

Legal & General UK Select Equity Fund  
**Interim Manager's  
Short Report**  
for the period ended  
**31 March 2019**





## **Investment Objective and Policy**

With effect from 1 November 2018, the Fund's Investment Objective and Policy has changed (please see Significant Changes on page 8).

### **Prior to 1 November 2018**

The Fund aims to generate growth by investing predominantly in shares of UK companies. The Fund currently has a target to outperform the FTSE All Share Index (the "Index") by 1.25% per annum before charges, measured over rolling three year periods.

The investment policy is to manage the Fund actively, but with reference to the Index.

The Fund invests its assets predominantly in a broad range of shares of UK companies. These are companies that are incorporated or headquartered or which have their principal business activities in the UK. The Fund may also invest in collective investment schemes and hold shares in other UK listed companies.

The Fund's portfolio will be concentrated.

The Fund may use derivatives for Efficient Portfolio Management to reduce risk or cost, or to generate additional capital or income with no, or an acceptably low, level of risk. The Fund may also invest in cash or deposits.

### **From 1 November 2018**

The Fund aims to generate growth by investing predominantly in shares of UK companies. The Fund has a target to outperform the FTSE All Share Index (the "Index") by 3% per annum before charges, measured over rolling three year periods.

The Fund is actively managed. The Fund invests its assets predominantly in a broad range of shares of UK companies.

These are companies that are incorporated or headquartered or which have their principal business activities in the UK. The Fund may also invest in collective investment schemes and hold shares in other UK listed companies. The collective investment schemes invested in may include those managed or operated by Legal & General.

The Fund's portfolio will be concentrated.

The Fund may use derivatives for Efficient Portfolio Management to reduce risk or cost, or to generate additional capital or income with no, or an acceptably low, level of risk. The Fund may also invest in cash or deposits.

## Risk Profile

### Market risk

Market risk arises mainly from uncertainty about future prices. It represents the potential loss of the Fund 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 Fund can hold investments denominated in foreign currencies. The performance of the Fund may therefore be affected by changes in exchange rates. This risk may be managed by the use of forward currency contracts, which aim to manage the effect of changing exchange rates.

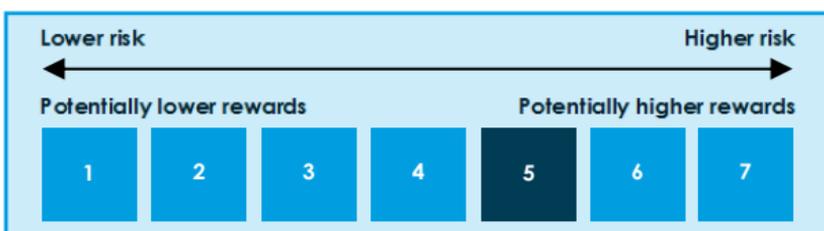
## Fund Facts

Period End Dates for Distributions:	31 Mar, 30 Sep	
Distribution Dates:	31 May, 30 Nov	
Ongoing Charges Figures:	31 Mar 19	30 Sep 18
R-Class	1.37%	1.58%
A-Class	1.37%	1.37%
F-Class	1.00%	1.12%
I-Class	0.78%	0.78%

The Ongoing Charges Figure (OCF) is the ratio of the Fund's total disclosable costs (excluding overdraft interest) and all costs suffered through holdings in underlying Collective Investment Schemes, 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



- The Risk and Reward Indicator table demonstrates where the Fund ranks in terms of its potential risk and reward. The higher the rank the greater the potential reward but the greater the risk of losing money. It is not guaranteed to remain the same and may change over time. It is based on historical data and may not be a reliable indication of the future risk profile of the Fund. The shaded area in the table above shows the Fund's ranking on the Risk and Reward Indicator.
- The Fund is in category five because it invests in company shares which are sensitive to variations in the stock market. The value of company shares can change substantially over short periods of time. Company shares are generally considered to be higher risk investments than bonds or cash.
- Even a fund in the lowest category is not a risk free investment.

## Distribution Information

### R-Class

The distribution payable on 31 May 2019 is 3.4288p per unit for accumulation units.

### A-Class

The distribution payable on 31 May 2019 is 3.4514p per unit for accumulation units.

