Legal & General
Global Emerging Markets Index Fund

# Interim Manager's Short Report for the period ended 31 January 2014

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Legal & General

## Investment Objective and Policy

The objective of the Fund is to track the capital performance of global emerging equity markets, as represented by the FTSE All-World Emerging Index.

The Manager will seek to achieve the investment objective by investing primarily in securities that make up the constituents of the FTSE All-World Emerging Index. The Fund may also invest in stocks which are reasonably expected, at the investment manager's discretion to become part of the Index. Securities will be held with weightings generally proportionate to their market capitalisation. The Fund may hold depository receipts and derivatives both for efficient portfolio management and investment purposes.

The Fund may also invest in other transferable securities, equities, permitted deposits, money market instruments, cash, near cash and units in collective investment schemes.

## 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.

This Fund invests in securities which are issued by companies in Emerging Markets and therefore, there is likely to be increased volatility in price movements. The securities may also be less liquid than securities on larger exchanges which are generally traded more frequently.

### Currency Risk

This Fund is invested in overseas financial securities. The performance of the Fund 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.

## Fund Facts

| | | |
|---|---|---|
| Period End Date for Distribution: | | 31 Jul |
| Distribution Date: | | 30 Sep |
| Ongoing Charges Figures: | 31 Jan 14 | 31 Jul 13 |
| R-Class | 0.97% | 1.06% |
| I-Class | 0.43% | 0.56% |
| L-Class | 0.18% | 0.27% |
| F-Class | 0.62% | 0.71% |
| C-Class* | 0.38% | — |

* There is no prior year comparative for the C-Class which launched on 9 December 2013.

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

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

## Risk and Reward Profile

| Lower risk | | | | | | Higher risk |
|---|---|---|---|---|---|---|
| Potentially lower rewards | | | | | | Potentially higher rewards |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |

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

## Fund Performance

| Accounting Date | Net Asset Value Of Fund | Net Asset Value Per Unit | Number Of Units In Issue |
|---|---|---|---|
| 31 Jul 11 | | | |
| R-Class | | | |
| Distribution Units | £2,539,825 | 48.67p | 5,218,869 |
| Accumulation Units | £16,516,345 | 49.33p | 33,478,997 |
| I-Class | | | |
| Distribution Units | £6,326,433 | 48.69p | 12,993,956 |
| Accumulation Units | £2,626,563 | 49.50p | 5,306,051 |
| L-Class | | | |
| Distribution Units | £31,737,358 | 48.69p | 65,177,178 |
| 31 Jul 12 | | | |
| R-Class | | | |
| Distribution Units | £10,374,099 | 42.83p | 24,222,838 |
| Accumulation Units | £27,335,340 | 44.28p | 61,737,435 |
| I-Class | | | |
| Distribution Units | £17,374,501 | 42.83p | 40,566,888 |
| Accumulation Units | £10,816,694 | 44.65p | 24,224,533 |
| L-Class | | | |
| Distribution Units | £32,800,884 | 42.80p | 76,630,301 |
| 31 Jul 13 | | | |
| R-Class | | | |
| Distribution Units | £10,802,715 | 43.56p | 24,801,168 |
| Accumulation Units | £35,391,545 | 45.90p | 77,108,294 |
| I-Class | | | |
| Distribution Units | £25,208,175 | 43.55p | 57,883,987 |
| Accumulation Units | £197,187,807 | 46.52p | 423,860,361 |
| L-Class | | | |
| Distribution Units | £23,231,009 | 43.52p | 53,385,248 |
| F-Class* | | | |
| Distribution Units | £10,438 | 43.70p | 23,887 |
| Accumulation Units | £156,884 | 46.16p | 339,887 |
| 31 Jan 14 | | | |
| R-Class | | | |
| Distribution Units | £11,986,923 | 39.22p | 30,561,189 |
| Accumulation Units | £33,272,310 | 41.33p | 80,503,283 |
| I-Class | | | |
| Distribution Units | £31,313,886 | 39.32p | 79,632,245 |
| Accumulation Units | £186,679,395 | 42.01p | 444,399,751 |
| L-Class | | | |
| Distribution Units | £63,363,649 | 39.34p | 161,058,337 |
| F-Class* | | | |
| Distribution Units | £188,601 | 39.42p | 478,432 |
| Accumulation Units | £196,699 | 41.64p | 472,411 |
| C-Class** | | | |
| Distribution Units | £954 | 39.26p | 2,430 |
| Accumulation Units | £953 | 41.91p | 2,274 |

