

Legal & General UK Smaller Companies Trust

**Interim Manager's Report**  
**for the period ended**  
**18 December 2018**  
**(Unaudited)**





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# Manager's Investment Report

## Investment Objective and Policy

The objective of the Trust is to maximise capital growth from a portfolio of UK securities, which will largely consist of smaller companies, and which may be selected from all economic sectors.

The Manager's policy for putting this into effect will be to invest primarily in those companies that comprise the lowest 10% by capitalisation of the main UK equity markets.

The Trust may hold derivatives for the purposes of Efficient Portfolio Management.

## Manager's Investment Report

During the period under review, the bid price of the Trust's R-Class accumulation units fell by 20.73%. This compares to a fall in the benchmark (Numis Securities Smaller Companies ex Investment Trust Index) of 15.74% on a total return basis. (Source: Bloomberg).

**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

Global equity indices recorded a loss over the last six months as markets turned negative, especially in December. Favourable US economic indicators and encouraging corporate earnings announcements underpinned markets until October, when concerns over the impact of the escalating trade conflict between the US and China heralded a sharp sell-off. The healthcare sector outperformed, boosted by robust earnings growth. Financials were amongst the weakest sectors as the differential between 2-year and 10-year US Treasury bond yields reached its lowest point since 2007.

UK equities underperformed global indices as uncertainty surrounding the outcome of Brexit negotiations overshadowed the market. Although the UK government eventually negotiated a withdrawal agreement with the EU in November, it is highly uncertain whether this will receive the consent of Parliament. The UK economy grew at its slowest pace for six years during the first quarter leading the Bank of England to adopt a cautious approach to monetary policy, only raising its benchmark base rate to 0.75% in August. Pharmaceutical stocks performed well, buoyed by a series of encouraging earnings announcements and merger and acquisition activity, while companies with significant exposure to emerging markets underperformed.

## Trust Review

Against a challenging market backdrop, the Trust delivered a negative return over the six month review period. This was largely driven by stock selection in the consumer services, financials and industrial sectors. However, this was partially offset by strong returns from our oil and gas holdings. At a sector level, our underweight position relative to the comparative Index in telecommunications and financial companies hurt relative performance.

Leading provider of database analytics technology, First Derivatives, was an underperformer in the portfolio alongside Keller Group, Workspace Group and McColl's Retail Group. First Derivatives' share price has been volatile, prompted by concerns over the lack of growth and underlying cash generation. Investors had also become concerned that the valuation was looking stretched, given limited catalysts in the short term. Conversely, Staffline Group, Energean Oil & Gas and Faroe Petroleum helped the Trust's performance.

## Manager's Investment Report continued

We took the decision to sell out of the Trust's holdings in Keyword Studios, Equinity, SDL and video game developer Codemasters Group. In terms of additions, we bought Knights Group and sports nutrition company Science in Sport.

### **Outlook**

Two countervailing forces have kept markets in a holding pattern recently: growth in the global economy and company earnings, and the ascent of populist economic policies. Trade wars continue to occupy markets' attention and although there has yet to be any major fall-out, our economists do anticipate some damage to growth over the next year. We are also closely monitoring the ongoing Brexit negotiations and the impact it may have on UK companies.

Legal & General Investment Management Limited  
(Investment Adviser)  
8 January 2019

## Authorised Status

### Authorised Status

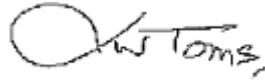
This Trust is an Authorised Unit Trust Scheme as defined in section 243 of the Financial Services and Markets Act 2000 and is a UCITS Retail Scheme within the meaning of the FCA Collective Investment Schemes sourcebook.

### 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)



L. W. Toms  
(Director)

Legal & General (Unit Trust Managers) Limited  
6 February 2019

# Portfolio Statement

## Portfolio Statement as at 18 December 2018

All investments are in ordinary shares unless otherwise stated. The percentages in brackets show the equivalent holdings at 18 June 2018.

Holding/ Nominal Value	Investment	Market Value £	% of Net Assets
	<b>UNITED KINGDOM</b>		
	— 89.09% (90.33%)		
	<b>Oil &amp; Gas Producers</b>		
	— 6.75% (5.37%)		
20,119,684	Amerisur Resources <sup>1</sup>	2,744,325	1.03
800,000	Energycan Oil & Gas	4,688,000	1.76
5,020,205	Faroe Petroleum <sup>1</sup>	7,630,711	2.86
9,000,000	Ophir Energy	2,916,000	1.10
		17,979,036	6.75
	<b>Oil Equipment, Services &amp; Distribution — 0.30% (0.37%)</b>		
990,683	Tekmar Group	792,546	0.30
	<b>Chemicals — 3.43% (3.60%)</b>		
246,000	Victrex	5,466,120	2.05
654,289	Zotefoams	3,677,104	1.38
		9,143,224	3.43
	<b>Construction &amp; Materials</b>		
	— 1.90% (3.19%)		
820,189	Keller Group	4,096,844	1.54
235,633	Kier Group	956,670	0.36
155,517	Kier Group Rights	16	—
		5,053,530	1.90
	<b>Aerospace &amp; Defense</b>		
	— 3.74% (4.13%)		
2,945,911	Senior	5,756,310	2.16
321,465	Ultra Electronics	4,220,836	1.58
		9,977,146	3.74
	<b>Electronic &amp; Electrical Equipment</b>		
	— 3.61% (3.67%)		
1,900,445	discoverIE Group	7,297,709	2.74
2,400,000	Luceco	840,000	0.32
928,371	Xaar	1,474,253	0.55
		9,611,962	3.61
	<b>Industrial Engineering</b>		
	— 4.34% (4.17%)		
799,904	Flowtech Fluidpower <sup>1</sup>	931,888	0.35
519,053	Hill & Smith	5,906,823	2.22
6,758,288	Severfield	4,730,802	1.77
		11,569,513	4.34
	<b>Industrial Transportation</b>		
	— 1.37% (1.08%)		
175,500	Clarkson	3,659,175	1.37

