

Legal & General UK Select Equity Fund  
**Interim Manager's Report**  
**for the period ended**  
**31 March 2018**  
**(Unaudited)**

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# Manager's Investment Report

## Investment Objective and Policy

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.

## Manager's Investment Report

During the six-month period under review, the Fund's A-Class accumulation units fell by 2.91%, whilst the FTSE All-Share Index fell by 2.24% 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

UK equities fell sharply at the period end, as gilt yields rose in line with a sell-off in global bonds. Bond yields rose amid signs that the world economy is moving from the recovery to expansion phase of the economic cycle, with a consequent increase in inflationary pressures and tighter monetary policy. As bond yields rose there was a rotation away from more stable and defensive areas of the market where valuations generally remain full. Sterling strengthened as the Bank of England raised interest rates for the first time since November 2007. While UK economic growth remained sluggish, it continued to surpass low expectations; in its February inflation report the Bank nudged up its growth forecast for 2018. Meanwhile, there was further progress with Brexit negotiations culminating in an initial agreement struck at the end of the period on the terms of a transition period after the UK formally exits the EU.

## Fund Review

Fidessa Group's share price performed well on the back of strong results and a subsequent recommended bid from Swiss peer Temenos at a significant premium to our target price. A key tenet of our investment thesis was that the market was overlooking the potential for margin expansion at Fidessa Group, so it was encouraging to hear a change in tone from management.

Electronic markets and post trade business NEX Group was the single largest contributor to relative returns. The company delivered a robust Q3 trading update, with a cautiously optimistic outlook for the current financial year. Subsequent to the trading update, CME Group bid for the company at a substantial premium to the pre-bid price.

Education business Pearson was another top contributor, following reassuring full-year results. While the North American higher education business is expected to drag

## Manager's Investment Report continued

on sales for at least two more years, improved trading in other businesses should return Pearson to organic growth by 2019. Cost savings are also due, as management accelerates the digital transition and take further steps to simplify the business as part of a series of self-help measures. Despite the progress achieved, the shares remain deeply out of favour and, in our opinion, continue to represent a compelling long-term valuation opportunity.

Support services group Capita Group fell sharply following a profit warning. While trading for 2017 was in line with expectations, the new CEO guided profit expectations down for 2018. Market sentiment was also impacted by a decision to suspend dividends and conduct a rights issue in order to further strengthen the balance sheet. Management also announced a new transformation programme; aiming to materially improve performance over the medium term.

Cobham performed poorly after it announced the sale of the AvComm and Wireless divisions for more than £300 million. The market focused on the dilutive impact on earnings per share rather than the benefits to the balance sheet of this early stage, management-led turnaround.

In terms of activity, we sold our residual holding in Debenhams due to balance sheet concerns and initiated a new position in Anglo American. We also added to some existing portfolio holdings that we believe offer significant value, such as GlaxoSmithKline, Barclays and Pearson.

### Outlook

After a prolonged period of loose monetary policy, the rhetoric from central banks has changed and policy normalisation is underway. With robust global economic growth forecasts, low levels of unemployment and inflationary pressures building, it is likely that central banks will continue to tighten policy. Further interest rate rises are forecast in the US and UK, while central banks globally are expected to turn net sellers of bonds as they start to unwind quantitative easing. This presents a different backdrop to equity markets than at any stage post the financial crisis and we believe this is likely to drive a change in sector leadership. A backdrop of rising bond yields should favour shares on lower valuations over those pricing in higher growth and/or lower volatility on elevated valuations. Consequently, the Fund has limited exposure to these areas. Instead we favour the lowly-valued areas where we feel there is potential for positive change in the years ahead.

Schroder Investment Management  
(Investment Adviser)  
24 April 2018

## Authorised Status

### Authorised Status

This Fund is an Authorised Unit Trust Scheme as defined in section 243 of the Financial Services and Markets Act 2000 and is a UCITS Retail Scheme within the meaning of the FCA Collective Investment Schemes sourcebook.

### Directors' Statement

We hereby certify that this Manager's Report has been prepared in accordance with the requirements of the FCA Collective Investment Schemes sourcebook.



A. J. C. Craven  
(Director)



S. D. Thomas  
(Director)

Legal & General (Unit Trust Managers) Limited  
18 May 2018

# Portfolio Statement

## Portfolio Statement as at 31 March 2018

All investments are in ordinary shares or collective investment schemes unless otherwise stated. The percentages in brackets show the equivalent holdings at 30 September 2017.

