

LIONTRUST UK SMALLER COMPANIES FUND

A close-up, high-contrast photograph of a lion's face. The lion's eye is a striking green color, and its fur is a mix of brown and orange tones. The lighting is dramatic, with strong highlights and deep shadows, giving the image a powerful and intense feel.

Annual Report &
Financial Statements

For the year:
1 May 2019
to
30 April 2020

Managed in accordance with
The Liontrust Economic Advantage

LIONTRUST FUND PARTNERS LLP

LIONTRUST 

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

Management and Administration

Authorised Fund Manager ("Manager")

Liontrust Fund Partners LLP

2 Savoy Court

London

WC2R 0EZ

Administration and Dealing enquiries 0344 892 0349

Administration and Dealing facsimile 020 7964 2562

Email Liontrustadmin@bnymellon.com

Website www.liontrust.co.uk

The Manager is authorised and regulated by the Financial Conduct Authority ("FCA") and is a member of the Investment Association. The ultimate holding company of the Manager is Liontrust Asset Management PLC ("LAM", "Liontrust" or the "Group") which is incorporated in England.

Investment Adviser

Liontrust Investment Partners LLP

2 Savoy Court

London

WC2R 0EZ

Authorised and regulated by the FCA.

Trustee

The Bank of New York Mellon (International) Limited

1 Canada Square

London

E14 5AL

Authorised by Prudential Regulation Authority ("PRA") and regulated by the FCA and the PRA.

Independent Auditors

PricewaterhouseCoopers LLP

Atria One

144 Morrison Street

Edinburgh

EH3 8EX

Administrator and Registrar

The Bank of New York Mellon (International) Limited

1 Canada Square

London

E14 5AL

Authorised by PRA and regulated by the FCA and the PRA.

Liontrust UK Smaller Companies Fund

Liontrust Asset Management PLC

Liontrust Asset Management PLC (Company) is a specialist fund management company with £16.1 billion in assets under management as at 31 March 2020. 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 branch 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 nine fund management teams: six 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 Investment Management Limited which are authorised and regulated by the Financial Conduct Authority. Liontrust Asset Management PLC is also the parent company of Liontrust International (Luxembourg) S.A. which is regulated by the Commission de Surveillance du Secteur Financier in Luxembourg. All members of the Liontrust Group sell only Liontrust Group products.

Manager's Investment Report

Investment objective

The Fund aims to deliver capital growth over the long term (5 years or more).

Investment policy

The Fund will invest at least 90% in companies which are incorporated, domiciled or conduct significant business in the United Kingdom (UK).

At least 75% of the companies held by the Fund will have a market capitalisation of less than £1bn.

The Fund will typically invest 90% (minimum 80%) in equities or equity related derivatives but may also invest in collective investment schemes (up to 10% of Fund assets), corporate debt securities, other transferable securities, money market instruments, warrants, cash and deposits.

The Fund is permitted to use derivatives for the purposes of efficient portfolio management and for investment purposes. Please refer to the Prospectus for further details.

The Team

Anthony Cross, Julian Fosh, Victoria Stevens, Matt Tonge and Alex Wedge manage the Liontrust Economic Advantage Process. Anthony, who was previously at Schroders, has managed the Liontrust Special Situations and UK Smaller Companies Funds since launch and he started working with Julian at Liontrust in 2008. Julian has previously managed money at Scottish Amicable Investment Managers, Britannic Investment Managers, Scottish Friendly Assurance Society and Saracen Fund Managers.

Victoria Stevens and Matt Tonge joined the team in 2015 to research and analyse investment opportunities primarily across the small cap universe. In Victoria's previous role as deputy head of corporate broking at FinnCap, she built up an extensive knowledge of the smaller company investment universe. Matt added trading and analytical expertise to the team, having spent the previous nine years on the Liontrust dealing desk, latterly winning an industry award for his work in mid and small cap stocks.

Alex Wedge joined the team in March 2020 from N+1 Singer, one of the largest dedicated small cap brokers in London. Alex spent over seven years at N+1 Singer, latterly as a senior member of the equity sales team. His role included developing and communicating investment ideas to buy side clients, as well as advising corporate clients on shaping their investment case and raising equity capital.

The Process

The fund managers evaluate companies in the UK stock market for their possession of durable Economic Advantage. Companies must possess at least one of the main advantages: intellectual property, strong distribution or recurring business (at least 70% of annual turnover).

Strict risk scoring of companies determines stock weightings within the portfolios. Each company is graded against eight criteria: financial risk (balance sheet and accounting risk, capital requirements and financial gearing), product dependency, customer dependency, pricing risk, regulatory change, licence dependency, acquisition risk and valuation.

Every smaller company held in the Economic Advantage funds has at least 3% of its equity held by senior management and main board directors. Companies are also assessed for employee ownership below the senior management and board and changes in equity ownership are monitored.

Manager's Investment Report (continued)

Performance of the Fund

In the year to 30 April 2020 an investment in the Fund returned 2.0% (retail class) and 2.3% (institutional class). This compares with a return of -20.8% from the FTSE Small Cap (excluding investment trusts) Index, the comparator benchmark index and a -11.5% return from the IA UK Smaller Companies sector average, also a comparator benchmark

Since the manager inception date of the Fund, 8 January 1998, an investment in the Fund has risen by 1246% (retail class) and 1272% (institutional class) compared to a 190% return from the FTSE Small Cap (excluding investment trusts) Index and a 543% average return from the IA UK Smaller Companies sector.

Source: Financial Express, bid-to-bid basis, total return, net of fees, income reinvested. In line with Investment Association guidance, performance since inception is shown for the primary unit class. The primary class post-Retail Distribution Review is the institutional class, whereas pre-Retail Distribution Review the bundled Retail class performance history is used, unadjusted for the lower fees of the post Retail Distribution Review classes.

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

Manager's Investment Report (continued)

Risk and Reward profile

The Risk disclosures are in accordance with European Securities and Markets Authority ("ESMA") guidelines and are consistent with the rating disclosed in the Key Investor Information Document ("KIID").



Please note that even the lowest risk class can lose you money and that extreme market circumstances can mean you suffer severe losses in all cases. The indicator does not take into account the following risks of investing in the Fund.

- The Synthetic Risk Reward Indicator ("SRRI") is based upon historical data and may not be relied upon to gauge the future risk profile of the Fund.
- The SRRI shown is not guaranteed to remain the same 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 small UK companies.
- The SRRI 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;
- As the Fund is primarily exposed to smaller companies there may be 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.
- Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.
- 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.

For full details of the Fund's risks, please see the prospectus which may be obtained from Liontrust or online at www.liontrust.co.uk.

