Q4 2018 Quarterly fund update

For Professional Clients

Multi-index funds

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

Legal & General Multi-Index 7 Fund

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

WHAT'S THE STORY?

Investors were in for a rocky ride during the fourth quarter of 2018 as risk asset prices jerked lower and confidence crumbled. Although markets fear the US may now be in late cycle stage, the Federal Reserve shrank its balance sheet further. However, it did temper its 2019 interest rate hike projections from three to two. A mediocre showing at the US mid-term elections failed to dampen President Trump's enthusiasm for his trade spat with China, damaging the Chinese economy. Meanwhile in Europe, business sentiment melted as tensions bubbled away over Brexit, Italy's unsustainable fiscal proposals, and civil unrest in France.

Asset-wise, US equities lost ground so that 2018 performance entered negative territory. UK equities suffered from Brexit woes, and Japanese equities also plunged. Although emerging market equities and debt provided some respite, high yield debt, REITs and listed infrastructure were hurt. Certain sovereigns assumed their safe haven role, with US Treasuries, gilts, bunds and Australian bond yields compressing.

FUND MANAGERS

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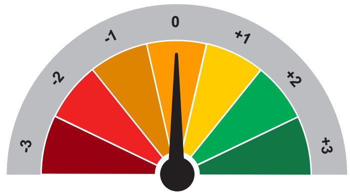
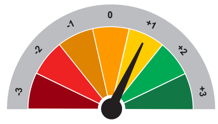
PERFORMANCE (%)

12 months to 31 December	2018	2017	2016	2015	2014
Fund	-6.07	12.62	18.89	1.38	6.71

Source: Lipper, LGIM as at 31 December 2018. 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.**

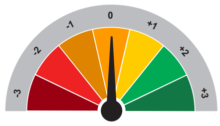


CORE VIEW ON RISK ASSETS NEUTRAL



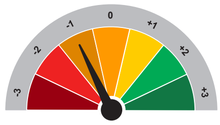
Economic cycle

Economy approaching late cycle. Recession risks low, but rising



Valuations

Risk asset valuations are not excessive



Systemic risk

Material risks from geopolitics and emerging market debt levels

FUND REVIEW

The fund delivered a negative return over the quarter. US and UK equities damaged portfolio performance the most, followed by European and Japanese equities. Conversely, emerging market hard and local currency debt and infrastructure outperformed.

In terms of portfolio changes: during November, we added a new commodities position to our strategic asset allocation, in order to diversify; taking exposure to an asset class which has historically outperformed during the late cycle stage. We reduced our Global REITs position, as it continues to outperform broad equities. Elsewhere, we shifted some of our sovereign bond exposure from Australian and broad-market European debt to Italian government bonds, to take advantage of the strong relative value opportunity which opened up during the Italian budget tensions. In December, once Italy stabilised and credit spreads normalised, we took profits. On the inflation side, we reassigned some of our global inflation-linked bond exposure to Treasury inflation-protected securities to protect against inflation in the US. Also, we reintroduced US energy stocks as they have underperformed versus their usual relationship with the oil price. This is based on our thesis that the oil price is likely to be buoyed after bottoming out during December. In the emerging market space, we reintroduced our Mexican equity position, as the fundamentals remain solid, and the country's recent underperformance relative to other emerging markets offers an attractive entry point. Meanwhile, we closed our Indian equity position after positive performance.

OUTLOOK

We see next year as the start of the twilight zone between expansion and a downturn marking the end of the cycle; an environment where a point forecast for equities at the end of 2019 becomes increasingly useless. However, those hoping for a return to tranquillity may be disappointed. Currently, we prefer European and Japanese to US stocks; we also favour the technology and US energy sectors.

In fixed income and currency markets, the interest rate differential between the US and elsewhere could widen, triggering more US dollar appreciation and yield increases in the first half of the year. However, US exceptionalism may run out of steam by mid-year as the focus switches to 2020's election. In 2019, pressure on the euro could continue as Brexit negotiations go to the wire, and the confrontation between the Italian government and the European Commission heads into the eleventh hour.

One important concern is the potential for a persistent change in the relationship between equities and bonds. Bonds' shock-absorbing capacity could disappear when an inflationary mindset takes hold. We expect continued pressure on credit markets. However, consistent with our constructive outlook for emerging market fundamentals; emerging market debt (both hard and local currency) looks increasingly interesting.

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 7 Fund and their analysis has indicated that the fund has remained in line with the fund risk profile 7 (as at 31 December 2018). ^Expected volatility (as at 31 December 2018) 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	13.9
6	10.5 – 12.6	12.0
5	8.4 – 10.5	9.9
4	6.3 – 8.4	8.1
3	4.2 – 6.3	6.0

Higher risk

Lower risk

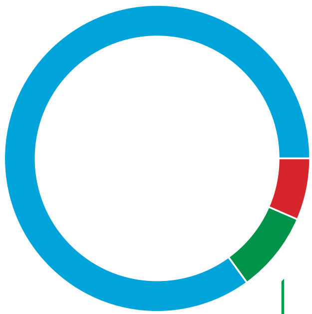
TARGET ASSET ALLOCATION BREAKDOWN

All data source LGIM unless otherwise stated. Totals may not sum due to rounding. As at 31 December 2018.

*Implemented through futures.

Equities	85.0
Legal & General US Index Trust	16.0
Legal & General UK Index Trust	15.0
Legal & General Global Emerging Markets Index Fund	12.5
Legal & General European Index Trust	11.0
Legal & General Japan Index Trust	9.0
Legal & General Pacific Index Trust	7.0
Russell 2000 Index*	5.5
Legal & General UK Mid Cap Index Fund	3.5
NASDAQ 100 Index*	2.0
S&P Energy Index*	2.0
Mexican Bolsa Index*	1.0
STOXX 600 Utilities Index*	0.5

Alternatives	6.5
Legal & General UK Property Fund	3.0
Legal & General Global Infrastructure Index Fund	2.0
L&G Commodity Index Fund	1.0
Legal & General Global Real Estate Dividend Index Fund	0.5



Credit and EMD	8.5
L&G Emerging Markets Govt Bond (Local Currency) Index Fund	3.0
L&G Emerging Markets Government Bond (USD) Index Fund	2.5
Legal & General High Income Trust	2.0
L&G Emerging Markets Short Duration Bond Fund	1.0

TO FIND OUT MORE

Call **0345 070 8584**
Charges may vary

Email **fundsales@lgim.com**

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

Important information