

Legal & General UK Alpha Trust

**Interim Manager's  
Short Report  
for the period ended  
18 December 2012**





## Investment Objective and Policy

The investment objective of this Trust is to secure capital growth by investing in a concentrated portfolio of UK equities.

The Trust aims to invest in small to mid-cap companies by market capitalisation and also larger companies which form part of the FTSE All-Share, Fledgling and AIM indices.

## 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.

### Currency Risk

This Trust holds investments 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.

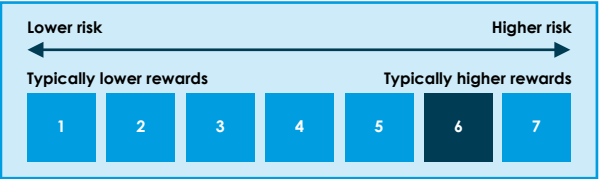
## Trust Facts

Period End Dates for Distributions:		18 Dec, 18 Jun
Distribution Dates:		18 Feb, 18 Aug
Ongoing Charges Figures:	18 Dec 12	18 Jun 12
R-Class	1.67%	1.68%
I-Class	0.78%	0.80%

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 10			
R-Class			
Accumulation Units	£66,071,237	88.61p	74,560,617
I-Class			
Accumulation Units	£24,013,349	90.56p	26,515,524
18 Jun 11			
R-Class			
Accumulation Units	£137,046,222	123.02p	111,400,330
I-Class			
Accumulation Units	£65,182,099	126.81p	51,401,006
18 Jun 12			
R-Class			
Accumulation Units	£128,379,565	98.50p	130,336,976
I-Class			
Accumulation Units	£28,176,896	102.40p	27,516,112
18 Dec 12			
R-Class			
Accumulation Units	£128,053,569	107.79p	118,799,287
I-Class			
Accumulation Units	£27,488,627	112.57p	24,418,196

**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

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.

### I-Class

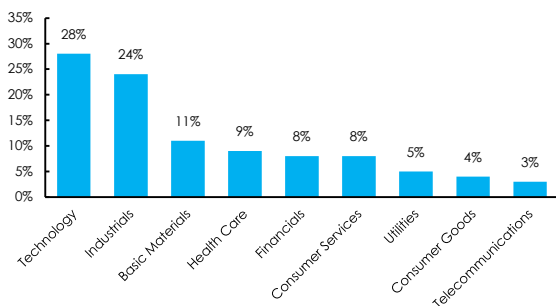
A shortfall for the I-Class arose because the expenses exceeded the revenue of the I-Class. This being the case, there is no interim distribution for the I-Class.

## Portfolio Information

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

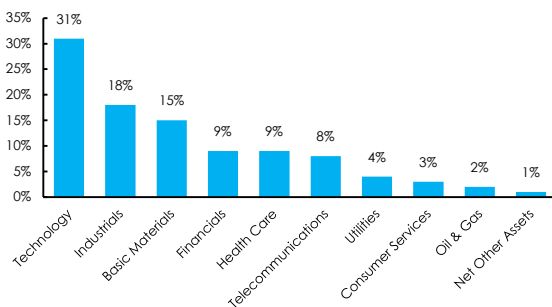
Top 10 Holdings at 18 December 2012		Top 10 Holdings at 18 June 2012	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
Smart Metering Systems	5.57%	Smart Metering Systems	5.38%
iomart Group	5.17%	iomart Group	4.27%
Johnson Service Group	4.19%	Avanti Communication Group	3.72%
Restore	4.19%	InternetQ	3.64%
Vectura	4.05%	Johnson Service Group	3.61%
Central Asia Metals	3.91%	CSF Group	3.52%
Progressive Digital Media	3.60%	Conygar Investment Company	3.33%
OPG Power Ventures	3.53%	Cupid	3.22%
Optimal Payments	3.34%	Vectura	3.14%
BATM Advanced Communications	3.30%	Restore	3.09%

## Trust Holdings as at 18 December 2012



As at 18 December 2012 79.98% of the net assets were quoted on the Alternative Investment Market.

## Trust Holdings as at 18 June 2012



As at 18 December 2011 79.18% of the net assets were quoted on the Alternative Investment Market.

