

Legal & General Ethical Trust  
**Interim Manager's  
Short Report  
for the period ended  
12 June 2017**

**EVERY  
DAY  
MATTERS.®**





## Investment Objective and Policy

The investment objective of this Trust is to secure capital growth from a portfolio of securities for companies whose business conforms to a range of ethical and environmental guidelines.

Securities representing all such companies in the FTSE 350 Index will be held with weightings generally proportionate to their market capitalisation.

From time to time non-Index constituents and non ethical stocks may be held as a result of a corporate action and these holdings will be sold or transferred as soon as reasonably practical.

Companies will be considered eligible unless they are involved in the following activities:

Animal testing	Military – nature of involvement
Gambling	Non-sustainable Timber
Health & safety convictions	Nuclear power
Countries with poor human rights records	Ozone depleting chemicals
Intensive farming	Pornography
Investment Trusts	Tobacco
	Water pollution

Independent monitoring of companies is carried out by Ethical Investment Research Services (“EIRIS”) based on the criteria above.

## Risk Profile

### Market Risk

Market risk arises mainly from uncertainty about future prices. It represents the potential loss that the Trust may suffer through holding market positions in the face of market movements. The Manager adheres to the investment guidelines and in this way, monitors and controls the exposure to risk from any type of security, sector or issuer.

## Trust Facts

Period End Dates for Distributions:	12 Jun, 12 Dec	
Distribution Dates:	12 Aug, 12 Feb	
Ongoing Charges Figures:	12 Jun 17	12 Dec 16
R-Class	1.05%	1.15%
F-Class	0.45%	0.45%
I-Class	0.31%	0.31%

The Ongoing Charges Figure (OCF) is the ratio of the Trust’s total discloseable costs (excluding overdraft interest) to the average net assets of the Trust.

The OCF is intended to provide a reliable figure which gives the most accurate measure of what it costs to invest in a trust and is calculated based on the last period’s figures.

## Risk and Reward Profile



- This risk and reward profile is based on historical data which may not be a reliable indication of the Trust's risk and reward category in the future.
- The category is based on the rate at which the value of the Trust has moved up and down in the past.
- This Trust is in category five because it invests in company shares which generally provide higher rewards and higher risks than other investments such as bonds, cash or commercial property.
- The Trust's category is not guaranteed to remain the same and may change over time.
- Even a trust in the lowest category is not a risk free investment.

## Distribution Information

### R-Class

The distribution payable on 12 August 2017 is 0.7917p per unit for distribution units and 1.1404p per unit for accumulation units.

### F-Class

The distribution payable on 12 August 2017 is 1.0283p per unit for distribution units and 1.5238p per unit for accumulation units.

### I-Class

The distribution payable on 12 August 2017 is 1.0680p per unit for distribution units and 1.6789p per unit for accumulation units.

## Net Asset Values and Units in Issue

Class	Net Asset Value (£)	Units in Issue	Net Asset Value per Unit (p)
R-Class			
Distribution Units	140,585,760	214,613,919	65.51
Accumulation Units	74,248,165	77,728,574	95.52
F-Class			
Distribution Units	105,324	159,875	65.88
Accumulation Units	254,505	256,698	99.15
I-Class			
Distribution Units	60,274,910	92,100,836	65.44
Accumulation Units	47,573,229	45,499,081	104.56

**Past performance is not a guide to future performance.**

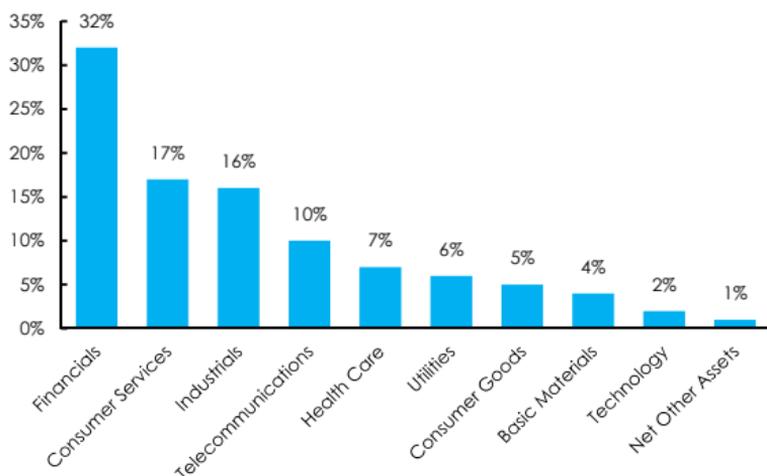
**The price of units and any income from them may go down as well as up.**

