

The Ethical Trust

A Unit Trust and ISA investment

Who's in and who's out

Legal & General (Portfolio Management Services) Limited



Who's in and who's out

Who is Legal & General?

The Legal & General Group, established in 1836, is one of the UK's leading financial services companies. Over 6.5 million people rely on us for life assurance, pensions, investments and general insurance plans. The Legal & General Group is responsible for investing £280 billion worldwide (as at 31 December 2008) on behalf of investors, policyholders and shareholders.

As an ethical company, trust and honesty are at the heart of our business. We want to grow our business, but realise that this must not be achieved at the expense of the environment in which we all live. That's why we believe our long-term future is best served by respecting the interests of all our customers, employees, partners, suppliers and the wider community. We actively support initiatives that help improve the environment and contribute to the wellbeing of all the communities in which we operate.

The profit principle

Does the pursuit of profit demand the sacrifice of principle? We don't think so. A principled investment strategy cannot only hold its own against indiscriminate investments, it can often outperform them.

There's a simple logic to this. Companies that pollute may be forced to pay for expensive clean-up operations. Those which harm their customers' health increasingly find themselves facing damaging lawsuits. Older industries must meet tough new environmental standards. Problems like these are costly and difficult to resolve and are likely to impact on profitability and share price.

So quite apart from any moral judgement, an ethical investment approach which excludes 'problem companies' makes sense.

Objective criteria

Creating the objective criteria, which allow you to select one company in favour of another, may be complex. But, once established, it's relatively simple to ensure those principles are consistently applied.

Our Ethical Trust has been designed not by a committee of 'the great and the good', but by ordinary investors expressing their commonly held beliefs.

Many months of research involving focus groups and in-depth interviews served to establish the principles on which our investment decisions would be based. Rather than impose our own moral view, we chose to reflect the views of our investors.

To apply these criteria we enlisted the support of EIRIS, a specialist ethical research company. Using their established benchmarking methodology for screening companies, we've established an objective basis for including or excluding companies from our ethical portfolio.

Principal exclusions

Companies have been excluded if they're substantially involved in or cause:

- Animal Testing
- Countries with Poor Human Rights Records
- Gambling
- Health and Safety Breaches
- Intensive Farming
- Major Arms Exporter
- Nuclear Power
- Pornography and Adult Films
- Use of Non-Sustainable Timber
- Production or Sale of Tobacco
- Production or Sale of Weapon Systems
- Provision of Nuclear Weapons
- Water Pollution

The filtered index

In the Ethical Trust, Legal & General has created an investment innovation – the filtered index.

The filtered index selects all those companies in the FTSE 350 Index which meet set criteria. Money that would have been invested in companies excluded by these criteria is distributed by market weighting among those that remain.

Of the 350 companies in the index, 115 are excluded as at the end of March 2009, leaving 235 companies – a substantial and diversified investment portfolio.

The benefits of index-tracking

Index-tracking aims to produce a return which accurately mirrors the performance of a market. Legal & General is one of the biggest providers of index-tracking investments in the UK, managing £175 billion as at 31 December 2008.

The FTSE 350 Index is made up of the top 350 companies on the UK stock exchange. Of those 350 companies, only those that meet the strict ethical criteria described by our investors and EIRIS are eligible for inclusion within the Ethical Trust.

We believe that investing in companies in the FTSE 350 Index offers two distinct benefits: a diversified portfolio to minimise risk, and a rich mix of companies whose size and substance offer good growth potential.

Both capital and income values may fall as well as rise and are not guaranteed. You may not get back the money you invested.

Please see the fund specific information for risks that apply to this fund, and the Key Information for a full list of risk factors.

Please ensure that you read all relevant information carefully before making any investment.

