

L&G Multi-Index Income Funds

MONTH IN FOCUS

THE HEADLINES

- **Global presidential club: 'one in one out'?**
- **What will June bring for May?**
- **OPEC extends the cuts but oil slips away**

MARKET OVERVIEW

May showed us that the global presidential club seems to be operating a 'one in one out' policy at the moment. The 'i' was certainly the letter of the month and the markets discussed both 'inauguration' and 'impeachment' with equal enthusiasm.

With Emmanuel Macron sworn in as the new French President, investors' attention soon shifted to the Americas. Up north, President Trump fell into trouble with the FBI as the probe into Russia's involvement in the US elections continued. Down south, corruption allegations in Brazil put Michel Temer's presidency in question.

In the UK, May was on everyone's lips. The Prime Minister began the month by striding confidently along the campaign trail before the opinion polls hinted at a gradual closing of the gap between Conservatives and Labour.

Nevertheless the markets responded with a certain degree of poise. Investors seem to be more used to political jitters by now, considering the drama that played out on the political scene over last 12 months. As a result, May was another kind and benevolent month for market participants. Most bond markets saw small gains with the European periphery, in particular Portugal, being the standout performer. As some of European political risks receded, the most notable currency change was the strength in the euro. The pound fell slightly against the US dollar reflecting a softer tone to UK data and more uncertainty around the prospects of the ruling party in the June election. In local terms, most equity markets were somewhat higher, emerging markets outperformed developed markets and defensive sectors (e.g. utilities) were ahead of cyclical.

Oil ended up lower despite the OPEC extension of the supply cuts for another nine months. Investors will undoubtedly watch their next decisions very carefully to assess their efficacy in terms of supporting the oil price.

FUND PERFORMANCE REVIEW

Funds recorded positive returns in May. Weaker sterling, in particular against euro, supported returns on large-cap UK equities that generate a portion of their overseas earnings in Europe. Multi-Index Income Funds had a positive bias to sterling since early October when the currency level constituted an interesting entry point on valuation grounds. As it moved back up in April (see the Chart of the Month below), we then lowered our sterling overweight in the funds. Higher exposure to overseas currencies was a positive contribution to the funds when they ended the month relatively stronger.

In terms of underlying investments, all major asset classes added to the overall fund performance with only energy stocks detracting from the overall fund return in May. Higher risk funds outperformed lower risk funds as investors' appetite continued to support returns on riskier assets in our portfolios such as equities and emerging market debt.

