Legal & General Multi-Index 3 Fund

I class. Q1 2018.

** Please note that this document has been produced for professional advisers for discussion with existing investors who are familiar with investment terminology.

WHAT'S THE STORY?

The music is playing. Inflate and wait is the tune; the DJ is Donald Trump.

Investors and the US Federal Reserve are dancing around two major uncertainties: economic overheating and the end of easy monetary policy. As January came to a close, expectations for higher inflation fuelled fears of interest rate rises. By the end of the quarter, however, the beat had changed amid concerns the imposition of tariffs could lead to a US-China trade war.

Yet fundamentals remain sound, the global economy is still experiencing synchronised growth, equities do not look stretched and, realistically, the escalation of a trade war is not in the interest of the US or China. However, investors must remain vigilant and start preparing their portfolios for a change in tune.

RISK PROFILE CONFIRMATION STATEMENT

The Risk Profile Volatility Band data is supplied by Distribution Technology. Although this product has been designed with Distribution Technology's Dynamic Planner model in mind – and these are the risk ratings we specifically target – the portfolios can be risk-mapped to different risk profilers. Distribution Technology has assessed the Legal & General Multi-Index 3 Fund and their analysis has indicated that the fund has remained in line with the fund risk profile 3 (as at 31 December 2017). *Expected volatility (as at 31 March 2018) as calculated by LGIM using data provided by Distribution Technology.

Multi-Index fund range	3	4	5	6	7
DT risk profile volatility band (%)	4.2% - 6.3%	6.3% - 8.4%	8.4% - 10.5%	10.5% - 12.6%	12.6% - 14.7%
Expected volatility (%)*	6.0	8.0	10.2	12.0	14.0

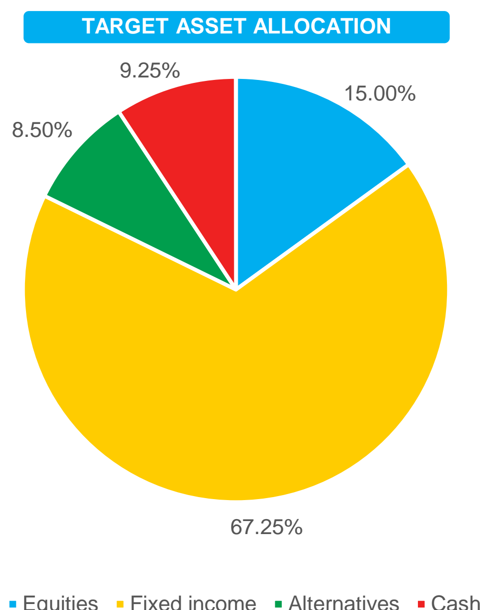
Lower risk → Higher risk

TARGET ASSET ALLOCATION BREAKDOWN (AS AT 31 MARCH 2018)

Equities	**15.00%**
Legal & General UK Index Trust	3.50%
Legal & General UK Mid Cap Fund	0.50%
Legal & General European Index Trust	2.75%
Legal & General US Index Trust	4.25%
Legal & General Japan Index Trust	2.50%
Legal & General Pacific Index Trust	0.50%
Legal & General Global Emerging Markets Index Fund	0.50%
US and European Energy Index Futures	0.50%
Fixed Income	**67.25%**
Legal & General High Income Trust	3.00%
Legal & General EM Government Bond (US$) Index Fund	6.00%
Legal & General EM Government Bond (Local Currency) Index Fund	4.50%
Legal & General Sterling Corporate Bond Index Fund	10.50%
L&G Short Duration Corp Bd Index	8.25%
LGIM Global Credit	8.00%
Legal & General All Stocks Gilts Index Trust	10.00%
L&G Euro Treasury Bond Index	2.50%
Australian government bonds futures	2.50%
Legal & General All Stocks Index Linked Gilt Index Trust	1.00%
Legal & General Global Inflation Linked Bond Index Fund	11.00%
Alternatives	**8.50%**
Legal & General UK Property Fund	4.50%
Legal & General Global Real Estate Dividend Index Fund	2.00%
US and European Utility Index Futures - Infrastructure proxy	2.00%
Cash	**9.25%**

Source: LGIM

TARGET ASSET ALLOCATION



Legal & General
INVESTMENT MANAGEMENT

FUND PERFORMANCE (%)

12 months to	31 Mar 15	31 Mar 16	31 Mar 17	31 Mar 18
Performance	11.25	0.89	9.16	0.95

Source: Lipper, LGIM as at 31 March 2018. Total Return net of tax and charges. I class accumulation.
Please remember, the value of investments and any income from them may fall as well as rise and you may get back less than you invest.

Past performance is not a guide to future performance.

FUND REVIEW

The fund produced a negative return over the quarter.

2018 started with significant market turmoil. Equities initially moved sharply higher only to be brought back to earth by February's market correction, triggered by concerns about higher bond yields and increasing volatility. A recovery was nipped in the bud by Trump's imposition of tariffs on $60 billion of Chinese imports.

US shares were slightly down over the quarter in local terms. Europe ex-UK and Japan also lost in local terms, but UK shares were the worst performer amongst major developed markets. Technology performed strongly despite some negative stock-specific news, with defensive and interest-rate sensitive sectors bearing the brunt of higher bond yields.

In the US, ten-year yields rose by c. 0.30%, with smaller increases seen in Europe. After initially contracting, investment grade and high yield spreads moved higher. Euro moved higher against US dollar but depreciated against sterling. This reflected ongoing US dollar weakness and optimism about a transitional deal between the UK and EU.

The main detractors from performance came from US and UK equities and UK credit. This was partially offset by positive contributions from UK property and Australian government bonds.

In the previous quarter, we adjusted our mid-risk assets exposure. This quarter, we used market volatility as an opportunity to correct some of our equity underweights, as we expect fundamentals and growth prospects to still support risk assets.

OUTLOOK

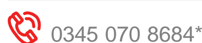
Volatility has returned to markets this year, initially triggered by panic about rising yields in late January and early February. Since then we've had a wobble in the technology sector and trade war anxiety weighing on equity markets in particular.

The volatility we have seen so far in 2018 has prompted investors to consider how the rest of the economic cycle will play out and how equities – after an almost decade-long bull-run – will perform. While equity market corrections are relatively common, a prolonged bear market most likely requires a recession. This prompts the question: when is the next recession going to be?

Our view is that the fundamentals driving economic growth remain relatively strong, and global growth is synchronised. We therefore see limited recession risks in the next 12 months and maintain our risk and equity holdings in the portfolio. But imbalances are likely to start developing thereafter. We continue to monitor recession indicators closely and will reduce equity exposure as recession risks build.

We see valuations on corporate bonds as expensive compared to other asset classes. We have started reducing allocations to credit assets in line with this medium-term view. We also maintain our view that listed real estate and infrastructure should provide relatively stable returns through a combination of high yields, attractive valuations and with a degree of 'built-in' inflation-protection. While recent performance has been disappointing, the medium-term case remains sound.

CONTACT US FOR MORE INFORMATION



*Call costs may vary

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