Manager's Investment Report (continued)

The Market

In the 12 months to 30 April 2020, the FTSE Small Cap ex-Investment Trusts Index returned -20.8%.

The coronavirus pandemic overshadowed all other market themes during the review period. The Covid-19 outbreak escalated at the turn of the year and global stockmarkets began selling off heavily in February as cases outside of China, the country of origin, accelerated. Lockdowns ensued around the world and trillions of dollars were committed to supporting economies which had in large parts essentially shut down.

The crisis resulted in the quickest bear market in history, with selling largely indiscriminate. In April, however, there was some evidence of greater stability and political leaders in Europe began setting out plans to ease lockdown measures.

Before the Covid-19 crisis, the main macro focuses for markets were US-China trade wars, central bank monetary easing and Brexit developments. There had appeared to be greater clarity on the latter as the UK formally exited the European Union in January, but it is yet to be seen whether the coronavirus pandemic will disrupt trade deal negotiations.

The Fund

In the 12 months to 30 April 2020, the Liontrust UK Smaller Companies Fund returned 2.3% (institutional accumulation class), ahead of the FTSE Small Cap ex-Investment Trusts Index comparator benchmark. The average return of funds in the IA UK smaller companies sector, also a comparator benchmark, was -11.5%.

The composition of the Fund meant it was well positioned to cope with the unique set of circumstances that the pandemic presented. About 60% of the Fund is in three areas: industrials, technology (mainly software) and financials. It has low exposure to classic UK consumer cyclicality and businesses that rely on person-to-person contact such as travel, transport, pubs/restaurants, retailing, leisure and aviation.

In the current environment, investors are focusing as much on companies' balance sheets and funding positions as on the immediate hit to trading activity. A number of Fund holdings were able to display their strengths on this front, issuing statements reassuring the market about their financial positions and providing updates on actions they are taking to mitigate the Covid-19 hit.

The Fund entered this crisis owning a portfolio of companies that generate profits and have solid balance sheets: over two-thirds of them had net cash and a similar proportion paid a consistent dividend. This reflects the cash generative nature and low capital intensity of these stocks. Even those that do have debt on the balance sheet have only very conservative levels.

The largest contributors to the Fund's performance were: Team17 Group, GlobalData, Judges Scientific, Cohort and YouGov.

Team17 Group, a video games label and creative partner, rallied on the back of a bullish January trading update. Its products performed well over the peak Christmas sales period, with a particularly strong showing from its multiplayer games on Nintendo Switch. As a result, the company stated 2019 sales and earnings were expected to be ahead of market expectations. Team17 went onto report 43% growth in 2019 revenue and a 44% rise in adjusted EBITDA (earnings before interest, taxes, depreciation and amortisation).

Shares in data analytics and consulting company **GlobalData** bounced back strongly from the Covid-related sell-off. It stated that the business has been resilient given the high proportion of recurring revenue (75%) and commented that renewal rates had been strong.

After delivering record interim results, scientific instruments specialist **Judges Scientific** stated full-year adjusted operating profit grew 18% during 2019, with revenue improving 5.9%. The company said the Covid-19 crisis will limit sales and installations, but highlighted its strong financial position and solid existing order book.

Defence and security technology firm **Cohort** showed strong trading in its interim results. Adjusted operating profit rose substantially, up fourfold to £4m with like-for-like revenue up 17%. The company's order book stood at £207m following intake of £77.2m during the period. This order book gave Cohort visibility on over 80% of this year's full-year revenue guidance.

Market research and data analytics group **YouGov** stated in late March that it had yet to feel a material impact from the coronavirus crisis and continues to have a strong pipeline of sales opportunities. With no debt and strong cash balances, the company is well positioned to withstand this period of uncertainty.

Manager's Investment Report (continued)

The Fund (continued)

The biggest detractors from the Fund were: Quixant, K3 Business Technology Group, Trifast, Eco Animal Health Group and Next Fifteen Communications.

Quixant designs and manufactures technology platforms for the global slot machine and pay-to-play gaming industry. Its share price had already been hit prior to the pandemic by weaker-than-expected demand for its customers' gaming machines, resulting in two profit warnings. The pandemic has caused the group additional stress as many gaming companies have been forced to shut during lockdown.

K3 Business Technology Group stated that the disruption from coronavirus has resulted in contract delays and deferrals. The company provides enterprise resource planning software to the retail, manufacturing and distribution sectors. It added that it is taking a number of measures to improve liquidity and reduce costs, including winding down its underperforming third-party solutions unit.

Trifast manufactures industrial fastenings used by global assembly industries. The company issued a trading statement in February warning that market conditions have become more challenging with a slow start to the final quarter of its year to 31 March – typically its strongest period. The direct impact of coronavirus included the closure of its Chinese sites, which preceded closures in other regions in Asia and Europe. This has resulted in squeezed margins, but the company remained confident on underlying profit, which it said remained in line with market expectations.

African Swine Fever was the reason behind **Eco Animal Health Group's** fall as the impact on Chinese pigs significantly knocked sales in the six months to 30 September. The producer of animal pharmaceuticals issued a trading update in November which warned that interim results were expected to be below last year's level. China-US trade tensions exacerbated the situation as US swine producers had limited ability to increase exports to capitalise on the pork shortage in China. In January, the stock recaptured some lost ground as early signs of a recovery emerged.

Marketing and public relations company **Next Fifteen Communications** saw a sharp decline during the market fall triggered by Covid-19. The company stated in April that it has not yet seen a material impact from the virus disruption but expects to see this feed through in May as customers reduce marketing expenditure.

Portfolio Activity

There were a number of changes to the portfolio during the review period. A handful of holdings exited after being acquired. These included **Murgitroyd Group**, which was subject to a £62.8m takeover by private investment company Sovereign Capital Partners.

Nasstar was taken over by Divitas Bidco in a deal worth £79.4m and **StatPro** delisted on completion of Confluence Technologies' 230p a share acquisition. In addition to this, recruitment software company **Oleco** decided to delist from AIM.

The Fund has experienced a number of takeovers of portfolio holdings over the years; the managers find that the same Economic Advantage characteristics that they seek out often tend to be attractive to corporate acquirers.

Tracsis was sold from the Fund on account of its directors' equity ownership falling below the 3% level the managers require of all holdings after the departure of long-standing CEO and large shareholder, John McArthur.

The Fund opened a position in **Attraqt**, a provider of site search, visual merchandising and personalised product recommendation software to internet retailers such as ASOS and JD. The company possesses all three of the primary intangible strengths the Economic Advantage process seeks to identify.