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

** There are no prior year comparatives for the C-Class which launched on 9 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.**

## Distribution Information

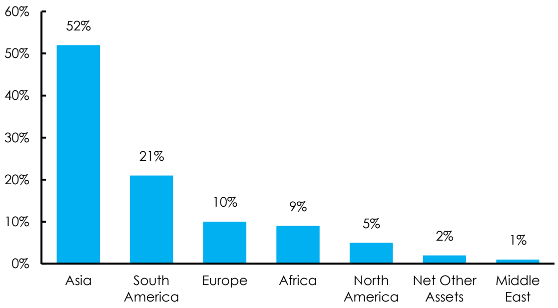
The policy is to distribute, on an annual basis, all available revenue, after deduction of those expenses which are chargeable in calculating the distribution. This being the case, there is no interim distribution.

## Portfolio Information

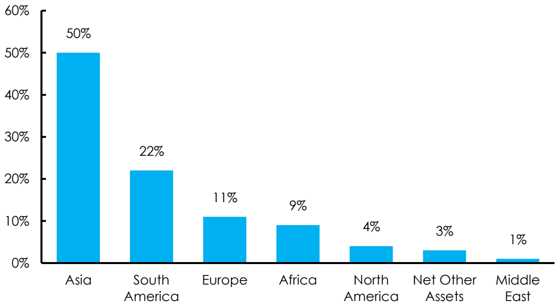
The top 10 holdings and their associated weighting for the current period and preceding year are:

| Top 10 Holdings at 31 January 2014 | | Top 10 Holdings at 31 July 2013 | |
|---|---|---|---|
| **Holding** | **Percentage of Net Asset Value** | **Holding** | **Percentage of Net Asset Value** |
| Taiwan Semiconductor Manufacturing | 2.70% | Taiwan Semiconductor Manufacturing | 2.54% |
| Tencent Holdings | 2.13% | China Mobile | 1.76% |
| China Construction Bank | 1.66% | China Construction Bank | 1.72% |
| China Mobile | 1.65% | Industrial & Commercial Bank of China | 1.52% |
| Gazprom (US Line) | 1.54% | Gazprom (US Line) | 1.40% |
| Industrial & Commercial Bank of China | 1.48% | Tencent Holdings | 1.32% |
| Naspers | 1.25% | Lukoil | 1.10% |
| America Movil | 1.11% | America Movil | 1.08% |
| Bank of China | 1.06% | Itau Unibanco (Preference) | 1.03% |
| Hon Hai Precision Industry | 1.03% | Naspers | 1.03% |

### Fund Holdings as at 31 January 2014




### Fund Holdings as at 31 July 2013



## Unit Price Range and Net Revenue

### R-Class Units

| Year | Highest Offer | Lowest Bid | Net Revenue |
|---|---|---|---|
| **Distribution Units** | | | |
| 2010[1] | 53.79p | 49.82p | — |
| 2011 | 53.98p | 39.06p | 0.6627p |
| 2012 | 48.63p | 40.89p | 0.8497p |
| 2013 | 50.60p | 41.01p | 0.8372p |
| 2014[2] | 41.87p | 39.21p | — |
| **Accumulation Units** | | | |
| 2010[1] | 53.79p | 49.82p | — |
| 2011 | 53.97p | 39.57p | 0.6547p |
| 2012 | 49.29p | 41.46p | 0.8613p |
| 2013 | 52.31p | 42.68p | 0.8667p |
| 2014[2] | 44.12p | 41.32p | — |

### I-Class Units

| Year | Highest Offer | Lowest Bid | Net Revenue |
|---|---|---|---|
| **Distribution Units** | | | |
| 2010[1] | 53.83p | 49.83p | — |
| 2011 | 54.01p | 39.11p | 0.8123p |
| 2012 | 48.78p | 41.07p | 1.0729p |
| 2013 | 50.75p | 41.02p | 1.0722p |
| 2014[2] | 41.95p | 39.48p | — |
| **Accumulation Units** | | | |
| 2010[1] | 53.83p | 49.83p | — |
| 2011 | 54.01p | 39.74p | 0.8279p |
| 2012 | 49.62p | 41.77p | 1.0913p |
| 2013 | 52.91p | 43.23p | 1.1242p |
| 2014[2] | 44.82p | 42.18p | — |

### L-Class Units

| Year | Highest Offer | Lowest Bid | Net Revenue |
|---|---|---|---|
| **Distribution Units** | | | |
| 2010[1] | 53.86p | 49.55p | — |
| 2011 | 54.05p | 39.11p | 0.9403p |
| 2012 | 48.75p | 41.14p | 1.1918p |
| 2013 | 50.81p | 41.00p | 1.2028p |
| 2014[2] | 41.97p | 39.27p | — |

[1] From 29 October 2010.

