Q3 2021 Quarterly fund update

This document has been produced for professional advisers for discussion with existing investors who are familiar with investment terminology.

Legal & General Mixed Investment 20-60% Fund

Unit Trust (UK UCITS compliant) I-Class GBP Acc

WHAT'S THE STORY?

On balance, the third quarter was a positive one for risk assets. However, the quarter ended with an equity market decline following the news of alarming debt levels at China's largest property developer, Evergrande, and growing concerns worldwide that inflation might be more persistent than previously anticipated. Meanwhile, in the US, talks stalled in Congress over President Biden's infrastructure bill and budget plan, both seen to be crucial to his administration's agenda.

Japanese equities enjoyed strong performance in local currency terms as new Liberal Democratic Party leadership and a looming general election raised the prospect of a stronger mandate for the new government. Emerging market equities, by contrast, were the weakest performers and were down over the quarter, particularly impacted by the weakness in Chinese equities following the Evergrande debacle and widespread regulatory intervention from the government in several areas of Chinese commerce. Developed market sovereign and investment-grade corporate bonds were broadly flat with yields falling towards the start of the quarter but rising towards the end given the aforementioned inflation concerns.

FUND MANAGERS

Bruce White

Christopher Teschmacher

PERFORMANCE (%)

12 months to 30 September	2021	2020	2019	2018	2017
Fund	12.22	-1.51	6.38	2.07	5.98

Source: Lipper, LGIM as at 30 September 2021. Total Return net of tax and charges. I-Class GBP Accumulation. Please remember, the value of investments and any income from them may fall as well as rise and you may get back less than you invest. **Past performance is not a guide to future performance.**

FUND REVIEW

The fund delivered a positive return over the period. The main contributors to performance were UK large and small cap equities and Japanese equities. The biggest detractor from performance was emerging market equities.

We implemented a net reduction in US government bond exposure over the quarter centring around the fact we believed that markets were underestimating the impact of supply-side (bottlenecks in supply chains or labour shortages) constraints on inflation.

In equities, we initially reduced exposure given our concern over the spread of the Delta variant of COVID-19 in China and the potential ramifications for the global economy. However, the success of China's response – mass testing and strict lockdowns – has been more effective on the Delta variant than we expected, so we are reversing some of the reduction in equity exposure. We are still concerned about potential further outbreaks in China and so this reversal will be gradual. We discuss our current approach to our equity allocation in greater detail in our latest outlook below.

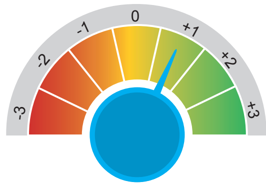
In currencies, we reduced our exposure to UK sterling while increasing exposure to the euro, reversing a position which we had held for almost a year. We have seen sterling appreciate against the euro over the period and, given the planned roll-off of support measures in the UK, we are now more cautious on the currency.

OUTLOOK

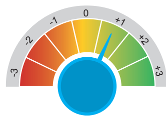
In the medium term, we expect the economic recovery to continue, with the near-term range of outcomes narrowing as the vaccine rollout continues apace worldwide. We remain positive on risk assets, but retain a degree of caution. We still prefer equities to credit given current historically low credit spreads. We had previously reduced our view on risk slightly downwards due to concerns (now lessened due to the effectiveness of the Chinese response) over the spread of the Delta COVID-19 variant in China and the associated growth slowdown. Add to this the regulatory pressure from the Chinese government on certain corporate sectors and concerns over its real estate market and there is plenty for us to monitor.

US Federal Reserve (Fed) Chair Powell has now confirmed that, providing there are no major shocks, the US will announce tapering of its asset purchases at its next meeting and complete it by mid 2022. Attention now turns to when the US might increase interest rates. An area that will have a large bearing on this is whether inflation is more persistent than previously feared. We anticipate inflation might prove more persistent than the Fed view, before coming back in line with the Fed's forecast in late 2022 as we see some of the price increases caused by supply bottlenecks reverse.

The end of the third quarter saw risk assets negatively impacted but we believe much of the bad news has now been priced in. With this in mind, we will look to buy the dip and cautiously increase our allocation to risk assets.

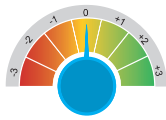


CORE VIEW ON RISK ASSETS POSITIVE



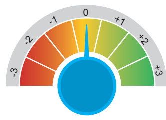
Economic cycle

Above trend growth backed by broadly accommodative policy



Valuations

Overall neutral but relative valuations backdrop has improved slightly



Systemic risk

Political and financial system resilient through Covid, but new risks are emerging

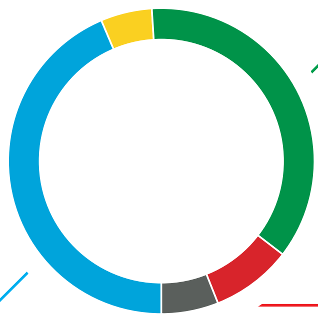
Legal & General
INVESTMENT MANAGEMENT

ASSET ALLOCATION BREAKDOWN

All data source LGIM unless otherwise stated. Totals may not sum due to rounding. As at 30 September 2021.

Government Bonds	**5.4**
Gilts	3.2
Dev ex UK Sovereign	1.7
Global Inflation-Linked Bonds	0.5

Credit and Emerging Market Debt	**36.4**
Global Corporates	11.4
UK Corporate Bonds	8.0
High Yield	6.0
Emerging Market Bonds (Local)	5.8
Emerging Market Bonds (Hard Currency)	5.2



Alternatives	**8.5**
Listed Infrastructure	5.1
Real Estate Investment Trusts	3.5

Equities	**43.6**
UK Equity	16.1
North America Equity	9.4
Europe ex UK Equity	7.0
Japan Equity	4.6
Emerging Market Equity	3.6
Asia Pacific ex Japan Equity	2.9

Cash	**6.0**
Cash	6.0

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