### F-Class

The distribution payable on 31 May 2019 is 4.1386p per unit for accumulation units.

### I-Class

The distribution payable on 31 May 2019 is 3.9046p per unit for distribution units and 4.6279p 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 Accumulation Units	858,309	259,275	331.04
A-Class Accumulation Units	335,625,564	100,725,989	333.21
F-Class Accumulation Units	936	274	341.61
I-Class Distribution Units	100,536	34,521	291.23
I-Class Accumulation Units	42,666,226	12,184,442	350.17

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

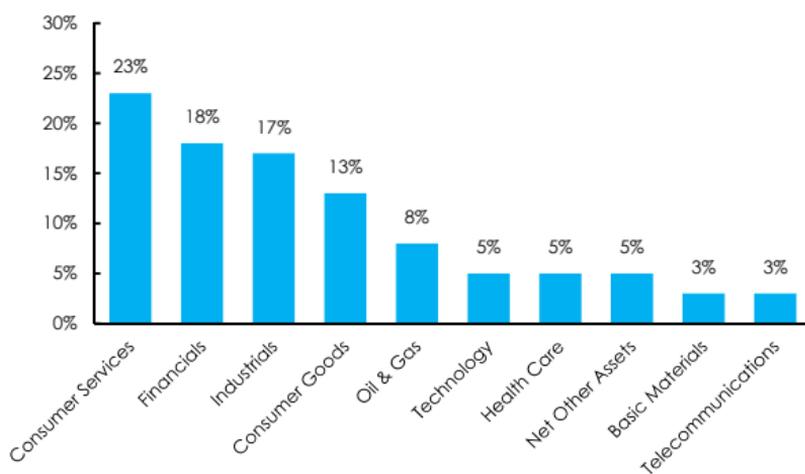
**The price of units and any income from them may go down as well as up.**

## Portfolio Information

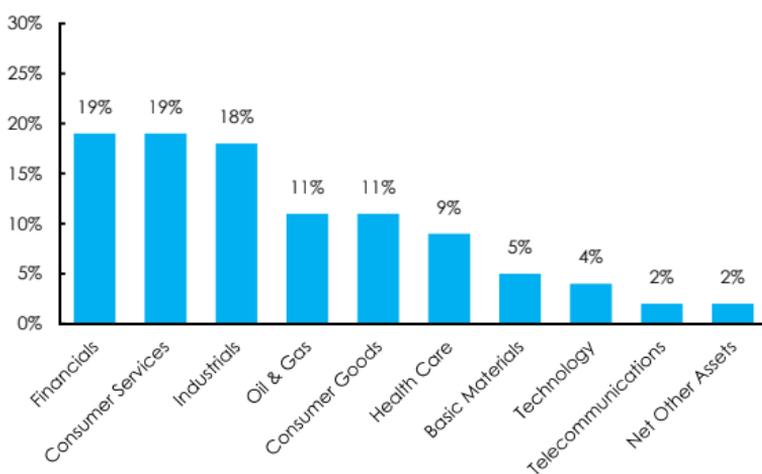
The top 10 holdings and their associated weighting at the current period end and preceding year end were:

Top 10 Holdings at 31 March 2019		Top 10 Holdings at 30 September 2018	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
BP	5.68%	Royal Dutch Shell 'B'	5.60%
Royal Bank of Scotland Group	5.01%	BP	5.33%
Rio Tinto	3.52%	HSBC	4.65%
HSBC	3.52%	AstraZeneca	4.27%
3i Group	3.35%	British American Tobacco	4.18%
Barclays	3.26%	Rio Tinto	3.57%
Tesco	3.22%	Standard Chartered	3.04%
Melrose Industries	3.05%	Tesco	2.91%
Smiths Group	2.99%	Saphos Group	2.86%
Fevertree Drinks	2.90%	Smiths Group	2.78%

## Fund Holdings as at 31 March 2019



## Fund Holdings as at 30 September 2018



## **Manager's Investment Report**

During the period under review, the price of the Fund's A-Class accumulation units fell by 6.77%, whilst the FTSE All Share Index fell by 1.77% on a total return 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**

Global equity indices have produced disappointing returns over the review period. Markets became increasingly volatile as 2018 ended, recording heavy losses before rallying during the opening quarter of 2019. In recent months, some of the concerns that had preoccupied investors late last year have abated, as the US Federal Reserve indicated that there would be no interest-rate hikes this year and US-China trade talks yielded some progress. Sectors less sensitive to the economic cycle, such as consumer staples, performed well in late 2018 but since the turn of the year investors have favoured sectors perceived to offer superior earnings growth, such as technology.

