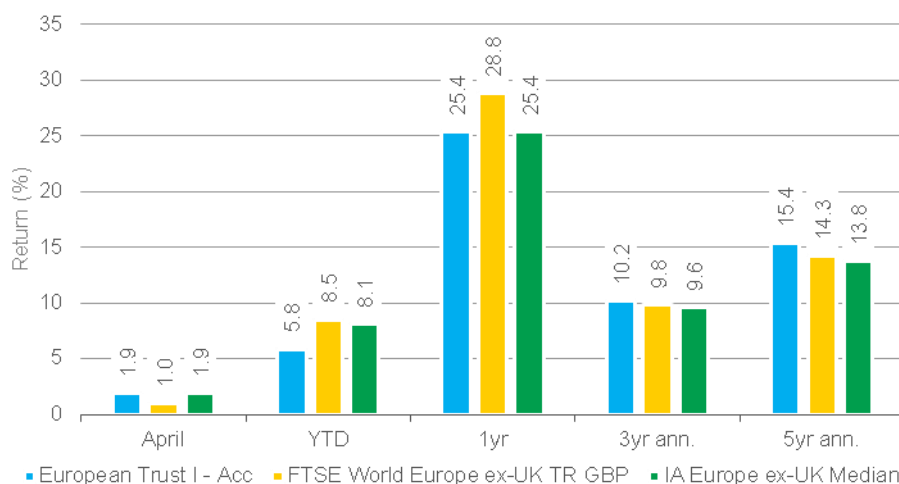


Legal & General European Trust

Fund Update – April 2017

Performance



Source: Lipper Net returns, 30/04/2017. Past performance is not a guide to future performance.

FUND COMMENTARY

Following a strong March performance, European equities were one of the top performing asset class in April, aided by a relief rally post the French first round elections. Eurozone activity indicators continue to deliver upside surprises and we have also seen mounting evidence of the strongest start to Q1 corporate earnings for seven years, helping to send the index higher.

Looking closer at European markets, mid-caps were stronger still, outperforming large caps over the period. Value stocks were out of favour while there was evidence that price and earnings momentum strategies continue to do well. Among sectors, cyclical areas led returns, with both industrials and financials leading performers, followed by healthcare. While telecoms, utilities, energy and media sectors were the biggest laggards.

The fund generated a return of 1.9% in the period, outperforming its benchmark by around 90bps. This was largely driven by strong stock selection in software, fixed-line telecoms, financial services and banks. Sector allocation was broadly neutral, while from a country perspective we benefited from intra-selection in Germany and Italy. Our underweight exposure to Switzerland also added to returns.

ATTRIBUTION DRIVERS

At a stock level, Leonardo was the biggest positive contributor. While the company is yet to report Q1 earnings, the aerospace and defence sector has seen a strong start to the year, with key trends being the noticeable strength in aftermarket order intake and supportive macro fundamentals for defence-exposed names. Leonardo derives around 70% of sales from defence, where we are starting to see the beginning of an upturn in global defence spending.

Multinational cable operator Altice enjoyed a good month, after the shares were boosted by the news of the IPO of its US assets, Altice USA, which continues to yield strong performance.

Other notable contributors included Maisons du Monde. The French retailer is expected to report a strong start to the year at its Q1 sales update in May. Store expansion, online and new product ranges are key drivers of growth in revenues and market share, with investors optimistic on the long term opportunities of the group. Additionally, Marine Harvest and Aurelius both bounced from the prior month weakness, adding to returns in the period.

Steel miner ArcelorMittal was the biggest detriment to returns. Shares were weaker on investor perception that the deteriorating macro environment will dramatically affect the global steel industry, resulting in higher volatility of steel and raw material prices.

Pandora shares continue to be weak ahead of the Q1 trading update on mounting fears that solid growth and margins will not be maintained, given the recent like-for-like sales slowdown in its core charms market.

