

Legal & General Ethical Trust  
**Annual Manager's  
Short Report  
for the year ended  
12 December 2013**





## Investment Objective and Policy

The investment objective of this Trust is to secure capital growth from a portfolio of securities for companies whose business conforms to a range of ethical and environmental guidelines.

Securities representing all such companies in the FTSE 350 Index will be held with weightings generally proportionate to their market capitalisation.

From time to time non-Index constituents and non ethical stocks may be held as a result of a corporate action and these holdings will be sold or transferred as soon as reasonably practical.

Companies will be considered eligible unless they are involved in the following activities:

Animal testing	Military – nature of involvement
Gambling	Nuclear power
Health & safety convictions	Ozone depleting chemicals
Countries with poor human rights records	Pornography
Intensive farming	Tobacco
Investment Trusts	Tropical hardwood retailing
	Water pollution

Independent monitoring of companies is carried out by Ethical Investment Research Services (“EIRIS”) based on the criteria above.

## Risk Profile

### Market Risk

Market risk arises mainly from uncertainty about future prices. The Manager adheres to the investment guidelines and in this way, monitors and controls the exposure to risk from any type of security, sector or issuer.

## Trust Facts

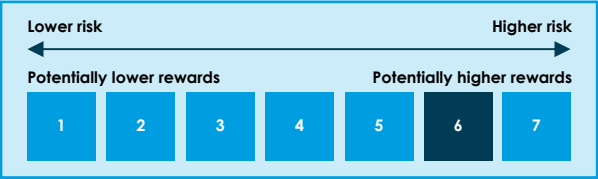
Period End Dates for Distributions:	12 Jun, 12 Dec	
Distribution Dates:	12 Aug, 12 Feb	
Ongoing Charges Figures:	12 Dec 13	12 Dec 12
R-Class	1.15%	1.15%
I-Class	0.31%	0.32%
F-Class*	0.45%	—

\* F-Class units were launched on 19 December 2012.

The Ongoing Charges Figure (OCF) is the ratio of the Trust’s total discloseable costs (excluding overdraft interest) to the average net assets of the Trust.

The OCF is intended to provide a reliable figure which gives the most accurate measure of what it costs to invest in a trust and is calculated based on the last period’s figures.

# Risk and Reward Profile



- This risk and reward profile is based on historical data which may not be a reliable indication of the Trust’s risk and reward category in the future.
- The category is based on the rate at which the value of the Trust has moved up and down in the past.
- This Trust is in category six because it invests in company shares which generally provide higher rewards and higher risks than other investments such as bonds, cash or commercial property.
- The Trust’s category is not guaranteed to remain the same and may change over time.
- Even a trust in the lowest category is not a risk free investment.

## Trust Performance

Accounting Date	Net Asset Value Of Trust	Net Asset Value Per Unit	Number Of Units In Issue
12 Dec 11			
R-Class			
Distribution Units	£86,159,118	39.67p	217,189,889
Accumulation Units	£59,529,830	51.55p	115,476,960
I-Class			
Distribution Units	£8,580,235	39.64p	21,644,636
Accumulation Units	£968,050	53.90p	1,796,080
12 Dec 12			
R-Class			
Distribution Units	£99,471,943	45.93p	216,560,188
Accumulation Units	£67,338,548	61.24p	109,956,547
I-Class			
Distribution Units	£15,722,924	45.90p	34,252,789
Accumulation Units	£1,640,630	64.57p	2,541,013
12 Dec 13			
R-Class			
Distribution Units	£119,408,956	55.36p	215,707,956
Accumulation Units	£79,140,693	75.36p	105,013,161
I-Class			
Distribution Units	£19,333,519	55.32p	34,947,868
Accumulation Units	£9,477,164	80.11p	11,829,513
F-Class*			
Distribution Units	£12,485	55.69p	22,420
Accumulation Units	£14,085	76.34p	18,450

\* F-Class units were launched on 19 December 2012.

**Past performance is not a guide to future performance.**

**The price of units and any income from them may go down as well as up.**

## Distribution Information

### R-Class

The distribution payable on 12 February 2014 is 0.3958p net per unit for distribution units and 0.5349p net per unit for accumulation units.

