

Legal & General (Alliance & Leicester)
Capital Growth Fund

**Annual Manager's
Short Report
for the year ended
28 February 2018**

**EVERY
DAY
MATTERS.®**



Investment Objective and Policy

The objective of the Fund is to track the capital performance of the FTSE 350 Index (the 'Index') and to maintain a gross income yield equal to that of the Index.

Securities in the Index will be held with weightings generally proportionate to their official Index weighting. From time to time non-Index constituents may be held as a result of a corporate action and these holdings will be sold or transferred as soon as reasonably practical.

Risk Profile

Market Risk

Market risk arises mainly from uncertainty about future prices. It represents the potential loss the Fund may suffer through holding market positions in the face of market movements. 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.

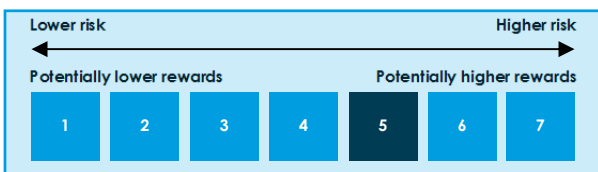
Fund Facts

Period End Dates for Distributions:	28 Feb, 31 Aug	
Distribution Dates:	30 Apr, 31 Oct	
Ongoing Charges Figure:	28 Feb 18	28 Feb 17
	0.98%	1.43%

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



- 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 number highlighted above reflects the rate at which the Fund's unit price has moved up and down in the past. If the Fund has less than five years' track record, the number also reflects the rate at which the Index the Fund tracks has moved up and down in the past. Higher numbers mean the potential reward could be greater, but this comes with increased risk of losing money.
- The Fund is in category five because it invests in company shares which are sensitive to variations in the stock market. The value of company shares can change substantially over short periods of time. Company shares are generally considered to be higher risk investments than bonds or cash.
- 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.

Distribution Information

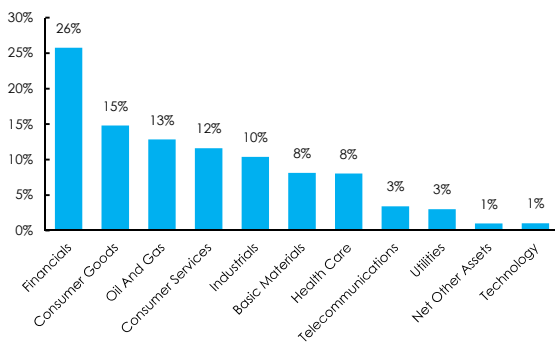
The distribution payable on 30 April 2018 is 1.6485p per unit for accumulation units.

Portfolio Information

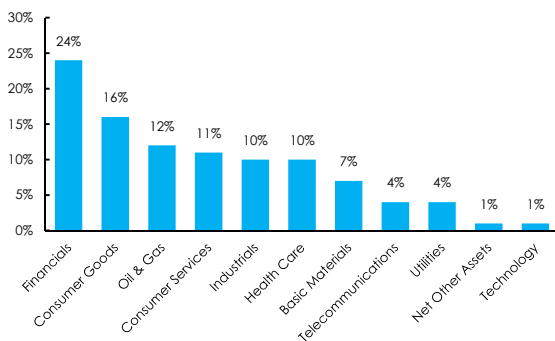
The top 10 holdings and their associated weighting at the current and preceding year ends were:

Top 10 Holdings at 28 February 2018		Top 10 Holdings at 28 February 2017	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
HSBC	6.31%	HSBC	5.79%
British American Tobacco	4.26%	British American Tobacco	4.23%
Royal Dutch Shell 'A' (Dutch Listing)	4.04%	BP	3.84%
BP	4.03%	Royal Dutch Shell 'B'	3.83%
Royal Dutch Shell 'B'	3.83%	GlaxoSmithKline	3.59%
GlaxoSmithKline	2.76%	Royal Dutch Shell 'A' (Dutch Listing)	3.48%
Diageo	2.66%	AstraZeneca	2.65%
AstraZeneca	2.65%	Diageo	2.57%
Vodafone Group	2.36%	Vodafone Group	2.39%
Lloyds Banking Group	2.15%	Unilever	2.07%

Fund Holdings as at 28 February 2018



Fund Holdings as at 28 February 2017



Comparative Table

Accumulation Units

Change in Net Asset Value per Unit

Accounting year ending	28/02/18 (pence per unit)	28/02/17 (pence per unit)	28/02/16 (pence per unit)
Opening net asset value per unit	153.81	126.67	139.25
Return before operating charges*	7.27	29.14	(10.68)
Operating charges (calculated on average price)	(1.57)	(2.00)	(1.90)
Return after operating charges*	5.70	27.14	(12.58)
Distributions	(4.37)	(3.63)	(3.32)
Retained distributions on accumulation units	4.37	3.63	3.32
Closing net asset value per unit	159.51	153.81	126.67
* after direct transaction costs of:	0.02	0.02	0.02

Performance

Return after charges	3.71%	21.42%	(9.03)%
----------------------	-------	--------	---------

Other Information

Closing net asset value (£)	148,952,550	152,732,031	137,325,345
Closing number of units	93,379,602	99,299,971	108,416,033
Operating charges†	0.98%	1.43%	1.43%
Direct transaction costs	0.01%	0.01%	0.02%

Prices

Highest unit price	170.20p	160.00p	148.90p
Lowest unit price	152.40p	125.20p	115.30p

† Operating charges, otherwise known as the OCF is the ratio of the Fund's total disclosable costs (excluding overdraft interest) to the average net assets of the Fund.

