

Legal & General Japan Index Trust

**Annual Manager's  
Short Report  
for the year ended  
24 October 2013**





## Investment Objective and Policy

The investment objective of this Trust is to track the capital performance of the Japanese equity market, as represented by the FTSE World Japan Index, by investment in a representative sample of stocks selected from all economic sectors. Securities in the FTSE World Japan Index will be held with weightings generally proportionate to their market capitalisation.

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

## 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.

### Currency Risk

This Trust is invested in overseas financial securities. The performance of the Trust may therefore be affected by changes in exchange rates. This risk may be managed by the use of forward currency contracts, which aim to manage the effect of changing exchange rates.

## Trust Facts

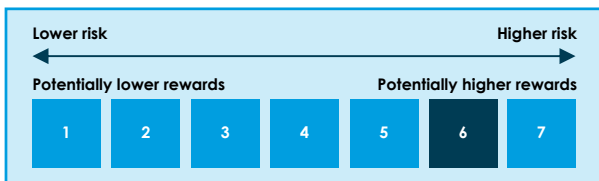
Period End Date for Distribution:	24 Oct	
Distribution Date:	24 Dec	
Ongoing Charges Figures:	24 Oct 13	24 Oct 12
R-Class	0.83%	0.83%
I-Class	0.21%	0.27%
F-Class*	0.38%	—

\* There is no prior year comparative for the F-Class which 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
24 Oct 11			
R-Class			
Distribution Units	£128,056,571	29.06p	440,695,857
Accumulation Units	£61,407,105	30.82p	199,252,391
I-Class			
Distribution Units	£46,181,151	29.03p	159,092,538
Accumulation Units	£157,252,273	31.55p	498,449,525
24 Oct 12			
R-Class			
Distribution Units	£123,529,508	27.08p	456,107,366
Accumulation Units	£52,907,941	29.15p	181,486,611
I-Class			
Distribution Units	£35,389,486	27.05p	130,834,725
Accumulation Units	£107,404,134	30.01p	357,905,870
24 Oct 13			
R-Class			
Distribution Units	£227,293,306	35.64p	637,666,648
Accumulation Units	£67,127,717	38.69p	173,500,755
I-Class			
Distribution Units	£88,438,191	35.62p	248,315,824
Accumulation Units	£192,671,276	40.07p	480,792,823
F-Class*			
Distribution Units	£107,532	35.72p	301,063
Accumulation Units	£21,769	38.94p	55,910

\* 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.**

**Exchange rate changes may cause the value of any overseas investments to rise or fall.**

## Distribution Information

### R-Class

The distribution payable on 24 December 2013 is 0.2992p net per unit for distribution units and 0.3222p net per unit for accumulation units.

### I-Class

The distribution payable on 24 December 2013 is 0.5058p net per unit for distribution units and 0.5616p net per unit for accumulation units.

### F-Class

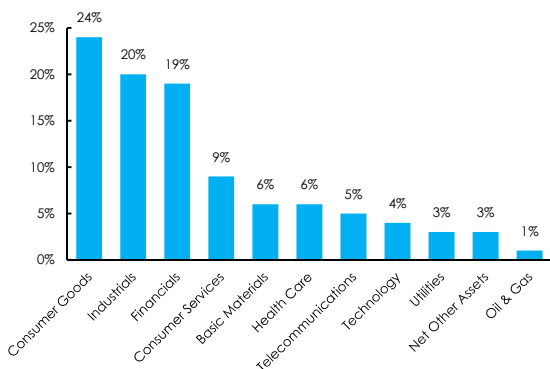
The distribution payable on 24 December 2013 is 0.4551p net per unit for distribution units and 0.4907p net per unit for accumulation units.

## Portfolio Information

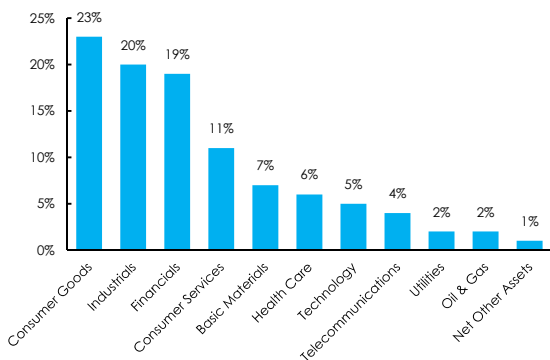
The top 10 holdings and their associated weighting for the current and preceding year are:

Top 10 Holdings at 24 October 2013		Top 10 Holdings at 24 October 2012	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
Toyota Motor	5.58%	Toyota Motor	4.44%
Mitsubishi UFJ Financial Group	2.96%	Mitsubishi UFJ Financial Group	3.14%
Softbank	2.44%	Honda Motor	2.11%
Honda Motor	2.32%	Canon	2.09%
Sumitomo Mitsui Financial Group	2.14%	Sumitomo Mitsui Financial Group	2.08%
Mizuho Financial Group	1.64%	Mizuho Financial Group	1.82%
Japan Tobacco	1.32%	Fanuc	1.43%
Takeda Pharmaceutical	1.21%	Japan Tobacco	1.41%
Mitsubishi Estate	1.19%	NTT DoCoMo	1.31%
Canon	1.18%	Takeda Pharmaceutical	1.31%

