

Legal & General Ethical Trust  
**Interim Manager's  
Short Report  
for the period ended  
12 June 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 (excluding Investment Companies) will be held with weightings generally proportionate to their market capitalisation (adjusted for free-float weighting).

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

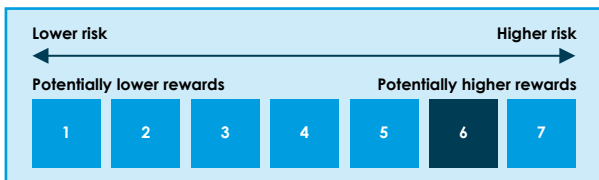
Period End Dates for Distributions:	12 Jun, 12 Dec	
Distribution Dates:	12 Aug, 12 Feb	
Ongoing Charges Figures:	12 Jun 13	12 Dec 12
R-Class	1.15%	1.15%
I-Class	0.31%	0.32%
F-Class*	0.45%	—

\* 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 10			
R-Class			
Distribution Units	£95,309,195	43.95p	216,839,755
Accumulation Units	£64,679,417	55.83p	115,853,318
I-Class			
Distribution Units	£6,194,044	43.93p	14,098,376
Accumulation Units	£922,712	57.89p	1,593,836
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 Jun 13			
R-Class			
Distribution Units	£107,734,315	50.61p	212,880,413
Accumulation Units	£73,884,599	68.41p	108,006,151
I-Class			
Distribution Units	£16,770,243	50.58p	33,158,567
Accumulation Units	£6,038,595	72.42p	8,338,232
F-Class*			
Distribution Units	£5,010	50.91p	9,841
Accumulation Units	£1,128	69.08p	1,633

\* 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 August 2013 is 0.7004p net per unit for distribution units and 0.9337p net per unit for accumulation units.

### I-Class

The distribution payable on 12 August 2013 is 0.9117p net per unit for distribution units and 1.2818p net per unit for accumulation units.

### F-Class

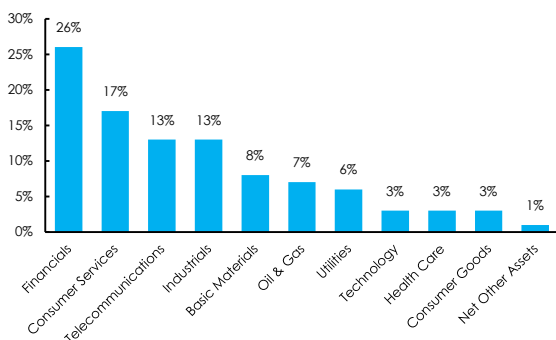
The distribution payable on 12 August 2013 is 0.8923p net per unit for distribution units and 1.1910p net per unit for accumulation units.

## Portfolio Information

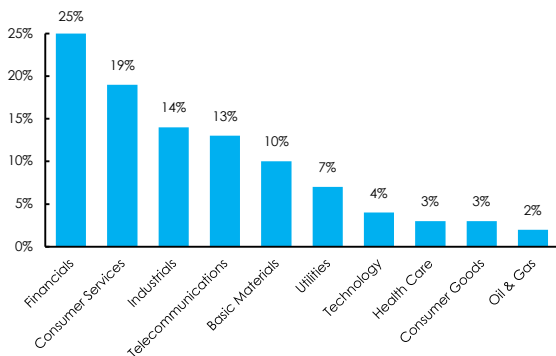
The top 10 holdings and their associated weighting for the current period and preceding year are:

Top 10 Holdings at 12 June 2013		Top 10 Holdings at 12 December 2012	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
Vodafone Group	9.35%	Vodafone Group	9.25%
BG Group	5.44%	Tesco	4.25%
Tesco	3.79%	National Grid	4.07%
National Grid	3.73%	Prudential	3.60%
Prudential	3.72%	Lloyds Banking Group	3.02%
Glencore Xstrata	3.62%	BT Group	2.90%
Lloyds Banking Group	3.49%	Xstrata	2.64%
BT Group	3.35%	Scottish & Southern Energy	2.14%
Scottish & Southern Energy	1.98%	Glencore International	1.92%
ARM Holdings	1.62%	Shire	1.69%

## Trust Holdings as at 12 June 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>	55.11p	46.80p	1.1704p
<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>	73.47p	62.38p	1.5539p

### 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>	55.27p	46.79p	1.5664p
<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>	77.75p	65.80p	2.1897p

<sup>(1)</sup> The above tables show the highest offer and lowest bid prices to 12 June 2013 and the net revenue per unit to 12 August 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.**

## 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>	55.61p	47.09p	0.8923p
<b>Accumulation Units</b>			
2012 <sup>(1)</sup>	62.37p	61.32p	—
2013 <sup>(2)</sup>	74.12p	62.77p	1.1910p

\* 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 June 2013 and the net revenue per unit to 12 August 2013.

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## **Manager's Investment Report**

During the period under review, the bid price of the Trust's R-Class distribution units increased by 10.56%. 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 6.82%; similarly, the broader based FTSE All-Share Index increased by 7.00% (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 period the market made some steady gains, reaching a high in May 2013 followed by a small correction during the final three weeks of the review period. Overall the market finished higher than the start of the review period.

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 Retail.

There are three principal reasons for changes to the distribution of investments in the Trust: first, 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 period Afren, Aggreko, BBA Aviation, John Wood Group and Marks & Spencer Group became unacceptable under the ethical criteria screening, whilst BG Group 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 two Index reviews during the review period. At the quarterly Index 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 SmallCap Index.

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

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

Outside the reviews, mining and metals group Glencore International 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. 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 Group). Vesuvius was subsequently deemed unacceptable according to the EIRIS screening process.

Capital raisings included Intu Properties (formerly Capital Shopping Centres) and British Land both for acquisitions, and St. Modwen Properties 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 FirstGroup and Phoenix Group both raised cash to pay off debt.

Capital repayments included Rexam, Sage Group, Hiscox, Spirax-Sarco Engineering, Computacenter and Beazley.

The three largest stocks in the Trust at the end of the review period were Vodafone, BG Group and Tesco.

## **Outlook**

Last month saw Sir Mervyn King step down as Governor of the Bank of England (BoE), to be replaced by Mark Carney, as the UK economy was beginning to show signs of recovery. Construction output is likely to have bottomed following a pick-up in orders. This sector remains important for the overall health of the economy, and was a drag on gross domestic product (GDP) in 2012. Other indicators, such as car sales are also showing signs of acceleration.

More importantly, this is the first time since the financial crisis that the BoE has been revising growth forecasts up while pushing inflation forecasts down. Obviously these are just forecasts, but it is an encouraging sign. The BoE still expects GDP growth to be relatively weak in 2013, climbing back to just below trend in 2014, but does not expect this to be inflationary, predicting it will be driven by higher productivity. Lower inflation could provide more room to explore further monetary policy options and a more aggressive approach – such as taking interest rates negative or increasing quantitative easing – will help Mr Carney achieve his own goals of low inflation while supporting government objectives on growth and employment. Thanks to a solid inheritance, he may be able to generate results without changing things too much.

Legal & General Investment Management Limited  
(Investment Adviser)  
1 July 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.

## **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 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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Trustee and Depositary Services

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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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