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.

Manager's Investment Report

During the year under review, the bid price of the Fund's R-Class accumulation units increased by 3.71%. 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 12pm. Therefore, for tracking purposes the Fund has been revalued using closing prices. On this basis, over the review year, the Fund rose by 0.52% on a capital only basis, compared with the FTSE 350 Index rise of 0.45% (Source: Bloomberg), producing a tracking difference of + 0.07%.

Past performance is not a guide to future performance.

The value of investments 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.

The FTSE 350 Index is calculated by FTSE International Limited ("FTSE"). FTSE does not sponsor, endorse or promote this product.

All copyright in the Index values and constituent list belongs to FTSE. Legal & General has obtained full licence from FTSE to use such copyright in the creation of this product.

"FTSE™", "FT-SE®" and "Footsie®" are trademarks of the London Stock Exchange Plc and The Financial Times Limited and are used by FTSE International Limited ("FTSE") under license.

Market/Economic Review

The global economic background has improved over the past twelve months, led by solid growth in the major developed economies. Despite a rise in commodity prices, with the oil price recording a three-year high early in 2018, inflationary pressures worldwide have remained subdued.

In the UK, both economic and political uncertainty have heightened over the last 12 months, as the June general election resulted in a hung parliament and Brexit negotiations began. The Bank of England voted to increase interest rates to 0.5% in November, removing the emergency support announced in August 2016 in the wake of the EU referendum.

Although weakness towards the end of the review year diluted returns, UK equities gained ground. The market has been led higher by resources stocks, benefiting from the strength of commodity markets. Financials have also outperformed the broader market, led by shares in insurance companies. The weakest sectors have been utilities, healthcare and personal & household goods. These sectors are less sensitive to the economic cycle but are more closely correlated with bond markets, and tend to underperform when investors are more optimistic about the economic outlook and earnings growth prospects.

In Sterling terms, the UK major sectors such as Industrial Metals & Mining (+90.23%), Electronic & Electrical Equipment (+22.47%) and Industrial Transportation (+21.13%) showed the largest positive returns during the review year, whilst Gas, Water &

Manager's Investment Report continued

Multi-Utilities (-28.19%), Fixed Line Telecommunications (-26.43%) and Electricity (-21.25%) were the worst performing sectors.

In the UK, again in Sterling terms, both the FTSE 250 Index (+4.88%) and FTSE SmallCap Index (+7.86%) outperformed the large-cap FTSE 100 Index (-0.43%) over the review year.

Fund Review

Companies held within the Fund are held with weightings generally proportionate to those of the Index. Hence investment activity, other than to raise or invest cash, is only necessary when there are changes in the issued share capital or free float of the constituent companies, or to the constituents of the Index.

There were four Index reviews carried out by FTSE during the review year. In March 2017, the review resulted in three additions and three deletions. Sanne Group, Northgate and Syncona were added to the Index, whereas International Personal Finance, N Brown Group and CMC Markets were deletions. The largest increases in free share capital were for Lloyds Banking Group, Royal Dutch Shell 'A' and GlaxoSmithKline and the largest decreases were for Alliance Trust, Experian and Sole Realisation (formerly SVG Capital).

The annual Index review in June resulted in six additions and six deletions. Melrose Industries, Pershing Square, Sirius Minerals, Coats Group, FDM Group and TBC Bank Group were added to the Index, whereas deletions included Keller, Debenhams, Allied Minds, BH Macro (GBP), AO World and Sole Realisation (formerly SVG Capital). The largest increases in free share capital were for Lloyds Banking Group, Ladbroke's Coral Group and Royal Dutch Shell 'A' and the largest decreases were for Anglo American, GlaxoSmithKline and Diageo.

The September quarterly Index review resulted in three additions and three deletions. Sequoia Economic Infrastructure Income Fund, 888 and Alfa Financial Software were added, whereas Northgate, Petra Diamonds and Carillion were deleted from the Index. The largest increases in free share capital were for Centrica and NewRiver REIT and the largest decreases were for Unilever and Rio Tinto.

In December, the quarterly Index review resulted in five additions and five deletions. BCA Marketplace, Rhi Magnesita, F&C Global Smaller Companies, PureCircle and TI Fluid Systems were added, whereas P2P Global Investments, PayPoint, Restaurant Group, Nostrum Oil & Gas and Electra Private Equity were deleted from the Index. The largest increases in free share capital were for Royal Dutch Shell 'A', IP Group and Sophos Group and the largest decreases were for Anglo American, Unilever and Hansteen.