### I-Class

The distribution payable on 12 February 2014 is 0.6276p net per unit for distribution units and 0.8988p net per unit for accumulation units.

### F-Class

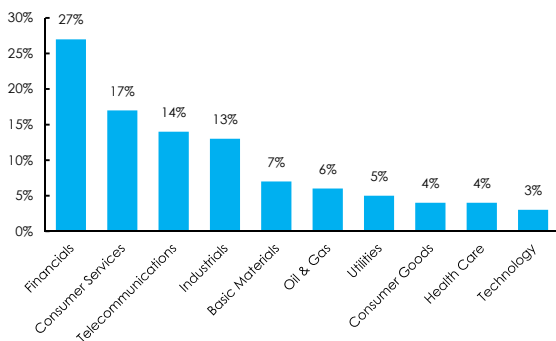
The distribution payable on 12 February 2014 is 0.5976p net per unit for distribution units and 0.8063p net per unit for accumulation units.

## Portfolio Information

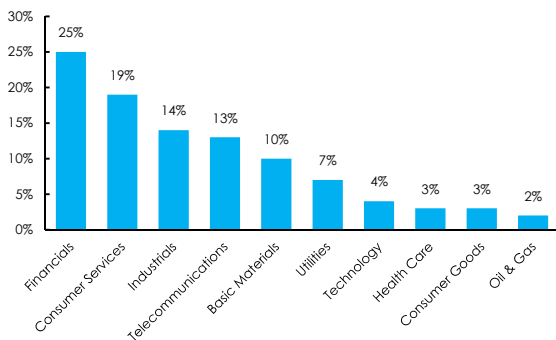
The top 10 holdings and their associated weighting for the current and preceding year are:

Top 10 Holdings at 12 December 2013		Top 10 Holdings at 12 December 2012	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
Vodafone Group	9.77%	Vodafone Group	9.25%
BG Group	5.06%	Tesco	4.25%
Lloyds Banking Group	4.48%	National Grid	4.07%
Prudential	3.91%	Prudential	3.60%
Glencore Xstrata	3.54%	Lloyds Banking Group	3.02%
BT Group	3.52%	BT Group	2.90%
National Grid	3.41%	Xstrata	2.64%
Tesco	3.18%	Scottish & Southern Energy	2.14%
Shire	1.83%	Glencore International	1.92%
ARM Holdings	1.66%	Shire	1.69%

## Trust Holdings as at 12 December 2013



## Trust Holdings as at 12 December 2012



## Unit Price Range and Net Revenue

### R-Class

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2008	51.92p	25.58p	1.3016p
2009	38.38p	24.52p	1.0406p
2010	45.53p	35.79p	0.7534p
2011	47.14p	37.03p	0.8212p
2012	46.68p	39.61p	1.0777p
2013 <sup>(1)</sup>	58.31p	46.80p	1.1704p
2014 <sup>(2)</sup>	—	—	0.3958p
<b>Accumulation Units</b>			
2008	60.93p	30.57p	1.5254p
2009	47.70p	29.81p	1.2549p
2010	57.83p	44.70p	0.9379p
2011	59.87p	47.59p	1.0406p
2012	61.99p	51.48p	1.3937p
2013 <sup>(1)</sup>	78.83p	62.38p	1.5539p
2014 <sup>(2)</sup>	—	—	0.5349p

### I-Class

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2008	51.95p	25.64p	1.6613p
2009	38.64p	24.53p	1.2724p
2010	45.52p	35.78p	1.0434p
2011	47.26p	37.11p	1.1786p
2012	46.84p	39.74p	1.4266p
2013 <sup>(1)</sup>	58.46p	46.79p	1.5664p
2014 <sup>(2)</sup>	—	—	0.6276p
<b>Accumulation Units</b>			
2008	61.82p	31.19p	1.9664p
2009	49.00p	30.49p	1.5645p
2010	59.97p	46.13p	1.3320p
2011	62.26p	49.67p	1.5463p
2012	65.38p	54.03p	1.9182p
2013 <sup>(1)</sup>	83.71p	65.80p	2.1897p
2014 <sup>(2)</sup>	—	—	0.8988p

<sup>(1)</sup> The above tables show the highest offer and lowest bid prices to 12 December 2013.

