Q3 2019 Quarterly fund update

This document has been produced for professional advisers for discussion with existing investors who are familiar with investment terminology.

For Professional Clients

Multi-index funds

Legal & General Multi-Index 4 Fund

Unit Trust (NURS non-complex) I-Class GBP Acc

WHAT'S THE STORY?

The majority of asset classes delivered positive performance in the third quarter. Developed government bonds (both nominal and inflation-linked), investment grade credit and other mid-risk assets such as listed global real estate and listed infrastructure benefitted from the collapse in yields across the globe. Trade-war news flow, weaker economic data from China and Germany, and increased concerns about the risk of a recession in the US all played a part. August saw a commonly-watched segment of the US Treasury curve, that between two-year and ten-year yields, inverting, whilst 30-year US yields fell to a record all-time low.

Developed market equities delivered positive returns over the period, with Japanese equities being the standout performer. Eurozone equities also bolstered returns, as the European Central Bank cut short-term interest rates to -0.5%. By contrast, two of the worst-performing asset classes over the quarter were emerging market equities and Asia Pacific ex. Japan equities, as a result of escalating US-China trade tensions.

FUND MANAGERS


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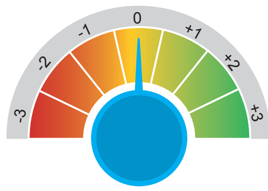
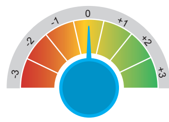
PERFORMANCE (%)

12 months to 30 September	2019	2018	2017	2016	2015
Fund	7.37	2.86	5.14	14.08	2.29

Source: Lipper, LGIM as at 30 September 2019. Total Return net of tax and charges. I-Class GBP 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.**

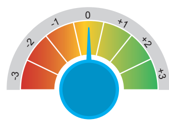


CORE VIEW ON RISK ASSETS
NEUTRAL OVERALL



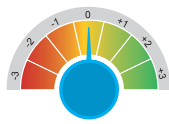
Economic cycle

Economy is in late cycle and recession risks have increased



Valuations

Risk asset valuations are not excessive



Systemic risk

Material geopolitical risks balanced with an improving outlook on China and global debt levels

FUND REVIEW

The Multi-Index 4 Fund delivered a positive return over the period. The main positive contributions to performance came from UK credit and US and Japanese equities. These were somewhat offset by our holding in emerging market debt (hard currency) which detracted from the quarter's gains.

In terms of positioning, we have been increasing duration, reversing the direction of travel from the last couple of months. The funds have had a negative bias towards duration this year which has proved to be challenging for performance over the last quarter, as we have seen an unexpected dovish shift from central banks amid falling global inflation expectations. The fundamentals behind our initial view have changed quite rapidly, so we have gone from expecting rate hikes to cuts in the US and UK, and as such we are starting to add back some duration in places that seem the most attractive at current levels. We boosted our US Treasury and gilt positions, for example, and added some peripheral bond exposure through a new allocation to Portuguese government bonds.

We increased our exposure to UK small-cap stocks on the back of improving valuations relative to large-caps. After taking profits on European equities following some strong relative performance, we have downgraded our positive view, as we no longer believe stronger earnings will be reflected in the prices of European stocks versus their US equivalents.

OUTLOOK

Recently, our overall stance on 'risk assets' was dialled down to neutral; reflecting a darkening economic outlook. Corporate profit margins have fallen and the corporate-financing gap is flashing red. The US Treasury yield curve is also in the 'danger zone', as it inverted in August between the two-year and 10-year points - historically a good predictor of recession, albeit not always.

While the majority of our recession indicators remain in neutral territory, around one-third of them now show warning signals and only one out of 20 remains as a positive signal: US households are in great shape, served by the decrease in US interest rates. The latter gives some comfort, as consumer strength may be able to offset weakness elsewhere.

Our recession probabilities for the coming year have increased, mainly due to trade-war concerns. The alarm may be temporary, as predicting Trump's next move is obviously very difficult. An easing of trade-war concerns would probably see recession probabilities decline and equity prices rise. However, at least part of the trade-war impact will likely stick longer term in the US. The uncertainty emanating from Trump's erratic trade policy will remain, making us less willing to buy equities during market dips.

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 4 Fund and their analysis has indicated that the fund has remained in line with the fund risk profile 4 (as at 30 June 2019). ^Expected volatility (as at 30 September 2019) as calculated by LGIM using data provided by Distribution Technology.

Multi-Index Fund range	DT risk profile volatility band	Expected volatility^	
7	12.6 – 14.7	14.0	Higher risk
6	10.5 – 12.6	12.0	
5	8.4 – 10.5	9.8	
4	6.3 – 8.4	8.0	
3	4.2 – 6.3	5.9	Lower risk

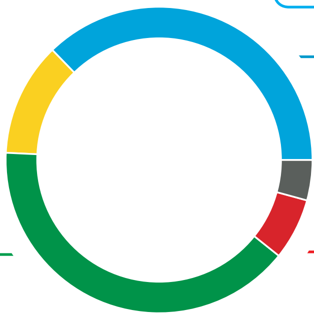
TARGET ASSET ALLOCATION BREAKDOWN

All data source LGIM unless otherwise stated. Totals may not sum due to rounding. As at 30 September 2019.

*Implemented through futures
**Includes direct bonds
***Includes direct bonds and country specific bond futures

Equities	**37.3**
Legal & General US Index Trust	7.5
Legal & General UK Index Trust	7.0
Legal & General European Index Trust	5.5
Legal & General Japan Index Trust	5.5
Legal & General Global Emerging Markets Index Fund	3.5
Legal & General Pacific Index Trust	2.5
Russell 2000 Index*	2.0
Legal & General UK Mid Cap Index Fund	1.5
NASDAQ 100 Index*	1.3
L&G Frontier Markets Equity Fund	1.0

Government Bonds	**12.0**
Legal & General Global Inflation Linked Bond Index Fund**	5.0
Legal & General All Stocks Gilts Index Trust	3.5
L&G Euro Treasury Bond Index Fund***	2.5
Direct Australian Government Bond	1.0



Cash	**4.3**
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Credit and EMD	**40.0**
Legal & General Sterling Corporate Bond Index Fund	15.5
LGIM Global Corporate Bond Fund	7.0
L&G Emerging Markets Government Bond (USD) Index Fund	5.0
Legal & General High Income Trust	4.5
L&G Emerging Markets Govt Bond (Local Currency) Index Fund	4.5
Legal & General Short Duration Corporate Bond Fund	3.0
L&G Emerging Markets Short Duration Bond Fund	0.5

Alternatives	**6.5**
Legal & General UK Property Fund	2.5
Legal & General Global Real Estate Dividend Index Fund	1.5
Legal & General Global Infrastructure Index Fund	1.5
L&G Commodity Index Fund	1.0

TO FIND OUT MORE

Call **0345 070 8584**
Charges may vary

Email **fundsales@lgim.com**

Visit **www.lgim.com/multi-index**

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