## Trust Holdings as at 24 October 2013



## Trust Holdings as at 24 October 2012



## Unit Price Range and Net Revenue

### R-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2008	33.64p	23.97p	0.3346p
2009	30.48p	23.83p	0.2346p
2010	33.88p	28.79p	0.3221p
2011	34.00p	27.36p	0.3779p
2012	30.97p	26.48p	0.4014p
2013 <sup>(1)</sup>	38.76p	28.81p	0.2992p
<b>Accumulation Units</b>			
2008	34.10p	24.29p	0.3400p
2009	31.32p	24.49p	0.2387p
2010	35.48p	29.83p	0.3325p
2011	35.60p	28.81p	0.4002p
2012	32.85p	28.50p	0.4218p
2013 <sup>(1)</sup>	41.72p	31.02p	0.3222p

### I-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2008	33.69p	24.03p	0.4318p
2009	30.56p	23.85p	0.3340p
2010	33.66p	28.79p	0.4633p
2011	33.95p	27.32p	0.5254p
2012	30.88p	26.45p	0.5611p
2013 <sup>(1)</sup>	38.74p	28.90p	0.5058p
<b>Accumulation Units</b>			
2008	34.41p	24.55p	0.4415p
2009	31.75p	24.80p	0.3474p
2010	35.94p	30.27p	0.4871p
2011	36.24p	29.47p	0.5599p
2012	33.57p	29.35p	0.6104p
2013 <sup>(1)</sup>	42.98p	32.06p	0.5616p

<sup>(1)</sup> The above tables show the highest offer and lowest bid prices to 24 October 2013 and the net revenue per unit to 24 December 2013.

**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.**

**Exchange rate changes may cause the value of any overseas investments to rise or fall.**

## Unit Price Range and Net Revenue continued

### F-Class Units\*

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2012 <sup>(1)</sup>	29.06p	28.44p	—
2013 <sup>(2)</sup>	38.93p	28.98p	0.4551p
<b>Accumulation Units</b>			
2012 <sup>(1)</sup>	31.28p	30.62p	—
2013 <sup>(2)</sup>	41.92p	31.20p	0.4907p

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

<sup>(1)</sup> The above table shows the highest offer and lowest bid prices from 19 December 2012 to 31 December 2012.

<sup>(2)</sup> The above table shows the highest offer and lowest bid prices to 24 October 2013 and the net revenue per unit to 24 December 2013.

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## **Manager's Investment Report**

During the year under review, the bid price of the Trust's R-Class distribution units rose from 27.48p to 35.94p, an increase of 30.79%. FTSE, the Index compiler, calculates the benchmark Index at the end of the business day using closing prices, whereas the Trust is valued using prevailing prices at 12 noon. Therefore, for tracking purposes the Trust has been re-valued using closing prices and foreign exchange rates. On this basis, over the review year from the close of business on 24 October 2012 to the close of business on 24 October 2013, the Trust rose by 32.13% compared with the FTSE World Japan Index increase of 32.12% on a capital only basis, producing a tracking difference of +0.01% (Source: Bloomberg).

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## **Market/Economic Review**

The global economy faced several headwinds over the review year. Initially, the European Sovereign debt crisis held centre stage as policymakers struggled to address concerns that a number of heavily indebted countries would be forced to leave the Euro. The emerging market economies were, at first, the driving force of global growth, but there was a slowdown in China as the authorities attempted to cool credit-fuelled spending. Governments in the G7 countries have, to varying degrees, implemented austerity programmes, while simultaneously leaving interest rates at historically low levels. In the US, UK and Japan this has been accompanied by further asset purchases (quantitative easing) aimed at reviving growth.

In Japan, Prime Minister Abe's public spending policy and the Bank of Japan's expansionary monetary policy appear to be making some initial positive strides domestically. Indeed, inflation data has improved, and surpassed expected levels by rising to 1.1% year-on-year. However, the Yen's strength against the US Dollar has weighed on sentiment, and despite some gains earlier this year, Japanese equities have remained relatively range bound this autumn. The return to the Sterling investor was impacted by the Yen depreciating 18.7%. At the start of the year under review £1 would have bought ¥127.96, whilst by the end of the year under review this increased to ¥157.42.

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

Sector performance posted a mixed result over the year under review. The best performing sectors were Financial Services (+85.1%) and Mobile Telecommunications (+69.6%); the worst performing sectors were Oil & Gas Producers (-9.0%) and Gas, Water & Multiutilities (+0.4%).