## Portfolio Information

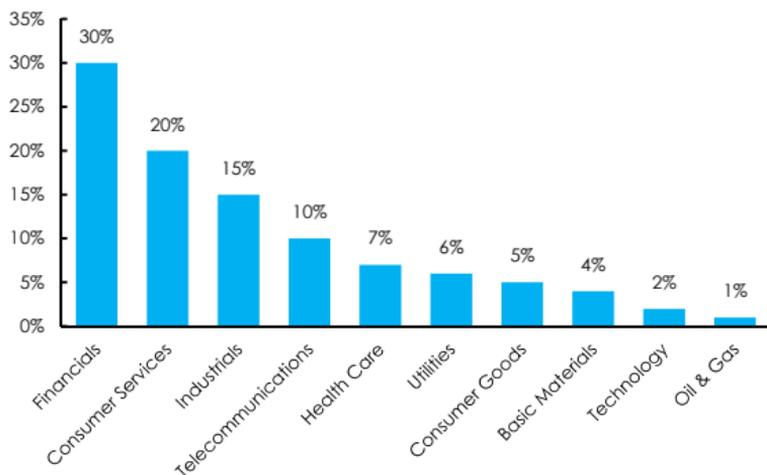
The top 10 holdings and their associated weighting at the current period end and preceding year end were:

Top 10 Holdings at 12 June 2017		Top 10 Holdings at 12 December 2016	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
Vodafone Group	6.42%	Vodafone Group	6.14%
Lloyds Banking Group	5.21%	Prudential	4.71%
Prudential	4.98%	Lloyds Banking Group	4.60%
Shire	4.17%	Shire	4.56%
National Grid	3.81%	National Grid	4.02%
BT Group	2.70%	BT Group	3.41%
CRH	2.56%	CRH	2.59%
Aviva	2.34%	WPP	2.58%
Scottish & Southern Energy	1.65%	Aviva	2.25%
Legal & General Group	1.65%	Tesco	2.03%

## Trust Holdings as at 12 June 2017



## Trust Holdings as at 12 December 2016



## **Manager's Investment Report**

During the period under review, the bid price of the Trust's R-Class distribution units rose by 9.55%. Although there is no published Index for those companies assessed as eligible by EIRIS, for comparison over the same period, the FTSE 350 Index (excluding Investment Trusts) rose by 9.34%; similarly, the broader based FTSE All-Share Index (excluding Investment Trusts) rose by 9.36%, both on a capital only basis (Source: Bloomberg).

**Past performance is not a guide to future performance.**

**The value of investments and any income from them may go down as well as up.**

## **Market/Economic Review**

In the aftermath of the UK vote to leave the European Union in the June 2016 referendum, Sterling fell to a 31-year low against the US Dollar. For UK investors, the weakness of Sterling enhanced returns from international equities. During the period under review, UK equities rose sharply for the first month then gave a more sedate performance before recording sharp gains in the final few weeks. Personal Goods, Forestry & Paper and Electronic & Electrical Equipment sectors led the market higher, while Oil Equipment, Services & Distribution, Industrial Metals & Mining and Fixed Line Telecommunications underperformed the FTSE All-Share Index. Economic indicators suggested the UK economy had weathered the post-referendum volatility well and the UK economic indicators remained broadly positive. In this stable environment, the Conservatives aimed to take advantage of their healthy opinion poll lead over Labour and grow their majority to make a success of Brexit by announcing a snap general election. However, Sterling weakened against the Euro during May on the back of a narrowing in the polls, which showed Labour making significant ground against the Conservatives, leading the market to doubt the probability of a more substantial Conservative majority in the June election, which ended up being the case. European markets pushed higher as investors saw the pro-EU economic reformer Emmanuel Macron succeed in his bid for the French presidency in May. Inflation has been steadily increasing since the EU referendum pushing up to 2.9% in May. However, the average wage growth of 2.1% year on year in the three months to March intensified the debate over how long the Bank of England may leave interest rates at the record low of 0.25%.

In the US, the presidential election was the focus of attention and Donald Trump's unexpected victory led investors to discount the prospect of fiscal stimulus in the form of increased infrastructure spending and tax cuts. Although the strengthening Dollar remains a significant impediment for revenue growth, the latest quarterly earnings season has been broadly encouraging with results from leading IT and banking stocks exceeding forecasts. Financials have also been boosted by expectations that the new Republican administration will loosen the regulatory regime for the banking sector. However, indications that the incoming Trump

## **Manager's Investment Report continued**

administration would herald a protectionist approach to US trade policy preoccupied investors at the turn of the calendar year. The performance of major oil producers and mining stocks mirrored commodity prices, with the oil price selling off to \$46 per barrel level as the review period drew to a close. Companies also continued to place a strong emphasis on cost cutting to maintain profit margins.

### **Trust Activity**

The Trust's selection process excludes the Tobacco and Military industries, while the Oil & Gas, Banks, Mining, Pharmaceuticals & Biotechnology and Beverages sectors are markedly underweight. Such exclusions are compensated for by an increased weighting in Life Insurance, Mobile Telecommunications and Financial Services.

There are three principal reasons for changes to the distribution of investments in the Trust: first, changes in the list of companies which meet the ethical criteria; secondly, changes in the FTSE 350 ex Investment Trusts Index at its quarterly review; and finally, changes due to corporate activity and takeovers.

FTSE rebalances the Index every quarter and companies added to the Index are only added to the Trust once confirmation of their acceptability for inclusion is received from EIRIS.

