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Unit Trust Commentaries

July 2022

This document is intended for Investors and Investment Professionals

Contents

Active Equity

Asia Pacific Equity Income

Asia Pacific ex Japan equities were weak over the month, registering negative returns as declines in China and Hong Kong offset gains in India, South Korea and Singapore. China was the worst-performing market in the index as slowing economic growth, ongoing Covid-19 lockdown measures as part of the zero-Covid policy and regulatory issues weakened investor confidence. From a sector perspective, Consumer Discretionary was the worst performing sector while traditionally defensive sectors such as Utilities and Financials outperformed. Against this backdrop, the benchmark index FTSE Asia Pacific ex Japan remained flat in GBP terms over the month.

The fund increased in both absolute and relative value over the month, outperforming the benchmark and peers after a relatively benign month. Country allocation was positive, benefitting from the portfolio's underweighting in China and overweighting in Australia. Sector allocation was negative, primarily driven by the lack of portfolio exposure to Health Care and overweight to Real Estate. Stock selection contributed to the successes of the month, with selections in Technology and Telecommunications proving particularly helpful. Top stock picks came from an underweight position in Tencent and an active position in Scentre Group. The largest detractors from performance were positions in China Feihe and China Overseas Land & Investment.

In terms of activity, we initiated a position in Country Garden Holdings and removed our position in SJM Holdings.

European Equity Income

European ex UK equities gained in July, along with other major equities markets. The ECB raised interest rates by a higher-than-expected 0.5%, ending the preceding era of negative rates. The ECB also unveiled its new "anti-fragmentation tool", designed to prevent bond yields in the periphery (particularly Italy) widening excessively compared to German yields. July also included Mario Draghi's resignation as Italian prime minister, with an election scheduled for September. Economically sensitive sectors such as IT, Consumer Discretionary and Industrials led returns with over double-digit gains whereas energy and financials were largely flat. Against this backdrop, the benchmark FTSE World Europe ex UK TR Net was considerably positive, posting gains of 5.1% for the month in GBP terms.

In a tough month for relative performance, the fund underperformed the index yet still posted absolute returns of 2.5%. Stock selection hurt performance, with underweight in Health Care and overweighting in Financials and Telecommunications the biggest detractors. Sector allocation also detracted from performance, particularly due to overweighting in Telecommunications and underweighting in Technology. Top stock contributors were from positions in Publicis Groupe, Andritz Ag and Swatch. The largest detractors were from overweight positions in Flow Traders and our underweights in ASML and LVMH as they rebounded in July.

In terms of activity, we ceded our shares in Mediaset España in exchange for shares in Media for Europe and cash.

Future World Sustainable European Equity Focus

European ex UK equities gained in July, along with other major equities markets. The ECB raised interest rates by a higher-than-expected 0.5%, ending the preceding era of negative rates. The ECB also unveiled its new "anti-fragmentation tool", designed to prevent bond yields in the periphery (particularly Italy) widening excessively compared to German yields. July also included Mario Draghi's resignation as Italian prime minister, with an election scheduled for September. Economically sensitive sectors such as IT, Consumer Discretionary and Industrials led returns with over double-digit gains whereas energy and financials were largely flat. Against this backdrop, the benchmark FTSE World Europe ex UK TR Net was considerably positive, posting gains of 5.1% for the month in GBP terms.

In an extremely strong month, the fund outperformed its benchmark index driven by a combination of strong sector allocation and stock selection, growing at 9.7% in absolute terms for the month. Sector-wise, overweights in Industrials and Technology majorly benefitted returns. Stock selection was also particularly strong, most notably amongst Energy, Technology and Telecommunications names. Positions in Alfen Beheer, Adyen and Montana Aerospace were the largest individual stock contributors to returns with Fuidra Sa, Pierer Mobility and LVMH detracting from returns.

There was no significant trading activity over the period.

Global Thematic Fund

The Legal & General Global Thematic Fund gained +8.84% in July. After a challenging start of the year in line with broader equity markets, the fund's monthly return in July was the highest since inception.

The US Federal Reserve (Fed) raised rates by 75bps but indicated that the pace of rate rises in the next few months could slow down depending on the economy and inflation. The European Central Bank (ECB) also took a less hawkish stance as it raised rates by 50bps but indicated that next steps would depend on economic conditions. More positive news also came from China, where COVID restrictions started to get lifted. Overall, after the heavy sell off in the first half of the year that drove valuations down, the sentiment turned less negative in July which lifted equity markets. Sectors that were subject to larger declines in the first half of the year, such as Consumer Discretionary and Information Technology, were the best performers over the month, which benefitted the Global Thematic Unit Trust. However, growth fears, high inflation and uncertainty on energy supply persisted. As companies started to announce Q2 earnings, the possibility of a future economic slowdown led some to reassess hiring and capex plans accordingly. Performance of commodities was mixed, while the dollar remained strong and the VIX Index declined.

Within the Legal & General Global Thematic Unit Trust, all ETFs contributed positively to performance, led by the L&G Battery Value-Chain UCITS ETF (+9.68%). At the end of July, the US Senate passed the Inflation Reduction Act. This includes $369 billion worth of funding for clean technologies, $260 billion of which is allocated to tax credits, grants, loans and support for wind, solar and nuclear, as well as new technologies such as hydrogen and CCUS. A $12 billion amount is dedicated to electric vehicles (EVs) and $1.7 billion to clean fuelling and recharging technologies, with the aim to stimulate the growth of the battery sector in the US. Automakers should receive grants and credits to help them convert plants for traditional vehicles to clean cars, scale up charging infrastructure and produce battery modules. Clean energy and battery value-chain stocks such as SolarEdge Technologies, US battery energy storage solutions (BESS) provider, rallied on the back of this positive development.

