

Legal & General
UK Smaller Companies Trust
**Interim Manager's
Short Report
for the period ended
18 December 2013**



Investment Objective and Policy

The investment objective of this Trust is to maximise capital growth from a portfolio of UK securities, which will largely consist of smaller companies, which may be selected from all economic sectors.

The Manager's policy for putting this into effect will be to invest primarily in those companies that comprise the lowest 10% by capitalisation of the main UK equity markets.

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.

The Trust can invest in securities which are issued by smaller companies 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.

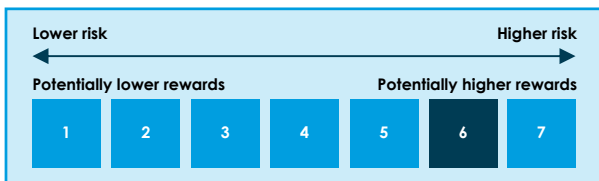
Trust Facts

Period End Dates for Distributions:		18 Dec, 18 Jun
Distribution Dates:		18 Feb, 18 Aug
Ongoing Charges Figures:	18 Dec 13	18 Jun 13
E-Class	1.67%	1.68%
R-Class	1.67%	1.68%
I-Class	0.78%	0.79%
F-Class	1.17%	1.18%

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
18 Jun 11			
E-Class			
Distribution Units	£157,952,211	487.93p	32,371,631
Accumulation Units	£6,489,547	526.84p	1,231,787
R-Class			
Distribution Units	£5,672,926	487.93p	1,162,642
Accumulation Units	£10,378,563	526.84p	1,969,962
18 Jun 12			
E-Class			
Distribution Units	£146,625,842	469.66p	31,219,483
Accumulation Units	£6,075,467	512.00p	1,186,604
R-Class			
Distribution Units	£5,864,354	469.66p	1,248,634
Accumulation Units	£10,156,677	512.00p	1,983,709
18 Jun 13			
E-Class			
Distribution Units	£194,510,340	613.51p	31,704,636
Accumulation Units	£7,321,952	673.33p	1,087,431
R-Class			
Distribution Units	£53,098,824	613.51p	8,654,958
Accumulation Units	£14,903,018	673.33p	2,213,344
I-Class*			
Distribution Units	£84,228	626.28p	13,449
Accumulation Units	£32,527	692.51p	4,697
F-Class**			
Distribution Units	£1,128	626.67p	180
Accumulation Units	£6,990	690.03p	1,013
18 Dec 13			
E-Class			
Distribution Units	£238,515,096	732.79p	32,548,849
Accumulation Units	£8,479,684	804.23p	1,054,387
R-Class			
Distribution Units	£61,515,000	732.79p	8,394,615
Accumulation Units	£18,874,792	804.23p	2,346,942
I-Class*			
Distribution Units	£288,864	748.35p	38,600
Accumulation Units	£314,209	830.87p	37,817
F-Class**			
Distribution Units	£1,348	748.89p	180
Accumulation Units	£8,371	826.36p	1,013

* There are no prior year comparatives for the I-Class which launched on 17 August 2012.

** There are no prior year comparatives for the F-Class which 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

E-Class

A shortfall for the E-Class arose because the expenses exceeded the revenue of the E-Class. This being the case, there is no interim distribution for the E-Class.

I-Class

The distribution payable on 18 February 2014 is 3.1159p net per unit for distribution units and 3.4454p net per unit for accumulation units.

R-Class

A shortfall for the R-Class arose because the expenses exceeded the revenue of the R-Class. This being the case, there is no interim distribution for the R-Class.

F-Class

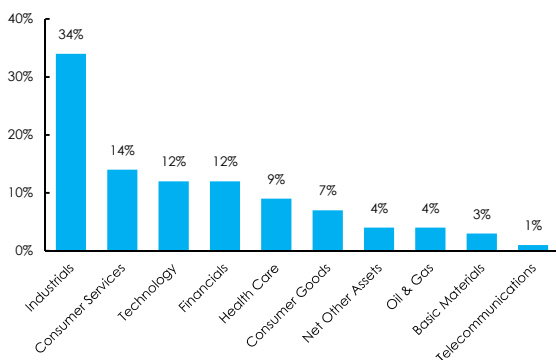
The distribution payable on 18 February 2014 is 1.7888p net per unit for distribution units and 1.9644p net per unit for accumulation units.

