L&G Mixed Investment Funds

MONTH IN FOCUS

THE HEADLINES

- **As Spring finally arrived…**
- **… risk assets sprung into green…**
- **… while Koreans sprung into conciliatory action.**

MARKET OVERVIEW

As the temperatures rose, some market anxiety thawed and investors welcomed new macro developments with more optimism. Nevertheless, US President Donald Trump still managed to keep them on their toes. The key headlines during April concerned the ongoing trade dispute between the US and China, the US and allies' brief bombing campaign in Syria and the hope of an emerging détente between the two Koreas.

Across asset classes there was a general reversal of fortune, whereby the worst performing assets over the first quarter generally did better in April (see Chart of the Month below). The best example of this was UK equities, which had been down 6.9% in the first quarter before rising 6.4% in April. UK equities were helped in part by a weaker pound. Europe and Japan also enjoyed a recovery, rising over 4% in local terms. US equities remained choppy as the market digested Q1 earnings, finishing the month flat. Listed infrastructure gained 4.4% while global real estate moved up by almost 4% in euro terms.

US 10-year bond yields continued to rise, coming to close to 3% in April, with more modest moves in the UK and Europe.

The US dollar also reversed its multi-month downtrend, gaining against most major currencies, including the euro. Higher interest rate expectations and less concern about the escalation of trade wars helped sentiment towards the dollar.

FUND PERFORMANCE REVIEW

All of the Mixed Investment Funds delivered positive returns in April, with higher risk funds outperforming lower risk funds and recovering some of the losses from earlier this year. Equities led the way, with UK, US and European stocks the main contributors to the positive performance. Some of our sector positions also had a good month, with energy stocks recording double-digit returns. Our alternatives were also in the green as well, with global real estate and infrastructure both adding to the funds' performance. The relative strength of overseas currencies to which we are exposed helped to further lift the overall returns. Rising bond yields meant that some areas within fixed income detracted from performance, but our underweight to UK nominal and inflation-linked gilts and global credit helped to minimise their negative contribution.

This month we switched from a third party managed infrastructure ETF, into the newly launched L&G Global Infrastructure Index Fund for our infrastructure exposure, helping to reduce additional costs in the funds, which benefits investors.

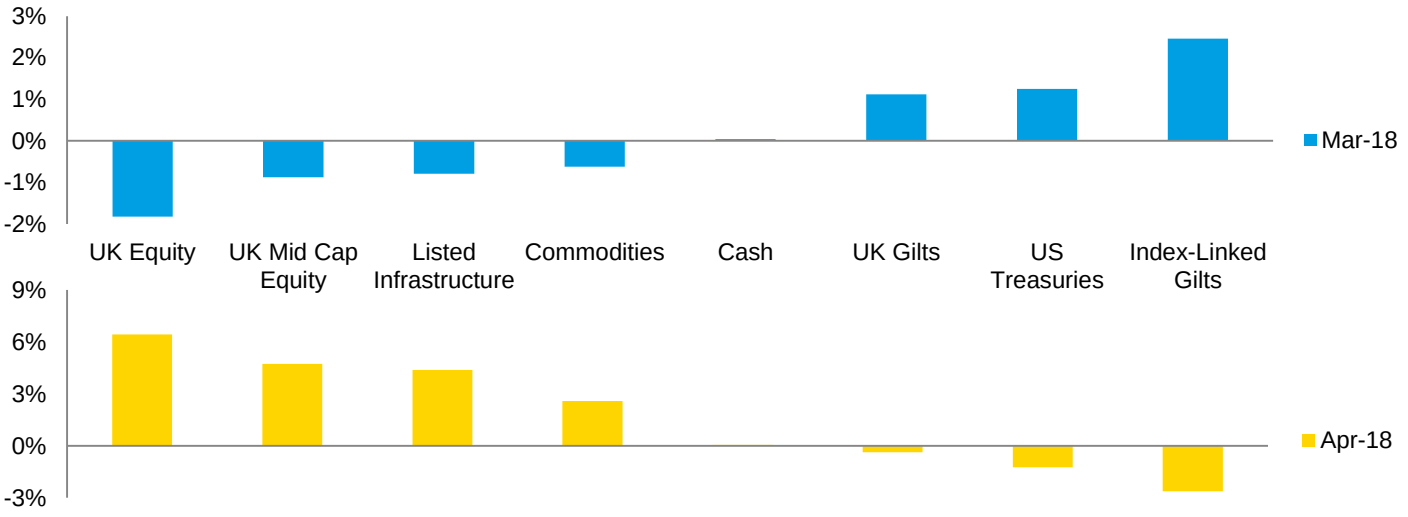
We also reduced our US energy stocks trade as the stocks performed better as oil prices rose, and reduced Australian bonds.

