

Legal & General UK Index Trust  
**Annual Manager's  
Short Report  
for the year ended  
6 October 2017**

**EVERY  
DAY  
MATTERS.®**





## Investment Objective and Policy

The objective of this Trust is to track the capital performance of the UK equity market, as represented by the FTSE All-Share Index, by investment in a representative sample of stocks selected from all economic sectors.

Securities in the FTSE All-Share Index will be held with weightings generally proportionate to their company's market capitalisation.

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

## Risk Profile

### Market Risk

Market risk arises mainly from uncertainty about future prices. It represents the potential loss 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.

### Currency Risk

This Trust holds investments in overseas financial securities. The performance of the Trust may therefore be affected by changes in exchange rates.

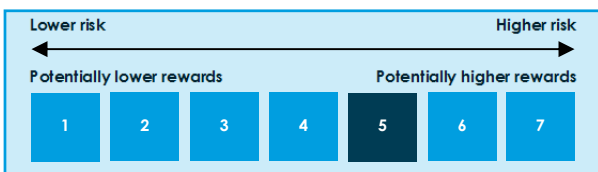
## Trust Facts

Period End Dates for Distributions:	6 Apr, 6 Oct	
Distribution Dates:	6 Jun, 6 Dec	
Ongoing Charges Figures:	6 Oct 17	6 Oct 16
R-Class	0.56%	0.56%
F-Class	0.30%	0.33%
I-Class	0.10%	0.10%
C-Class	0.06%	0.06%
L-Class	0.02%	0.02%

The Ongoing Charges Figure (OCF) is the ratio of the Trust's total disclosable 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 6 December 2017 is 2.8125p per unit for distribution units and 4.8587p per unit for accumulation units.

### F-Class

The distribution payable on 6 December 2017 is 3.0459p per unit for distribution units and 5.3090p per unit for accumulation units.

### I-Class

The distribution payable on 6 December 2017 is 3.1923p per unit for distribution units and 5.7484p per unit for accumulation units.

### C-Class

The distribution payable on 6 December 2017 is 3.2279p per unit for distribution units and 5.8187p per unit for accumulation units.

### L-Class

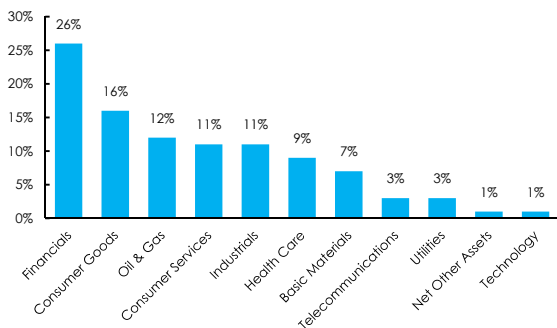
The distribution payable on 6 December 2017 is 3.2584p per unit for distribution units.

## Portfolio Information

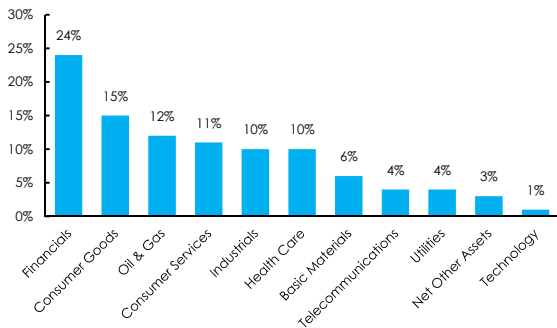
The top 10 holdings and their associated weighting at the current and preceding year ends were:

Top 10 Holdings at 6 October 2017		Top 10 Holdings at 6 October 2016	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
HSBC	6.15%	HSBC	5.23%
British American Tobacco	4.29%	British American Tobacco	4.00%
BP	3.83%	BP	3.89%
Royal Dutch Shell 'A' (Dutch listing)	3.81%	Royal Dutch Shell 'B'	3.65%
Royal Dutch Shell 'B'	3.55%	GlaxoSmithKline	3.60%
GlaxoSmithKline	3.00%	Royal Dutch Shell 'A' (Dutch listing)	3.35%
AstraZeneca	2.62%	AstraZeneca	2.78%
Diageo	2.54%	Vodafone Group	2.60%
Vodafone Group	2.30%	Diageo	2.47%
Unilever	2.11%	Reckitt Benckiser Group	2.00%

