

Legal & General Ethical Trust  
**Annual Manager's  
Short Report**  
for the year ended  
**12 December 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.

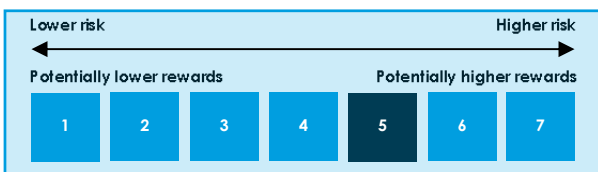
## Trust Facts

Period End Dates for Distributions:	12 Jun, 12 Dec	
Distribution Dates:	12 Aug, 12 Feb	
Ongoing Charges Figures:	12 Dec 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 February 2018 is 0.6117p per unit for distribution units and 0.8920p per unit for accumulation units.

### F-Class

The distribution payable on 12 February 2018 is 0.7809p per unit for distribution units and 1.1753p per unit for accumulation units.

### I-Class

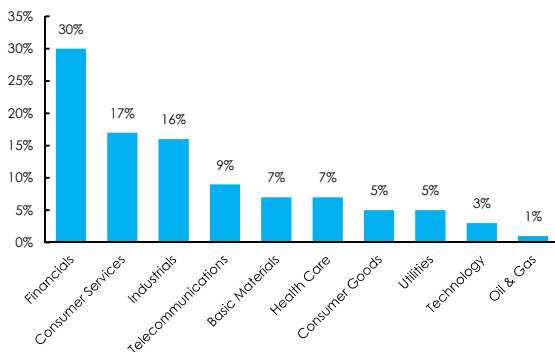
The distribution payable on 12 February 2018 is 0.8219p per unit for distribution units and 1.3132p per unit for accumulation units.

## Portfolio Information

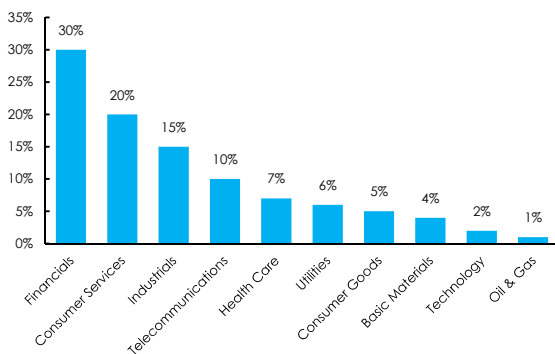
The top 10 holdings and their associated weighting at the current and preceding year ends were:

Top 10 Holdings at 12 December 2017		Top 10 Holdings at 12 December 2016	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
Vodafone Group	6.44%	Vodafone Group	6.14%
Lloyds Banking Group	4.93%	Prudential	4.71%
Prudential	4.91%	Lloyds Banking Group	4.60%
Shire	3.49%	Shire	4.56%
National Grid	3.14%	National Grid	4.02%
BHP Billiton	2.97%	BT Group	3.41%
BT Group	2.36%	CRH	2.59%
CRH	2.28%	WPP	2.58%
Aviva	2.14%	Aviva	2.25%
Tesco	1.76%	Tesco	2.03%

## Trust Holdings as at 12 December 2017



## Trust Holdings as at 12 December 2016



## Comparative Tables

### R-Class Distribution Units

#### Change in Net Asset Value per Unit

Accounting year ending	12/12/17 (pence per unit)	12/12/16 (pence per unit)	12/12/15 (pence per unit)
Opening net asset value per unit	60.00	59.78	56.28
Return before operating charges*	7.25	2.20	5.30
Operating charges (calculated on average price)	(0.67)	(0.69)	(0.71)
Return after operating charges*	6.58	1.51	4.59
Distributions on income units	(1.40)	(1.29)	(1.09)
Closing net asset value per unit	65.18	60.00	59.78
* after direct transaction costs of:	0.04	0.06	0.05

#### Performance

Return after charges	10.97%	2.52%	8.16%
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#### Other Information

Closing net asset value (£)	140,053,019	132,721,704	134,711,116
Closing number of units	214,856,492	221,207,301	225,337,427
Operating charges†	1.05%	1.15%	1.15%
Direct transaction costs	0.06%	0.10%	0.08%

#### Prices

Highest unit price	67.77p	63.56p	67.07p
Lowest unit price	59.87p	52.94p	55.34p

† 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.

**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.**

## Comparative Tables continued

### R-Class Accumulation Units

#### Change in Net Asset Value per Unit

Accounting year ending	12/12/17 (pence per unit)	12/12/16 (pence per unit)	12/12/15 (pence per unit)
Opening net asset value per unit	86.45	84.28	77.98
Return before operating charges*	10.47	3.14	7.30
Operating charges (calculated on average price)	(0.98)	(0.97)	(1.00)
Return after operating charges*	9.49	2.17	6.30
Distributions	(2.03)	(1.83)	(1.51)
Retained distributions on accumulation units	2.03	1.83	1.51
Closing net asset value per unit	95.94	86.45	84.28
* after direct transaction costs of:	0.05	0.08	0.07

#### Performance

Return after charges	10.98%	2.57%	8.08%
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#### Other Information

