

Legal & General Real Income Builder Fund

**Interim Manager's Report  
for the period ended  
30 June 2018  
(Unaudited)**

**EVERY  
DAY  
MATTERS.®**





# Contents

	<b>Page Number</b>
Manager's Investment Report	2
Authorised Status	5
Directors' Statement	5
Portfolio Statement	6
Statement of Total Return	7
Statement of Change in Net Assets attributable to Unitholders	7
Balance Sheet	8
Notes to the Financial Statements	9
Fund Information	10
Risk and Reward Profile	11
General Information	12

# Manager's Investment Report

## Investment Objective and Policy

The Fund's primary objective is to generate income which grows at the rate of inflation +4%, where income is measured on a per unit basis over three year rolling time periods.

The Fund has a secondary objective to achieve capital growth in line with income growth over the medium to long term.

The above objectives are before the deduction of any charges and assumes income is reinvested. There is no guarantee that any of the objectives will be met over any time period. Both capital and reinvested income are at risk.

The Fund will achieve its objectives by permanently investing not less than 85% of its assets in the L&G Real Income Builder Fund. While it is envisaged that the Fund will normally be fully invested in the L&G Real Income Builder Fund, the Fund may also hold up to 15% of its assets in cash or near cash. The Fund will use derivatives for hedging purposes only.

## Manager's Investment Report

During the period under review, the bid price of the Fund's L-Class accumulation units rose by 0.77%. The Fund objective is to achieve income growth and a total return better than UK CPI+4%, which was 3.06% during the period.

**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.**

## Market/Economic Review

During the review period, the pace of global economic growth moderated but remains above the average we have seen since the financial crisis. With this backdrop, corporate earnings growth has been strong, particularly in the US where tax reform has reduced the Federal corporate tax rate from 35% to 21%, fuelling earnings growth in excess of 20%. Monetary policy continued to tighten globally with the Federal Reserve continuing to raise US interest rates and both the European Central Bank and the Bank of Japan slowing down their rate of quantitative easing. Announcements from President Trump continued to raise geopolitical uncertainty and US tariff announcements followed by European and Chinese retaliatory measures heightened concerns about the risk of a significant trade war. Sterling appreciated in early 2018, but then depreciated sharply in Q2 on concerns about the status of the Brexit negotiations and the strength of the UK economy.

Against this backdrop the MSCI World Net Total Return Index was just 0.4% in US Dollars during the period under review, with strong tailwinds from global economic growth and corporate earnings growth offset by concerns about a trade war and other geopolitical risks, combined with tightening global liquidity. In Sterling terms, the MSCI World Net Total Return Index was up 2.9%, benefiting from Sterling depreciating, and the total return for the FTSE 100 was 1.7%. Performance variation within the market was high, with Growth styles significantly outperforming Value and High Dividend styles. The MSCI World Growth Index delivered 6.8% net total return in Sterling terms during the period, compared to a negative 1.0% for the Value equivalent. This variation was observable at the sector level, with the Technology sector delivering net total return of 12.2%, buoyed by the performance of Microsoft, Apple, Facebook, Mastercard and Visa. Consumer Discretionary was the next best sector with 8.6% of net total return, helped by Amazon and Netflix. By contrast, the net total return for the Financial sector was a negative 3.8%, hindered by a flattening of the US yield curve.

## Manager's Investment Report continued

In the UK bond markets, gilt yields increased in early-2018, but then later fell on Brexit and domestic economic concerns, leaving yields broadly unchanged over the period. Sterling credit spreads widened through the period, matching widening investment grade spreads observed in other regions.

### Fund Review

The I&G Real Income Builder Fund is an actively managed, bottom-up outcome orientated strategy. The Fund's primary objective is to grow income per unit at least at UK CPI +4%, assuming income is reinvested. The secondary objective is to grow capital in line with income, with total returns exceeding UK CPI +4%. Additionally, the Fund aims to have less than two-thirds of the equity market risk with a focus on capital preservation.

The Fund invests predominantly in global equities with the balance invested in high quality bonds. Each security selected for the Fund meets a disciplined 'quality at an attractive valuation' philosophy, and contributes to the income growth and total return objectives. The investment process is research-led, based on fundamental analysis and evidence-gathering.

The Fund performed broadly in line with expected performance and we expect full-year income growth to be in the 6-7% range. Capital growth was modest at 0.36%, held back by soft performance in the equity markets, in particular in the value and high dividend companies favoured by the strategy.

