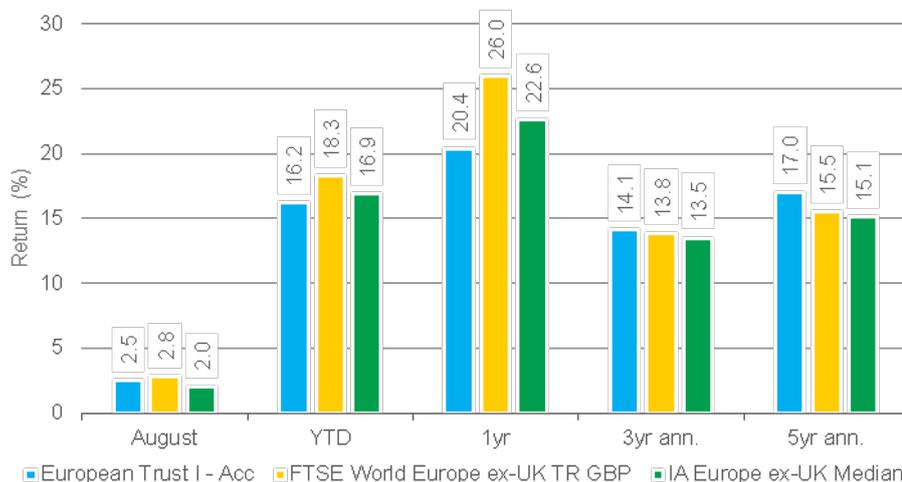


Legal & General European Trust

Fund Update – August 2017

Performance



Source: Lipper Net returns, 31/08/2017. Past performance is not a guide to future performance.

FUND COMMENTARY

European equities enjoyed another strong month in GBP terms, helped by the appreciation of the Euro, as the market closed the period up 2.8%. This was despite a pick up in volatility due to geo-political events in North Korea and on-going controversy surrounding US President Trump. More specifically within Europe, the euro extended its recent gains to trade at its highest level since January 2015. The ECB kept policy and interest rates unchanged and gave little away regarding the long term outlook for quantitative easing. ECB minutes did warn on the strength of the Euro and impact of subdued inflation. In France, Macron unveiled his long-awaited labour reforms, with the intention of removing obstacles weighing on growth potential. While Brexit talks with the UK were dominated by a lack of progress on the terms of the financial settlement.

In terms of equity markets, we saw a strong sector performance for utility, healthcare and consumer goods sectors, while consumer services (food retail and media), telecoms and financials lagged. Value stocks underperformed quality and growth styles in August.

During the period, the fund generated a total return of 2.5%, outperforming the peer group, but slightly light of the index return. Stock selection was strong in August, led by technology and consumer services sectors. Meanwhile, sector positioning was negative, driven by our zero weighting in utilities and healthcare.

ATTRIBUTION DRIVERS

At a stock level, Maisons du Monde made the biggest positive contribution, following a strong set of interim results. Financial performance and space-roll out growth is on track to hit full-year targets, while the group's strategic initiatives are also progressing well. Overall, we believe the attractive combination of online and white space opportunity in a fragmented market provides a supportive growth structure for the company over the long term.

Ferrari and Infineon Technologies enjoyed a strong month. For Ferrari, price increases are the principal driver of earnings growth, with strong visibility on future sales volumes, led by brand exclusivity, a waiting list that can extend past two years and an increase in unit growth. Infineon are one of the biggest semiconductor beneficiaries of rising electric vehicle (EV) adoption, where it has a clear structural advantage due to its technology. We view the rise of EV as the key structural growth trend in the auto industry. Infineon is a top three supplier of automotive semi components and a leading supplier of power semiconductors.

Industrial company Kion Group also added value. The rise of e-commerce and its impact on logistics and warehouse operations is expected to be a significant driver of growth over the coming years, as the factory automation opportunity builds momentum. The integration of Dematic is progressing well and delivering significant cost savings, with issues in Monterrey slowly dissipating.

Source: LGIM. 31/08/2017. All attribution is based on gross performance.

KEY FUND CHARACTERISTICS

Investment objective

The investment objective is to secure capital growth by investing exclusively in a portfolio of European companies, excluding those in the UK, from all economic sectors.

