

Legal & General (Alliance & Leicester)
Capital Growth Fund

**Annual Manager's
Short Report
for the year ended
28 February 2017**

**EVERY
DAY
MATTERS.®**



Investment Objective and Policy

The (Alliance & Leicester) Capital Growth Fund is designed to track the capital performance of the FTSE 350 Index (the 'Index') and to maintain a gross income yield equal to that of the Index.

Securities in the Index will be held with weightings generally proportionate to their official Index weighting. From time to time non-Index constituents may be held as a result of a corporate action 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 Fund 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.

Fund Facts

Period End Dates for Distributions:	28 Feb, 31 Aug	
Distribution Dates:	30 Apr, 31 Oct	
Ongoing Charges Figure:	28 Feb 17	28 Feb 16
	1.43%	1.43%

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

The OCF is intended to provide a reliable figure which gives the most accurate measure of what it costs to invest in a fund 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 Fund's risk and reward category in the future.
- The category is based on the rate at which the Fund and the Index it is tracking have moved up and down in the past.
- This Fund 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 Fund's category is not guaranteed to remain the same and may change over time.
- Even a fund in the lowest category is not a risk free investment.

Distribution Information

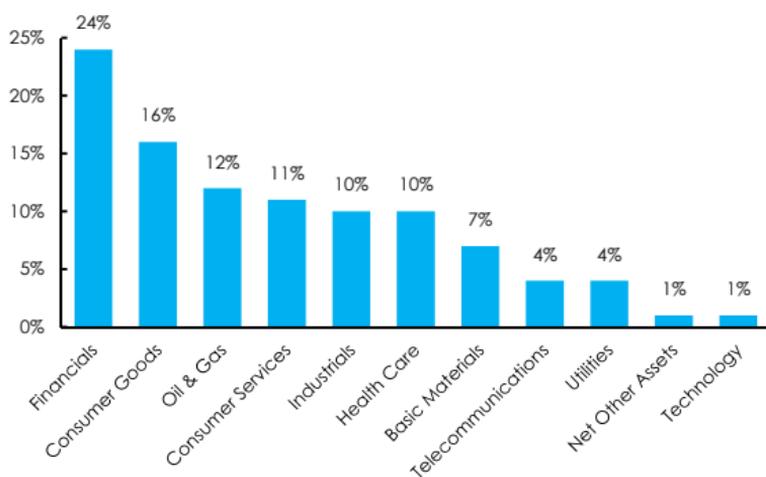
The distribution payable on 30 April 2017 is 1.2798p per unit for accumulation units.

Portfolio Information

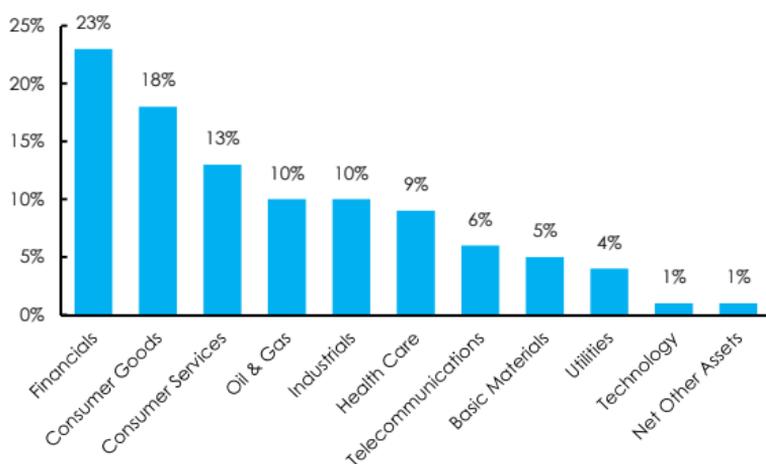
The top 10 holdings and their associated weighting at the current and preceding year ends were:

Top 10 Holdings at 28 February 2017		Top 10 Holdings at 28 February 2016	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
HSBC Holdings	5.79%	HSBC Holdings	4.69%
British American Tobacco	4.23%	British American Tobacco	3.84%
BP	3.84%	GlaxoSmithKline	3.56%
Royal Dutch Shell 'B'	3.83%	Royal Dutch Shell 'B'	3.53%
GlaxoSmithKline	3.59%	BP	3.28%
Royal Dutch Shell 'A' (Dutch listing)	3.48%	Vodafone Group	3.01%
AstraZeneca	2.65%	Royal Dutch Shell 'A' (Dutch listing)	2.91%
Diageo	2.57%	AstraZeneca	2.75%
Vodafone Group	2.39%	Diageo	2.47%
Unilever	2.07%	Lloyds Banking Group	2.39%

Fund Holdings as at 28 February 2017



Fund Holdings as at 28 February 2016



Comparative Table

Accumulation Units

Change in Net Asset Value per Unit

Accounting year ending	28/02/17 (pence per unit)	28/02/16 (pence per unit)	28/02/15 (pence per unit)
Opening net asset value per unit	126.67	139.25	133.40
Return before operating charges*	29.14	(10.68)	7.74
Operating charges (calculated on average price)	(2.00)	(1.90)	(1.89)
Return after operating charges*	27.14	(12.58)	5.85
Distributions	(3.63)	(3.32)	(2.66)
Retained distributions on accumulation units	3.63	3.32	2.66
Closing net asset value per unit	153.81	126.67	139.25
* after direct transaction costs of:	0.02	0.02	0.01

Performance

Return after charges	21.42%	(9.03)%	4.39%
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Other Information

Closing net asset value (£)	152,732,031	137,325,345	162,604,236
Closing number of units	99,299,971	108,416,033	116,773,153
Operating charges	1.43%	1.43%	1.43%
Direct transaction costs	0.01%	0.02%	0.01%

Prices

Highest unit price	160.00p	148.90p	144.20p
Lowest unit price	125.20p	115.30p	120.80p

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.

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

Manager's Investment Report

During the year under review, the bid price of the Fund's R-Class accumulation units increased by 21.48%. FTSE, the Index compiler, calculates the benchmark Index at the end of the business day using closing prices, whereas the Fund is valued using prevailing prices at 12pm. Therefore, for tracking purposes the Fund has been revalued using closing prices. On this basis, over the review period, the Fund increased by 18.47% on a capital only basis, compared with the FTSE 350 Index increase of 18.13% (source: Bloomberg), producing a tracking difference of 0.34%.

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Market/Economic Review

Global equity markets have been volatile over the last 12 months, recording heavy losses during the opening weeks of 2016, on concerns over the economic outlook for China and further weakness in commodity markets. The performance of major oil producers and mining stocks has mirrored commodity prices, with the oil price recovering from under \$30/barrel which was its lowest level since 2004. As a result, energy companies continue to place a strong emphasis on cost cutting to maintain profit margins. In the aftermath of the UK vote to leave the European Union in the June referendum, Sterling fell to a 31-year low against the US Dollar. UK equities initially fell before being led higher by globally focused large cap stocks, while share prices of more domestically focused mid-cap and smaller companies were strong but weaker in comparison.

In GBP terms, the UK major sectors such as Industrial Metals & Mining (+270.1%), Mining (+97.2%) and Basic Materials (+85.1%) showed the largest positive returns during the review period, whilst Fixed Line Telecommunications (-31.1%), Telecommunications (-18.1%) and General Retailers (-16.5%) were the worst performing sectors.

In the UK again in GBP terms, both the large-cap FTSE 100 Index (+19.1%) and FTSE SmallCap Index (+21.1%) outperformed mid-cap stocks as represented by the FTSE 250 Index (+13.3%).

Manager's Investment Report continued

Fund Review

Companies held within the Fund are held with weightings generally proportionate to those of the Index. Hence investment activity, other than to raise or invest cash, is only necessary when there are changes in the issued share capital or free float of the constituent companies, or to the constituents of the Index.

During the period under review there were four Index reviews carried out by FTSE. The March 2016 Index review resulted in four additions and four deletions. Paysafe Group, McCarthy & Stone and Softcat were new stocks added to the FTSE 350 Index, while Kaz Minerals was promoted from the FTSE SmallCap Index. Poundland Group, Enterprise Inns and Nostrum Oil & Gas were all demoted to the FTSE SmallCap Index. 888 Holdings was deleted from FTSE Universe.