[2] The above tables show the highest offer and lowest bid prices to 31 January 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.**

**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 |
|---|---|---|---|
| **Distribution Units** | | | |
| 2012[1] | 46.22p | 45.42p | — |
| 2013 | 50.82p | 41.16p | 0.9490p |
| 2014[3] | 42.06p | 39.58p | — |
| **Accumulation Units** | | | |
| 2012[1] | 47.79p | 46.96p | — |
| 2013 | 52.54p | 42.91p | 0.9811p |
| 2014[3] | 44.43p | 41.81p | — |

### C-Class Units**

| Year | Highest Offer | Lowest Bid | Net Revenue |
|---|---|---|---|
| **Distribution Units** | | | |
| 2013[2] | 42.84p | 41.73p | — |
| 2014[3] | 41.71p | 39.42p | — |
| **Accumulation Units** | | | |
| 2013[2] | 45.76p | 44.58p | — |
| 2014[3] | 44.55p | 42.11p | — |

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

** There are no prior year comparatives for the C-Class which launched on 9 December 2013.

(1) From 19 December 2012.

(2) From 9 December 2013.

(3) The above tables show the highest offer and lowest bid prices to 31 January 2014.

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## Manager's Investment Report

During the period under review, the bid price of the Fund's R-Class distribution units fell by 11.71%. FTSE, the Index compiler, calculates the benchmark Index at the end of the business day using closing prices, whereas the Fund is valued using prevailing prices at midday. Therefore, for tracking purposes the Fund has been revalued using closing prices and foreign exchange rates. On this basis, over the review period, the Fund fell by 10.15% on a capital only basis, compared with the FTSE All-World Emerging Index fall of 10.17% on a capital only basis (Sterling adjusted), producing a tracking difference of +0.02% (Source: Bloomberg).

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## Market/Economic Review

Emerging Market currencies were in the firing line over the summer months. Negative data surprises, elevated fears of a hard landing in China following money market volatility in late June and expectations of the US Federal Reserve (Fed) starting to taper the pace of asset purchases, culminated in several major Emerging Market exchange rates falling by 15% or more between late May and late August 2013. The currencies that saw the greatest falls were those with the largest current account deficits, with Brazil, India, Indonesia, Turkey and South Africa attracting the dubious label of the 'Fragile Five'. While the Fed's surprising decision not to start tapering in September has provided some respite, the sell-off has raised the question of whether Emerging Markets are set for a repeat of the systemic crises episodes witnessed in the 1990s.

There have been concerns over a slowdown in China, where the authorities are attempting to rebalance the economy away from investment and towards consumption. The crackdown on shadow banking has led to a tightening of credit conditions but, so far, growth has held up quite well. Growth in other emerging economies has been disappointing relative to expectations earlier in the year, as a number of developing economies face significant headwinds to growth - including inflationary pressures, excessive credit growth, limited structural reforms and current account financing issues.

## Manager's Investment Report continued

The Fed began the tapering of its quantitative easing programme in January 2014 and markets turned much more volatile at the end of the review period. The precise extent to which this boosted capital flows towards Emerging Markets is unclear. Evidence from academic research is mixed and total capital flows to Emerging Markets (as a share of Emerging Market GDP) did not accelerate over the quantitative easing (QE) period. Nevertheless it seems likely that QE has encouraged portfolio inflows which have exceeded the rates seen in the run up to the global financial crisis.

The coincidence of a number of unrelated events – including political problems in Thailand and Ukraine and strains on Argentina's macro policy framework – added to the perception of contagion. However, currency pressures did not evolve into widespread emerging market banking and sovereign credit crises, and China's slowdown is planned and remains in line with the government's goal.

## Fund Review

Companies held within the Fund 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 a corporate action.