FTSE 350 Index
Typical sector weightings

Sector	%
Oil and Gas	21.9
Chemicals	0.3
Basic Resources	8.5
Construction and Materials	0.2
Industrial Goods and Services	6.3
Automobiles and Parts	0.1
Food and Beverages	5.6
Personal and Household Goods	6.7
Health Care	9.4
Retail	5.2
Media	2.7
Travel and Leisure	2.5
Telecommunications	7.0
Utilities	4.3
Banks	9.8
Insurance	3.4
Financial Services	4.9
Technology	1.2

Filtered FTSE 350 Index
Typical sector weightings

Sector	%
Oil and Gas	10.5
Chemicals	0.8
Basic Resources	12.5
Construction and Materials	0.1
Industrial Goods and Services	8.2
Food and Beverages	0.4
Personal and Household Goods	1.3
Health Care	2.4
Retail	13.1
Media	4.4
Travel and Leisure	4.0
Telecommunications	12.6
Utilities	9.3
Banks	2.6
Insurance	8.5
Financial Services	6.8
Technology	2.5

Source: Legal & General Investment Management March 2009

Their loss, your gain

With 'problem companies' excluded, there are evident differences in the sector weightings. As you might expect, tobacco and defence industries aren't represented. Pulp and paper and engineering are largely excluded. Chemical, oil and gas sectors have a low representation. Such exclusions are compensated for by increased presence in telecoms, media, retail and financial services. We've also excluded investment companies from the filtered FTSE 350 Index.

Broadly speaking, manufacturing companies feature less prominently than those in the service sector reflecting the market capitalisation of the sectors.

The Ins and Outs of the Ethical Trust

The Ethical Trust has been designed to track the FTSE 350 Index excluding any company that is substantially involved in any of the following criteria:

Animal Testing

- which has tested (or not disclosed otherwise) its cosmetics products on animals in the last five years, or since they had a fixed cut-off date policy
- which has tested (or not disclosed otherwise) its cosmetic intermediates on animals in the last five years

Gambling

- which derives more than 10% of their annual turnover from gambling

Health and Safety Convictions

- where any part of the company has been convicted following Health and Safety Executive prosecutions more than once in the last three years

Human Rights

- with operations in at least five countries listed in EIRIS Category A

Intensive Farming

- which derives any turnover from intensive pig or poultry farming

Military - nature of involvement

- where its products or services constitute strategic parts of a weapons system
- which have been involved in the sale or production of strategic goods or services for products or services which constitute nuclear weapons systems
- where its products or services constitute the sale or production of nuclear weapons systems
- which have been involved in the supply of strategic services for nuclear bases
- which is a major international producer with military sales (or sales activities) in specific countries

Nuclear Power

- which owns or operates nuclear power stations

Pornography and Adult Films

- which publishes or wholesales pornographic magazines or newspapers
- which distributes cut 18 certificate films or videos

Tobacco

- which derives more than 10% of their annual turnover from the production or sale of tobacco

Sustainable Timber

- which EIRIS identified as having an annual usage of over 100,000 cubic metres of timber with limited evidence of sustainable timber sourcing standards.

Water Pollution

- which has breached a discharge consent for a Red List substance during the last three years
- which has exceeded their discharge consents in the last year more than 10 times

Investment Companies

All Investment Companies which form part of the FTSE 350 Index are also excluded as their investment objectives may include companies that fail to meet our criteria.

EIRIS

A specialist ethical research company.

The Ins

The result is a list of 235 companies (as at the end of March 2009) providing an excellent spread across the market.

The list below is the largest 100 of these companies - a substantial and diversified portfolio in its own right.