Closing net asset value (£)	72,637,471	69,935,470	75,279,284
Closing number of units	75,707,435	80,900,260	89,315,959
Operating charges†	1.05%	1.15%	1.15%
Direct transaction costs	0.06%	0.10%	0.08%

#### Prices

Highest unit price	97.64p	90.80p	92.94p
Lowest unit price	86.25p	75.44p	76.67p

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## Comparative Tables continued

### F-Class Distribution Units

#### Change in Net Asset Value per Unit

Accounting year ending	12/12/17 (pence per unit)	12/12/16 (pence per unit)	12/12/15 (pence per unit)
Opening net asset value per unit	60.34	60.13	56.61
Return before operating charges*	7.32	2.20	5.34
Operating charges (calculated on average price)	(0.29)	(0.27)	(0.28)
Return after operating charges*	7.03	1.93	5.06
Distributions on income units	(1.81)	(1.72)	(1.54)
Closing net asset value per unit	65.56	60.34	60.13
* after direct transaction costs of:	0.04	0.06	0.05

#### Performance

Return after charges	11.65%	3.21%	8.94%
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#### Other Information

Closing net asset value (£)	116,514	96,470	96,132
Closing number of units	177,729	159,875	159,875
Operating charges†	0.45%	0.45%	0.45%
Direct transaction costs	0.06%	0.10%	0.08%

#### Prices

Highest unit price	68.38p	64.07p	67.69p
Lowest unit price	60.21p	53.25p	55.67p

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## Comparative Tables continued

### F-Class Accumulation Units

#### Change in Net Asset Value per Unit

Accounting year ending	12/12/17 (pence per unit)	12/12/16 (pence per unit)	12/12/15 (pence per unit)
Opening net asset value per unit	89.42	86.58	79.54
Return before operating charges*	10.86	3.23	7.44
Operating charges (calculated on average price)	(0.44)	(0.39)	(0.40)
Return after operating charges*	10.42	2.84	7.04
Distributions	(2.70)	(2.50)	(2.17)
Retained distributions on accumulation units	2.70	2.50	2.17
Closing net asset value per unit	99.84	89.42	86.58
* after direct transaction costs of:	0.06	0.08	0.07

#### Performance

Return after charges	11.65%	3.28%	8.85%
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#### Other Information

Closing net asset value (£)	258,278	148,222	175,788
Closing number of units	258,700	165,765	203,042
Operating charges†	0.45%	0.45%	0.45%
Direct transaction costs	0.06%	0.10%	0.08%

#### Prices

Highest unit price	101.30p	93.80p	95.11p
Lowest unit price	89.22p	77.58p	78.22p

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## Comparative Tables continued

### I-Class Distribution Units

#### Change in Net Asset Value per Unit

Accounting year ending	12/12/17 (pence per unit)	12/12/16 (pence per unit)	12/12/15 (pence per unit)
Opening net asset value per unit	59.94	59.73	56.24
Return before operating charges*	7.28	2.20	5.29
Operating charges (calculated on average price)	(0.20)	(0.19)	(0.19)
Return after operating charges*	7.08	2.01	5.10
Distributions on income units	(1.89)	(1.80)	(1.61)
Closing net asset value per unit	65.13	59.94	59.73
* after direct transaction costs of:	0.04	0.06	0.05

#### Performance

Return after charges	11.81%	3.37%	9.07%
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#### Other Information

Closing net asset value (£)	56,892,883	54,432,055	44,426,427
Closing number of units	87,359,138	90,805,171	74,373,793
Operating charges†	0.31%	0.31%	0.31%
Direct transaction costs	0.06%	0.10%	0.08%

#### Prices

Highest unit price	67.97p	63.67p	67.29p
Lowest unit price	59.81p	52.90p	55.30p

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## Comparative Tables continued

### I-Class Accumulation Units

#### Change in Net Asset Value per Unit

Accounting year ending	12/12/17 (pence per unit)	12/12/16 (pence per unit)	12/12/15 (pence per unit)
Opening net asset value per unit	94.23	91.11	83.59
Return before operating charges*	11.45	3.41	7.81
Operating charges (calculated on average price)	(0.32)	(0.29)	(0.29)
Return after operating charges*	11.13	3.12	7.52
Distributions	(2.99)	(2.76)	(2.42)
Retained distributions on accumulation units	2.99	2.76	2.42
Closing net asset value per unit	105.36	94.23	91.11
* after direct transaction costs of:	0.06	0.09	0.07

#### Performance

Return after charges	11.81%	3.43%	9.00%
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#### Other Information

Closing net asset value (£)	48,862,287	52,970,786	35,349,670
Closing number of units	46,375,716	56,213,320	38,798,246
Operating charges†	0.31%	0.31%	0.31%
Direct transaction costs	0.06%	0.10%	0.08%

#### Prices

Highest unit price	106.80p	98.82p	100.00p
Lowest unit price	94.02p	81.66p	82.20p

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## **Manager's Investment Report**

During the year under review, the bid price of the Trust's R-Class distribution units valued at midday rose by 8.73%. Although there is no published Index for those companies assessed as eligible by EIRIS, for comparison over the review year, the FTSE 350 Index (excluding Investment Trusts) rose by 9.52%. Similarly, the broader based FTSE All-Share Index (excluding Investment Trusts) rose by 9.56% (Source: Bloomberg). Using close of business prices, in line with the Index movements, the Trust rose by 9.90%.