Fund size

£157m

Benchmark

FTSE World Europe ex-UK Index

Target

+ 4% p.a. (rolling 3-year periods) vs. benchmark

IA sector

Europe ex-UK

Legal structure

UK Unit Trust, UCITS compliant

Ongoing charges

0.96% (I class)

Dealing cut-off time

12.00 (noon) GMT

ISIN

GB00B7J5FY33 (I class – Acc)

Launched

13 December 2003

Active share

91.7%

Top 10 holdings

35.5%

No of stocks

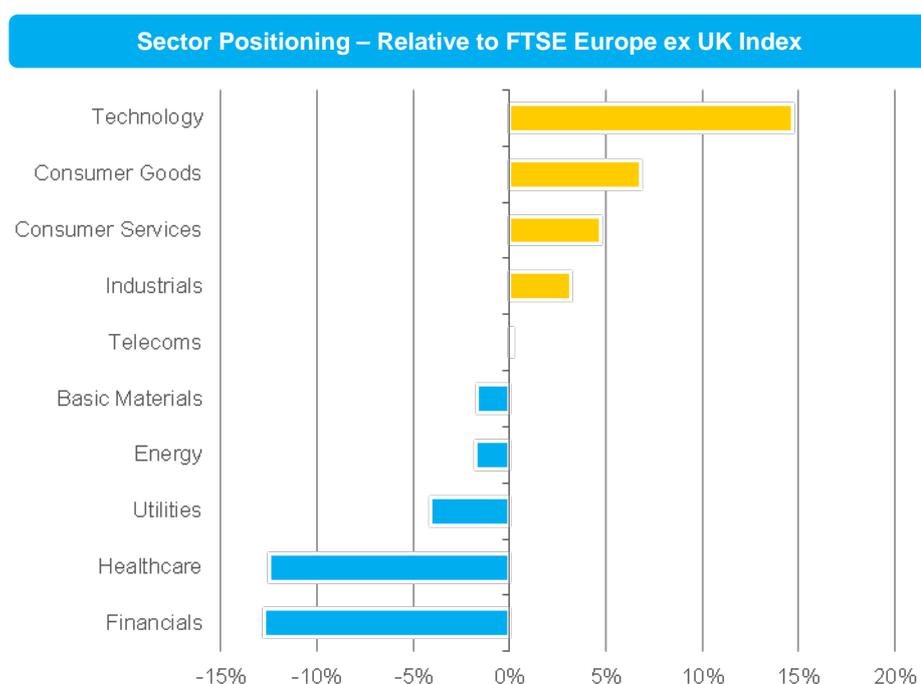
35

Source: LGIM. 31/08/2017.

FUND COMPOSITION

Top 10 Holdings		
Ferrari	Consumer Goods	4.0%
Infineon Technologies	Technology	3.7%
Altice	Telecoms	3.7%
Pandora	Consumer Goods	3.6%
Ferratum	Financials	3.6%
Vapiano	Consumer Services	3.5%
ArcelorMittal	Basic Materials	3.4%
Valeo	Consumer Goods	3.3%
Kion Group	Industrials	3.2%
Maisons Du Monde	Consumer Services	3.1%

Top Active Weights	
Ferrari	+3.7%
Infineon Technologies	+3.5%
Altice	+3.5%
Pandora	+3.5%
Ferratum	+3.4%
Bayer	-1.6%
Total	-1.7%
Roche	-2.7%
Novartis	-2.9%
Nestle	-3.9%



Portfolio Characteristics	
Top 10 positions	35.5%
Top 25 positions	76.5%
Active share	91.7%
# of Holdings	35
12m Forward P/E	18.0x
Forecast Earnings Growth	34.8%
Return on Equity	16.5%
Dividend Yield	2.0%
Secular growth	80.9%
Cyclical growth	8.7%
Tactical growth	10.4%

Advertising technology company *Fyber* was the largest detractor from returns. The shares continue to be weighed down by the negative sentiment currently hanging over the global advertisement space, as opposed to company specific issues. Despite the performance, we believe the company has strong infrastructure technology, with its platform capable of enabling app developers and digital publishers to generate revenue enhancing targeted advertising.

Materials company *Umicore* was weaker, experiencing a bout of profit taking on the back of very strong performance year to date that has seen the shares re-rate significantly this year. *Umicore* has a joint leading position in the autocatalysts market, with performance driven by the company stepping up its growth ambition in battery markets, which we believe is a long term secular growth story.