There were two Index reviews during the review period. At the quarterly Index review in December 2016, there were four additions and four deletions. ConvaTec Group, NewRiver REIT were new stocks added to the FTSE All-Share universe, whilst Nostrum Oil & Gas and Ferrexpo were promotions from the FTSE SmallCap Index; all of these stocks were subsequently assessed as eligible by EIRIS with the exception of ConvaTec Group that was deemed an unacceptable stock. These additions replaced NCC Group, Laird, DFS Furniture and Countrywide, which were all demoted to the FTSE SmallCap Index.

At the quarterly Index review in March 2017, there were two additions and three deletions. Sanne Group and Northgate were promotions from the FTSE SmallCap Index; both of these stocks were subsequently assessed as eligible by EIRIS. These companies replaced International Personal Finance, Brown (N.) Group and CMC Markets which were all demoted to the FTSE SmallCap Index.

There was significant cross-border merger and acquisition activity that impacted the Trust outside the reviews as Henderson Group was deleted in May, following its acquisition of Janus (US). The new company Janus Henderson Global Investors was listed in the US and Australia, with FTSE assigning US nationality, and was replaced by Stobart, which was promoted from the FTSE SmallCap Index.

The three largest stocks in the Trust at the end of the review period were Vodafone, Lloyds Banking Group and Prudential.

## **Manager's Investment Report continued**

### **Outlook**

After triggering Article 50 of the Treaty of Lisbon on 29 March initiating the two years for Britain to negotiate an EU exit deal, David Davies, our Brexit Minister, is now in the process of determining our divorce settlement terms, with the first full round of negotiations in mid-July.

Following the depreciation of Sterling over the last twelve months since the referendum, inflation has now exceeded the 2% target and with the reduction in real wage growth and a weakening labour market, household spending is expected to ease.

On the flip side, UK factory output grew at the fastest rate since the mid 1990s as export orders are bolstered by Sterling's fall and domestic demand for manufactured goods remained strong, aiding the main FTSE UK indices to reach new highs during the review period.

The fall in the exchange rate is expected to be felt more strongly during 2017, raising questions about future growth expectations, and given this backdrop of uncertainty, the Trust remains well positioned to capture the performance of the Index.

Legal & General Investment Management Limited

(Investment Adviser)

5 July 2017

## **Manager's Report and Accounts**

Copies of the most recent Interim and Annual Long Form Manager's Reports are available free of charge by telephoning 0370 050 0955, by writing to the Manager or are available on the internet at [www.legalandgeneral.com/investments/fund-information/managers-reports](http://www.legalandgeneral.com/investments/fund-information/managers-reports).

Call charges will vary. We may record and monitor calls.

## **Dual Pricing Arrangement**

The Manager's fixed dual pricing arrangement has a set spread to account for the costs of transacting in a particular Trust. Where the Manager operates a box through which unit subscriptions and unit redemptions are netted into a single trade instruction to the Trustee, the netting reduces the actual transaction costs and this generates a revenue to the Manager. The revenue generated from this activity is calculated on a monthly basis and returned to the Trust in the form of a payment from the Manager. This provides an enhanced return to the Trust, through the size of any return will be dependent on the size of subscriptions and redemptions.

## **Minimum Investment Amounts**

The minimum initial lump sum investment amounts for each class are as follows:

R-Class	£500
F-Class*	£500
I-Class	£1,000,000

In addition, monthly contributions can be made into the R-Class and F-Class, with a minimum amount of £50 per month.

\* F-Class units are only available to:

- i) investors who have received advice from authorised intermediaries and platforms in relation to their investment in units in the Trust and
- ii) authorised intermediaries or distributors who the Manager reasonably considers will adequately bear the costs of marketing to and acquiring investors at no or limited cost to the Manager, and to whom the Manager has confirmed that such distributor or investor meets the criteria for investment in such units.

## **Other Information**

The information in this report is designed to enable unitholders to understand how the Trust has performed during the period under review and how it is invested at the period end. Further information on the activities and performance of the Trust can be obtained by telephoning 0370 050 0955 or by writing to the Manager.

## **Significant Changes**

### **Change of FMF for R-Class**

With effect from 6 June 2017, the Fund Management Fee (FMF) has been reduced from 1.15% to 0.95%.

### **Removal of Initial Commission**

With effect from 6 June 2017, initial commission will no longer be paid on the Trust. The initial commission was intended to reflect the costs incurred by the product provider and the intermediary for setting up and selling the business, however, Legal & General no longer consider it appropriate to continue to pay commission on such transactions.

### **Authorised Fund Manager**

Legal & General (Unit Trust Managers) Limited

Registered in England and Wales No. 01009418

Registered office:

One Coleman Street,

London EC2R 5AA

Telephone: 0370 050 3350

Authorised and regulated by the Financial Conduct Authority

Call charges will vary. We may record and monitor calls.

### **Trustee**

Northern Trust Global Services Limited

50 Bank Street,

Canary Wharf,

London E14 5NT

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority

### **Independent Auditors**

PricewaterhouseCoopers LLP

7 More London Riverside

London SE1 2RT

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Financial Conduct Authority**

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(Unit Trust Managers) Limited  
Registered in England and Wales No. 01009418  
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