Portfolio Information

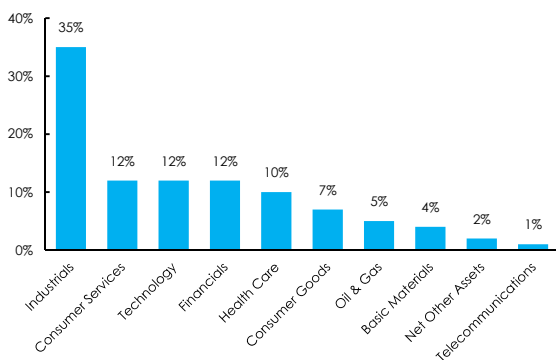
The top 10 holdings and their associated weighting for the current period and preceding year are:

Top 10 Holdings at 18 December 2013		Top 10 Holdings at 18 June 2013	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
Xaar	3.02%	Xaar	3.44%
Senior	2.47%	Victrex	2.51%
Euromoney Institutional Investor	2.47%	Senior	2.47%
Victrex	2.16%	Euromoney Institutional Investor	2.12%
Vectura	2.01%	Keller	1.81%
Ted Baker	1.93%	PayPoint	1.76%
Northgate	1.92%	Northgate	1.76%
RPC Group	1.91%	Dechra Pharmaceuticals	1.76%
NCC Group	1.91%	Paragon Group	1.74%
Novae Group	1.79%	RPC Group	1.73%

Trust Holdings as at 18 December 2013



Trust Holdings as at 18 June 2013



Unit Price Range and Net Revenue

E-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
Distribution Units			
2008	400.30p	234.30p	1.7456p
2009	368.40p	231.90p	4.4072p
2010	480.20p	339.90p	2.8212p
2011	529.10p	416.00p	2.3061p
2012	558.60p	447.30p	2.7157p
2013 ⁽¹⁾	745.70p	554.70p	3.8443p
2014 ⁽²⁾	—	—	—
Accumulation Units			
2008	419.80p	246.70p	1.8303p
2009	394.30p	245.80p	4.6592p
2010	518.60p	364.90p	3.0254p
2011	573.50p	450.80p	2.4895p
2012	610.40p	485.50p	2.9561p
2013 ⁽¹⁾	818.40p	606.10p	4.1981p
2014 ⁽²⁾	—	—	—

R-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
Distribution Units			
2008	420.40p	234.30p	1.7456p
2009	386.90p	231.90p	4.4072p
2010	504.20p	339.90p	2.8212p
2011	555.60p	416.00p	2.3061p
2012	586.50p	447.40p	2.7157p
2013 ⁽¹⁾	783.00p	554.70p	3.8443p
2014 ⁽²⁾	—	—	—
Accumulation Units			
2008	440.80p	246.70p	1.8303p
2009	414.10p	245.80p	4.6592p
2010	544.50p	364.90p	3.0254p
2011	602.20p	450.80p	2.4895p
2012	640.90p	485.50p	2.9561p
2013 ⁽¹⁾	859.30p	606.10p	4.1981p
2014 ⁽²⁾	—	—	—

⁽¹⁾ The above tables show the highest offer and lowest bid prices to 18 December 2013.

⁽²⁾ The above tables show the net revenue per unit to 18 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

I-Class Units*

Year	Highest Offer	Lowest Bid	Net Revenue
Distribution Units			
2012 ⁽¹⁾	570.30p	504.50p	—
2013 ⁽³⁾	764.70p	566.40p	8.1909p
2014 ⁽⁴⁾	—	—	3.1159p
Accumulation Units			
2012 ⁽¹⁾	625.10p	550.10p	—
2013 ⁽³⁾	845.50p	620.80p	9.1639p
2014 ⁽⁴⁾	—	—	3.4454p

F-Class Units**

Year	Highest Offer	Lowest Bid	Net Revenue
Distribution Units			
2012 ⁽²⁾	570.70p	542.00p	—
2013 ⁽³⁾	763.90p	566.70p	4.7722p
2014 ⁽⁴⁾	—	—	1.7888p
Accumulation Units			
2012 ⁽²⁾	623.60p	592.20p	—
2013 ⁽³⁾	840.90p	619.30p	5.0858p
2014 ⁽⁴⁾	—	—	1.9644p

* There are no prior year comparatives for the I-Class which launched on 17 August 2012.

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

⁽¹⁾ From 17 August 2012.

⁽²⁾ From 19 December 2012.

⁽³⁾ The above tables show the highest offer and lowest bid prices to 18 December 2013.

⁽⁴⁾ The above tables show the net revenue per unit to 18 February 2014.