Alpha FX was added to the Fund on the strength of its intellectual property. The company provides consultancy services and technologies to corporates and institutions looking to manage their currency exposures, with a particular focus on risk management, international payments and collections. The fund managers had been monitoring Alpha FX for over a year, and an April fund raising provided the opportunity to initiate a position in the stock. The share placing was undertaken as a precautionary measure after wild swings in the currency market during the coronavirus crisis caused a large client to get into margin difficulties.

Manager's Investment Report (continued)

Portfolio Activity (continued)

The Fund also participated in the initial public offerings (IPO) of brick and tiles speciality distributor **Brickability Group** and **FRP Advisory Group**. Brickability's Economic Advantage rests on the strength of its distribution network, manifesting itself in a 40% market share of the UK brick factoring market and genuine national coverage. FRP is one of the largest insolvency practitioners in the UK, which the fund managers believe has both intellectual property and distribution strengths.

Specialist alternative asset management company **Gresham House** was added to the Fund in June. The company possesses Economic Advantage in the form of recurring revenues, with fees on assets under management tied into its long-term investment structures.

The Fund also invested in **IG Design**, one of the world's largest suppliers of gifting materials such as wrapping paper and crackers. Its substantial market share in supplying customers such as Walmart gives it a strong competitive advantage in design, logistics & materials sourcing. Revenue visibility is high thanks to seasonal demand patterns, and it has continued to grow by focusing on supplying those who are taking market share. The company also has substantial management ownership.

Impax Asset Management is a specialist asset management company focusing on sustainable investment strategies, with over £14bn of AUM and an attractive tailwind of structural growth behind it from the shift to ESG investing. It was bought for the Fund on the strength of its recurring income, as it generates revenue from ongoing fees levied on the assets it manages for clients.

Midwich Group, a specialist on-trade audio-visual equipment distributor, was purchased on the strength of its distribution network. The company operates in a very fragmented market and its scale and domain expertise provides it with a significant advantage when it comes to distributing a wide range of specialist branded products into a broad global network of customers.

A position in **The Pebble Group** was initiated after the Fund participated in a share placing which accompanied the company's admission to AIM. As one of very few large promotional product services providers, customers benefit from its distribution strength and wealth of creative services, underpinned by technology and its international infrastructure.

Manager's Investment Report (continued)

Outlook

The current economic and social situation is without precedent. The stockmarket reaction has been sharp and pronounced, but in this respect the Economic Advantage team does have a certain amount of knowledge to draw upon; investing through periods of volatility and uncertainty is not new to them. The team has been applying its investment process for over 20 years, a period which includes previous sharp sell-offs such as the technology correction at the turn of the century and the financial crash of 2008.

During these previous bouts of stock market turbulence, the strict adherence to investment process has served the Economic Advantage funds well. Its strengths should again prove important during the coronavirus crisis. In times like these, having a clear investment process is invaluable as its decision-making framework ensures the team continues to take a rational approach to managing the portfolios.

Another feature of the small and micro caps stocks the Fund owns is that they all have a strong owner-manager culture. The Economic Advantage process has a minimum threshold of 3% management equity ownership on these stocks, but the average is closer to 20%. These teams have lots of 'skin in the game' and, at times such as these, the practice of investing alongside management takes on a lot more significance.

While near-term returns for the Fund's holdings will obviously be heavily challenged by the current environment, the managers have high conviction in these companies. The market will regain its poise and one should be mindful of how sharp the upturn could be when this happens. If valuations remain depressed for an extended period of time, mergers and acquisitions should be expected to play a role in unlocking value. The intangible assets the Economic Advantage process targets in its investments have historically proven appealing to corporate acquirers and the fund managers would expect this to remain true were corporate activity to pick up again.

Anthony Cross, Julian Fosh, Victoria Stevens, Matthew Tonge & Alex Wedge

Fund Managers

June 2020

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

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 Association (IA) in May 2014, updated in June 2017;
- 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 the Trustee's Responsibilities in Respect of the Scheme and Report of the Trustee to the Unitholders of the Liontrust UK Smaller Companies Fund for the Year Ended 30 April 2020

The Trustee in its capacity as Trustee of Liontrust UK Smaller Companies 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 Trustee must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Trust and its investors.

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

The Trustee 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 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 Trustee also has a duty to take reasonable care to ensure that the 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.

Having carried out such procedures as we considered necessary to discharge our responsibilities as Trustee 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 the Scheme documents of the Trust.

For and on behalf of

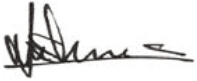
The Bank of New York Mellon (International) Limited

1 Canada Square
London E14 5AL

26 August 2020

Certification of Financial Statements by Partners 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
26 August 2020

Independent Auditors' Report to the Unitholders of Liontrust UK Smaller Companies Fund (the "Trust")

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of Liontrust UK Smaller Companies Fund (the "Trust"):

- give a true and fair view of the financial position of the Trust as at 30 April 2020 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 Annual Report & Financial Statements (the "Annual Report") which comprise: the balance sheet as at 30 April 2020; 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.

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.

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 where:

- 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.

Independent Auditors' Report to the Unitholders of Liontrust UK Smaller Companies Fund (the "Trust") (continued)

Report on the audit of the financial statements (continued)

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 10, 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. 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.

Independent Auditors' Report to the Unitholders of Liontrust UK Smaller Companies Fund (the "Trust") (continued)

Other required reporting

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.

Collective Investment Schemes sourcebook exception reporting

Under the Collective Investment Schemes sourcebook we are also 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.



PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
Edinburgh

26 August 2020

Comparative Tables

as at 30 April 2020

Institutional Accumulation Accounting year ended	30 April 2020 per unit (p)	30 April 2019 per unit (p)	30 April 2018 per unit (p)
Change in net assets per unit			
Opening net asset value per unit	1,465.08	1,396.14	1,218.91
Return before operating charges	53.49	88.25	195.07
Operating charges	(20.83)	(19.31)	(17.84)
Return after operating charges	32.66	68.94	177.23
Distributions	(5.71)	(3.74)	(3.15)
Retained distributions on accumulation units	5.71	3.74	3.15
Closing net asset value per unit	1,497.74	1,465.08	1,396.14
After transaction costs of*	(0.45)	(0.65)	(0.52)
Performance			
Return after charges	2.23%	4.94%	14.54%
Other information			
Closing net asset value (£'000)	447,314	387,930	299,576
Closing number of units	29,865,855	26,478,364	21,457,412
Operating charges**	1.38%	1.37%	1.34%
Direct transaction costs*	0.03%	0.05%	0.04%
Prices			
Highest unit price	1,771.36	1,610.59	1,447.92
Lowest unit price	1,152.45	1,270.21	1,217.56

* Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Unitholders should note that additionally there are other transaction costs such as a dilution adjustment and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the Fund and unit class returns before operating charges.