Holding/ Nominal Value	Investment	Market Value £	% of Net Assets
	<b>UNITED KINGDOM</b>		
	— 98.27% (97.69%)		
	<b>Oil &amp; Gas Producers</b>		
	— 13.39% (12.48%)		
6,150,000	BP	29,443,125	6.79
1,250,000	Royal Dutch Shell 'B'	28,600,000	6.60
		58,043,125	13.39
	<b>Mining — 4.34% (2.99%)</b>		
265,000	Anglo American	4,394,760	1.01
400,000	Rio Tinto	14,426,000	3.33
		18,820,760	4.34
	<b>Construction &amp; Materials</b>		
	— 5.23% (4.74%)		
3,500,000	Balfour Beatty	9,341,500	2.16
6,000,000	Melrose Industries	13,320,000	3.07
		22,661,500	5.23
	<b>Aerospace &amp; Defense</b>		
	— 3.90% (4.41%)		
1,500,000	BAE Systems	8,730,000	2.02
3,800,000	Cobham	4,651,200	1.07
403,046	Rolls-Royce	3,526,653	0.81
		16,907,853	3.90
	<b>General Industrials — 2.80% (2.71%)</b>		
800,000	Smiths Group	12,124,000	2.80
	<b>Support Services — 2.88% (4.50%)</b>		
550,000	Capita Group	800,250	0.18
2,500,000	G4S	6,200,000	1.43
2,000,000	Rentokil Initial	5,500,000	1.27
		12,500,250	2.88
	<b>Personal Goods — 1.16% (1.19%)</b>		
128,000	Unilever	5,047,680	1.16
	<b>Tobacco — 6.66% (7.35%)</b>		
500,000	British American Tobacco	20,582,500	4.75
340,000	Imperial Brands	8,302,800	1.91
		28,885,300	6.66
	<b>Pharmaceuticals &amp; Biotechnology</b>		
	— 6.89% (7.18%)		
225,000	AstraZeneca	11,059,875	2.55
1,350,000	GlaxoSmithKline	18,816,300	4.34
		29,876,175	6.89

## Portfolio Statement continued

Holding/ Nominal Value	Investment	Market Value £	% of Net Assets
	<b>Food &amp; Drug Retailers</b>		
	— 5.15% (4.67%)		
7,000,000	Tesco	14,518,000	3.35
3,650,000	WM Morrison Supermarkets	7,800,050	1.80
		22,318,050	5.15
	<b>General Retailers — 1.92% (2.69%)</b>		
1,050,000	Halfords Group	3,441,900	0.79
1,800,000	Marks & Spencer Group	4,888,800	1.13
		8,330,700	1.92
	<b>Media — 5.88% (5.75%)</b>		
640,000	Daily Mail & General Trust	4,144,000	0.96
600,000	Informa	4,335,600	1.00
1,200,000	Pearson	9,043,200	2.08
540,000	RELX	7,975,800	1.84
		25,498,600	5.88
	<b>Travel &amp; Leisure — 1.31% (1.28%)</b>		
125,000	Carnival	5,691,250	1.31
	<b>Fixed Line Telecommunications</b>		
	— 0.98% (1.22%)		
1,850,000	BT Group	4,261,475	0.98
	<b>Mobile Telecommunications</b>		
	— 2.26% (2.23%)		
5,000,000	Vodafone Group	9,778,000	2.26
	<b>Electricity — 0.86% (0.90%)</b>		
1,350,000	Drax Group	3,723,300	0.86
	<b>Gas, Water &amp; Multi-utilities</b>		
	— 1.55% (1.88%)		
4,685,358	Centrica	6,735,202	1.55
	<b>Banks — 14.85% (13.52%)</b>		
5,000,000	Barclays	10,225,000	2.36
3,000,000	HSBC	19,953,000	4.60
21,000,000	Lloyds Banking Group	13,599,600	3.13
3,000,000	Royal Bank of Scotland Group	7,752,000	1.79
1,800,000	Standard Chartered	12,864,600	2.97
		64,394,200	14.85
	<b>Nonlife Insurance — 1.01% (1.10%)</b>		
340,000	Jardine Lloyd Thompson Group	4,372,400	1.01
	<b>Life Insurance — 4.39% (4.34%)</b>		
2,900,000	Aviva	14,447,800	3.33
1,750,000	Legal & General Group	4,565,750	1.06
		19,013,550	4.39
	<b>Financial Services — 6.32% (6.05%)</b>		
1,000,000	3i Group	8,678,000	2.00
588,087	Ashmore Group	2,206,503	0.51
965,000	NEX Group	9,370,150	2.16
45,262	Sole Realisation (SVG Capital) <sup>1</sup>	31,683	0.01