## Trust Holdings as at 6 October 2017



## Trust Holdings as at 6 October 2016



## Comparative Tables

### R-Class Distribution Units

#### Change in Net Asset Value per Unit

Accounting year ending	06/10/17 (pence per unit)	06/10/16 (pence per unit)	06/10/15 (pence per unit)
Opening net asset value per unit	151.95	137.54	139.45
Return before operating charges*	18.35	19.85	3.29
Operating charges (calculated on average price)	(0.89)	(0.78)	(0.81)
Return after operating charges*	17.46	19.07	2.48
Distributions on income units	(5.21)	(4.66)	(4.39)
Closing net asset value per unit	164.20	151.95	137.54
* after direct transaction costs of:	0.03	0.04	0.05

#### Performance

Return after charges	11.49%	13.87%	1.78%
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#### Other Information

Closing net asset value (£)	869,720,215	836,653,575	834,148,437
Closing number of units	529,677,394	550,625,683	606,489,199
Operating charges†	0.56%	0.56%	0.56%
Direct transaction costs	0.02%	0.03%	0.04%

#### Prices

Highest unit price	167.00p	156.40p	154.50p
Lowest unit price	145.10p	122.80p	130.70p

† Operating charges, otherwise known as the OCF is the ratio of the Trust's total disclosable costs (excluding overdraft interest) to the average net assets of the Trust.

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

**Exchange rate changes may cause the value of any overseas investments to rise or fall.**

## Comparative Tables continued

### R-Class Accumulation Units

#### Change in Net Asset Value per Unit

Accounting year ending	06/10/17 (pence per unit)	06/10/16 (pence per unit)	06/10/15 (pence per unit)
Opening net asset value per unit	258.57	226.66	222.82
Return before operating charges*	31.46	33.20	5.14
Operating charges (calculated on average price)	(1.52)	(1.29)	(1.30)
Return after operating charges*	29.94	31.91	3.84
Distributions	(8.94)	(7.75)	(7.08)
Retained distributions on accumulation units	8.94	7.75	7.08
Closing net asset value per unit	288.51	258.57	226.66
* after direct transaction costs of:	0.06	0.06	0.09

#### Performance

Return after charges	11.58%	14.08%	1.72%
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#### Other Information

Closing net asset value (£)	1,785,362,710	1,698,957,373	1,647,757,119
Closing number of units	618,821,567	657,051,637	726,980,156
Operating charges†	0.56%	0.56%	0.56%
Direct transaction costs	0.02%	0.03%	0.04%

#### Prices

Highest unit price	288.40p	261.60p	250.00p
Lowest unit price	246.90p	202.50p	208.80p

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## Comparative Tables continued

### F-Class Distribution Units

#### Change in Net Asset Value per Unit

Accounting year ending	06/10/17 (pence per unit)	06/10/16 (pence per unit)	06/10/15 (pence per unit)
Opening net asset value per unit	152.75	138.25	140.17
Return before operating charges*	18.46	19.97	3.31
Operating charges (calculated on average price)	(0.48)	(0.46)	(0.52)
Return after operating charges*	17.98	19.51	2.79
Distributions on income units	(5.66)	(5.01)	(4.71)
Closing net asset value per unit	165.07	152.75	138.25
* after direct transaction costs of:	0.03	0.04	0.05

#### Performance

Return after charges	11.77%	14.11%	1.99%
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#### Other Information

Closing net asset value (£)	1,697,343	1,547,167	1,729,660
Closing number of units	1,028,246	1,012,895	1,251,134
Operating charges†	0.30%	0.33%	0.36%
Direct transaction costs	0.02%	0.03%	0.04%

#### Prices

Highest unit price	169.00p	158.40p	155.20p
Lowest unit price	146.60p	123.60p	131.40p

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## Comparative Tables continued

### F-Class Accumulation Units

#### Change in Net Asset Value per Unit

Accounting year ending	06/10/17 (pence per unit)	06/10/16 (pence per unit)	06/10/15 (pence per unit)
Opening net asset value per unit	261.94	229.08	224.75
Return before operating charges*	31.92	33.63	5.18
Operating charges (calculated on average price)	(0.83)	(0.77)	(0.85)
Return after operating charges*	31.09	32.86	4.33
Distributions	(9.79)	(8.38)	(7.62)
Retained distributions on accumulation units	9.79	8.38	7.62
Closing net asset value per unit	293.03	261.94	229.08
* after direct transaction costs of:	0.06	0.07	0.09

#### Performance

Return after charges	11.87%	14.34%	1.93%
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#### Other Information

Closing net asset value (£)	4,622,931	3,661,275	3,252,238
Closing number of units	1,577,628	1,397,744	1,419,704
Operating charges†	0.30%	0.33%	0.36%
Direct transaction costs	0.02%	0.03%	0.04%