** The Operating Charges figure represents the annual operating expenses of the Fund expressed as a percentage of average net assets for the period - it does not include initial charges or performance fees. The Operating Charges figure includes the Manager's periodic charge and all charges which are deducted directly from the Fund. The Operating Charges figure is expressed as an annual percentage rate.

Comparative Tables (continued)

as at 30 April 2020

Institutional Income Accounting year ended	30 April 2020 per unit (p)	30 April 2019 per unit (p)	30 April 2018 per unit (p)
Change in net assets per unit			
Opening net asset value per unit	1,447.98	1,383.30	1,210.42
Return before operating charges	53.21	87.48	193.68
Operating charges	(20.58)	(19.13)	(17.70)
Return after operating charges	32.63	68.35	175.98
Distributions	(5.63)	(3.67)	(3.10)
Closing net asset value per unit	1,474.98	1,447.98	1,383.30
After transaction costs of*	(0.44)	(0.65)	(0.52)
Performance			
Return after charges	2.25%	4.94%	14.54%
Other information			
Closing net asset value (£'000)	463,551	451,900	442,740
Closing number of units	31,427,488	31,209,032	32,006,072
Operating charges**	1.38%	1.37%	1.34%
Direct transaction costs*	0.03%	0.05%	0.04%
Prices			
Highest unit price	1,750.87	1,595.77	1,437.77
Lowest unit price	1,139.14	1,258.52	1,210.69

* Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Unitholders should note that additionally there are other transaction costs such as a dilution adjustment and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the Fund and unit class returns before operating charges.

** The Operating Charges figure represents the annual operating expenses of the Fund expressed as a percentage of average net assets for the period - it does not include initial charges or performance fees. The Operating Charges figure includes the Manager's periodic charge and all charges which are deducted directly from the Fund. The Operating Charges figure is expressed as an annual percentage rate.

Comparative Tables (continued)

as at 30 April 2020

Retail Income Accounting year ended	30 April 2020 per unit (p)	30 April 2019 per unit (p)	30 April 2018 per unit (p)
Change in net assets per unit			
Opening net asset value per unit	1,445.36	1,380.88	1,208.68
Return before operating charges	53.24	87.14	193.14
Operating charges	(24.23)	(22.55)	(20.94)
Return after operating charges	29.01	64.59	172.20
Distributions	(1.82)	(0.11)	—
Closing net asset value per unit	1,472.55	1,445.36	1,380.88
After transaction costs of*	(0.44)	(0.64)	(0.52)
Performance			
Return after charges	2.01%	4.68%	14.25%
Other information			
Closing net asset value (£'000)	117,727	120,815	120,298
Closing number of units	7,994,734	8,358,799	8,711,707
Operating charges**	1.63%	1.62%	1.59%
Direct transaction costs*	0.03%	0.05%	0.04%
Prices			
Highest unit price	1,744.14	1,671.03	1,504.71
Lowest unit price	1,134.52	1,254.23	1,207.31

* Direct transaction costs comprise commission and taxes, principally applicable to equity investment purchases and sales. Unitholders should note that additionally there are other transaction costs such as a dilution adjustment and underlying costs with regard to Collective Investment Scheme holdings which will also have reduced the Fund and unit class returns before operating charges.

** The Operating Charges figure represents the annual operating expenses of the Fund expressed as a percentage of average net assets for the period - it does not include initial charges or performance fees. The Operating Charges figure includes the Manager's periodic charge and all charges which are deducted directly from the Fund. The Operating Charges figure is expressed as an annual percentage rate.

Portfolio Statement

as at 30 April 2020

Holding	Stock description	Market value (£'000)	Percentage of total net assets (%)
	EQUITIES (91.34%)	942,803	91.66
	BASIC MATERIALS (0.94%)	8,027	0.78
912,156	James Cropper	8,027	0.78
	CONSUMER GOODS (5.93%)	87,077	8.47
2,720,521	Focusrite	14,146	1.38
1,835,995	Hilton Food	20,196	1.96
2,525,999	International Greetings	13,186	1.28
10,207,643	Sumo	19,599	1.91
3,463,588	Team17	19,950	1.94
	CONSUMER SERVICES (7.97%)	79,325	7.71
10,277,787	Cello Health	12,128	1.18
1,704,448	GlobalData	20,453	1.99
3,019,408	Next Fifteen Communications	10,900	1.06
5,349,786	YouGov	35,844	3.48
	FINANCIALS (15.29%)	199,962	19.44
2,312,739	AJ Bell	9,101	0.88
514,966	Alpha	3,708	0.36
1,334,721	Arbuthnot Banking	12,747	1.24
9,515	Arbuthnot Banking (non-voting)	88	0.01
1,144,234	Brooks MacDonald	17,450	1.70
4,955,328	Charles Stanley	13,875	1.35
5,250,439	Curtis Banks	14,176	1.38
17,162,074	FRP Advisory	19,393	1.89
2,637,189	Gresham House	13,977	1.36
592,182	Impax Asset Management	2,179	0.21
2,675,408	IntegraFin	13,283	1.29
4,458,390	JTC	18,324	1.78
2,411,280	Mattioli Woods	16,638	1.62
3,658,771	Mortgage Advice Bureau	20,196	1.96
7,304,364	Nucleus Financial	10,226	0.99
5,530,847	Tatton Asset Management	14,601	1.42

Portfolio Statement (continued)

as at 30 April 2020

Holding	Stock description	Market value (£'000)	Percentage of total net assets (%)
	HEALTHCARE (5.87%)	70,649	6.88
5,935,755	Animalcare	10,388	1.01
484,951	Bioventix	20,368	1.98
4,820,399	CareTech	20,438	1.99
2,466,202	ECO Animal Health	5,721	0.56
10,814,060	Medica	13,734	1.34
	INDUSTRIALS (29.13%)	271,220	26.35
855,638	AB Dynamics	14,546	1.41
21,776,025	Brickability Group	9,799	0.95
2,019,325	Castings	6,785	0.66
8,016,989	Clipper Logistics	16,916	1.64
2,958,219	Cohort	15,738	1.53
6,021,711	FW Thorpe	19,390	1.89
10,681,755	Gateley	16,877	1.64
485,838	Judges Scientific	23,903	2.32
1,096,803	Keywords Studios	17,812	1.73
13,605,185	Learning Technologies	17,442	1.70
1,037,883	Midwich	4,484	0.44
2,997,401	PayPoint	19,993	1.94
4,200,734	Robert Walters	17,223	1.67
4,509,539	RWS Holdings	24,712	2.40
9,438,043	Simplybiz	16,375	1.59
2,517,832	Smart Metering Systems	15,459	1.50
11,716,165	Trifast	13,766	1.34
	OIL & GAS (0.38%)	751	0.07
6,825,442	Plexus	751	0.07
	TECHNOLOGY (22.90%)	195,992	19.06
2,458,890	Accesso Technology	5,772	0.56
17,371,477	Attraqt	4,169	0.41
5,115,672	Bango	6,140	0.60
7,013,138	Concurrent Technologies	7,083	0.69
879,998	Craneware	16,808	1.63
25,788,356	Dotdigital	25,788	2.51
11,271,371	Ideagen	19,274	1.87
7,488,856	IMImobile	23,215	2.26