Other strong contributors were the L&G Clean Water UCITS ETF (+9.33%), the L&G Robo Global® Robotics & Automation UCITS ETF (+12.73%) and the L&G Artificial Intelligence UCITS ETF (+9.41%), led by companies that reported strong Q2 results, such as Advanced Drainage Systems, water technology and digital solutions provider, Cargotec, provider of automated cargo and load handling solutions, and Etsy, online shopping platform that leverages artificial intelligence in its search solutions.

Growth Trust

UK Equities had a positive month although lagging other regional developed equity markets except Japan. Developed markets rallied on prospects of interest rate cuts after signs of slowing global economy. Inflation continued to remain topical with UK inflation in June accelerating to 9.4% year-on-year. The Bank of England's Governor, Andrew Bailey, announced forecasted inflation to peak at 13% and to expect another 0.5% rate hike in August. In other news, UK Prime Minister Boris Johnson resigned after he lost support from his parliamentary party. Against this backdrop the benchmark FTSE All share gained 4.4% in GBP terms over the month.

Overperformance in the Focus Fund was largely driven by stock selection. The overweight in Technology and Industrials were accretive to outperformance in July. In addition, the underweight to Healthcare, Financials and Energy produced positive allocation performance. Strongest stock picks came from Industrials, Telecoms and Technology names. Top stock contributors were from positions in Ashtead, GC Group and Darktrace. The largest detractors were from positions in Fevertree, Diageo and Alphawave.

There was no significant trading activity over the period

UK Equity Income

UK Equities had a positive month although they lagged other regional developed equity markets except Japan. Developed markets rallied on prospects of interest rate cuts after signs of a slowing global economy. Inflation continued to remain topical with UK inflation in June accelerating to 9.4% year-on-year. The Bank of England's Governor, Andrew Bailey, announced forecasted inflation to peak at 13% and to expect another 0.5% rate hike in August. In other news, UK Prime Minister Boris Johnson resigned after he lost support from his parliamentary party. Against this backdrop the benchmark FTSE All share gained 4.4% in GBP terms over the month.

UK Equity Income increased in absolute value but underperformed the benchmark and peers largely due to style bias. Stock selection was the principal detractor from performance, most notably within the Industrials and Consumer Discretionary sectors. Sector allocation was largely neutral with positive underweighting in healthcare negated by an unsuccessful overweight in Telecommunications. Top stock contributors came from positions in Next and NatWest whilst a significantly underweight position in HSBC also proved helpful. The largest detractor was from being underweight Diageo whilst positions in BT and BAE systems also weighed on relative returns.

During the period GSK separated and distributed its shares in Haleon, the consumer health group, so we now have a position in this newly independent company.

UK Select Equity

UK Equities had a positive month although lagging other regional developed equity markets except Japan. Developed markets rallied on prospects of interest rate cuts after signs of slowing global economy. Inflation continued to remain topical with UK inflation in June accelerating to 9.4% year-on-year. The Bank of England's Governor, Andrew Bailey, announced forecasted inflation to peak at 13% and to expect another 0.5% rate hike in August. In other news, UK Prime Minister Boris Johnson resigned after he lost support from his parliamentary party. Against this backdrop the benchmark FTSE All share gained 4.4% in GBP terms over the month.

Overperformance in the Fund was largely driven by stock selection while sector allocation was also positive. The overweight in Technology and Industrials was additive to performance. In addition, the avoidance of the highest carbon intensive sector – Energy proved beneficial over the month. Strong stock picks within Industrials, Healthcare and Financials contributed to the outperformance. Top stock contributors were from positions in Ashtead, GC Group and Darktrace, whilst the largest detractors were from positions in Fevertree, Diageo and Alphawave.

There was no significant trading activity over the period.

Unconstrained

Future World Sustainable Opportunities Fund

The Future World Sustainable Opportunities Fund posted a positive return for July.

Developed market shares gained in July as investors began to focus on the prospect of interest rate cuts next year, given signs of a slowing global economy. Growth stocks were the main beneficiaries, with strong gains in July after poor performance year-to-date. However, emerging market equities lagged amid weakness in China.

The Federal Reserve hiked interest rates by 75 bps as anticipated, however, chair Jerome Powell subsequently commented that the pace of policy tightening is likely to relent from here and concluded that the pace of increases may now slow down. It was a similar story for the Eurozone, with the European Central Bank hiking by a larger than expected 50 bps, ending the era of negative rates.

Given the bounce in equity markets, our core equity holdings made a positive contribution to the overall fund performance and outperformed the wider market. Elsewhere in equity, our Special Situations energy transition equity holdings also made a positive contribution. Since inception, the Special Situations allocation has offered strong returns with a low correlation to wider equity markets.

Elsewhere in risk assets, our emerging market debt allocation posted a positive return and outperformed respective benchmarks. Our overweight positions in India and Africa were particularly beneficial.

Risk management remains paramount given continued market volatility. Our use of hedging to limit downside risk has greatly benefited long-term fund performance and remains a key focus of the strategy.

Contact us

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