Source: LGIM, 30/04/2017. 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

£143m

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

94.3%

Top 10 holdings

36.7%

No of stocks

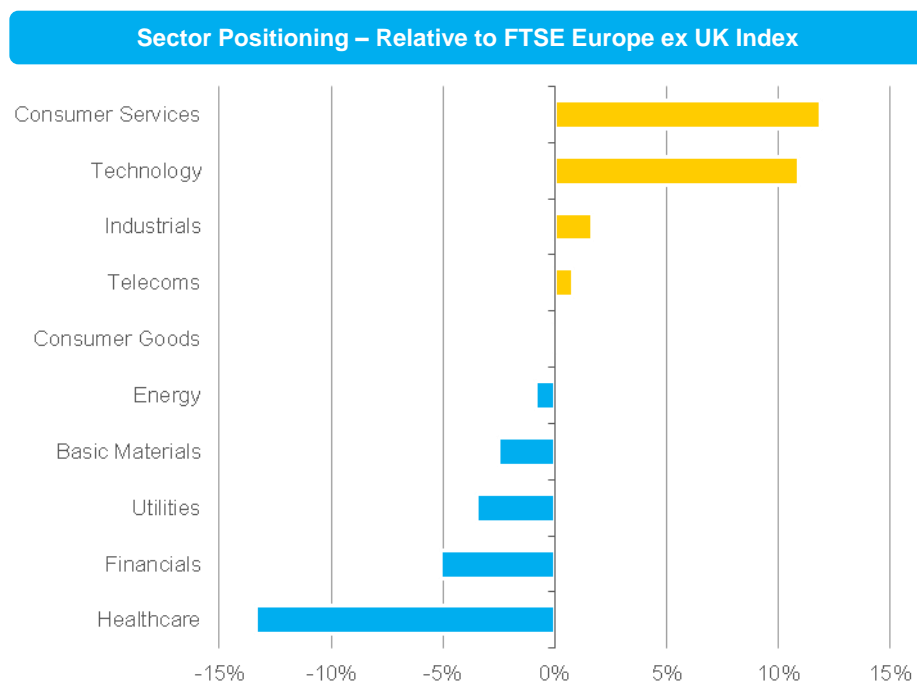
37

Source: LGIM, 30/04/2017.

FUND COMPOSITION

Top 10 Holdings		
Altice	Telecoms	4.5%
ING	Financials	4.1%
Unicredit	Financials	4.1%
Infineon Technology	Technology	3.9%
Pandora	Consumer Goods	3.9%
Publicis	Consumer Services	3.5%
Ferratum	Financials	3.3%
SAP	Technology	3.2%
Umicore	Basic Materials	3.2%
Maisons Du Monde	Consumer Services	3.2%
	Total	36.7%

Top Active Weights	
Altice	+4.1%
Pandora	+3.7%
Unicredit	+3.5%
Infineon Technology	+3.5%
Publicis	+3.3%
Siemens	-1.8%
Total	-1.8%
Roche	-3.0%
Novartis	-3.0%
Nestle	-3.8%



Portfolio Characteristics	
Top 10 positions	36.7%
Top 25 positions	77.2%
Active share	94.3%
# of Holdings	37
12m Forward P/E	17.5x
Forecast Earnings Growth	21.3%
Return on Equity	14.6%
Dividend Yield	2.3%
Secular growth	80.9%
Cyclical growth	6.1%
Tactical growth	13.0%

TRADING ACTIVITY

We reintroduced Ferrari to the fund following a positive meeting with the senior management team. After previously taking profits, we see plenty of scope for volume and pricing growth for the long term. We believe this could feed into recurring secular growth, as well as supporting strong cash generation and potential upgrades to earnings.

We initiated a new holding in Tier-1 auto supplier Gestamp, as part of their successful IPO launch. Unlike most listed auto suppliers, outsourcing remains relatively low for Gestamp's key body and chassis products, while we see strong growth opportunities ahead through market share gains and piecemeal M&A activity.

Among sales, we closed our tactical positions in Statoil and Credit Agricole. Elsewhere, we took some profits in Leonardo after a very strong run.

MACRO

Data signalled a strong start to Q2, amid buoyant demand, growth in employment and reduced tail risk due to France's Macron holding a convincing lead in the second round of the French election polls. GDP growth in the first quarter represented solid performance, at 0.5% growth (quarter on quarter), which has been well flagged by the strong performance of the PMIs. Eurozone retail sales also rose more than forecast last month.

As expected, the ECB left its key policy settings on hold and maintained its easing bias. The internal debate among ECB members over the appropriate response to upside strength in activity indicators appears to be heating up. Draghi emphasized there was a great deal of difference between broadly balanced growth and balanced inflation, pointing out underlying inflation was still subdued. The majority view insists that inflation's upward path is far from established. This is arguably supported by March inflation data, which came in weaker than the market anticipated.

Finally, bottom-up earnings momentum is notably better in European equity markets, where consensus is growing more bullish.

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