## Portfolio Statement continued

Holding/ Nominal Value	Investment	Market Value £	% of Net Assets
<b>Financial Services — (cont.)</b>			
1,600,000	TP ICAP	7,126,400	1.64
		27,412,736	6.32
<b>Equity Investment Instruments — 4.34% (3.98%)</b>			
2,000,000	Schroder UK Smaller Companies 'I' Income <sup>2</sup>	18,797,998	4.34
<b>Software &amp; Computer Services — 0.20% (0.53%)</b>			
23,389	Fidessa Group	858,376	0.20
<b>CHANNEL ISLANDS — 0.95% (0.81%) Pharmaceuticals &amp; Biotechnology — 0.95% (0.81%)</b>			
120,000	Shire	4,131,600	0.95
<b>Portfolio of investments<sup>3</sup></b>		430,184,080	99.22
<b>Net other assets</b>		3,394,814	0.78
<b>Total net assets</b>		£433,578,894	100.00%

<sup>1</sup> Delisted securities are valued at the Manager's best assessment of their fair and reasonable value.

<sup>2</sup> Unlisted securities are valued at the Manager's best assessment of their fair and reasonable value.

<sup>3</sup> All investments are admitted to an official stock exchange unless otherwise stated.

Total purchases for the period: £15,661,445.

Total sales for the period: £26,996,566.

## Financial Statements

### Statement of Total Return for the period ended 31 March 2018

	31/03/18		31/03/17	
	£	£	£	£
<b>Income</b>				
Net capital (losses)/ gains		(17,300,350)		36,430,705
Revenue	7,594,497		7,382,368	
Expenses	(2,990,815)		(3,081,665)	
Interest payable and similar charges	—		—	
<b>Net revenue before taxation</b>	<u>4,603,682</u>		<u>4,300,703</u>	
Taxation	—		—	
<b>Net revenue after taxation for the period</b>		<u>4,603,682</u>		<u>4,300,703</u>
Total return before distributions		(12,696,668)		40,731,408
Distributions		<u>(4,603,682)</u>		<u>(4,300,703)</u>
<b>Change in net assets attributable to Unitholders from investment activities</b>		<u>£(17,300,350)</u>		<u>£36,430,705</u>

### Statement of Change in Net Assets attributable to Unitholders for the period ended 31 March 2018

	31/03/18		31/03/17	
	£	£	£	£
<b>Opening net assets attributable to Unitholders</b>		465,786,150		457,528,716
Amounts received on issue of units	6,744,972		3,362,666	
Amounts paid on cancellation of units	<u>(26,164,197)</u>		<u>(24,798,291)</u>	
		(19,419,225)		(21,435,625)
<b>Change in net assets attributable to Unitholders from investment activities</b>		(17,300,350)		36,430,705
Retained distributions on accumulation units		<u>4,512,319</u>		<u>4,220,979</u>
<b>Closing net assets attributable to Unitholders</b>		<u>£433,578,894</u>		<u>£476,744,775</u>

The difference between the opening net assets and the comparative closing net assets is the movement in the second half of the year.

## Financial Statements continued

### Balance Sheet as at 31 March 2018

	31/03/18 £	30/09/17 £
<b>ASSETS</b>		
<b>Fixed assets:</b>		
Investments	430,184,080	458,819,553
<b>Current assets:</b>		
Debtors	4,454,058	3,116,734
Cash and bank balances	2,732,496	7,287,663
<b>Total assets</b>	<b>437,370,634</b>	<b>469,223,950</b>
<b>LIABILITIES</b>		
<b>Creditors:</b>		
Bank overdrafts	(677,442)	–
Distributions payable	(1,078)	(1,940)
Other creditors	(3,113,220)	(3,435,860)
<b>Total liabilities</b>	<b>(3,791,740)</b>	<b>(3,437,800)</b>
<b>Net assets attributable to Unitholders</b>	<b>£433,578,894</b>	<b>£465,786,150</b>

# Notes to the Financial Statements

## 1. Statement of Compliance

The Financial Statements have been prepared in compliance with UK Financial Reporting Standard 102 (FRS 102) and in accordance with the Statement of Recommended Practice for UK Authorised Funds issued by the Investment Association in May 2014 (2014 SORP).

## 2. Accounting Policies

The accounting policies applied are consistent with the most recent annual Financial Statements.

### (a) Basis of Preparation

The Financial Statements have been prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss.