UK equities lost ground as uncertainty surrounding the outcome of Brexit negotiations preoccupied investors. The negative reception to Prime Minister May's Brexit deal from Parliament raised the perceived risk of either an election or a 'no deal' Brexit, both considered undesirable outcomes due to the potential negative impact on UK business prospects. At the sector level, leadership shifted from areas less sensitive to the economic cycle to mining and industrials during the first quarter of 2019. The pharmaceutical sector continues to be a focal point for merger and acquisition activity, with GlaxoSmithKline unveiling a plan to split its business into two, while Japanese pharmaceutical firm Takeda acquired Shire.

## **Fund Review**

The Fund delivered a negative return over the review period, falling against the market backdrop towards the end of 2018.

The Fund's overweight position in the general retail industry was particularly detrimental to performance during the sharp downturn.

At the stock level, ASOS delivered a surprise profit warning on the back of consumer weakness in overseas markets, unprecedented levels of discounting on the UK high street and unseasonably warm weather. This drove down gross margin and selling prices, though active customers and order frequency grew. Management also confessed their strategy was not right during the Black Friday period, where they did not react strongly enough to the levels of discounting elsewhere. While this is clearly a disappointment, we maintain a positive view on the stock, given favourable secular industry trends and international opportunities.

TUI reported another warning on the back of a downgrade to financial expectations following the grounding of the Boeing 737 MAX aircraft fleet. The subsequent impact of plane replacement

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

and staff costs represents considerable disruption to the business. Luxury car manufacturer Aston Martin Lagonda Global remains under pressure. This is largely sentiment related amid a lack of short-term positive catalysts for the shares until the launch of the DBX SUV model.

For activity, we topped up our holdings in Cineworld Group which remains one of our key leisure stocks. The US opportunity from the Regal acquisition bodes well for the long term and a strong film slate for 2019 provides us with some visibility on operational performance. We exited our position in British American Tobacco, given lacklustre sales growth, market position in heated tobacco & vapour and concerns over a lack of investment in its next-generation product portfolio. On the flipside we added to Vivo Energy and TUI on share price weakness.

### **Outlook**

Looking ahead, investors clearly remain highly sensitive to any further signs of economic weakness. Upcoming data readings and political developments are potentially market moving in the absence of corporate reporting. In reality, it is highly unlikely that investors will stop fearing the next recession, but given valuations and the low cost of capital, we could see investors chase stocks before this rally ends. Having seen consensus earnings expectations move towards lower sensible levels, this could limit downside surprises. Importantly, we believe it more prudent than ever to focus on the bottom-up fundamentals. Encouragingly, a key takeaway from the recent results season has been the constructive tone from individual company management, which overall have been more positive than top-down indicators might suggest.

Legal & General Investment Management Limited  
(Investment Adviser)  
18 April 2019

## **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.

## **Minimum Investment Amounts**

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

R-Class	£20
A-Class	£20
F-Class	£20
I-Class	£1,000,000
L-Class	£100,000

Class F units are available to:

- i) investors who have received advice from authorised intermediaries, platforms or other distributors in relation to their investment in units in the Fund; and
- ii) 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.

Class L units are only available to other Legal & General funds and/or companies which have entered into an agreement with the Manager or an affiliate of the Manager.

## **Other Information**

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

## **Significant Changes**

### **Change to Investment Objective and Policy**

To enhance the Fund's performance potential and give the Authorised Fund Manager greater flexibility in managing the Fund, the unitholders approved changes to the Investment Objective and Policy at an Extraordinary General Meeting on 24 October 2018. This change was implemented on 1 November 2018. The Investment Objective and Policy can be found on page 1.

### **New Unit Class: L-Class**

With effect from 25 April 2019, L-Class units have launched within the Fund with accumulation units available.

**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**

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Trustee and Depositary Services

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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**

KPMG LLP

15 Canada Square,

London E14 5GL









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

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