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**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. UK markets recorded solid gains over the review year, with an improving global economic outlook, and supported by companies buying back their own shares. Major sectors such as Leisure Goods, Electronic & Electrical Equipment and Personal Goods showed the largest positive returns during the review year, whilst Oil Equipment, Services & Distribution, Fixed Line Telecommunications and Electricity were the worst performing sectors. Energy stocks weakened before retrieving some lost ground as the reporting year ended, rallying in line with the oil price in recent months on evidence that a supply squeeze from OPEC is now finally impacting on inventories. In the UK, the domestically focused FTSE 250 Index (+13.79%) and FTSE SmallCap Index (+14.86%) outperformed the more internationally focused FTSE 100 Index (+8.85%).

Economic indicators suggested the UK economy had weathered the post-referendum volatility well and the UK economic indicators remained broadly positive. However, political uncertainty has heightened over the last 12 months, particularly as the June general election resulted in a hung parliament and Brexit negotiations began. Inflation has been steadily increasing since the EU referendum, pushing up to 3.1% in November. However, the weakness in wage growth intensified the debate on whether the Bank of England should hike interest rates or leave them unchanged.

### **Trust Activity**

The Trust's selection process excludes the Tobacco and Military industries, while the Oil & Gas Producers, Banks, Mining, Pharmaceuticals & Biotechnology and Beverages sectors are markedly underweight. Such exclusions are compensated for by an increased presence 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

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

FTSE 350 Index (excluding Investment Trusts) 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 four Index reviews during the review year. At the quarterly review in December 2016, there were four additions and four deletions. ConvaTec Group and 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 as unacceptable stock. Additions replaced NCC Group, Laird, DFS Furniture and Countrywide, which were all demoted to the FTSE SmallCap Index.

At the quarterly 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, N Brown Group and CMC Markets which were all demoted to the FTSE SmallCap Index.

At the annual review in June 2017, there were five additions and five deletions. Melrose Industries, FDM Group and TBC Bank Group were new additions to the FTSE All-Share universe and were subsequently assessed as eligible by EIRIS. Sirius Minerals and Coats Group were added to the universe, but not to the EIRIS acceptable list. These companies replaced Keller, Debenhams, Allied Minds, AO World and SVG Capital, which were all demoted to the FTSE SmallCap Index.

At the quarterly review in September 2017, there were two additions and three deletions. 888 was a new addition to the FTSE All-Share universe, but was assessed as unacceptable for inclusion by EIRIS. Alfa Financial Software was a new addition and subsequently assessed as eligible by EIRIS. Northgate, Petra Diamonds and Carillion were demoted to the FTSE SmallCap Index.

There was a significant cross-border merger and acquisition activity that impacted the Trust outside the Index 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 Group which was promoted from the FTSE SmallCap Index. All stock deals included; Standard Life PLC acquisition of Aberdeen Asset Management and Kennedy Wilson (US) acquisition of the residual stake in Kennedy Wilson Europe Real Estate. Shawbrook Group was taken over by Marlin Bidco for

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

cash. Equiniti Group and Renewi were promoted from the FTSE Small Cap Index as a result of the above merger activity. Jimmy Choo was promoted from the FTSE Small Cap Index and subsequently deleted after being acquired by Michael Kors in an all cash deal. Following a £6.8 billion takeover of Hewlett Packard's Software business, Micro Focus also substantially increased its weight in the Index as it became the largest technology company in the Index.

Outside Index reviews, the free float was increased as a result of secondary placings for Ferrexpo and Ibstock. Index weight increased as a result of primary placings for LondonMetric Property, DS Smith, Metro Bank. Companies raising capital via rights issues included: RPC Group, Segro, Tullow Oil and Equiniti Group.

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

### **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. 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 Brexit uncertainties most market participants anticipated that the Bank of England would 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. Lower trend growth and a weaker Pound mean that if the Bank of England doesn't hike rates, inflation could remain above target. But if it raises rates too fast, the economy could be hurt should downside risks materialise. As a result, the Bank of England increased interest rates by 0.25% to 0.5% on 2nd November.

The Bank of England was also keen to stress that inflation would not return to target unless interest rates were hiked further. They broadly agree with market expectations of another couple of hikes in the next three years. This is consistent with our own expectation of slow rate hikes.

In the Autumn budget, Chancellor Philip Hammond appeared to gain some wriggle room for loosening the purse strings with tax revenues being better than expected and some shuffling of the government balance sheet. But that was tempered by the

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

downgrade to the growth outlook. Overall it was largely in line with what was already expected, the fiscal giveaway probably slightly bigger. The headline grabber was clearly the changes to stamp duty for first time buyers on properties up to £300k, which is expected to support a currently slowing housing market.

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

Legal & General Investment Management Limited  
(Investment Adviser)  
3 January 2018

## **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, 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 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 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.



## **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





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

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