheet date. Deferred tax is not recognised on permanent differences.

Deferred tax assets are recognised only to the extent that it is more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted.

#### (h) Foreign exchange

All transactions in foreign currencies are translated into sterling at the rate of exchange ruling on the date of such transactions. Foreign currency assets and liabilities at the end of the accounting period are translated at the exchange rates applicable at the end of the accounting period at the appropriate valuation point.

#### (i) Equalisation

Equalisation is the accrued income included in the price of units purchased during the distribution period (Group 2 Units) which is refunded as a part of a unitholder's first distribution, so as to provide the same distribution for all units of the same type. As a repayment of capital it is not liable to Income Tax and should be deducted from the cost of units for Capital Gains Tax purposes.



# LIONTRUST SPECIAL SITUATIONS FUND

## Notes to the Financial Statements

### 2. Risk management policies

In accordance with the investment objectives and policies the Fund can hold certain financial instruments. These comprise:

- equity shares;
- cash and short-term debtors and creditors that arise directly from its operations;
- units in SSgA Cash Management Fund, short term deposits;
- derivatives\*; and
- unitholders' funds which represent investors' monies which are invested on their behalf.

\* No derivatives were held in the current year.

In accordance with the requirements of the rules in the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Fund is not permitted to trade in other financial instruments. The Fund's use of financial instruments during the year satisfies these regulatory requirements.

The main risks arising from the Fund's financial instruments are market price risk, interest rate risk, foreign currency risk, liquidity risk and credit and counterparty risk. The Manager's policies for managing these risks are summarised below. These policies have remained unchanged since the beginning of the year to which these financial statements relate and during the prior year.

#### Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Manager reviews the portfolio in order to consider the asset allocation implications and to minimise the risk associated with particular countries or industry sectors whilst continuing to follow the Fund's investment objective. An individual fund manager has responsibility for monitoring the existing portfolio, in accordance with the overall asset allocation parameters described above and seeks to ensure that individual stocks also meet an acceptable risk reward profile.

Furthermore, because a significant proportion of the companies in which the Fund invests is traded on the Alternative Investment Market (AIM) their liquidity cannot be guaranteed. The nature of the 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 the company's market capital. Nevertheless, on the ground that the investments are not intended for immediate realisation, bid market price is regarded as the most objective and appropriate method of valuation.

The Fund is exposed to market price risk as the assets and liabilities of the Fund are listed on stock exchanges and their prices are subject to movements both up or down that would result in an appreciation or depreciation in the fair value of that asset. As at 31 May 2018, had the prices increased by 1% the resulting change in the value of the Net Asset Value would have been an increase of 0.97%.

#### Interest rate risk

Interest receivable on bank deposits and short-term deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates. The interest rates earned on sterling deposits are earned at a rate linked to LIBOR.

The majority of the Fund's financial assets are equity shares and other investments which neither pay interest nor have a maturity date. The floating rate financial assets and liabilities comprise sterling denominated bank balances and overdrafts that bear interest based on LIBOR.

Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates.

# LIONTRUST SPECIAL SITUATIONS FUND

## Notes to the Financial Statements

### Foreign currency risk

The Manager has identified three principle areas where foreign currency risk could impact the Fund;

- Movements in exchange rates affect the value of investments;
- Movements in exchange rates affect short-term timing differences; and,
- Movements in exchange rates affect the income received.

The Fund may be subject to short-term exposure to exchange rate movements, for instance where there is a difference between the date an investment purchase or sale is entered into and the date when settlement of the proceeds occurs. When the Fund enters into such a transaction which will involve the buying or selling of foreign currency in order to complete, a foreign exchange contract is entered into as soon as possible after the initial transaction in order to minimise exchange rate risk.

The Fund may receive income in currencies other than sterling and the sterling values of this income can be affected by movements in exchange rates. The Fund converts all receipts of income into sterling on or near the date of receipt; it does not, however, hedge or otherwise seek to avoid exchange rate risk on income accrued but not received.

However, in line with the Fund's objectives of investing primarily in the UK and Ireland, the Fund is expected to have only minimal foreign currency exposures.

### Liquidity risk

The Fund's assets mainly comprise securities that can be readily sold. The main liability of the Fund is the redemption of any units that investors wish to sell.

In general, the Investment Adviser manages the Fund's cash to ensure it can meet its liabilities. Where investments cannot be realised in time to meet any potential liability, the Fund may borrow up to 10% of its value to ensure settlement.

### Credit and counterparty risk

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment (purchase) or cash (sale) after the Fund has fulfilled its responsibilities.