RECENT PORTFOLIO CHANGES

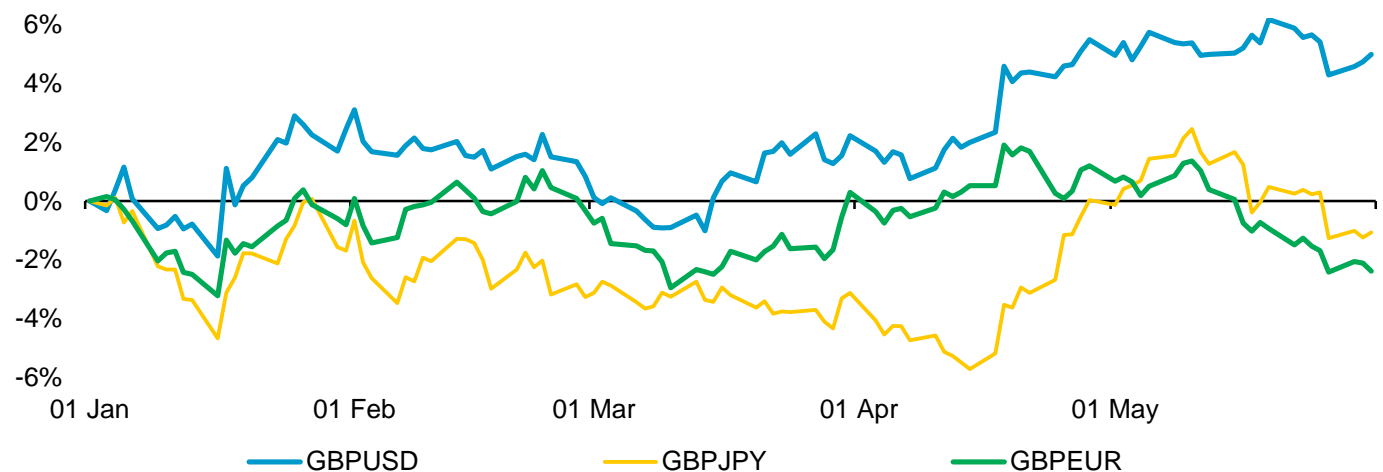


US DOLLAR



POUND STERLING

CHART OF THE MONTH – 2017: CURRENCY MOVE IN THE LIGHT OF POLITICAL RISK

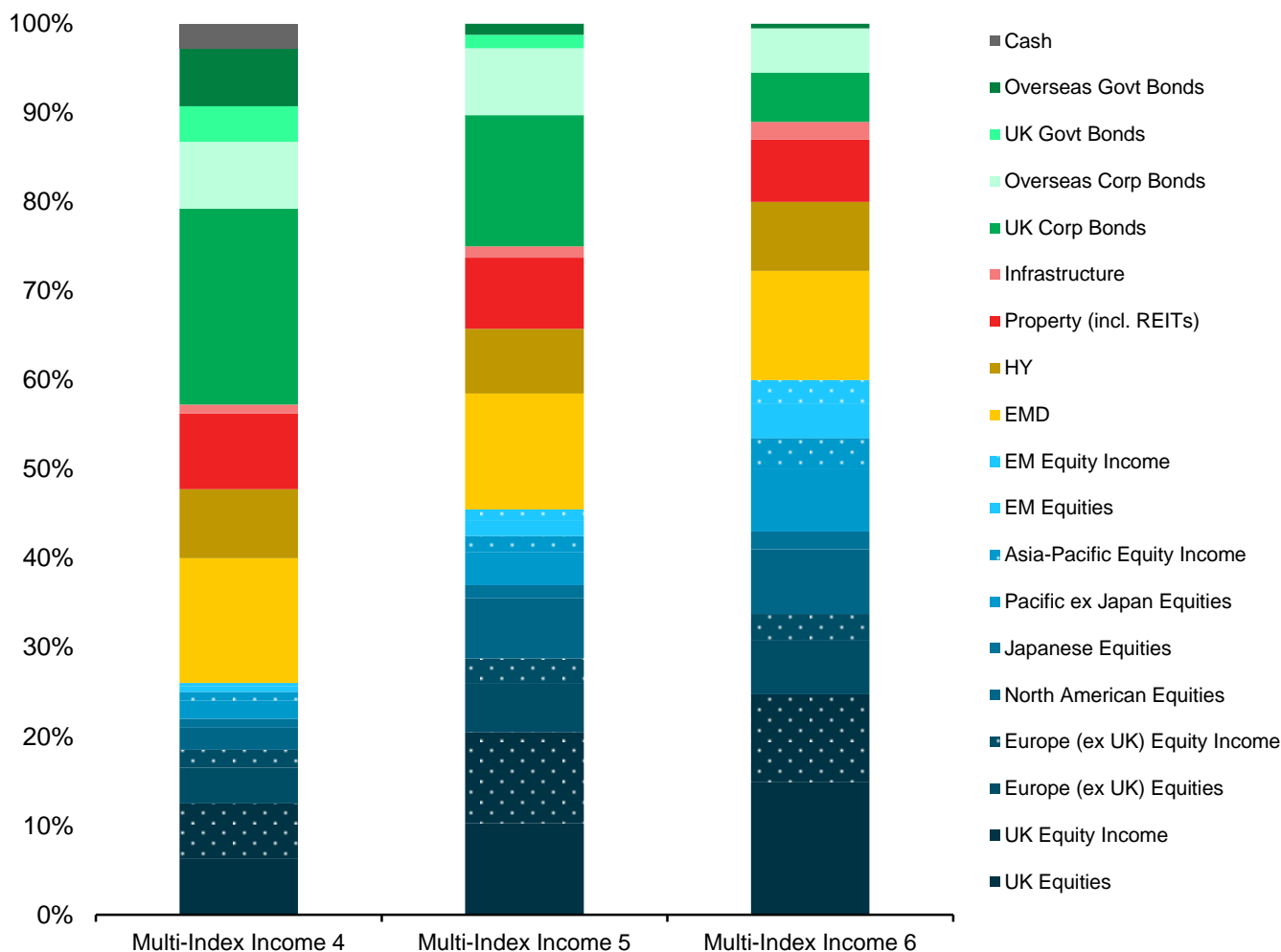


Source: Bloomberg L.P. LGIM

MARKET OUTLOOK

We have a positive view on global growth and this typically should provide a tailwind to the performance of risk assets over the year ahead. However, we are wary that markets haven't fully considered the medium-term headwinds to growth, or to the risks. The market enthusiasm behind President Trump's proposed policies may run out of steam if he can't deliver, or indeed if he does deliver what the market believes to be the wrong policies. Furthermore, we have material political and economic risks to be wary of, including European politics in the medium term (as risks in France diminished, the situation in Italy and Greece is still far from certain) and Chinese debt levels over the longer term. We have therefore taken a more cautious view on certain asset classes whose recent performance has been exceptionally strong, in particular high yield debt and some of the more cyclical sectors. In our view, sectors which have lost favour amongst investors, such as energy and infrastructure, offer better opportunities.

TARGET ASSET ALLOCATION (AS OF 31/05/2017)



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 Limited, who may or may not have acted upon them. Legal & General Investment Management Limited is authorised and regulated by the Financial Conduct Authority and is the Investment Adviser to the Legal & General Multi-Index Funds, UK authorised unit trusts. The value of investments and any income from them 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. Mixed Investment funds are sensitive to interest rate changes. At times, especially over shorter timescales, lower risk-profiled funds may fall in value by more than higher risk-profiled funds. An increase in medium to long-term interest rates is likely to reduce the value of an investment in these funds. The funds invest in riskier bonds, known as sub-investment grade bonds. These bonds pay higher interest rates to try to provide more attractive income returns. The value of property is generally a matter of valuer's opinion rather than fact. Details of the specific and general risks associated with the funds mentioned are contained in the Key Investor Information document(s). Legal & General (Unit Trust Managers) Limited. Authorised and regulated by the Financial Conduct Authority.