#### Prices

Highest unit price	294.60p	266.60p	252.50p
Lowest unit price	251.40p	204.80p	210.60p

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## Comparative Tables continued

### I-Class Distribution Units

#### Change in Net Asset Value per Unit

Accounting year ending	06/10/17 (pence per unit)	06/10/16 (pence per unit)	06/10/15 (pence per unit)
Opening net asset value per unit	151.99	137.55	139.47
Return before operating charges*	18.39	19.89	3.28
Operating charges (calculated on average price)	(0.16)	(0.14)	(0.14)
Return after operating charges*	18.23	19.75	3.14
Distributions on income units	(5.97)	(5.31)	(5.06)
Closing net asset value per unit	164.25	151.99	137.55
* after direct transaction costs of:	0.03	0.04	0.05

#### Performance

Return after charges	11.99%	14.36%	2.25%
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#### Other Information

Closing net asset value (£)	545,745,944	526,646,452	418,490,274
Closing number of units	332,264,678	346,499,524	304,241,515
Operating charges†	0.10%	0.10%	0.10%
Direct transaction costs	0.02%	0.03%	0.04%

#### Prices

Highest unit price	167.40p	156.80p	154.50p
Lowest unit price	145.90p	123.10p	130.70p

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## Comparative Tables continued

### I-Class Accumulation Units

#### Change in Net Asset Value per Unit

Accounting year ending	06/10/17 (pence per unit)	06/10/16 (pence per unit)	06/10/15 (pence per unit)
Opening net asset value per unit	268.97	234.68	229.65
Return before operating charges*	32.81	34.53	5.27
Operating charges (calculated on average price)	(0.28)	(0.24)	(0.24)
Return after operating charges*	32.53	34.29	5.03
Distributions	(10.66)	(9.15)	(8.41)
Retained distributions on accumulation units	10.66	9.15	8.41
Closing net asset value per unit	301.50	268.97	234.68
* after direct transaction costs of:	0.06	0.07	0.09

#### Performance

Return after charges	12.09%	14.61%	2.19%
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#### Other Information

Closing net asset value (£)	1,122,114,809	994,053,454	851,179,543
Closing number of units	372,179,268	369,579,853	362,701,142
Operating charges†	0.10%	0.10%	0.10%
Direct transaction costs	0.02%	0.03%	0.04%

#### Prices

Highest unit price	301.40p	272.10p	258.40p
Lowest unit price	258.20p	210.00p	215.20p

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## Comparative Tables continued

### C-Class Distribution Units

#### Change in Net Asset Value per Unit

Accounting year ending	06/10/17 (pence per unit)	06/10/16 (pence per unit)	06/10/15 (pence per unit)
Opening net asset value per unit	152.14	137.70	139.61
Return before operating charges*	18.42	19.92	3.32
Operating charges (calculated on average price)	(0.10)	(0.08)	(0.09)
Return after operating charges*	18.32	19.84	3.23
Distributions on income units	(6.04)	(5.40)	(5.14)
Closing net asset value per unit	164.42	152.14	137.70
* after direct transaction costs of:	0.03	0.04	0.05

#### Performance

Return after charges	12.04%	14.41%	2.31%
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#### Other Information

Closing net asset value (£)	327,491,899	215,998,253	172,647,163
Closing number of units	199,180,589	141,975,635	125,382,075
Operating charges†	0.06%	0.06%	0.06%
Direct transaction costs	0.02%	0.03%	0.04%

#### Prices

Highest unit price	168.50p	157.90p	154.70p
Lowest unit price	146.10p	123.20p	130.80p

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## Comparative Tables continued

### C-Class Accumulation Units

#### Change in Net Asset Value per Unit

Accounting year ending	06/10/17 (pence per unit)	06/10/16 (pence per unit)	06/10/15 (pence per unit)
Opening net asset value per unit	269.44	235.00	229.86
Return before operating charges*	32.87	34.58	5.28
Operating charges (calculated on average price)	(0.17)	(0.14)	(0.14)
Return after operating charges*	32.70	34.44	5.14
Distributions	(10.79)	(9.31)	(8.52)
Retained distributions on accumulation units	10.79	9.31	8.52
Closing net asset value per unit	302.14	269.44	235.00
* after direct transaction costs of:	0.06	0.07	0.09

#### Performance

Return after charges	12.14%	14.66%	2.24%
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#### Other Information

Closing net asset value (£)	482,525,224	384,259,426	281,890,067
Closing number of units	159,701,924	142,613,985	119,953,664
Operating charges†	0.06%	0.06%	0.06%
Direct transaction costs	0.02%	0.03%	0.04%