<sup>(2)</sup> The above tables show the net revenue per unit to 12 February 2014.

**Past performance is not a guide to future performance.**

**The price of units and any income from them may go down as well as up.**

## Unit Price Range and Net Revenue continued

### F-Class\*

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2012 <sup>(1)</sup>	46.79p	46.00p	—
2013 <sup>(2)</sup>	58.82p	47.09p	0.8923p
2014 <sup>(3)</sup>	—	—	0.5976p
<b>Accumulation Units</b>			
2012 <sup>(1)</sup>	62.37p	61.32p	—
2013 <sup>(2)</sup>	79.78p	62.77p	1.1910p
2014 <sup>(3)</sup>	—	—	0.8063p

\* There are no prior year comparatives for the F-Class which launched on 19 December 2012.

<sup>(1)</sup> From 19 December 2012.

<sup>(2)</sup> The above table shows the highest offer and lowest bid prices to 12 December 2013.

<sup>(3)</sup> The above table shows the net revenue per unit to 12 February 2014.

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## **Manager's Investment Report**

During the year under review, the bid price of the Trust's R-Class distribution units increased by 20.13%. Although there is no published Index for those companies assessed as eligible by EIRIS, for comparison over the same period, the FTSE 350 Index (excluding Investment Trusts) increased by 10.51%; similarly, the broader based FTSE All-Share Index (excluding Investment Trusts) increased by 10.86% on a capital only basis (Source: Bloomberg).

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**The value of investments and any income from them may go down as well as up.**

## **Market/Economic Review**

During the review year the market made some steady gains, reaching a high in May 2013, then undergoing a sharp correction in June and then bouncing back again in July. A less volatile five month run resulted in the market finishing higher than at the start of the review year.

The Trust's selection process excludes the Tobacco and Military industries, while the Oil & Gas, Banks and Health Care sectors are markedly underweight. Such exclusions are compensated for by an increased presence in Telecommunications, Life Insurance and Retailers.

There are three principal reasons for changes to the distribution of investments in the Trust: firstly, changes in the list of companies which meet the ethical criteria; secondly, changes in the FTSE 350 Index at its quarterly reviews; and finally, changes due to corporate activity and takeovers.

During the review year Afren, Aggreko, BBA Aviation, John Wood Group, SIG, and TUI Travel became unacceptable under the ethical criteria screening, whilst Kentz and Tate & Lyle became acceptable.

The FTSE committee reviews the Index of the top 350 companies every quarter and companies added to the Index are only added to the Trust once confirmation of their acceptability for inclusion is received from EIRIS.

There were four Index reviews during the review year. At the quarterly review in December 2012 there were three additions to the universe: Direct Line Insurance Group, United Drug and Enterprise Inns. Shanks Group, Ruspetro and Talvivaara Mining Company were demoted to the FTSE Small Cap Index.

At the quarterly review in March 2013 there were four companies added to the Index universe: Thomas Cook Group, 888 Holdings, NMC Health and Keller. Only Thomas Cook Group and Keller passed the EIRIS acceptability screens. JD Sports Fashion, British Assets Trust, Raven Russia and Stobart Group were demoted to the FTSE Small Cap Index.

## **Manager's Investment Report continued**

At the annual review in June 2013 there were four new companies added to the Index: DCC, Esure Group, Countrywide and Crest Nicholson Holdings, and one promotion from the FTSE SmallCap Index: Xaar. All of them passed the EIRIS acceptability screens. Heritage Oil, SDL, New World Resources and Petropavlovsk in the Index were demoted to the FTSE Small Cap Index.

At the quarterly review in September 2013 there were four new companies added to the Index universe: Al Noor Hospitals Group, Coca Cola, Entertainment One and Partnership Assurance Group and one promotion from the FTSE SmallCap Index: Greencore. All of them passed the EIRIS acceptability screens. Anite, Bumi and Salamander were demoted to the FTSE Small Cap Index.