Shares in affordable jewellery brand *Pandora* fell after the group reported disappointing second quarter trading. Despite decent top line sales performance, much of the weakness in the business stems from the US market, which appears stuck in a promotional cycle. Whilst guidance was maintained for the full year, we believe management need to provide more clarity and consistency in financial communications going forwards, given the volatility of share price moves that comes with each quarterly update.

TRADING ACTIVITY

In terms of trading, we sold our position in *Marine Harvest* in the period. Whilst this has been a core position on the fund over the past couple of years, we now feel the time is right to exit our holding. *Marine Harvest* remains a solid company, but with potential biological problems impacting harvest volumes, we now see more compelling secular growth opportunities elsewhere. We also exited our remaining holding in *Publicis*, taking the view that traditional advertising revenues will likely remain under pressure. Cash was recycled into topping up our existing positions in *Valeo* and *Tarkett*.

Legal & General European Trust

Reasons to invest

FOCUSED ON IDENTIFYING 'GROWTH' OPPORTUNITIES

The fund strategy is underpinned by a growth-orientated investment process, whereby the manager seeks European companies with durable economic advantage that can prosper in a variety of economic environments. The portfolio is split across secular, cyclical and tactical growth opportunities, with the bulk of the portfolio featuring the following key characteristics;

- High barriers to entry
- Sustainable organic growth
- Competitive advantage
- Above-average margin

FUNDAMENTAL STOCK PICKING APPROACH

The fund manager takes a bottom-up approach to stock picking, managing a high conviction fund of approximately 30-40 companies. We believe that a concentrated fund provides a greater opportunity to outperform, as opposed to diluting a portfolio through over diversification. The fund is unconstrained, allowing the manager to run a portfolio with high 'active share'. This emphasises growth and reflects the highest conviction ideas of the fund manager. We do not construct the portfolio in line with a top-down or sector view, but understand the importance of secular trends and the impact from technology and demographics. We are also very cognizant of the need to manage the increased idiosyncratic risk arising from a concentrated basket of stocks.

A CORE EUROPEAN STRATEGY, UNDERPINNED BY CONVICTION IDEAS

Europe is a fertile hunting ground for investment opportunities, representing one of the largest markets in the world, with fifteen major countries and five currencies. Within the region there are abundant opportunities to take advantage of innovation, growth and value. Europe presents a number of well-run, global brands and diverse companies across a wide range of industries, which are at the forefront of social and economic trends. We aim to utilise Europe's geographic diversification to seek compelling investment opportunities.

HIGHLY EXPERIENCED FUND MANAGER

Gavin Launder has more than 30 years' investment experience, combining both buy-side and sell-side research analysis, during which time he has built a strong performance track record. Over the period, he has established significant experience and investment knowledge, building a strong relationship with research brokers to ensure he has the best access to research.

LGIM CAPABILITIES

As one of the largest institutional asset managers in the UK, LGIM is afforded exceptional access to senior management teams of FTSE companies. Active engagement with management teams provides us with insight into company strategy, deal flow and industry developments. We also benefit from wider business support functions, including independent risk analysis and portfolio monitoring.



Gavin Launder
Fund Manager

Gavin Launder joined LGIM in 2007 and is fund manager within the High Alpha desk. Gavin previously worked at BlueBay Asset Management where he was a Global Equities Analyst, having spent the majority of his buy-side career before LGIM as a Portfolio Manager with UBS O'Connor. He has over 30 years' investment experience across several economic cycles.

CONTACT US FOR MORE INFORMATION

 0345 070 8684*

 fundsales@lgim.com

 lgim.com

*Call costs may vary

Important Notice

This is not a consumer advertisement. It is intended for professional financial advisers and should not be relied upon by private investors or any other persons.

The views expressed within this document are those of Legal & General Investment Management, who may or may not have acted upon them. Legal & General Investment Management is authorised and regulated by the Financial Conduct Authority.

Issued by Legal & General (Unit Trust Managers) Limited. This document should not be taken as an invitation to deal in Legal & General investments or any of the stated investments. Remember, the value of investments and any income taken may fall as well as rise and investors may get back less than they invest. Past performance is not a guide to future performance. Exchange rate changes may cause the value of any overseas investments to rise or fall. Details of the specific and general risks associated with the funds mentioned are contained within the Key Investor Information document for each fund.

Legal & General (Unit Trust Managers) Limited. Registered in England and Wales No. 1009418. Registered office: One Coleman Street, London EC2R 5AA. Authorised and regulated by the Financial Conduct Authority