Portfolio Statement (continued)

as at 30 April 2020

Holding	Stock description	Market value (£'000)	Percentage of total net assets (%)
TECHNOLOGY (continued)			
1,461,462	Instem	6,284	0.61
7,098,254	iomart	22,892	2.23
4,181,971	K3 Business Technology	3,136	0.30
2,385,854	Kainos	16,963	1.65
14,098,662	Netcall	4,512	0.44
13,706,345	Pebble	14,392	1.40
3,205,150	Pennant International	1,603	0.16
4,600,279	Quartix	12,973	1.26
5,541,978	Quixant	4,988	0.48
TELECOMMUNICATION (2.93%)		29,800	2.90
2,199,268	Gamma Communications	29,800	2.90
Portfolio of investments		942,803	91.66
Net other assets		85,789	8.34
Net assets		1,028,592	100.00

All securities are approved securities traded on eligible securities markets, as defined by the Collective Investment Scheme sourcebook, unless otherwise stated.

Comparative figures shown in brackets relate to 30 April 2019.

Financial Statements

Statement of Total Return

for the year ended 30 April 2020

	Notes	(£'000)	1.5.2019 to 30.4.2020 (£'000)	(£'000)	1.5.2018 to 30.4.2019 (£'000)
Income					
Net capital gains	2		6,400		39,604
Revenue	3	18,116		14,803	
Expenses	4	(14,584)		(12,736)	
Interest payable and similar charges		(1)		—	
Net revenue before taxation		3,531		2,067	
Taxation	5	—		—	
Net revenue after taxation			3,531		2,067
Total return before distribution			9,931		41,671
Distribution	6		(3,531)		(2,083)
Change in net assets attributable to unitholders from investment activities			6,400		39,588

Statement of Change in Net Assets Attributable to Unitholders

for the year ended 30 April 2020

	(£'000)	1.5.2019 to 30.4.2020 (£'000)	(£'000)	1.5.2018 to 30.4.2019 (£'000)
Opening net assets attributable to unitholders		960,645		862,614
Amounts received on creation of units	295,535		141,469	
Amounts paid on cancellation of units	(235,692)		(84,855)	
		59,843		56,614
Dilution adjustment		—		839
Change in net assets attributable to unitholders from investment activities (see above)		6,400		39,588
Retained distributions on Accumulation units		1,704		990
Closing net assets attributable to unitholders		1,028,592		960,645

Financial Statements (continued)

Balance sheet

as at 30 April 2020

	Notes	30.4.2020 (£'000)	30.4.2019 (£'000)
Assets			
Fixed Assets			
Investments		942,803	877,444
Current assets:			
Debtors	7	5,997	7,058
Cash and bank balances	8	85,552	82,755
Total other assets		91,549	89,813
Total assets		1,034,352	967,257
Liabilities			
Distribution payable		(1,914)	(1,154)
Other creditors	9	(3,846)	(5,458)
Total other liabilities		(5,760)	(6,612)
Net assets attributable to unitholders		1,028,592	960,645

Notes to the Financial Statements

for the year ended 30 April 2020

1 Accounting policies

a) Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), the Statement of Recommended Practice "Financial Statements of UK Authorised Funds" issued by the Investment Association in May 2014 (the "SORP"), and updated in June 2017, the COLL and the Company's Instrument of Incorporation and Prospectus. In applying UK GAAP, the financial statements have been prepared in compliance with Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102).

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 cash dividends are treated as either revenue or capital depending on the facts of each particular case.
- (iii) Bank interest and stock lending are recognised on an accruals basis.
- (iv) Overseas revenue that is received after the deduction of withholding tax is shown gross of taxation.

c) Expenses

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

d) Basis of valuation of investments

All investments are usually valued at 12 midday, on the last business day of the accounting year. Listed investments have been valued at bid-market value, net of any accrued income.

Unquoted, delisted and suspended investments are valued based on the Manager's opinion of fair value, the intention of which is to estimate market value.

e) 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.

f) 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.

g) 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.

Notes to the Financial Statements (continued)

for the year ended 30 April 2020

1 Accounting policies (continued)

1.1 Distribution policies

h) Basis of distribution

Income produced by the Fund's investments accumulates during each accounting period. If at the end of the accounting period revenue exceeds expenses, the net revenue of the Fund is available to be distributed to unitholders.

The operating expenses of the Fund are paid out of the Fixed Rate Administration fee by the Manager.

i) Stock dividends

The ordinary element of a stock dividend is recognised as revenue to the extent that its market value is equivalent to the value of the underlying shares on the date the shares are quoted ex-dividend. Where an enhancement is offered, the amount by which the market value of the shares (on the date they are quoted ex-dividend) exceeds the cash value of the dividend is taken to capital. The ordinary element of the stock dividend is treated as revenue and forms part of the distribution.

j) Special dividends

The underlying circumstances behind special dividends are reviewed on a case by case basis in determining whether the amount is revenue or capital in nature. Amounts recognised as revenue will form part of the distribution. Any tax treatment will follow the accounting treatment of the principal amount.

Notes to the Financial Statements (continued)

for the year ended 30 April 2020

2 Net capital gains

	1.5.2019 to 30.4.2020 (£'000)	1.5.2018 to 30.4.2019 (£'000)
Non-derivative securities	6,400	39,606
Currency gains	—	1
Transaction charges	—	(3)
Net capital gains	6,400	39,604

3 Revenue

	1.5.2019 to 30.4.2020 (£'000)	1.5.2018 to 30.4.2019 (£'000)
Overseas non-taxable revenue	178	32
UK dividends	17,881	14,622
Distributions from Regulated Collective Investment Schemes:		
Offshore investment revenue*	—	83
Bank interest	57	39
Stocklending income	—	27
Total revenue	18,116	14,803

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

Notes to the Financial Statements (continued)

for the year ended 30 April 2020

4 Expenses

	1.5.2019 to 30.4.2020 (£'000)	1.5.2018 to 30.4.2019 (£'000)
Payable to the Manager, associates of the Manager, and agents of either of them:		
Manager's periodic charge	13,242	11,649
Fixed rate administration fees	1,342	773
Registration fees	—	103
	14,584	12,525
Payable to the Trustee, associates of the Trustee, and agents of either of them:		
Safe custody fees	—	12
Trustee's fees	—	37
	—	49
Other expenses		
Administration fee	—	154
Audit fee*	—	4
Printing fee	—	2
Other expenses	—	2
	—	162
Total expenses	14,584	12,736

* The audit fee for the year (which is included in the Fixed rate administration fees), excluding VAT, was £9,923 (2019: £9,450).