At the annual Index review in June 2016, there were seven additions and seven deletions. Smurfit Kappa Group, CYBG and Metro Bank were the largest new stocks added to the FTSE 350 Index. The largest deletions were Melrose Industries, Northgate and Ophir Energy, which were all demoted to the FTSE SmallCap Index.

The September 2016 Index review resulted in two additions and two deletions. GVC Holdings was a new stock added to the FTSE 350 Index, whilst Hunting was promoted from the FTSE SmallCap Index. These companies replaced Pendragon and Circassia Pharmaceuticals, which were both demoted to the FTSE SmallCap Index.

The December 2016 Index review resulted in four additions and four deletions. ConvaTec Group and NewRiver REIT were new stocks added to the FTSE 350 Index, whilst Nostrum Oil & Gas and Ferrexpo were both promotions from the FTSE SmallCap Index. These companies replaced NCC Group, Laird, DFS Furniture and Countrywide, which were all demoted to the FTSE SmallCap Index.

Mergers and acquisitions occurring outside of the reviews included: Cable & Wireless Communications takeover by Liberty Global (US); ARM Holdings which was deleted from the Index in September following its acquisition by SoftBank (Japan, non-Index constituent) for £23 billion; beverage can distributor Rexam taken over by Ball Corp in the US; SABMiller acquisition by Anheuser-Busch InBev (Belgium) for \$103 billion and retailer Darty bought by the French company FNAC. Home Retail Group was acquired by Sainsburys who consequently increased their freely available market capitalisation. The Index weights following the merger were increased for Vectura after its merger with SkyePharma and Shire after acquisition of Baxalta (US).

The free float and consequently the Index weights were increased as a result of secondary placings for Saga, Worldpay Group and Micro Focus International.

Manager's Investment Report continued

At the end of the review period, the three largest stocks in the FTSE 350 Index were Royal Dutch Shell (7.8%), HSBC Holdings (5.9%) and British American Tobacco (4.3%).

Outlook

In the immediate aftermath of the EU referendum, domestic political uncertainty diminished with the quick appointment of a new Prime Minister, a more measured approach to EU relations and the speedy reduction of interest rates to 0.25% by the Bank of England.

In the fourth quarter, Trump's election as the next US president and Renzi's referendum defeat has taken the spotlight from Brexit uncertainty. Nonetheless, UK economic data continues to surprise to the upside and it's becoming increasingly clear that the hit to activity from Brexit is much smaller than initially feared. This is noteworthy as it was one of the most important negative outliers of post Brexit data and part of the Bank of England's argument for cutting rates.

With a new government and a new Chancellor, a clean sheet of paper reduces the need to stick to previous austerity promises. In the Autumn budget, the Chancellor has clearly favored longer-term infrastructure rather than some of the quick giveaways he could have opted for such as VAT cuts, income tax cuts or stamp duty changes. This policy should help boost growth in the medium to long term but the consequences of the fall in the exchange rate is expected to be felt more strongly during 2017 raising questions about future growth expectations. Given this backdrop of uncertainty the Fund remains well positioned to capture the performance of the Index.

Legal & General Investment Management Limited
(Investment Adviser)
22 March 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.

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

Information on Tracking Error

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

Using monthly returns, over the review period, the annualised Tracking Error of the Fund is 0.06%, whilst over the last three years to the end of February 2017, the annualised Tracking Error of the Fund is 0.04%. These Tracking Errors are within the anticipated Tracking Error levels set out in the Fund's Prospectus of +/-0.50% per annum.

Dual Pricing Arrangement

The Manager's fixed dual pricing arrangement has a set spread to account for the costs of transacting in a particular Fund. 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. With effect from 1 January 2016, the revenue generated from this activity is calculated on a monthly basis and returned to the Fund in the form of a payment from the Manager. This provides an enhanced return to the Fund, though 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 is £500. Monthly contributions can be made with a minimum amount of £50 per month.

Other Information

The information in this report is designed to enable unitholders to understand how the Fund 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 Fund can be obtained by telephoning 0370 050 0955 or by writing to the Manager.

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

Authorised Fund Manager

Legal & General (Unit Trust Managers) Limited

Registered in England and Wales No. 01009418

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Telephone: 0370 050 3350

Authorised and regulated by the Financial Conduct Authority

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

Trustee

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London E14 5NT

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

Independent Auditors

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London SE1 2RT

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

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