

The L&G Multi-Index Funds: sector update

Q&A: Why the move to the new Investment Association Managed Volatility sector?

All eight Multi-Index funds have now moved into the Investment Association (IA) Managed Volatility sector, a newly launched sector comprising of 83 funds from 11 fund groups with combined assets under management of £19.3 billion (as at 3 April 2017).

For more information on the other funds in this sector and the IA sector definition please read the IA's [launch statement](#).

DID YOU SUPPORT THE DEVELOPMENT OF THE NEW IA MANAGED VOLATILITY SECTOR?

Legal & General Investment Management is a member of the IA and supported the development of the new Managed Volatility sector as part of the IA's drive to provide more appropriate sectors for outcome focused funds. Following the launch, the IA has a 12-month review period to gather feedback on the sector in order to ensure that it best meets investors' needs. We would also welcome your feedback on the new sector.

WHICH SECTORS WERE THE MULTI-INDEX FUNDS IN BEFORE THE CHANGE?

Fund	Previous IA Sector	New IA Sector
Legal & General Multi-Index 3	Mixed Investment 0-35% Shares	Managed Volatility
Legal & General Multi-Index 4	Mixed Investment 20-60% Shares	Managed Volatility
Legal & General Multi-Index 5	Mixed Investment 40-85% Shares	Managed Volatility
Legal & General Multi-Index 6	Mixed Investment 40-85% Shares	Managed Volatility
Legal & General Multi-Index 7	Flexible Investment	Managed Volatility
Legal & General Multi-Index Income 4	Mixed Investment 20-60% Shares	Managed Volatility
Legal & General Multi-Index Income 5	Mixed Investment 40-85% Shares	Managed Volatility
Legal & General Multi-Index Income 6	Mixed Investment 40-85% Shares	Managed Volatility

WHY HAVE THE FUNDS BEEN MOVED TO THE NEW MANAGED VOLATILITY SECTOR?

We believe that the new IA Managed Volatility sector is a more appropriate home for the L&G Multi-Index funds as it allows investors to easily identify funds that are focused on delivering a risk-targeted outcome. The objective of the Multi-Index funds has always been to provide returns whilst remaining within a

well-defined risk profile, rather than outperform the IA sector averages. The IA sectors may eventually unduly constrain the fund's objective of delivering performance whilst remaining within the pre-determined risk profile. By being in the new IA Managed Volatility sector the ongoing suitability and risk-targeting focus of the fund will be more readily identified by investors.

WHY ARE COMPARISONS WITH IA MIXED INVESTMENT SECTOR AVERAGES INAPPROPRIATE FOR THE MULTI-INDEX FUNDS?

Whilst the asset class characteristics of the risk profile may currently fit within the IA Mixed Investment sector rules and constraints, the performance of each Multi-Index fund will be influenced by the objective of remaining within that risk profile. The IA sector average of a Mixed Investment sector will include funds not subject to the same risk profile constraints, meaning the comparisons would not be entirely like-for-like.

WHY DID YOU HAVE THE FUNDS IN THE IA MIXED INVESTMENT SECTORS?

When the funds were launched in 2013 there was no outcome focused sector based on risk-targeting. The choice was either to leave the funds as unclassified, place them in the IA Specialist sector, or place them in the most appropriate sector available at the time. The relevant Mixed Investment sectors were selected as the appropriate sectors because we felt that this gave investors and advisers the best opportunity to be able to identify that they were multi-asset funds. Since then, we have been working with the IA to establish a more appropriate sector for outcome orientated risk-targeted funds.

WHICH PERFORMANCE COMPARISONS ARE APPROPRIATE FOR THE MULTI-INDEX FUNDS?

We believe the most appropriate performance comparison among funds is by comparing funds with similar objectives. In the case of the Multi-Index funds, the primary performance peer group should be those funds that are targeting the

same risk profile as the relevant Multi-Index fund. We will look to make our performance versus such a peer group available going forward.

WHY DOES THE NEW SECTOR NOT ALLOW FOR PERFORMANCE COMPARISONS?

The new sector combines funds from many different risk profiles and for this reason explicitly states that exact performance comparisons are invalid. Please see the question above for appropriate performance comparisons.

CAN I COMPARE THE PERFORMANCE OF THE MULTI-INDEX FUNDS TO THEIR FORMER IA MIXED INVESTMENT SECTOR AVERAGES, OTHER SPECIFIC FUNDS, OR BENCHMARKS?

Investors are free to compare the performance of a fund to whatever reference point they deem most appropriate. However investors should be aware of a fund's objective and constraints when making performance comparisons.

DOES THE SECTOR CHANGE HAVE ANY IMPACT ON THE WAY THE FUNDS ARE MANAGED?

The move to the IA Managed Volatility sector has no impact on how the fund is managed or its objective. The fund objective, investment process and philosophy remain unchanged.

HOW DO YOU MANAGE VOLATILITY IN ACCORDANCE WITH THE REQUIREMENTS OF THE NEW SECTOR?

The Multi-Index funds are risk-targeted to the Distribution Technology Dynamic Planner risk profiles, with the fund name number corresponding to the Dynamic Planner risk profile (for example:

Legal & General Multi Index 3). We manage risk on a forward-looking basis, rather than backward looking basis, and are therefore not constrained by the long-term allocations produced by Dynamic Planner. This means we will not be forced sellers or buyers in the event of spikes in historical volatility. We build our asset allocation from the bottom up using our own research and views in order to best meet the risk/return characteristics of each risk profile. In addition, on a daily basis we confirm, using information from Distribution Technology that the funds remain within their designated risk profile.

DO ALL THE FUNDS IN THE SECTOR HAVE A SIMILAR APPROACH TO MANAGING VOLATILITY OR RISK TARGETING?

Each fund group will have its own approach to managing their fund. When comparing funds within the new IA Volatility Managed sector we would encourage investors to understand which risk profile or risk system a particular fund is managed to.

DOES THIS HAVE ANY IMPACT ON FEES?

This will not have any impact on the cost of the Multi-Index fund range.

WILL OTHER FUNDS JOIN THE NEW SECTOR?

Funds that meet the new sector's definition are able to join the Managed Volatility sector. We cannot comment on the specific intentions of other fund groups, although we expect over time that the sector will grow as others embrace the advantages in being able to identify their funds as risk-targeted.

CONTACT US

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