#### Prices

Highest unit price	303.80p	274.20p	258.70p
Lowest unit price	258.70p	210.30p	215.40p

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## Comparative Tables continued

### L-Class Distribution Units

#### Change in Net Asset Value per Unit

Accounting year ending	06/10/17 (pence per unit)	06/10/16 (pence per unit)	06/10/15 (pence per unit)
Opening net asset value per unit	151.99	137.57	139.49
Return before operating charges*	18.39	19.90	3.31
Operating charges (calculated on average price)	(0.03)	(0.03)	(0.03)
Return after operating charges*	18.36	19.87	3.28
Distributions on income units	(6.10)	(5.45)	(5.20)
Closing net asset value per unit	164.25	151.99	137.57
* after direct transaction costs of:	0.03	0.04	0.05

#### Performance

Return after charges	12.08%	14.44%	2.35%
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#### Other Information

Closing net asset value (£)	624,462,354	548,744,884	482,755,499
Closing number of units	380,178,598	361,029,325	350,917,874
Operating charges†	0.02%	0.02%	0.02%
Direct transaction costs	0.02%	0.03%	0.04%

#### Prices

Highest unit price	168.40p	157.80p	154.60p
Lowest unit price	145.90p	123.10p	130.70p

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## **Manager's Investment Report**

During the year under review, the bid price of the Trust's R-Class distribution units rose by 8.02%. FTSE, the Index compiler, calculates the benchmark Index at the end of the business day using closing prices, whereas the Trust is valued using prevailing prices at 12 noon. Therefore, for tracking purposes the Trust has been revalued using closing prices. On this basis, over the review year, the Trust rose by 8.68% on a capital only basis compared with the FTSE All-Share Index rise of 8.39% (Source: Bloomberg), producing a tracking difference of +0.29%.

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## **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 year under review, UK equities continued to advance as 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 3.0% in September. However, the weakness in wage growth intensified the debate over how long the Bank of England may leave interest rates at the record low of 0.25%.

As a result, domestically focused FTSE Mid 250 Index (+11.32%) outperformed the more globally focused FTSE 100 Index (+7.47%). During the review year we also saw strong performance

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

from the tail end of the FTSE All-Share, the FTSE SmallCap Index (+16.01%) (Source: Bloomberg).

Over the review year, major sectors such as Industrial Metals & Mining (+110.55%), Leisure Goods (+62.72%) and Mining (+37.13%) showed the largest positive returns; whilst the most underperforming sectors were Technology Hardware & Equipment (-24.11%), Fixed Line Telecommunications (-22.77%) and Oil Equipment, Services & Distribution (-17.04%).

### **Trust Review**

Companies held within the Trust are held with weightings generally proportionate to those of the benchmark Index. Therefore, investment activity, other than to raise or invest cash, is only necessary when there are changes to the benchmark Index, or as a result of corporate action.

There were four Index rebalances during the year under review. At the quarterly Index review in December 2016, there were seven additions to the FTSE All-Share universe and no deletions, the largest additions were medical product and technology company ConvaTec Group, real estate investment trust NewRiver REIT and commercial bank TBC Bank Group.

There were 91 changes to the free share capital of constituents. The largest increases were HSBC, oil exploration and refinery company Royal Dutch Shell and software company Playtech, and the largest decreases being manufacturing company PZ Cussons, communications and media company WPP and real estate company Shaftesbury.

At the quarterly Index review in March 2017, there were two additions to the FTSE All-Share universe: real estate investment trust Civitas Social Housing and closed-end fund SQN Asset Finance Income Fund 'C'. There were no deletions from the FTSE All-Share universe in March review. There were 99 changes to the free share capital of constituents. The largest increases were Lloyds Banking Group, Royal Dutch Shell 'A' and GlaxoSmithKline, the largest decreases were Alliance Trust, marketing services company Experian and SVG Capital.

At the annual Index review in June 2017, there were 20 additions and 5 deletions. The largest additions were investment company Melrose Industries, Pershing Square and Sirius Minerals, whereas the largest deletions were Braemar Shipping Services and airline company Flybe Group. There were 558 changes to the free share capital of constituents. The largest increases were Lloyds Banking Group, betting and gaming company Ladbrokes Coral Group and medical and surgical equipment manufacturer ConvaTec Group, and the largest decreases were mining stock Anglo American, research-based pharmaceutical company GlaxoSmithKline and alcoholic beverages producer Diageo.