### **Trust Review**

Companies held within the Trust are held with weightings generally proportionate to those of the benchmark Index. Therefore, investment activity, other than to raise or invest cash, is only necessary when there are changes to the benchmark Index, or as a result of corporate action. During the year under review there were four quarterly Index reviews.

The quarterly reviews of the FTSE Japan Index in December 2012, June 2013 and September 2013 resulted in no additions to or deletions from the index. There were, however, a number of shares in issue changes. In the December 2012 review there were 16 changes to the free share capital of constituents, with the largest increases being Hitachi and Mitsubishi Motors, and the largest decreases being Nippon Steel, Sumitomo Metal Mining and JFE Holdings. The June 2013 Index review had 12 changes to the free share capital of constituents, with the largest increases being Hitachi and Sumitomo Mitsui Trust Holdings, and the largest decreases being East Japan Railway and Olympus. In September 2013, there were eight changes to Index weights, with the largest increases being Daiwa House Industry and Dentsu, and the largest decrease being Aozora Bank.

At the FTSE Japan annual Index review in March 2013, the free float methodology was enhanced from banded to actual, resulting in a free float change for 371 constituents, with the largest increases being Honda Motor and Kubota, and the largest decreases being Canon and Sumitomo Mitsui Financial Group. Together with the review changes, which included 20 additions and 10 deletions, the review resulted in two-way Index turnover of 13.8%.

At each index review effective date, the holdings were rebalanced accordingly.

Outside the review, there were two merger and acquisition events during the fourth quarter of 2012. Hitachi Metals acquired Hitachi Tool Engineering Ltd (non-Index) in stock, and Softbank completed a stock acquisition of eAccess (non-Index). Both events resulted in increased shares in issue of the Index constituents. In the first quarter of 2013, following the completion of a secondary offering for Aozora Bank, the Japanese lender increased its weight in the Index. In addition, Sony Corp sold its entire stake in DeNA, resulting in the internet media company increasing its weight in the Index. There were several weight increases during April 2013 following secondary share offerings, including Nomura Real Estate, internet based medical company M3, and Nippon Electric Glass.

June 2013 saw the completion of Hitachi Metals stock acquisition of Hitachi Cable (non-Index) as well as an increase in Index weight

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

for Nabtesco, the aircraft & hydraulic manufacturer, following a secondary share offering by Kobe Steel.

During the third quarter of 2013, July saw an increase in weight to AEON Mall following a public offer and August saw Olympus increase its weight by 14%. A share transfer occurred between Tokyu Land, Tokyu Community (non-Index) and Tokyu Livable (non-Index) to form a new Index constituent Tokyu Fudosan Holdings, which subsequently listed on the Tokyo Stock Exchange on 1 October 2013.

## **Outlook**

We believe that the global economy remains on track for slow and steady growth this year, now with a greater contribution to growth sourced from advanced economies. Tapering of US asset purchases by the Federal Reserve is likely to proceed cautiously, with higher government bond yields reflecting better global growth as much as slowing of asset purchases. Janet Yellen, named as the successor to Ben Bernanke as Federal Reserve Chairman, is expected to follow current Federal Reserve data-dependent policy with, if anything, a more dovish attitude to monetary policy. In the Eurozone, Merkel staying in power has left post-election Germany relatively unchanged, with a supportive bias towards a Eurozone solution.

In Japan, general expectations are that the Abenomics measures (the name given to measures introduced by Japanese prime minister Shinzo Abe) should work, or indeed that further policy stimulus will be implemented if there are any signs of faltering. With this in mind, Japanese equities are expected to perform well amongst its developed market counterparts. The investment case behind Japanese equities rests on two factors: first, that Abenomics will continue to deliver positive news flow, and second that Japanese companies are well placed to benefit from the upturn in the global economic cycle. Heavy regulation burdens many Japanese companies with high fixed costs, so improvements in the top line are likely to have a significant impact on earnings.

There are a number of potential risks looking ahead, not least the after effects of US political wrangling, 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, risk assets should be supported in the medium term and there is potential for improving global growth going forward. The Trust remains well positioned to capture the market performance.

Legal & General Investment Management Limited

(Investment Adviser)

19 November 2013

## **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.

### **Information on Tracking Error**

The 'Tracking Error' of a Fund is the measure of the volatility of the differences between the return of the Fund and the return of the benchmark Index. It provides an indication of how closely the Fund is tracking the performance of the benchmark Index after considering things such as Fund charges and taxation.

Using monthly returns, over the review year, the annualised Tracking Error of the Fund is 0.06%, whilst over the last three years to the end of October 2013, the annualised Tracking Error is 0.05%. These Tracking Errors are within the anticipated Tracking Error levels set out in the Fund's Prospectus of 0.50% per annum.

### **Significant Changes**

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

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

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

#### **Change to Annual Management Charge**

With effect from 1 April 2013, the management charge for I-Class units has been reduced from 0.20% to 0.15%.

### **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 only, 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

Registered office:

One Coleman Street,

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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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London SE1 2RT





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Financial Conduct Authority**

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