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Manager's Investment Report

During the period under review, the bid price of the Trust's R-Class distribution units rose from 614.90p to 731.30p, an increase of 18.93%. This compares to a rise in the benchmark (Numis Securities Smaller Companies Ex Investment Trust Index) of 15.16% 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

The Trust and the benchmark Index have had another very strong period, largely driven by continued liquidity from central banks and a UK economy that is showing some growth at last. Stock markets have faced significant uncertainty with regard to the extent and timing of "tapering", the reduction in the level of quantitative easing, only clarified by the Federal Reserve in December. Bond markets have performed poorly against this back drop, with yields on government bonds approaching 3% in the US and the UK. Stock markets have focused on the positive side, the return of economic growth.

In the UK there has definitely been an improvement with the return of quarter on quarter GDP growth. The Bank of England and its new Governor have reiterated their belief in the need for low interest rates and have introduced forward guidance to reinforce that view. The Government has announced schemes to promote the sales of new houses, employment has continued to improve, new car sales have been exceptionally strong and house prices and transactions have begun to rise. The economy is improving, though there are concerns about the re-emergence of a reliance on consumer debt.

The increase in the market is largely attributable to a rerating of earnings, which have shown very modest growth over 2013 and are predicted to grow at mid single digit next year. Earnings growth has continued to have been revised downwards and stock markets cannot continue to rise against this back drop. Sector performance has been strong across the board with Personal Goods doing particularly well and only Mining displaying significant weakness.

Trust Review

It is pleasing to report on such a strong performance in the review period. The Trust has outperformed the benchmark Index by 3.77%. As normal for a smaller company fund, outperformance was predominantly driven by stock selection.

At the stock level, First Derivatives, a financial software company, was the biggest contributor having agreed a new surveillance system with the Australian stock exchanges. Vectura was also a strong performer as its partner, Novartis, saw several drug approvals and the first royalties from these products were generated. NCC Group was also very strong as it developed a standard for online security.

Manager's Investment Report continued

Detracting from performance, Iofina, the iodine producer, fell on news that the CEO was leaving on health grounds and there was concern about their ability to bring on new plant promptly.

Salamander Energy also under performed as its drilling programme failed to produce new finds and subsequently the Trust exited its position. Dechra Pharmaceuticals was also lacklustre following the disposal of a main subsidiary and whilst it waited to reinvest the proceeds.

Trading has been light during the review period. The largest sale in the period was Xaar, which has performed very strongly as its new print head technology has been in huge demand for the printing of ceramic tiles. It remains the largest holding in the portfolio. The position in Fenner, the conveyor belt and rubber products manufacturer, was sold over continued uncertainties over the growth in demand for coal in the US. The Trust also exited its position in Fortune Oil and Hargreaves Services. These resources companies have all been faced with various issues, either in terms of corporate governance or a poor pricing environment.

The Trust has added a position in Tasty plc, the restaurant operator. Tasty has a strong offering and is early in its roll out programme. The Trust has taken positions in some new issues. Tungsten Corporation combines electronic invoicing with invoice discounting in a manner that may potentially be an extremely exciting way of accessing finance for small companies. Conviviality Retail also floated this year and is a franchisor in the convenience retail area. It has been an under managed business and has plenty of achievable self help to improve profitability.

There have been relatively few movements in the largest holdings with the majority driven by performance. In particular Vectura has performed strongly, as has Ted Baker as its brand continues to gain traction around the globe.

Outlook

The Trust and the market have had a very strong run over the last 18 months, in a period where the economy and earnings have been at best anaemic. As 2014 approaches, there does however seem broader cause for optimism. The UK economy continues to recover, the US seems to have put some of its political issues behind it and Europe appears to be no worse. Only Emerging Markets seem to be struggling, although they continue to grow with China expected to manage 7% GDP growth.

As noted earlier, stock markets need to see these better economic conditions reflected in earnings growth to justify current valuations. The UK recovery needs to broaden and prove that it is not based on house price inflation and the return of consumer debt. This would then provide the basis for further earnings growth in the years to come. Beyond the UK, the issue remains to be liquidity and how markets react to tapering in the US and potentially the general withdrawal of easy monetary policy elsewhere.

Manager's Investment Report continued

As always, the Trust remains firmly committed to its stock picking strategy, looking for stocks that will out perform over the medium term. Whilst valuations look full there are always opportunities to discover these businesses.

Legal & General Investment Management Limited
(Investment Adviser)

20 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.

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

Minimum Investment Amounts

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

E-Class	£100,000
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 period under review and how it is invested at the period 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

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