Outside of the Index reviews there was a noticeable amount of overseas merger & acquisition activity. Henderson was deleted from

Manager's Investment Report continued

the Index as a result of a merger with Janus (US) and delisting from the London Stock Exchange. Stobart Group was consequently promoted to FTSE 250 Index from the FTSE SmallCap Index.

Jimmy Choo replaced Aberdeen Asset Management which merged with the subsequently enlarged Standard Life Aberdeen.

Equiniti Group replaced Berendsen after completion of a friendly acquisition by Elis (FR). Renewi was added to the Index, replacing Amec Foster Wheeler, which was acquired by John Wood Group via a scheme of arrangement. Herald Investment Trust was promoted from the FTSE SmallCap Index to replace

Kennedy Wilson Europe Real Estate that was acquired by Kennedy Wilson (US) which bought the residual stake in the company. Jupiter European Opportunities Trust replaced Jimmy Choo that was acquired by Michael Kors via a scheme of arrangement. Pi UK Bidco has acquired Paysafe Group via a scheme of arrangement for cash which resulted in Schroder Asia Pacific Fund being promoted from the FTSE SmallCap Index.

Vantiv (US) acquired Worldpay via a scheme of arrangement for cash and shares which resulted in Fenner being added as a replacement stock. British American Tobacco was up weighted after acquiring the remaining 57.8% of its Reynolds American (US) holding. Atkins (WS) was replaced in the FTSE 250 by N Brown Group after being acquired by SNC-Lavalin Group (GB).

Shawbrook Group was replaced by Vietnam Enterprise after being acquired by Marlin Bidco. Micro Focus increased its weight in the Index following the acquisition of the software business segment ("HPE Software") of Hewlett Packard (HPE US).

Companies raising capital via rights issues included Xafinity, Laird, Segro, Cobham, Tullow Oil & Cineworld Group. LondonMetric Property, Tritax Big Box REIT, Marston's, IP Group, NewRiver REIT, Metro Bank, Greencoat UK Wind, and Shaftesbury all raised capital for growth via a primary placings. Assura raised capital via a Firm Placing, Placing and Open Offer.

Secondary placings that resulted in companies having their freely available share capital increased in the Index were made for Ibstock, Onesavings Bank, JRP Group, Wizz Air, Playtech, B&M European Value Retail and Countryside Properties.

At the end of the review year the three largest stocks in the Index were Royal Dutch Shell (8.5%), HSBC (6.4%) and British American Tobacco (4.4%).

Outlook

UK equities recorded their largest monthly decline since August 2015 during February, largely in response to the sell-off in global equity markets with volatility rising sharply.

In addition to concerns over US inflationary pressures and the risk of a more rapid rise in US interest rates, investors were also unsettled by the latest guidance on monetary policy from the Bank of England. The Bank's Monetary Policy Committee (MPC)

Manager's Investment Report continued

cautioned that interest rates may need to be increased earlier and faster than previously expected, reflecting the impact of a stronger global economy on the UK inflation outlook, to return the benchmark consumer price index to its 2% target. The Bank of England was also keen to stress that inflation would not return to target unless interest rates were hiked further. They broadly agree with market expectations of another couple of hikes in the next three years. This is consistent with our own expectation of slow rate hikes.

Signs that the Brexit negotiations are yielding little progress and a further round of subdued UK economic data reinforced the suggestion that businesses and individuals are likely to adopt a more cautious approach.

Given this backdrop of uncertainty the Fund remains well positioned to capture the performance of the Index.

Legal & General Investment Management Limited
(Investment Adviser)
22 March 2018

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 year, the annualised Tracking Error of the Fund is 0.03%, whilst over the last three years to the end of February 2018, the annualised Tracking Error of the Fund is 0.04%. These Tracking Errors are within the anticipated Tracking Error levels set out in the Fund's Prospectus of +/-0.50% per annum.

Dual Pricing Arrangement

The Manager's fixed dual pricing arrangement has a set spread to account for the costs of transacting in a particular Fund. Where the Manager operates a box through which unit subscriptions and unit redemptions are netted into a single trade instruction to the Trustee, the netting reduces the actual transaction costs and this generates a revenue to the Manager. The revenue generated from this activity is calculated on a monthly basis and returned to the Fund in the form of a payment from the Manager. This provides an enhanced return to the Fund, though the size of any return will be dependent on the size of subscriptions and redemptions.

Minimum Investment Amounts

The minimum initial lump sum investment amounts for each class is £500. Monthly contributions can be made with a minimum amount of £50 per month.

Other Information

The information in this report is designed to enable unitholders to understand how the Fund has performed during the year under review and how it is invested at the year 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.

Significant Changes

Change of Fund Management Fees (FMF)

With effect from 6 June 2017, the FMF was reduced from 1.43% to 0.82%.

Removal of Initial Charge

With effect from 6 June 2017, the initial charge has been removed. Prior to this change, the initial charge was 3%. The removal of the initial charge will provide better value for investors, as there is no longer a cost of setting up the investments.

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

Northern Trust Global Services Limited

50 Bank Street,

Canary Wharf,

London E14 5NT

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
ACG0418