## Fund Information

### Net Asset Values and Units in Issue

Class	Net Asset Value (£)	Units in Issue	Net Asset Value per Unit (p)
R-Class Accumulation Units	990,708	292,975	338.15
A-Class Accumulation Units	384,884,143	113,141,530	340.18
F-Class Accumulation Units	952	274	347.45
I-Class Distribution Units	81,438	26,687	305.16
I-Class Accumulation Units	47,621,653	13,399,675	355.39

**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.**

### Ongoing Charges Figures

	31 Mar 18	30 Sep 17
R-Class	1.68%	1.68%
A-Class	1.38%	1.38%
F-Class	1.18%	1.18%
I-Class	0.79%	0.79%

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.

## Fund Information continued

### Distribution Information

#### **R-Class**

The distribution payable on 31 May 2018 is 2.8941p per unit for accumulation units.

#### **A-Class**

The distribution payable on 31 May 2018 is 3.4349p per unit for accumulation units.

#### **F-Class**

The distribution payable on 31 May 2018 is 3.8467p per unit for accumulation units.

#### **I-Class**

The distribution payable on 31 May 2018 is 4.0396p per unit for distribution units and 4.6079p per unit for accumulation units.

## 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 number highlighted above reflects the rate at which the Fund's unit price has moved up and down in the past. If the Fund has less than five years' track record, the number also reflects the rate at which a representative benchmark has moved up and down in the past. Higher numbers mean the potential reward could be greater, but this comes with increased risk of losing money.
- 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.

## General Information

### Constitution

Launch date:	2 January 1996
Period end dates for distributions:	30 September, 31 March
Distribution dates:	30 November, 31 May
Minimum initial lump sum investment:	R-Class £20 A-Class £20 F-Class* £20 I-Class £1,000,000
Valuation point:	12 noon
Fund management fees:	R-Class Annual 1.67% A-Class Annual 1.37% F-Class* Annual 1.17% I-Class Annual 0.78%
Initial charge:	R-Class Nil A-Class Nil F-Class* Nil I-Class Nil

\* F-Class units are only 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.

### Pricing and Dealing

The prices are published on the internet at [www.legalandgeneral.com/investments/fund-information/daily-fund-prices](http://www.legalandgeneral.com/investments/fund-information/daily-fund-prices) immediately after they become available.

Dealing in units takes place on a forward pricing basis, from 8:30am to 6:00pm, Monday to Friday.

### Buying and Selling Units

Units may be bought on any business day from the Manager or through a financial adviser by completing an application form or on the internet at [www.legalandgeneral.com](http://www.legalandgeneral.com). Units may normally be sold back to the Manager on any business day at the bid price calculated at the following valuation point.

### ISA Status

This Fund may be held within this tax advantaged savings arrangement. The favourable tax treatment of ISAs may not be maintained. For full written information, please contact your usual financial adviser or ring 0370 050 0955.

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

## **General Information continued**

### **Prospectus and Manager's Reports**

The Manager will send to all persons on the Unitholder Register annual and interim short form reports.

Copies of the Prospectus and the most recent annual or interim reports are available free of charge by telephoning 0370 050 0955 or by writing to the Manager.

Do you have difficulty in reading information in print because of a disability? If so, we can help. We are able to produce information for our clients in large print and braille. If you would like to discuss your particular requirements, please contact us on 0370 050 0955.

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

### **Significant Changes**

#### **Change of Auditor**

With effect from 28 April 2018, PricewaterhouseCoopers LLP ceased to be Independent Auditors of the Fund and KPMG LLP have been appointed. The change of Auditor has no impact on the way the Fund is operated.

## General Information continued

### 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

### Directors of the Manager

R. M. Bartley  
A. J. C. Craven  
S. Hynes  
H. Morrissey (appointed 5 July 2017)  
H. Solomon  
S. D. Thomas  
L. W. Toms  
A. R. Toutouchi\*  
M. J. Zinkula

\*Non-executive Director

### Secretary

J. McCarthy

### Registrar

Legal & General (Unit Trust Managers) Limited  
P.O. Box 6080,  
Wolverhampton WV1 9RB  
Authorised and regulated by the Financial Conduct Authority

Dealing: 0370 050 0956  
Enquiries: 0370 050 0955  
Registration: 0370 050 0955

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

### Trustee

Northern Trust Global Services PLC  
Trustee and Depository Services  
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

KPMG LLP  
15 Canada Square  
London E14 5GL

### Investment Adviser

Legal & General Investment Management Limited  
One Coleman Street,  
London EC2R 5AA  
Authorised and regulated by the Financial Conduct Authority



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

Legal & General  
(Unit Trust Managers) Limited  
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