Notes to the Financial Statements (continued)

for the year ended 30 April 2020

5 Taxation

	1.5.2019 to 30.4.2020 (£'000)	1.5.2018 to 30.4.2019 (£'000)
a) Analysis of charge in year		
Irrecoverable overseas tax	—	—
Total tax charge for the year (see note 5(b))	—	—

b) Factors affecting tax charge for the year

The tax assessed for the year is lower (2019: lower) than the standard rate of corporation tax in the UK for authorised unit trusts of 20% (2019: 20%). The differences are explained below:

	1.5.2019 to 30.4.2020 (£'000)	1.5.2018 to 30.4.2019 (£'000)
Net revenue before taxation	3,531	2,067
Corporation tax at 20% (2019: 20%)	706	413
Effects of:		
Movement in unrecognised tax losses	2,906	2,478
Prior year adjustment to tax losses	—	40
Revenue not subject to tax	(3,612)	(2,931)
Total tax charge for year (see note 5(a))	—	—

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

c) Deferred tax

At the year end, there is a potential deferred tax asset of £14,975,447 (2019: £12,069,751) due to tax losses of £74,877,234 (2019: £60,348,753). 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.

Notes to the Financial Statements (continued)

for the year ended 30 April 2020

6 Distributions

	1.5.2019 to 30.4.2020 (£'000)	1.5.2018 to 30.4.2019 (£'000)
Final	3,618	2,144
Amounts deducted on cancellation of units	604	69
Amounts received on creation of units	(691)	(130)
	3,531	2,083
Reconciliation of net revenue after taxation to:		
Net revenue after taxation	3,531	2,067
Fees paid from capital	—	12
Add: Income brought forward from previous year	—	4
Net distribution for the year	3,531	2,083

Details of the distribution per unit are set out in the table on page 39.

7 Debtors

	30.4.2020 (£'000)	30.4.2019 (£'000)
Accrued revenue	1,616	2,570
Amounts receivable on creation of units	4,163	3,914
Sales awaiting settlement	218	574
Total debtors	5,997	7,058

Notes to the Financial Statements (continued)

for the year ended 30 April 2020

8 Cash and bank balances

	30.4.2020 (£'000)	30.4.2019 (£'000)
Cash at bank	85,552	82,755
Total cash and bank balances	85,552	82,755

9 Other creditors

	30.4.2020 (£'000)	30.4.2019 (£'000)
Accrued expenses	1,098	1,119
Amounts payable on cancellation of units	2,011	3,646
Purchases awaiting settlement	737	693
Total other creditors	3,846	5,458

10 Contingent liabilities

There were no contingent liabilities or outstanding commitments at the balance sheet date (2019: £Nil).

11 Related party transactions

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 4 on page 27. At 30 April 2020 £1,087,151 was due to the Manager (2019: £988,349). This amount is included under 'Accrued expenses' in note 9.

During the year the Manager received creation monies of £296,225,983 (2019: £115,919,524) and paid cancellation monies of £236,293,585 (2019: £59,243,983). At 30 April 2020 there were creation monies due from the Manager of £4,162,478 (2019: £3,913,845). There were cancellation monies due to the Manager of £2,011,056 at 30 April 2020 (2019: £3,646,122).

12 Securities on loan

The aggregate value of securities on loan at 30 April 2020 is £Nil (2019: £Nil).

The gross earnings and fees paid for the year are £Nil (2019: £40,161) and £Nil (2019: £12,851).

Notes to the Financial Statements (continued)

for the year ended 30 April 2020

13 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 Collective Investment Schemes;
- derivatives*^{*}; and
- unitholders' funds which represent investors' monies which are invested on their behalf.

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, foreign currency risk, interest rate 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.

* No derivatives were held in the current year.

Market price risk

Market price risk is the risk that the Fund might suffer potential loss through holding market positions in the face of price movements. It arises mainly due to uncertainty about future prices of financial instruments held. 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) and in smaller companies, their liquidity cannot be guaranteed. The nature of these 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's investment portfolio is monitored by the Manager in pursuance of its investment objective and policy as set out in the prospectus.

As at 30 April 2020 and 30 April 2019 the overall market exposure for the Fund was as shown in the Portfolio Statement, other than for derivatives where the exposure could be greater. 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 and down that would result in an appreciation or depreciation in the fair value of that asset. The sensitivity of the Fund to market price risk is estimated below which shows the expected change in the market value of the Fund when a representative market index changes by 15%. These percentage movements are based on the Investment Adviser's estimate of reasonably possible market movements over the course of a year and uses an industry standard measure (Beta) to estimate the amount a Fund has previously changed when that corresponding market index has moved taking into account the Fund's historic correlation to the representative index's movements over the last three years using monthly returns. This analysis assumes that the historic relationships between the portfolio's holdings and the representative index are a valid approximation of their future relationship and that the characteristics of the portfolio and the market have been broadly unchanged over the three years.

Notes to the Financial Statements (continued)

for the year ended 30 April 2020

13 Risk management policies (continued)

Market price risk (continued)

As at 30 April 2020, had the representative market index increased/decreased by 15% the resulting change in the value of the Net Asset Value is expected to have been an increase/a decrease of 12.75%.

As at 30 April 2019, had the representative market index increased/decreased by 15% the resulting change in the value of the Net Asset Value was expected to have been an increase/a decrease of 15.3%.

Some limitations of sensitivity analysis are;

- markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns;
- the market price risk information is a relative estimate of risk rather than a precise and accurate number;
- the market price information represents a hypothetical outcome and is not intended to be predictive; and
- future market conditions could vary significantly from those experienced in the past.

The Fund is required to calculate its exposure to derivatives on a daily basis using one of two alternate methods, the Commitment Approach or Value at Risk (VaR). The Fund's global exposure to derivatives at the year-end has been calculated using the Commitment approach.

The calculation of conversion methods for the commitment approach for standard derivatives is taken from the conversion methodologies listed in the ESMA Guidelines on calculation of Global Exposure and Counterparty Risk. The commitment conversion methodology for standard derivatives is either the notional value or the market value of the equivalent position in the underlying asset. Please refer to the portfolio statements for the notional values of any forwards and futures contracts.