The largest contributor to total returns was the equity holding in Microsoft, which is benefiting from the structural growth in cloud computing through its Office 365 and Azure platforms. Corporate customers are rapidly shifting their workloads onto public cloud, where Microsoft has #2 market share behind Amazon's AWS in a highly consolidated market. We expect Microsoft's margins and cash-flow generation to continue to improve as it benefits from operational leverage in this business.

The biggest detractor was the equity position in consumer beauty company, Coty. Concerns about the potential pace of recovery in sales following their re-launch of the 'Covergirl' brand have weighed on Coty shares. Following a detailed stock review we have updated our forecasts and intrinsic valuation, taking account of structurally lower market growth in the consumer beauty categories, continued margin headwinds as the company is forced to re-invest in the business and the high level of debt the company has after its acquisition of the P&G brands. Our revised intrinsic valuation is now below the current share price, and hence we have sold the position.

During the period, we also switched our equity position in TD Ameritrade to Charles Schwab, as we expect Charles Schwab to benefit more from the on-going increases in US interest rates and as it brings customer cash balances onto its own balance sheet. This resulted in the upside to our intrinsic valuation for Charles Schwab being significantly higher than for TD Ameritrade. We purchased an equity position in Synchrony Financial, a white label provider of store credit cards in the US, attracted by the good quality of the business and the attractive valuation. We sold our equity position in Philip Morris International as we concluded that it would not be able to sustain its returns as the tobacco industry shifts towards next generation products, such as e-vapor and heat-not-burn categories.

## Manager's Investment Report continued

On the bond side, we sold our positions in Aroundtown, Westfield, Prologis and Gatwick Airport, and purchased a number of UK gilts and credits issued by UBS and Becton Dickinson. These transactions were triggered by relative value considerations and had the overall effect of modestly reducing the average credit spread and duration of our bond holdings.

### Outlook

We expect that a continued favourable global economic growth environment and strong corporate earnings environment will be supportive to the equity markets for the remainder of 2018. However, we are cognisant that a combination of geopolitical and trade war risks, combined with continuing tightening of global liquidity conditions will provide an offsetting headwind that will be difficult to predict.

In our view, due to strong earnings growth, equity valuations have moderated and become relatively more attractive than bonds. UK equities are attractively valued versus their global peers, even taking account of nearer-term economic and political risks relating to Brexit.

We are positioning the Sub-Fund for higher interest rates and tighter monetary policy, and are finding attractive opportunities in UK and European banking, together with some other cyclical sectors. We are more cautious on stable bond proxy equities that we believe are fully valued and vulnerable to higher rates. Similarly we are cautious on adding long-duration fixed income securities to the portfolio at the current time.

We remain confident that dividend growth, supported by the strong corporate earnings environment, will continue to allow us to meet our income growth objective. The Fund remains conservatively positioned and we would expect it to achieve its objective of two-thirds of equity risk in a downturn if and when the current low volatility and upward trending markets come to an end.

Legal & General Investment Management Limited  
(Investment Adviser of the Legal & General Real Income Builder Fund,  
Sub-fund of the ACS)  
19 July 2018

## Authorised Status

### Authorised Status

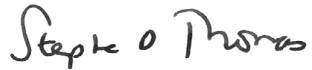
This Fund is an Authorised Unit Trust Scheme as defined in section 243 of the Financial Services and Markets Act 2000 and is a UCITS Retail Scheme within the meaning of the FCA Collective Investment Schemes sourcebook.

### Directors' Statement

We hereby certify that this Manager's Report has been prepared in accordance with the requirements of the FCA Collective Investment Schemes sourcebook.



A. J. C. Craven  
(Director)



S. D. Thomas  
(Director)

Legal & General (Unit Trust Managers) Limited  
20 August 2018

## Portfolio Statement

### Portfolio Statement as at 30 June 2018

All investments are in collective investment schemes unless otherwise stated. The percentages in brackets show the equivalent holdings at 31 December 2017.

<b>Holding/ Nominal Value</b>	<b>Investment</b>	<b>Market Value £</b>	<b>% of Net Assets</b>
<b>COLLECTIVE INVESTMENT SCHEMES</b> <b>— 99.54% (99.73%)</b>			
43,707,718	Legal & General Real Income Builder Fund 'Q' Acc	52,173,903	26.03
125,185,666	Legal & General Real Income Builder Fund 'Q' Inc	147,331,010	73.51
		<b>199,504,913</b>	<b>99.54</b>
<b>Portfolio of investments</b>		199,504,913	99.54
<b>Net other assets</b>		923,623	0.46
<b>Total net assets</b>		<b>£200,428,536</b>	<b>100.00%</b>

Total purchases for the period: £5,964,869.

Total sales for the period: £210,271.