## Unit Price Range and Net Revenue

### R-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Accumulation Units</b>			
2007	96.34p	71.95p	—
2008	85.58p	46.24p	—
2009	99.99p	48.40p	—
2010	131.10p	85.23p	—
2011	141.90p	100.10p	—
2012 <sup>(2)</sup>	124.00p	97.12p	—
2013 <sup>(3)</sup>	—	—	—

### I-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Accumulation Units</b>			
2007 <sup>(1)</sup>	80.12p	74.78p	—
2008	81.91p	46.64p	—
2009	96.81p	48.85p	—
2010	128.20p	87.12p	0.1314p
2011	139.30p	103.40p	0.1779p
2012 <sup>(2)</sup>	122.40p	101.00p	0.2767p
2013 <sup>(3)</sup>	—	—	—

<sup>(1)</sup> From 16 November 2007.

<sup>(2)</sup> The above tables show the highest offer and lowest bid prices to 18 December 2012.

<sup>(3)</sup> The above tables show the net revenue per unit to 18 February 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.**

## **Manager's Investment Report**

During the period under review, the bid price of the Trust's R-class accumulation units rose by 9.47%. This compares with a total return for the FTSE All-Share Index of 11.15%

(Source: Bloomberg).

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## **Market/Economic Review**

Future UK economic growth prospects have been reduced for the foreseeable future by the need for austerity measures. In keeping with much of Europe, and the United States, the UK Government needs to increase taxes and reduce expenditure to keep budgets and debts in order. The economic backdrop is subdued and likely to remain so across Europe, but the perception of it changes in a way that impacts upon stock markets. The national debt of Greece, Portugal and Italy is owned by many of the Western European banks, and default on such debt would potentially destabilize the global banking system. The European Central Bank (ECB) president Mario Draghi's comments on the 26th July 2012 that he would do "whatever it takes" to preserve the Euro was seen by some as a positive turning point. This event also proved to be a turning point for the UK stock market, as people perceived that the threat of a big negative shock to the economic system was removed.

## **Trust Review**

The Trust performance at 9.5% was marginally worse than the FTSE All-Share return of 11.1%. Performance was a lot more varied than this performance suggested, both throughout the period and between the Trusts constituent holdings.

The Trust is focussed on overseas exposure, at the expense of domestically focussed sectors such as house building, property and leisure. This was the wrong way to be, as concerns over Chinese growth impacted Emerging markets and commodities markets. At the same time the removal of impending doom from the UK market boosted domestic sectors. The Trust missed out on some of these best performing domestic sectors. Long-term it seems reasonable that the best economic growth should come from emerging markets, and that the austerity in the developed world economies should mean the trend of the last six months is reversed.

The Trust has a big exposure to the technology area, and the growth here continues despite weak economies. Particular trends are 4G mobile technology, data growth and smart phone and tablet computer usage. These investments offer strong growth at discount prices, and look well set for 2013. This area was a particularly good area for the Trust with strong returns from iomart Group, eServGlobal, Optimal Payments and WANdisco.

The Trust has a flexible mandate targeting situations that can double from both growth and deep value strategies. Although the majority of the UK stock market (97%) is focussed on the top



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

350 companies, there are over 1200 other companies listed on the UK stock market. These often represent the best opportunities, but can take longer to be recognised, particularly in the nervous conditions that have prevailed.

In the fourth quarter of 2012 there were two takeover bids, for Corin Group and Endace. These were two of the smaller holdings, but the useful premiums achieved, reflect that third parties see value in the stock market and are willing to pay up for it. Companies remain well financed in general, and in with low economic growth, mergers and acquisitions look likely to continue into 2013.

## **Outlook**

After a disappointing year, when many of the Trust's holdings failed to match strong gains in the UK stock market, it may be surprising that the outlook for 2013 appears reasonably bright.

Through 2012 there was widespread indifference to the Alternative Investment Market (AIM). This was in contrast to the rest of the stock market. Precedent suggests that bargain hunters will start to target some of the better companies in the AIM.

Legal & General Investment Management Limited  
(Investment Adviser)  
16 January 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

Registered in England No. 01009418

Registered office:

One Coleman Street,

London EC2R 5AA

Telephone: 0370 050 3350

Authorised and regulated by the Financial Services 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 and regulated by the Financial Services Authority

## **Independent Auditors**

PricewaterhouseCoopers LLP

7 More London Riverside

London SE1 2RT



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Financial Services Authority**

Legal & General  
(Unit Trust Managers) Limited  
Registered in England No. 01009418  
Registered office:  
One Coleman Street,  
London EC2R 5AA  
[www.legalandgeneral.com](http://www.legalandgeneral.com)  
UKA0213