The Fund only buys and sells investments through brokers which have been approved by the Manager as an acceptable counterparty. This list is reviewed annually.

# LIONTRUST SPECIAL SITUATIONS FUND

## Notes to the Financial Statements

### 3. Unit classes

The Trust has three unit classes in issue.

The total net asset value, net asset value per unit and number of units in issue for each class are given in the Comparative Tables on pages 14 to 15.

Reconciliation of the unit movement in the year:

	31/05/17	01/06/17 to 31/05/18			31/05/18
	Opening units in issue	Creations	Cancellations	Units converted	Closing units in issue
Advised Income	1,679,485	616,025	(336,908)	(94,191)	1,864,411
Institutional Income	669,606,993	171,144,745	(38,273,225)	3,309,329	805,787,842
Retail Income	57,530,075	3,894,168	(7,475,425)	(3,253,115)	50,695,703
Total	728,816,553	175,654,938	(46,085,558)	(37,977)	858,347,956

### 4. Net capital gains

	01/06/17 to 31/05/18 £'000	01/06/16 to 31/05/17 £'000
Non-derivative securities	319,184	465,766
Transaction charges	(4)	(6)
<b>Net capital gains</b>	<b>319,180</b>	<b>465,760</b>

### 5. Revenue

	01/06/17 to 31/05/18 £'000	01/06/16 to 31/05/17 £'000
Overseas non-taxable revenue	-	1,145
UK dividends	87,380	62,432
Distributions from Regulated Collective Investment Schemes:		
Offshore investment revenue*	427	268
Bank interest	45	69
Stocklending income	297	246
	<b>88,149</b>	<b>64,160</b>

\*This is revenue received from investment in the SSgA Cash Management Fund.

# LIONTRUST SPECIAL SITUATIONS FUND

## Notes to the Financial Statements

### 6. Expenses

	01/06/17 to 31/05/18 £'000	01/06/16 to 31/05/17 £'000
<b>Payable to the Manager, associates of the Manager and agents of either of them:</b>		
Manager's periodic charge	25,876	19,011
Registration fees	1,499	1,524
	<u>27,375</u>	<u>20,535</u>
<b>Payable to the Trustee, associates of the Trustee and agents of either of them:</b>		
Safe custody fees	166	199
Trustee's fees	366	376
Wire charges	3	4
	<u>535</u>	<u>579</u>
<b>Other expenses</b>		
Administration fee	16	28
Audit fee	11	12
Printing fee	6	8
Other expenses	221	67
	<u>254</u>	<u>115</u>
<b>Total expenses</b>	<u>28,164</u>	<u>21,229</u>

Ad valorem, performance management fees and out of pocket expenses are now combined as "Other expenses" which were listed separately in the notes to the prior year accounts as at 31 May 2017.

# LIONTRUST SPECIAL SITUATIONS FUND

## Notes to the Financial Statements

### 7. Taxation

#### (i) Analysis of charge for the year:

There is no corporation tax charge in the current year or prior year.

#### (ii) Factors affecting current tax charge for the year:

The tax assessed for the year is lower (2017: lower) than the standard rate of corporation tax in the UK for authorised unit trusts of 20% (2017: 20%). The differences are explained below:

	01/06/17 to 31/05/18 £'000	01/06/16 to 31/05/17 £'000
Net revenue before taxation	59,985	42,931
Corporation tax at 20%	11,997	8,586
Effects of:		
UK dividends*	(17,476)	(12,486)
Non-taxable scrip dividends	-	(229)
Movement in excess management expenses	5,478	4,128
Expenses not deductible for tax purposes	1	1
	(11,997)	(8,586)
<b>Total tax charge for the year (see note 7(i))</b>	<b>-</b>	<b>-</b>

\* As an authorised Unit Trust, these items are not subject to corporation tax.

Authorised Unit Trusts are exempt from tax on capital gains. Therefore, any capital return is not included in the above reconciliation.

#### (iii) Deferred tax

At the year end, there is a potential deferred tax asset of £22,372,046 (31/05/17: £16,893,527) in relation to excess management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the year or the prior year.