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

The September 2017 quarterly Index review resulted in six additions of which the largest were natural ingredients producer PureCircle, gambling stock 888 Holdings and real estate investment company Sirius Real Estate. Oil company Exillon Energy was the only deletion. There were 87 non-significant changes to the free share capital of constituents.

Mergers and acquisitions occurring outside of the Index reviews included: SABMiller all cash acquisition by Anheuser-Busch InBev (Belgium) for \$103 billion; E2v technologies all cash acquisition by Teledyne Technologies for £619.56 million; Brammer £321 million cash acquisition by Al Robin; Lavendon Group £607 million cash acquisition by Loxam SAS; Henderson Group completed all stock merger with Janus Capital Group and was assigned US nationality; Sepura £152 million cash acquisition by Hytera Communications; Exova Group £749 million cash acquisition by Element Material Technology Group; Standard Life acquired Aberdeen Asset Management in exchange for stock; Elis SA (France) acquired Berendsen for £2.5 billion in exchange for stock and cash; Altrad Investment Authority SAS (France) acquired Cape for £399 million in cash acquisition; British American Tobacco acquired Reynolds American Inc. (US) in cash and stock deal worth £58.7 billion and subsequently increased its weight in the FTSE All-Share Index by 0.94%; following a £6.8 billion takeover of Hewlett Packard's Software business Micro Focus increased its weight in the Index.

Outside Index Reviews, receipt of the Royal Bank of Scotland 2008 rights issue litigation proceeds added 0.1% to the Trust performance. Also, the free float was increased as a result of secondary placings for Worldpay Group, Ferrexpo, DFS Furniture, Countryside Properties, Forterra, The Gym Group, On The Beach Group, ConvaTec Group, Istock and Hastings Group. Companies raising capital via rights issues included: RPC Group, Laird, Cobham, Segro and Tullow Oil. Other notable corporate activities included voluntary liquidation and deletion of SVG Capital and DW Catalyst Fund.

At the end of the review year, the Trust had holdings in all of the 640 companies in the Index. The three largest stocks in the Index at the end of the review year were Royal Dutch Shell (7.8%), HSBC (6.3%) and British American Tobacco (4.5%).

## **Outlook**

Prime Minister Theresa May triggered Article 50 allowing the two-year window for official negotiations on Brexit to start. A 'hard Brexit' would imply giving up full access to the single market, with Britain having full control over its borders, making new trade deals and applying laws within its own territory. In LGIM's view, such a scenario could be negative for Sterling, but we only attribute a relatively low probability to this outcome.

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

Given Brexit uncertainties most market participants anticipated Bank of England to keep rates on hold for a long time, but following the latest stronger inflation data, the Monetary Policy Committee adopted a more hawkish tilt indicating that some withdrawal of monetary stimulus was likely to be appropriate over the coming months. The Bank of England indicated that interest rates will need to rise more than once if economy develops as expected. The market has been quick to re-price the odds, and now sees a more than 70% probability of a rate hike before year-end. We stick to our view that the first rate rise will be in 2018, contingent on relatively smooth negotiations with the EU and our odds for a 2017 hike are lower than implied by the market.

Subsequently, signs that the Brexit negotiations are yielding little progress and a further round of subdued UK economic data reinforced the suggestion that businesses and individuals are likely to adopt a more cautious approach.

Given this backdrop of uncertainty the Trust remains well positioned to capture the performance of the Index.

Legal & General Investment Management Limited

(Investment Adviser)

30 October 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.

## **Information on Tracking Error**

The 'Tracking Error' of a Trust is the measure of the volatility of the differences between the return of the Trust and the return of the benchmark Index. It provides an indication of how closely the Trust is tracking the performance of the benchmark Index after considering things such as Trust charges and taxation.

Using monthly returns, over the review year, the annualised Tracking Error of the Trust is 0.13%, whilst over the last three years to the end of October 2017, the annualised Tracking Error of the Trust is 0.10%. These Tracking Errors are within the anticipated Tracking Error levels set out in the Trust's Prospectus of +/-0.25% per annum.

## **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
C-Class	£100,000,000
L-Class	£100,000

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.

C-Class units are only available to distributors who actively market and distribute such units (or whom the Manager believes intends to do so) and to whom the Manager has confirmed by letter that they meet the criteria for investment in such units.

L-Class is not available to retail customers and is intended only for investment by Legal & General group companies.

### **Other Information**

The information in this report is designed to enable unitholders to understand how the Trust has performed during the year under review and how it is invested at the year 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.

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

### **Significant Change**

#### **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





**Authorised and regulated by the  
Financial Conduct Authority**

Legal & General  
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