VaR is a method of estimating potential loss due to market risk, rather than a statement of leverage, using a given confidence level, or probability, over a specific time period and assuming normal market conditions. VaR is calculated using a Historical Simulation model carried out in accordance with regulatory guidelines.

The Fund uses a combination of other risk measurements and limits. This is in line with the Liontrust Group's Risk Management Process.

The Fund did not use derivatives in the year and level of leverage employed by the Fund during the year is not considered to be significant.

Currency risk

Currency risk is the risk that the revenue and net asset value of the Fund may be adversely affected by movements in foreign exchange rates. The revenue and capital value of the Fund's investments may be significantly affected by currency risk movements as some of the assets and income are denominated in currencies other than sterling, which is the Fund functional and reporting currency.

The Manager has identified three principal areas where foreign currency risk could impact the Fund:

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

Currency exposure is monitored closely and is considered to be part of the overall investment process. Currency hedges via forward exchange contracts will only be used in the event of a specific currency risk being identified.

Notes to the Financial Statements (continued)

for the year ended 30 April 2020

13 Risk management policies (continued)

Currency risk (continued)

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. The Manager believes that the impact of such movements is not significant enough to warrant the cost incurred of eliminating them via hedging.

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.

Interest rate risk

Interest rate risk is the risk that the revenue cash flow or the fair value of investments may be adversely affected by movements in market interest rates. The majority of the Fund's financial assets are equity shares and other investments which neither pay interest nor have a maturity date. 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 in line with overnight bank rates. As a result, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing level of market interest rates. Therefore, no interest rate sensitivity analysis has been prepared for these.

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due. The Fund's assets comprise wholly of readily realisable securities which can be sold to meet liquidity requirements. The main liquidity risk of the Fund is the redemption of any units that investors wish to sell, which are redeemable on demand under the prospectus. 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.

In accordance with the Manager's policy, the Investment Adviser monitors the Fund's liquidity on a daily basis.

Counterparty credit risk

Counterparty credit risk is the risk of suffering loss due to another party not meeting its financial obligation. Investments may be adversely affected if any of the institutions with which money is deposited or invested suffers insolvency or other financial difficulties or the credit rating of the bearers of the bonds held by the Fund are downgraded.

The Fund may enter into transactions in financial instruments (including derivatives) which exposes it to the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Fund will only buy and sell financial instruments through parties that have been approved as acceptable by the Manager. This list is reviewed at least annually.

The Fund may enter into stock lending activities which exposes it to the risk that the counterparty will not deliver the stock or cash after the Fund has fulfilled its obligations. The Fund will only enter into stock lending activities with parties that have been approved as acceptable by the Manager and obtaining collateral from counterparties which has a fair value in excess of the related stock on loan.

At the balance sheet date, there were no counterparties to open derivative contracts. At the year end collateral of Nil (prior year: Nil) was received; collateral pledged was Nil (prior year: Nil) and none (prior year: none) of the Funds' financial assets were past due or impaired.

Notes to the Financial Statements (continued)

for the year ended 30 April 2020

13 Risk management policies (continued)

Counterparty credit risk (continued)

The Trustee is responsible for the safe-keeping of assets and has appointed the Bank of New York Mellon, S.A./N.V., London Branch ("BNYMSA") as its global custodian. The long term credit rating of the parent company of the Trustee and Custodian, The Bank of New York Mellon Corporation, as at 30 April 2020 was A (Standard & Poor's rating).

BNYMSA, in the discharge of its delegated Trustee duties, holds in custody (i) all financial instruments that may be registered in a financial instruments account opened on the books of BNYMSA and (ii) all financial instruments that can be physically delivered to BNYMSA. BNYMSA ensures all financial instruments (held in a financial instruments account on the books of BNYMSA) are held in segregated accounts in the name of the Fund, clearly identifiable as belonging to the Fund, and distinct and separately from the proprietary assets of BNYMSA and BNYM.

In addition BNYMSA, as banker, holds cash of the Fund on deposit. Such cash is held on the balance sheet of BNYMSA.

In the event of insolvency of BNYMSA, in accordance with standard banking practice, the Fund will rank as an unsecured creditor of BNYMSA in respect of any cash deposits.

Insolvency of BNYM and or one of its agents or affiliates may cause the Fund's rights with respect to its assets to be delayed or may result in the Fund not receiving the full value of its assets.

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.

Notes to the Financial Statements (continued)

for the year ended 30 April 2020

14 Portfolio transaction costs

For the year ending 30 April 2020

	Transaction Value (£'000)	Commissions (£'000)	%	Taxes (£'000)	%
Purchases (excluding derivatives)					
Equity instruments (direct)	149,827	92	0.06	124	0.08
Collective investment schemes	15,650	23	0.15	—	—
Total purchases	165,477	115		124	
Total purchases including transaction costs	165,716				
Sales (excluding derivatives)	(£'000)	(£'000)	%	(£'000)	%
Equity instruments (direct)	106,799	67	0.06	—	—
Total sales	106,799	67		—	
Total sales net of transaction costs	106,732				
Total transaction costs		182		124	
Total transaction costs as a % of average net assets		0.02%		0.01%	

Notes to the Financial Statements (continued)

for the year ended 30 April 2020

14 Portfolio transaction costs (continued)

For the year ending 30 April 2019

	Transaction Value (£'000)	Commissions (£'000)	%	Taxes (£'000)	%
Purchases (excluding derivatives)					
Equity instruments (direct)	153,938	104	0.07	233	0.15
Total purchases	153,938	104		233	
Total purchases including transaction costs	154,275				
Sales (excluding derivatives)	(£'000)	(£'000)	%	(£'000)	%
Equity instruments (direct)	117,148	79	0.07	—	—
Total sales	117,148	79		—	
Total sales net of transaction costs	117,069				
Total transaction costs		183		233	
Total transaction costs as a % of average net assets		0.02%		0.03%	

The above analysis covers any direct transaction costs suffered by the Fund during the year. However it is important to understand the nature of other transaction costs associated with different investment asset classes and instruments types.

Separately identifiable direct transaction costs (commissions & taxes etc.) are attributable to the Fund's purchase and sale of equity shares. Additionally for equity shares there is a dealing spread cost (the difference between the buying and selling prices) which will be suffered on purchase and sale transactions.

For the Fund's investment transactions in debt and money market instruments any applicable transaction charges form part of the dealing spread for these instruments. Transactions in money market instruments to manage the Fund's daily liquidity position are excluded from the analysis.