### 8. Distributions

This takes account of income received on the creation of units and income deducted on the cancellation of units, and comprises:

	01/06/17 to 31/05/18 £'000	01/06/16 to 31/05/17 £'000
Final	63,814	47,732
Amounts deducted on cancellation of units	1,814	331
Amounts received on issue of units	(5,435)	(4,875)
<b>Net distribution for the year</b>	<b>60,193</b>	<b>43,188</b>
<b>Reconciliation of net revenue after taxation to:</b>		
Net revenue after taxation	59,985	42,931
Fees paid from capital	169	203
Add: Income brought forward from previous year	11	40
Movement in net income as a result of conversions	51	25
Less: Income carried forward	(23)	(11)
<b>Net distribution for the year</b>	<b>60,193</b>	<b>43,188</b>

Details of the distribution per unit are set out in the table on page 32.

# LIONTRUST SPECIAL SITUATIONS FUND

## Notes to the Financial Statements

### 9. Debtors

	31/05/18	31/05/17
	£'000	£'000
Accrued revenue	14,790	12,395
Sales awaiting settlement	12,436	6,207
Amounts receivable on creation of units	4,477	8,615
	<u>31,703</u>	<u>27,217</u>

### 10. Cash and bank balances

	31/05/18	31/05/17
	£'000	£'000
Cash at bank	141,017	119,397

### 11. Other creditors

	31/05/18	31/05/17
	£'000	£'000
Accrued expenses	2,890	2,249
Amounts payable on cancellation of units	1,115	10,759
	<u>4,005</u>	<u>13,008</u>

### 12. Capital commitments and contingent liabilities

On 31 May 2018, the Fund had no capital commitments (31/05/17: £nil) and no contingent liabilities (31/05/17: £nil).

### 13. Securities on loan

The aggregate value of securities on loan at 31 May 2018 is £160,267,176 (31/05/17: £210,409,932). The identities of these counterparties are listed in the counterparties table below. Securities on loan are included in the portfolio statement and no account is taken of any collateral held. The aggregate value of collateral held at 31 May 2018 is £173,600,438 (31/05/17: £225,064,775). This collateral is listed in the collateral held table below.

The gross earnings and fees paid for the year are £436,536 (31/05/17: £387,467) and £139,691 (31/05/17: £142,132).

	31/05/18	31/05/17
	£'000	£'000
<b>Counterparties</b>		
Bank of Nova Scotia	3,735	22,112
Barclays Capital Securities	6,339	763
Citigroup Global Markets	657	2,331
Credit Suisse Securities (Europe)	6,038	979
Deutsche Bank	57,501	13,745
Goldman Sachs International	19,357	62,898
HSBC Bank	17,150	57,208
ING Bank	10,052	7,983
Merrill Lynch International	22,126	6,962
Societe Generale	2,532	-
State Street Bank International	-	3
UBS	14,780	35,426
<b>Total securities on loan</b>	<u>160,267</u>	<u>210,410</u>
	<b>31/05/18</b>	<b>31/05/17</b>
	<b>£'000</b>	<b>£'000</b>
<b>Collateral held</b>		
Bonds	33,028	7,411
Equities	94,467	143,201
Cash	46,105	74,453
<b>Total collateral held</b>	<u>173,600</u>	<u>225,065</u>

# LIONTRUST SPECIAL SITUATIONS FUND

## Notes to the Financial Statements

### 14. Related parties

The Manager, Liontrust Fund Partners LLP is a related party and is regarded as a controlling party by virtue of having the ability to act in respect of operation of the Fund.

By virtue of the Regulations governing authorised unit trusts, the Manager is party to every transaction in respect of units of the Fund, which are summarised in the Statement of Change in Net Assets Attributable to Unitholders.

The charges made by the Manager during the year are disclosed in note 6 on page 27. At 31 May 2018, £2,488,618 was due to the Manager (31/05/17: £1,952,752). This amount is included under 'Accrued expenses' in note 11.

During the year the Manager received creation monies of £683,447,007 (31/05/17: £599,888,565) and paid cancellation monies of £182,205,280 (31/05/17: £48,234,865). At 31 May 2018, there were creation monies due from the Manager of £4,477,334 (31/05/17: £8,615,660). There were cancellation monies due to the Manager of £1,115,124 at 31 May 2018 (31/05/17: £10,758,294).

### 15. Risk disclosures

The policies applied in the management of financial instruments are set out in note 2 on page 25.

#### Interest rate risk

The Fund receives revenue from holdings in equities. The cash flow from these investments may fluctuate depending upon the particular decisions made by each company. Given that the Fund's objective is to seek capital growth, these cash flows are considered to be of secondary importance and are not actively managed.

The Fund's net cash holding of £141,016,761 (31/05/17: £119,397,281) whose rates are determined by reference to rates supplied by the Trustee.

The Fund did not have any long-term financial liabilities.