During the period under review there were two Index reviews carried out by FTSE. At the quarterly Index review in September 2013, there were no deletions but Infraestructura Energetica Nova, a Mexican stock, was added. There were a number of shares in issue changes to the existing constituents, with the most significant being increases for Housing Development Finance (India) and Quanta Computer (Taiwan). Lukoil (Russia) was the largest down-weight. The two-way Index turnover was 2.6%.

At the December 2013 quarterly Index review, there was one change to Index constituents: China Cinda Asset (China) was added following a successful listing by way of an initial public offering (IPO). There were also 38 changes to the free share capital of constituents. Two-way Index turnover was 2.2%, with an increase for Indian IT company, Tech Mahindra. The largest decreases were for Banco do Brasil and Banco Bradesco (both Brazil).

Outside the Index reviews, there were two IPOs that led to stocks being added to the Index under the fast-entry ruling. The largest was food manufacturing company China Huishan Dairy Holdings, which listed in September 2013. The other company entering the Index was Huishang Bank, also from China. These stocks were subsequently bought by the Fund.

There were a number of constituents deleted from the Index in the period under review. Orascom Construction Industries, an Egyptian company, was deleted after being acquired by OCI NV, a Dutch company. The next largest deletion was Siam Makro, a food retailer in Thailand, which was acquired by another Thai company, CP ALL.

## Manager's Investment Report continued

The regional breakdown of the Index at the end of the period was Asia Pacific (55.7%), Latin America (22.8%) and EMEA (21.4%). The largest stocks were Taiwan Semiconductor Manufacturing 2.7%, Tencent Holdings (P Chip) 2.1% and China Construction Bank (H) 1.7%.

## Outlook

Global growth appears to have settled at a reasonable pace at the start of 2014. The question is whether the world maintains this unspectacular growth through the year or if the speed shifts up into boom territory as employment growth and low inflation boost real incomes. Corporate balance sheets are generally strong and economic uncertainty has faded, despite the recent wobbles in emerging markets.

In two respects emerging market equities are arguably the most attractive region in the equity world. They are cheap and out of favour. It is one of the few remaining segments of the market that still trades at a significant valuation discount to historical averages. Investor surveys unanimously show emerging market equities as one of the least popular asset classes around, a positive from a contrarian perspective.

Given the valuation discount and bearish investor sentiment about emerging market equities, there is potential in the market, particularly if three potential catalysts are triggered. First, investor capitulation, which can be signalled by a valuation discount closer to historic extremes, a sharp acceleration in fund outflows and/or signs of emerging market safe havens like consumer stocks underperforming the Index in a market decline. Next, a positive macro catalyst, such as developed market growth spilling over into emerging markets via the export channel leading to upgrades to growth outlooks. And finally, signs of emerging market equities becoming immune to bad news and ideally becoming high beta in a rising market again.

The Fund continues to be well positioned to benefit from its exposure to emerging markets.

Legal & General Investment Management Limited
(Investment Adviser)
21 February 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.

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 period, the annualised Tracking Error of the Fund is 0.10%, whilst over the last three years to the end of January 2014, the annualised Tracking Error is 0.14%. These Tracking Errors are within the anticipated Tracking Error levels set out in the Fund's Prospectus of 1.50% per annum.

## Significant Changes

### New Unit Class: C-Class

With effect from 9 December 2013, the Fund launched a new C-Class, with distribution and accumulation units available.

Class C units are only available to distributors who actively market and distribute such units (or who the Manager believes intend to do so) and who have entered into a written agreement with the Manager relating to the conditions for investment in such units.

## Minimum Investment Amounts

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

| | |
|---|---|
| R-Class | £500 |
| I-Class | £1,000,000 |
| L-Class | £100,000 |
| F-Class | £500 |
| C-Class | £100,000,000 |

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

L-Class is only available for investment to companies within the Legal & General Group.

## Other Information

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

### Authorised Fund Manager

Legal & General (Unit Trust Managers) Limited
Registered in England and Wales No. 01009418
Registered office:
One Coleman Street,
London EC2R 5AA
Telephone: 0370 050 3350
Authorised and regulated by the Financial Conduct Authority

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

### Trustee

National Westminster Bank Plc
Trustee and Depositary Services
135 Bishopsgate
London EC2M 3UR
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority

### Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

**Authorised and regulated by the Financial Conduct Authority**

Legal & General
(Unit Trust Managers) Limited
Registered in England and Wales No. 01009418
Registered office:
One Coleman Street,
London EC2R 5AA
www.legalandgeneral.com
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