RECENT PORTFOLIO CHANGES

US EQUITY

ENERGY STOCKS
AUSTRALIAN BONDS

CHART OF THE MONTH – APRIL RE-SHUFFLE: WHAT A DIFFERENCE A MONTH MAKES…



Source: LGIM, Bloomberg L.P., asset returns are calculated in local curreny with the exception of listed infrastructure that is calculated in Sterling terms

Legal & General
INVESTMENT MANAGEMENT

MARKET OUTLOOK

With US unemployment now below 4% and inflation back at target we assess the US economy has moved late cycle. This phase typically lasts between 1-4 years and will hinge on how quickly wages, inflation and rates rise, profits come under pressure and other imbalances develop. The fiscal stimulus should add to overheating pressure, but should keep the economy growing above trend into early 2019 even as the Federal Reserve continues to raise rates once a quarter. Recession risks are likely to build towards the end of 2019, especially if the fiscal stimulus starts to fade and rates have risen further.

Against that backdrop, we keep our overweight equity positioning in the funds, but would look to reduce exposure as those recession pressures build. On the flip side, we are underweight corporate bonds as spreads are still not attractive despite some recent widening.

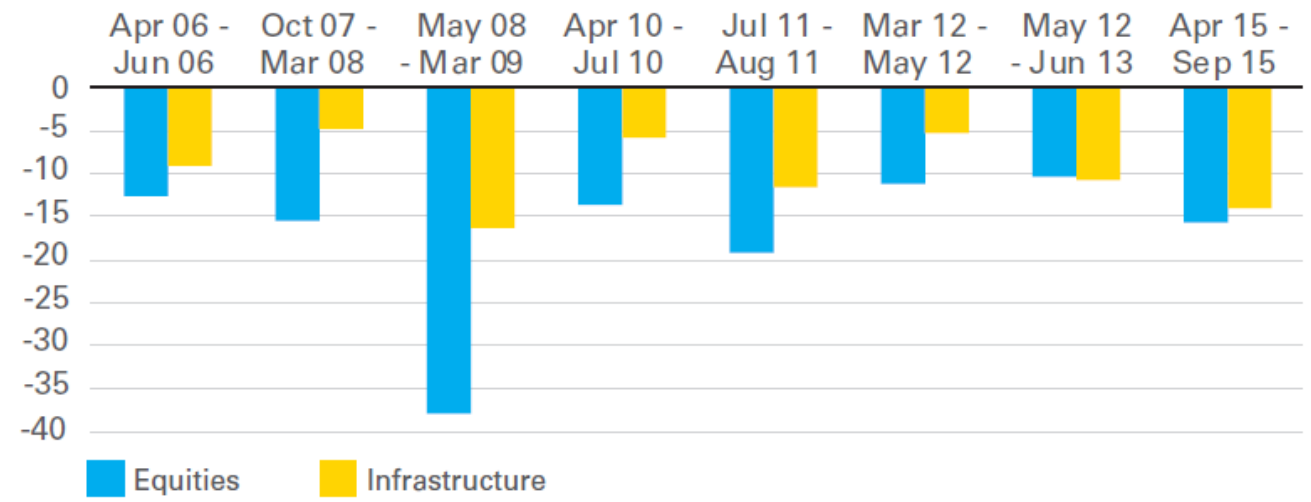
THE LONG TERM VIEW – LISTED INFRASTRUCTURE

Global listed infrastructure is an asset class which offers many benefits including the potential for inflation-linked income and a modest correlation with many other asset classes. Historically, infrastructure has delivered a higher return than global equities in periods of high inflation and suffered less of a drawdown in times of market stress. With stable demand and predictable cashflows, this is an asset class that we consider to be an attractive addition to multi-asset portfolios.

Historically, the Mixed Investment Funds have invested in global listed infrastructure through a third party exchange traded fund (ETF). However, Legal & General launched its own index tracking fund in April 2018 which we will invest in going forward. Both the ETF and the new unit trust follow the same index so the exposure to the underlying infrastructure companies will not change. The benefit is that we will reduce the costs incurred within the Mixed Investment Funds, a saving that will be directly passed on to our investors though a reduction of the ongoing charges figure (OCF). While this may only represent a few basis points, all savings boost performance over the longer term. The underlying index to the fund will be the FTSE Core Global Listed Infrastructure index.

For more information on the infrastructure asset class, we recently added an article called “The building blocks of the Mixed Investment Funds – Infrastructure” to the portal which further details the asset class.

INFRASTRUCTURE AND EQUITY DRAWDOWNS DURING PERIODS OF MARKET STRESS



Source: LGIM. Bloomberg L.P. Global Equities represented by the FTSE All-World Total Return Index unhedged in GBP, Global Listed Infrastructure represented by the FTSE Global Core Listed Infrastructure Total Return Index unhedged in GBP. Data from 31/12/2005 to 31/12/2017.