#### Foreign currency risk

The Fund's financial assets and liabilities are all denominated in sterling. As a result, the Fund does not have any exposure to currency movements.

#### Maturity profile of financial liabilities

All financial liabilities of the Fund at the year end are due to settle in one year or less, or on demand.

#### Short-term debtors and creditors

Other short-term debtors and creditors have been excluded from disclosures of financial instruments.

#### Fair value of financial assets and liabilities

Securities held by the Fund are valued at bid-price. The difference between this value and the fair value of the securities is immaterial. There is also no material difference between the value of other financial assets and liabilities of the Fund included in the balance sheet and their fair value.

Securities are valued at bid and offer prices for calculating the cancellation and creation prices at the Fund's daily valuation point.

# LIONTRUST SPECIAL SITUATIONS FUND

## Notes to the Financial Statements

### 16. Purchases, sales and transaction costs

	Purchases		Sales	
	01/06/17 to 31/05/18 £'000	01/06/16 to 31/05/17 £'000	01/06/17 to 31/05/18 £'000	01/06/16 to 31/05/17 £'000
Equities	683,427	592,215	241,539	163,862
<b>Commissions</b>				
Equities	523	480	(154)	(174)
<b>Taxes</b>				
Equities	2,812	2,552	-	-
Total transaction costs	3,335	3,032	(154)	(174)
<b>Total net trades including transaction costs</b>	<b>686,762</b>	<b>595,247</b>	<b>241,385</b>	<b>163,688</b>

Total transaction cost expressed as a percentage of asset type cost.

	Purchases		Sales	
	01/06/17 to 31/05/18 %	01/06/16 to 31/05/17 %	01/06/17 to 31/05/18 %	01/06/16 to 31/05/17 %
<b>Commissions</b>				
Equities	0.08	0.08	0.06	0.11
<b>Taxes</b>				
Equities	0.41	0.43	-	-

Total transaction cost expressed as a percentage of average net asset value.

	01/06/17 to 31/05/18 %	01/06/16 to 31/05/17 %
Commissions*	0.02	0.03
Taxes*	0.09	0.11
<b>Total costs*</b>	<b>0.11</b>	<b>0.14</b>

### Average portfolio dealing spread

The average portfolio dealing spread at the balance sheet date was 0.48% (31/05/17: 0.48%).

\* Comparative figures have been restated to be calculated based on average net assets value for the year instead of net assets value at the year end.

### 17. Post balance sheet events

There are no post balance sheet events which have a bearing on the interpretation of the financial statements (31/05/17: none).

### 18. Fair value

Valuation technique	31/05/18		31/05/17	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	3,472,026	-	2,669,964	-
Level 2	10,242	-	10,195	-
Level 3*	-	-	-	-
<b>Total fair value</b>	<b>3,482,268</b>	<b>-</b>	<b>2,680,159</b>	<b>-</b>

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

\* There is a delisted security valued at nil attributed to level 3, as shown on the portfolio statement.



# LIONTRUST SPECIAL SITUATIONS FUND

## Distribution Tables

for the year ended 31 May 2018:

Group 1: Units purchased prior to 1 June 2017

Group 2: Units purchased between 1 June 2017 and 31 May 2018

		<b>Net revenue</b>	<b>Equalisation</b>	<b>Distributions payable 31/07/18</b>	<b>Distributions paid 31/07/17</b>
		Pence per unit	Pence per unit	Pence per unit	Pence per unit
<b>Advised Income</b>					
Group 1	Final	6.66	-	6.66	5.92
Group 2	Final	4.12	2.54	6.66	5.92

		<b>Net revenue</b>	<b>Equalisation</b>	<b>Distributions payable 31/07/18</b>	<b>Distributions paid 31/07/17</b>
		Pence per unit	Pence per unit	Pence per unit	Pence per unit
<b>Institutional Income</b>					
Group 1	Final	7.67	-	7.67	6.83
Group 2	Final	4.35	3.32	7.67	6.83

		<b>Net revenue</b>	<b>Equalisation</b>	<b>Distributions payable 31/07/18</b>	<b>Distributions paid 31/07/17</b>
		Pence per unit	Pence per unit	Pence per unit	Pence per unit
<b>Retail Income</b>					
Group 1	Final	3.72	-	3.72	3.30
Group 2	Final	2.61	1.11	3.72	3.30

# LIONTRUST SPECIAL SITUATIONS FUND

## Additional Information

**Trust Deed:** The Fund was established by a Trust Deed made between the Manager and the Trustee dated 5 September 2005.