Outside the reviews, mining and metals group Glencore completed its long awaited merger with Xstrata, resulting in a name change to Glencore Xstrata and a small increase in weighting for the new entity. Eurasian Natural Resources Corporation (ENRC) became a private entity, resulting in the Trust receiving and subsequently selling shares of Kazakhmys (non-constituent) who previously held a stake in ENRC. As a result HellermannTyton Group entered the Index. Other corporate actions included advertising services company Aegis Group, which was acquired by Dentsu (Japan) and resulted in the promotion of Fisher (James) & Sons to the FTSE 350 Index, and the demerger of Alent, the speciality chemicals unit, from the diversified industrial company Vesuvius (formerly known as Cookson). Vesuvius was subsequently deemed unacceptable according to the EIRIS screening process. The free float increased to 100% in International Consolidated Airlines Group, following the sale of Bankia SA's residual 12% holding.

Capital raisings included Intu Properties, formerly Capital Shopping Centres, British Land and Lancashire Holdings for acquisitions, and St. Modwen to help fund the redevelopment of Covent Garden. Other capital raisings included Ophir Energy to fund drilling and production development, Thomas Cook for refinancing purposes, and lastly Phoenix Group and FirstGroup both raised cash to pay off debt.

Capital repayments included Admiral Group, InterContinental Hotels Group, Hargreaves Lansdown, ITV, Rexam, Sage, Hiscox, Spirax-Sarco Engineering, Standard Life, Computacenter and Beazley.

The three largest stocks in the Trust at the end of the review year were Vodafone, BG Group and Lloyds Banking Group.

## **Outlook**

The global economy remains on track for slow and steady growth this year, now with a greater contribution to growth sourced from advanced economies. In the UK, consumer spending has grown over the past year and there is potential for further improvement ahead. Survey data continued to improve of late, suggesting that year-on-year growth in the UK could be as strong as 3.5%. The

## **Manager's Investment Report continued**

construction sector certainly appears stronger and total employment numbers have rapidly increased to beat consensus expectations which may lead to higher consumption levels. However, unemployment levels are not yet low enough to trigger Bank of England governor Carney's conditions for a rate rise.

There are a number of potential risks looking ahead, not least US debt negotiations, Middle East volatility and European political uncertainty, but the market does not seem particularly vulnerable unless the situation markedly deteriorates. Should the economic backdrop improve in line with consensus forecasts, there is potential for improving global growth going forward, from which the globally exposed UK market can benefit greatly.

Legal & General Investment Management Limited  
(Investment Adviser)  
6 January 2014

## **Manager's Report and Accounts**

Copies of the most recent Interim and Annual Long Form Manager's Reports are available free of charge by telephoning 0370 050 0955, by writing to the Manager or are available on the internet at [www.legalandgeneral.com/investments/fund-information/managers-reports](http://www.legalandgeneral.com/investments/fund-information/managers-reports).

Call charges will vary. We may record and monitor calls.

## **Significant Changes**

### **New Unit Class: F-Class**

With effect from 19 December 2012, the Trust launched a new F-Class, with distribution and accumulation units available.

F-Class units are only available for investment through a financial adviser.

### **Minimum Investment Amounts**

The minimum initial lump sum investment amounts for each class are as follows:

R-Class	£500
I-Class	£1,000,000
F-Class	£500

In addition, monthly contributions can be made into the R-Class and F-Class units, with a minimum amount of £50 per month.

### **Other Information**

The information in this report is designed to enable unitholders to understand how the Trust has performed during the year under review and how it is invested at the year end. Further information on the activities and performance of the Trust can be obtained by telephoning 0370 050 0955 or by writing to the Manager.

**Manager**

Legal & General (Unit Trust Managers) Limited

Registered in England No. 01009418

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**Trustee**

National Westminster Bank Plc

Trustee and Depositary Services

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London EC2M 3UR

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority

**Independent Auditors**

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Financial Conduct Authority**

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