Company	Sector	Company	Sector
Vodafone Group	Mobile Telecommunications	Rexam	General Industrials
BG Group	Oil and Gas Producers	Admiral Group	Non-Life Insurance
BHP Billiton	Mining	British Airways	Travel and Leisure
Tesco	Food and Drug Retailers	Friends Provident	Life Insurance
National Grid	Gas, Water and Multi Utilities	Amlin	Non-Life Insurance
Centrica	Gas, Water and Multi Utilities	InterContinental Hotels Group	Travel and Leisure
Scottish & Southern Energy	Electricity	ICAP	Financial Services
Xstrata	Mining	Liberty International	Real Estate
Prudential	Life Insurance	Intertek Group	Support Services
Wm Morrison Supermarkets	Food and Drug Retailers	Whitbread	Travel and Leisure
Lloyds Banking Group	Banks	Aggreko	Support Services
BT Group	Fixed Line Telecommunications	ARM Holdings	Technology Hardware and Equipment
Aviva	Life Insurance	FirstGroup	Travel and Leisure
British Sky Broadcasting Group	Media	TUI Travel	Travel and Leisure
Reed Elsevier	Media	Investec	Financial Services
J Sainsbury	Food and Drug Retailers	Burberry Group	Personal Goods
Royal Bank Of Scotland Group	Banks	Venture Production	Oil and Gas Producers
Shire	Pharmaceuticals and Biotechnology	London Stock Exchange Group	Financial Services
Marks & Spencer Group	General Retailers	Hiscox	Non-Life Insurance
Experian	Support Services	Informa	Media
RSA Insurance Group	Non-Life Insurance	Catlin Group	Non-Life Insurance
Capita Group	Support Services	Provident Financial	Financial Services
Smith & Nephew	Health Care Equipment and Services	Berkeley Group Holdings	Household Goods and Home Construction
Man Group	Financial Services	Tomkins	General Industrials
Standard Life	Life Insurance	Persimmon	Household Goods and Home Construction
Cable & Wireless	Fixed Line Telecommunications	United Business Media	Media
Kingfisher	General Retailers	3i Group	Financial Services
Carnival	Travel and Leisure	Thomas Cook Group	Travel and Leisure
Land Securities Group	Real Estate	Logica	Software and Computer Services
International Power	Electricity	Hays	Support Services
Autonomy Corporation	Software and Computer Services	Fresnillo	Mining
British Land Company	Real Estate	Mitchells & Butlers	Travel and Leisure
Cairn Energy	Oil and Gas Producers	Aegis Group	Media
Thomson Reuters	Media	Dana Petroleum	Oil and Gas Producers
Randgold Resources	Mining	Vedanta Resources	Mining
Old Mutual	Life Insurance	SSL International	Personal Goods
Next	General Retailers	De La Rue	Support Services
Smiths Group	General Industrials	Aberdeen Asset Management	Financial Services
Legal & General Group	Life Insurance	John Wood Group	Oil Equipment, Services and Distribution
Johnson Matthey	Chemicals	SOCO International	Oil and Gas Producers
Inmarsat	Mobile Telecommunications	Easyjet	Travel and Leisure
Lonmin	Mining	Weir Group	Industrial Engineering
Sage Group	Software and Computer Services	IMI	Industrial Engineering
Antofagasta	Mining	Northumbrian Water Group	Gas, Water and Multi Utilities
Home Retail Group	General Retailers	Premier Oil	Oil and Gas Producers
Bunzl	Support Services	Rentokil Initial	Support Services
Hammerson	Real Estate	Aquarius Platinum	Mining
Drax Group	Electricity	Kazakhmys	Mining
Schroders	Financial Services	Close Brothers Group	Financial Services
Eurasian Natural Resources Corporation	Mining	SEGRO	Real Estate

The Outs

Ten of the largest companies excluded and the reasons for their exclusion are shown below.

Company	Sector	Reason
Royal Dutch Shell	Oil and Gas Producers	Human Rights
BP	Oil and Gas Producers	Human Rights
HSBC Holdings	Banks	Human Rights
GlaxoSmithKline	Pharmaceuticals and Biotechnology	Human Rights
AstraZeneca	Pharmaceuticals and Biotechnology	Human Rights
British American Tobacco	Tobacco	Human Rights, Tobacco
Rio Tinto	Mining	Health and Safety
Diageo	Beverages	Human Rights
Reckitt Benckiser Group	Household Goods and Home Construction	Human Rights, Animal Testing
Unilever	Food Producers	Human Rights, Animal Testing

Details correct as at 31 March 2009, but may be subject to change.

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