**Prospectus:** Copies of the Fund's Prospectus are available free of charge from the Manager upon request, and from our website, [www.liontrust.co.uk](http://www.liontrust.co.uk).

**Unit type:** The Fund issues income units only. Investors can elect at any time to have any income either paid out or automatically reinvested to purchase units at no initial charge.

**Pricing and dealing:** A buying price (the price at which you have bought the units in the Fund and being the higher) and a selling price (the price at which you can sell the units back to the Manager and being the lower) are always quoted for the Fund. The buying price includes the Manager's initial charge.

Dealing in all unit trusts operated by Liontrust Fund Partners LLP may be carried out between 09.00 and 17.00 hours on any business day. Professional investors and advisers may buy and sell units over the telephone; private investors are required to instruct the Manager in writing for initial purchases, but can deal over the telephone thereafter. Prices are quoted on a 'forward' basis. This means that all deals are based on a price that is calculated at the next valuation point (which is 12.00 hours on each business day) following receipt of instructions. Instructions received before 12.00 hours will be priced at 12.00 hours that day, whilst those deals taken later in the day will receive the next dealing price which is fixed at 12.00 hours on the following business day.

In the case of large deals of £15,000 and over, the Manager has the discretion to quote a special price within limits laid down under the Regulations.

The minimum initial lump sum investment in the Fund is £1,000, the minimum additional investment is £1,000 and the amount you may sell back to the Manager at any one time is £500, providing you maintain a balance of £2,500. At its absolute discretion, the Manager may accept a lower minimum amount for the purchase and sale of units.

A contract note in respect of any purchase will be issued the day following the dealing date. Unit certificates will not be issued. Instructions to sell your units may be required to be given by telephone and then confirmed in writing to Liontrust Customer Services Team, PO Box 11061, Chelmsford CM99 2YA. A contract note confirming the instruction to sell will be issued the day following the dealing day. Following receipt of a correctly completed Form of Renunciation, a cheque in settlement will be sent directly to you or your bank/building society, if proof of ownership of the account has been received by us, in four business days. Liontrust does not make or accept payments to or from third parties unauthorised by the Financial Conduct Authority.

**Management charges, spreads and yields:** The initial charge and annual management fees per unit class are detailed below. The difference between the bid and the offer prices is currently 6% which includes the initial charge.

		Ongoing charges		Included within the OCF is the Annual Management Charge**	
Initial Charge	%	figure*	%	Charge**	%
Advised Income	2.00	Advised Income	1.07	Advised Income	1.00
Institutional Income	nil	Institutional Income	0.82	Institutional Income	0.75
Retail Income	up to 5	Retail Income	1.82	Retail Income	1.75

\* The OCF covers all aspects of operating a fund during the course of its financial year. These include the annual charge for managing the Fund, administration and independent oversight functions, such as trustee, custody, legal and audit fees. The OCF excludes portfolio transaction costs except for an entry/exit charge paid by the Fund when buying or selling units in another fund.

\*\* These are the annual costs of running and managing the Fund.

The net estimated yields on the classes are shown below, these are calculated and published daily.

Yield	%		%
Advised Income	1.36	Institutional Income	1.63
Retail Income	0.82		

Certain other expenses are met by the Fund, all of which are detailed in the Prospectus.

**Commission:** Commission is payable to authorised intermediaries on purchases of units in the Fund at a rate of up to 3%. A discount is available when switching between Liontrust's range of unit trusts.

**Publication of prices:** The price of units in the Fund is quoted on our website, [www.liontrust.co.uk](http://www.liontrust.co.uk), other industry websites such as [www.trustnet.com](http://www.trustnet.com), and the website of the Investment Association (the industry trade body), [www.investmentassociation.org](http://www.investmentassociation.org). Daily and historic Fund prices are available from our Dealing and Administration team on 0330 123 3822.

# LIONTRUST SPECIAL SITUATIONS FUND

## Additional Information

**Capital Gains Tax:** As an authorised unit trust, the Fund is exempt from UK Capital Gains Tax. An individual's first £11,700 of net gains on disposals in the 2018-2019 tax year are exempt from tax (2017-2018: £11,300).

**Income Tax:** UK tax resident individuals are now entitled to a new tax-free dividend allowance in place of the dividend tax credit. Consequently, all income from dividend distributions is now regarded as gross income.