## Financial Statements

### Statement of Total Return for the period ended 30 June 2018

	30/06/18		30/06/17	
	£	£	£	£
<b>Income</b>				
Net capital (losses)/ gains		(1,680,706)		6,249,598
Revenue	3,271,419		3,198,522	
Expenses	(60,973)		(45,260)	
Interest payable and similar charges	(231)		(98)	
<b>Net revenue before taxation</b>	<u>3,210,215</u>		<u>3,153,164</u>	
Taxation	(126,816)		(69,602)	
<b>Net revenue after taxation for the period</b>		<u>3,083,399</u>		<u>3,083,562</u>
Total return before distributions		1,402,693		9,333,160
Distributions		(3,144,372)		(3,119,772)
<b>Change in net assets attributable to Unitholders from investment activities</b>		<u>£(1,741,679)</u>		<u>£6,213,388</u>

### Statement of Change in Net Assets attributable to Unitholders for the period ended 30 June 2018

	30/06/18		30/06/17	
	£	£	£	£
<b>Opening net assets attributable to Unitholders</b>		195,464,441		235,233,822
Amounts received on issue of units	5,928,542		125,719,361	
Amounts paid on cancellation of units	(59,624)		(186,815,384)	
		<u>5,868,918</u>		<u>(61,096,023)</u>
<b>Change in net assets attributable to Unitholders from investment activities</b>		(1,741,679)		6,213,388
Retained distributions on accumulation units		<u>836,856</u>		<u>668,261</u>
<b>Closing net assets attributable to Unitholders</b>		<u>£200,428,536</u>		<u>£181,019,448</u>

The difference between the opening net assets and the comparative closing net assets is the movement in the second half of the year.

## Financial Statements continued

### Balance Sheet as at 30 June 2018

	30/06/18 £	31/12/17 £
<b>ASSETS</b>		
<b>Fixed assets:</b>		
Investments	199,504,913	194,929,524
<b>Current assets:</b>		
Debtors	3,271,515	2,122,392
Cash and bank balances	345,851	250,665
<b>Total assets</b>	<b>203,122,279</b>	<b>197,302,581</b>
<b>LIABILITIES</b>		
<b>Creditors:</b>		
Bank overdrafts	(244,242)	(197,243)
Distributions payable	(2,312,272)	(1,540,190)
Other creditors	(137,229)	(100,707)
<b>Total liabilities</b>	<b>(2,693,743)</b>	<b>(1,838,140)</b>
<b>Net assets attributable to Unitholders</b>	<b>£200,428,536</b>	<b>£195,464,441</b>

# Notes to the Financial Statements

## 1. Statement of Compliance

The Financial Statements have been prepared in compliance with UK Financial Reporting Standard 102 (FRS 102) and in accordance with the Statement of Recommended Practice for UK Authorised Funds issued by the Investment Management Association in May 2014 (2014 SORP).

## 2. Accounting Policies

The accounting policies applied are consistent with the most recent annual Financial Statements.

### (a) Basis of Preparation

The Financial Statements have been prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss.

## Fund Information

### Net Asset Values and Units in Issue

Class	Net Asset Value (£)	Units in Issue	Net Asset Value per Unit (p)
I-Class			
Distribution Units	8,218,319	14,495,261	56.70
Accumulation Units	416,334	685,980	60.69
C-Class <sup>†</sup>			
Distribution Units	1,012	2,000	50.60
Accumulation Units	1,026	2,000	51.30
L-Class			
Distribution Units	138,321,925	251,019,909	55.10
Accumulation Units	53,469,920	88,859,083	60.17

**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.**

### Ongoing Charges Figures

	30 Jun 18	31 Dec 17
I-Class	0.55%	0.65%
C-Class <sup>†</sup>	0.50%	–
L-Class	0.04%	0.14%

† C-Class Units launched on 28 February 2018.

The Ongoing Charges Figure (OCF) is the ratio of the Fund's total disclosable costs (excluding overdraft interest) and all costs suffered through holdings in underlying Collective Investment Schemes, 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.

### Distribution Information

#### I-Class

The distribution payable on 31 August 2018 is 0.8958p per unit for distribution units and 0.9440p per unit for accumulation units.

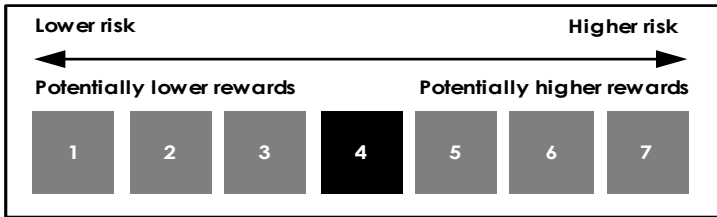
#### C-Class

The distribution payable on 31 August 2018 is 0.6860p per unit for distribution units and 0.6865p per unit for accumulation units.