Dealing spread costs suffered by the Fund vary considerably for the different asset/instrument types depending on a number of factors including transaction value and market sentiment.

At the balance sheet date the average portfolio dealing spread (difference between bid and offer prices of all investments expressed as a percentage of the offer price value) was 3.20% (2019: 2.14%).

Notes to the Financial Statements (continued)

for the year ended 30 April 2020

15 Fair value of financial assets and financial liabilities

There is no material difference between the value of the financial assets and liabilities, as shown in the balance sheet, and their fair value as shown in the table below. The numerical disclosures in respect of financial instruments and the management of interest rate and currency risks are included below where applicable.

Valuation of financial investments

	Assets (£'000)	Liabilities (£'000)
30.4.2020		
Level 1: Quoted Prices	942,803	—
	942,803	—
30.4.2019		
Level 1: Quoted Prices	877,444	—
	877,444	—

Level 1: Unadjusted quoted price in an active market for an identical instrument;

Level 2: Valuation techniques using observable inputs other than quoted prices within level 1;

Level 3: Valuation techniques using unobservable inputs.

16 Post balance sheet events

As indicated in the Accounting Policies in the Notes to the financial statements on page 24, the investments have been valued at midday on 30 April 2020. Since that date the Fund's quoted prices have changed as detailed in the following table, which shows the quoted prices at midday on 30 April 2020 and at midday on 24 August 2020. This is deemed to be a non-adjusting post balance sheet event.

	Price at 30.4.2020 (pence per unit)	Price at 24.8.2020 (pence per unit)	% change
Institutional Accumulation	1,496.71	1,671.51	11.68
Institutional Income	1,479.42	1,645.79	11.25
Retail Income	1,472.99	1,641.74	11.46

The following table summarises the total NAV movement since the balance sheet date:

	NAV at 30.4.2020 (£'000)	NAV at 24.8.2020 (£'000)	% change
Institutional Accumulation	447,314	511,959	14.45
Institutional Income	463,551	508,836	9.77
Retail Income	117,727	127,029	7.90

Notes to the Financial Statements (continued)

for the year ended 30 April 2020

17 Unit classes

For the year ending 30 April 2020

	Opening units	Units issued	Units redeemed	Units converted	Closing units
Institutional Accumulation	26,478,364	11,283,344	(7,916,967)	21,114	29,865,855
Institutional Income	31,209,032	7,089,402	(6,870,786)	(160)	31,427,488
Retail Income	8,358,799	840,429	(1,183,231)	(21,263)	7,994,734

Distribution Tables

for the year ended 30 April 2020

Final distribution

Group 1 - Units purchased prior to 1 May 2019

Group 2 - Units purchased 1 May 2019 to 30 April 2020

	Net Revenue Pence per unit	Equalisation Pence per unit	Distribution payable 30.6.2020 Pence per unit	Distribution paid 30.6.2019 Pence per unit
Accumulation units				
Institutional - Group 1	5.71	—	5.71	3.74
Institutional - Group 2	2.23	3.48	5.71	3.74

	Net Revenue Pence per unit	Equalisation Pence per unit	Distribution payable 30.6.2020 Pence per unit	Distribution paid 30.6.2019 Pence per unit
Income units				
Institutional - Group 1	5.63	—	5.63	3.67
Institutional - Group 2	1.43	4.20	5.63	3.67
Retail - Group 1	1.82	—	1.82	0.11
Retail - Group 2	0.00	1.82	1.82	0.11

Additional Information

Trust Deed: The Fund was established by a Trust Deed made between the Manager and the Trustee dated 27 July 1995.

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.

Unit type: The Fund issues income and accumulation 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.

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. Please refer to the Prospectus for more details.

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 Fund Partners LLP, PO Box 373, Darlington, DL1 9RQ. 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 or other financial regulator.

Management charges and spreads: The initial charge and annual management fees per unit class are detailed below.

Initial charge	%	Ongoing charges figure*	%	Included within the OCF is the Annual Management Charge**	%
Institutional Accumulation	Nil	Institutional Accumulation	1.37	Institutional Accumulation	1.25
Institutional Income	Nil	Institutional Income	1.37	Institutional Income	1.25
Retail Income	up to 5	Retail Income	1.62	Retail Income	1.50

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

* 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. The Operating Charges figures shown on pages 16 to 18 are calculated on an ex-post basis over the period, whereas the Ongoing Charges figures shown above is a calculation as at a point in time, and therefore there could be immaterial differences between the two.

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

Additional Information (continued)

Publication of prices: The price of units in the Fund is quoted on our website www.liontrust.co.uk and other industry websites such as www.trustnet.com. Daily and historic Fund prices are available from our Dealing and Administration team on 0344 892 0349.

Capital Gains Tax: As an authorised unit trust, the Fund is exempt from UK Capital Gains Tax. An individual's first £12,300 of net gains on disposals in the 2020-2021 tax year are exempt from tax (2019-2020: £12,000).

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.

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*	42	4,814
of which		
Fixed remuneration	42	3,283
Variable remuneration	42	1,531
UCITS Aggregate Remuneration Code Staff**	6	4,028
of which		
Senior Management	2	254
Other code staff/risk takers	4	3,774

* 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.

** 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.

Additional Information (continued)

Remuneration (continued)

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.

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.

Securities Financing Transactions Regulation: The Securities Financing Transactions Regulation, as published by the European Securities and Markets Authority, aims to improve the transparency of the securities financing markets. Disclosures regarding exposure to Securities Financing Transactions (SFTs) or total return swaps will be required on all reports & accounts published after 13 January 2017. During the year to 30 April 2020 and at the balance sheet date, the Fund did not use SFTs or total return swaps, as such no disclosure is required.

Assessment of Value: The regulator - the FCA - has asked every asset manager to assess the value of the Funds they run. Assessing value goes beyond performance and costs and encompasses a minimum of seven criteria mandated by the FCA. The assessment of value of the Funds and the other UK-domiciled funds managed by Liontrust will be conducted as at 30 September each year. This assessment will be presented to investors in a composite report for all the Liontrust funds on www.liontrust.co.uk and the first one will be available no later than 31 January 2021.

Changes to the Prospectus: With effect from 10 February 2020, the Investment Objective and Policy of the Fund were updated. Full details can be found in the letter dated 8 January 2020 sent by Liontrust Fund Partners LLP to investors in the Fund. The updated Investment Objective and Policy can also be found in the Prospectus, Instrument of Incorporation and Key Investor Information Documents.

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, 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. The annual management fee of the Fund is deducted from capital. Whilst this results in the dividend paid to investors being higher than would be the case were the annual management fee charged to income, the potential for capital growth may be reduced.



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