UK resident individuals who are not liable to tax are not able to reclaim the tax credits from the HM Revenue and Customs. In the case of UK resident individuals who are liable to starting or basic rate tax only, the tax credit will match his or her liability on the distribution and there will be no further tax to pay and no right to claim repayments from the HM Revenue and Customs. In the case of a higher rate tax payer, the tax credit will be set against, but not fully match, his or her tax liability on the distribution. Such people will have an additional tax liability to pay.

**Corporate Unitholders:** Ordinary dividends distributed by the Fund to corporate unitholders will be treated as part-franked investment income and part unfranked investment income, in the corporate unitholders' hands. The precise split will be calculated by the Manager and will be detailed on the distribution vouchers accompanying the distribution.

For unitholders chargeable to UK corporation tax, income allocations representing the UK dividends received by the Fund will not be subject to corporation tax in the unitholders' hands. Income allocations representing other types of income received by the Fund will be taxable as if they were annual payments received after the deduction of tax at the rate of 20 per cent of the gross distribution.

**Remuneration:** Following the implementation of UCITS V in the UK on 18 March 2016, all authorised UCITS Managers are required to comply with the UCITS V Remuneration Code from the start of their next accounting year. Under the UCITS V Directive (2014/91/EU), the Manager is required to disclose information relating to the remuneration paid to its staff for the financial year. The table below provides an overview of the following:

- Aggregate total remuneration paid by the Manager to its staff (employees and members)
- Aggregate total remuneration paid by Liontrust Asset Management PLC to all UCITS code staff

	Headcount	Total Remuneration £000
Manager UK Staff <sup>1</sup>	41	7,967
of which		
Fixed remuneration	41	3,915
Variable remuneration	41	4,052
UCITS Aggregate Remuneration Code Staff <sup>2</sup>	6	2,735
of which		
Senior Management	2	1,901
Other control functions:		
Other code staff/risk takers	4	834

<sup>1</sup> The Manager's staff are members of Liontrust Fund Partners LLP or Group staff who are employed by Liontrust Asset Management PLC but have their costs apportioned to the Manager.

<sup>2</sup> UCITS Aggregate Remuneration Code Staff applies only in respect of the provision of services to UCITS funds rather than their total remuneration in the year. For senior management and control function staff, remuneration is apportioned on the basis of assets under management for UCITS funds versus the total Group assets under management. For portfolio management staff remuneration is apportioned directly to this fund.

Remuneration is made up of fixed pay (i.e. salary and benefits such as pension contributions) and variable pay (annual performance based or linked directly to investment management revenues). Annual incentives are designed to reward performance in line with the business strategy, objectives, values and long term interests of the Manager and the Liontrust Asset Management PLC Group. The annual incentive earned by an individual is dependent on the achievement of financial and non-financial objectives, including adherence to effective risk management practices. The Manager provides long-term incentives which are designed to link reward with long-term success and recognise the responsibility participants have in driving future success and delivering value. Long-term incentive awards are conditional on the satisfaction of corporate performance measures. The structure of remuneration packages is such that the fixed element is sufficiently large to enable a flexible incentive policy to be operated.

Staff are eligible for an annual incentive based on their individual performance, and depending on their role, the performance of their business unit and/or the group. These incentives are managed within a strict risk framework, and the Directors of Liontrust Asset Management PLC retain ultimate discretion to reduce annual incentive outcomes where appropriate.

The Manager actively manages risks associated with delivering and measuring performance. All our activities are carefully managed within our risk appetite, and individual incentive outcomes are reviewed and may be reduced in light of any associated risk management issues.

# LIONTRUST SPECIAL SITUATIONS FUND

## Additional Information

The Liontrust Group operates a Remuneration Committee (the "Committee"). The Committee reports to the Board. The Committee reviews risk and compliance issues in relation to the vesting of deferred awards for all employees and members. Compliance is monitored throughout the vesting period by the Committee.

These remuneration policies apply also to other entities in the Liontrust group to which investment management of Funds has been delegated, and those delegates are subject to contractual arrangements to ensure that policies which are regarded as equivalent are applied.

The Board adopts, and reviews annually, the general principles of the applicable remuneration policies, and the implementation of the remuneration policies is, at least annually, subject to central and independent internal review by the Committee for compliance with policies and procedures.

**Important information:** It is important to remember that the price of units, and the income from them, can fall as well as rise and is not guaranteed and that investors may not get back the amount originally invested. Past performance is not a guide to future performance. The issue of units may be subject to an initial charge and this is likely to have an impact on the realisable value of your investment, particularly in the short term. You should always regard unit trust investment as long term.



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Liontrust Fund Partners LLP is authorised and regulated by the Financial Conduct Authority.