#### L-Class

The distribution payable on 31 August 2018 is 0.8694p per unit for distribution units and 0.9344p per unit for accumulation units.

## Risk and Reward Profile



- This risk and reward indicator 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 a representative mix of the underlying investments 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 four because the mix of different asset types in which the Fund invests has a balancing effect on the rate at which the Fund share price moves up and down. This type of fund is generally considered to be higher risk than one investing only in bonds and lower risk than one investing only in company shares.
- 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.

## General Information

### Constitution

Launch date:	12 March 2015
Period end dates for distributions:	30 June, 31 December
Distribution dates:	28 February, 31 August
Minimum initial lump sum investment:	I-Class £1,000,000 C-Class* £20,000,000 L-Class** £100,000
Valuation point:	12 noon
Fund management fees:	I-Class Annual 0.55% C-Class* Annual 0.50% L-Class** Annual 0.04%
Initial charge:	I-Class Nil C-Class* Nil L-Class** Nil

\* C-Class units are only available to distributors who actively market and distribute such units (or whom the Manager believes intends to do so) and to whom the Manager has confirmed by letter that they meet the criteria for investment in such units.

\*\* L-Class is not available to retail customers and is intended only for investment by Legal & General group companies.

### Pricing and Dealing

The I-Class and C-Class prices are published on the internet at <https://fundcentres.lgim.com/uk/ad/fund-centre/Unit-Trust/Real-Income-Builder-Fund#Prices> immediately after they become available.

Dealing in units takes place on a forward pricing basis, from 9am to 5pm, Monday to Friday.

### Buying and Selling Units

Units may be bought on any business day from the Manager or through a financial adviser by completing an application form. Units may normally be sold back to the Manager on any business day at the bid price calculated at the following valuation point.

### Prospectus and Manager's Reports

The Manager will send to all persons on the Unitholder Register annual and interim short form reports.

Copies of the Prospectus and the most recent annual or interim reports are available free of charge by telephoning 0370 050 0955 or by writing to the Manager.

Do you have difficulty in reading information in print because of a disability? If so, we can help. We are able to produce information for our clients in large print and braille. If you would like to discuss your particular requirements, please contact us on 0370 050 0955.

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

## **General Information continued**

### **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.

### **Significant Changes**

#### **New Unit Class: C-Class**

With effect from 28 February 2018, C-Class units were launched within the Fund with accumulation and distribution units available.

#### **Change of Auditor**

With effect from 28 April 2018, PricewaterhouseCoopers LLP ceased to be Independent Auditors of the Fund and KPMG LLP have been appointed. The change of Auditor has no impact on the way the Fund is operated.

#### **General Data Protection Regulation (GDPR)**

Legal & General takes your privacy very seriously. Under data protection legislation, we have classified ourselves as a 'data controller'. This means that we are subject to certain obligations relating to how we process personal data. These obligations include, without limitation, providing individuals with certain information regarding how we process their personal data.

We will use the personal data you have provided to us in connection with an investment in units of Legal & General Real Income Builder Fund, including your name, age, contact details, bank account details, transactions and the invested amount, and any information regarding the dealing in units in accordance with all applicable data protection laws and our Privacy Policy which is available from 25 May 2018 at [www.lgim.com/UTMprivacy](http://www.lgim.com/UTMprivacy) (or available upon request). Our Privacy Policy sets out, amongst other things, the purpose or purposes for which your personal data is collected and intended to be processed and also contains any other information prescribed by data protection legislation.

## General Information continued

### 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

### Directors of the Manager

R. M. Bartley  
A. J. C. Craven  
S. Hynes  
H. Morrissey  
H. Solomon  
S. D. Thomas  
L. W. Toms  
A. R. Toutouchi\*  
M. J. Zinkula

\*Non-executive Director

### Secretary

J. McCarthy

### Registrar

Legal & General (Unit Trust Managers) Limited  
P.O. Box 6080,  
Wolverhampton WV1 9RB  
Authorised and regulated by the Financial Conduct Authority

Dealing: 0370 050 0956  
Enquiries: 0370 050 0955  
Registration: 0370 050 0955

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

### Trustee

Northern Trust Global Services PLC  
Trustee and Depository Services  
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

KPMG LLP  
15 Canada Square,  
London E14 5GL

### Investment Adviser

Legal & General Investment Management Limited  
One Coleman Street,  
London EC2R 5AA  
Authorised and regulated by the Financial Conduct Authority









**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](http://www.legalandgeneral.com)