## Portfolio Statement continued

Holding/ Nominal Value	Investment	Market Value £	% of Net Assets
	<b>Support Services — 10.40% (11.00%)</b>		
1,000,000	Alpha Financial Markets Consulting <sup>1</sup>	2,200,000	0.82
2,129,139	Charles Taylor	4,386,026	1.65
422,893	Clipper Logistics	926,136	0.35
1,515,916	Knights Group	2,652,853	0.99
1,013,863	Mears Group	3,001,035	1.13
1,833,721	Northgate	6,832,444	2.56
525,641	Staffline Group <sup>1</sup>	6,444,359	2.42
6,365,505	Sureserve <sup>1</sup>	1,273,101	0.48
		<hr/>	
		27,715,954	10.40
	<b>Automobiles &amp; Parts — 0.12% (0.05%)</b>		
605,000	Transense Technologies <sup>1</sup>	320,650	0.12
	<b>Food Producers — 4.08% (2.97%)</b>		
278,850	Cranswick	7,250,100	2.72
6,221,637	Science in Sport	3,608,549	1.36
		<hr/>	
		10,858,649	4.08
	<b>Household Goods &amp; Home Construction — 4.66% (4.26%)</b>		
1,502,000	Crest Nicholson	4,782,368	1.80
909,282	Headlam Group	3,796,252	1.42
800,000	Redrow	3,828,800	1.44
		<hr/>	
		12,407,420	4.66
	<b>Leisure Goods — 0.00% (0.22%)</b>		
	<b>Health Care Equipment &amp; Services — 3.93% (4.41%)</b>		
1,940,873	Advanced Medical Solutions Group <sup>1</sup>	5,327,696	2.00
541,513	Consort Medical	4,061,348	1.53
859,259	Medica Group	1,074,074	0.40
169,400	Sphere Medical (Warrants) <sup>1</sup>	—	—
		<hr/>	
		10,463,118	3.93
	<b>Pharmaceuticals &amp; Biotechnology — 7.23% (7.25%)</b>		
356,000	Dechra Pharmaceuticals	7,525,840	2.83
356,933	Genus	7,923,913	2.97
302,672	Horizon Discovery Group <sup>1</sup>	463,088	0.17
4,705,875	Vectura Group	3,348,230	1.26
		<hr/>	
		19,261,071	7.23
	<b>Food &amp; Drug Retailers — 0.41% (1.30%)</b>		
2,017,049	McColl's Retail Group	1,097,275	0.41
	<b>General Retailers — 2.51% (2.92%)</b>		
350,000	CVS Group	2,343,250	0.88
2,231,658	Moss Bros Group	669,498	0.25
2,458,766	Mothercare	391,436	0.15



## Portfolio Statement continued

Holding/ Nominal Value	Investment	Market Value £	% of Net Assets
<b>General Retailers — (cont.)</b>			
9,237,654	Vertu Motors <sup>1</sup>	3,279,367	1.23
		6,683,551	2.51
<b>Media — 5.26% (4.28%)</b>			
4,945,200	Ebiquity <sup>1</sup>	2,917,668	1.10
494,701	Euromoney Institutional Investor	5,837,472	2.19
9,192,521	ITE Group	5,248,929	1.97
		14,004,069	5.26
<b>Travel &amp; Leisure — 3.19% (2.79%)</b>			
2,125,975	Goals Soccer Centres <sup>1</sup>	1,488,183	0.56
2,406,139	Gym Group	6,063,470	2.27
2,975,000	Ladbrokes Coral Group CVR	337,960	0.13
641,818	Revolution Bars Group	616,787	0.23
		8,506,400	3.19
<b>Nonlife Insurance — 1.13% (1.03%)</b>			
612,930	Beazley	3,003,357	1.13
<b>Real Estate Investment &amp; Services — 1.30% (1.33%)</b>			
500,000	Savills	3,467,500	1.30
<b>Real Estate Investment Trusts — 6.58% (6.57%)</b>			
1,184,440	Hansteen	1,092,054	0.41
1,890,000	Safestore	10,073,700	3.78
766,097	Workspace Group	6,354,774	2.39
		17,520,528	6.58
<b>Financial Services — 7.17% (6.92%)</b>			
2,050,000	Arrow Global Group	3,792,500	1.43
1,674,000	CMC Markets	1,680,696	0.63
179,000	Curtis Banks Group <sup>1</sup>	465,400	0.18
390,985	IntegraFin	1,075,013	0.40
286,060	Mattlioli Woods <sup>1</sup>	1,916,602	0.72
1,000,000	Morses Club	1,305,000	0.49
1,229,912	OneSavings Bank	4,137,424	1.55
1,187,583	River and Mercantile Group	2,850,199	1.07
936,966	Tatton Asset Management <sup>1</sup>	1,873,932	0.70
		19,096,766	7.17
<b>Software &amp; Computer Services — 5.68% (7.45%)</b>			
190,000	First Derivatives <sup>1</sup>	4,123,000	1.54
2,614,940	NCC Group	4,819,334	1.81
433,103	Softcat	2,395,060	0.90
5,092,173	Tribal Group <sup>1</sup>	3,808,945	1.43
		15,146,339	5.68
<b>Technology Hardware &amp; Equipment — 0.00% (0.00%)</b>			
3,338,400	Celoxica <sup>2</sup>	—	—

## Portfolio Statement continued

Holding/ Nominal Value	Investment	Market Value £	% of Net Assets
	<b>AUSTRALIA — 0.23% (0.25%)</b>		
	<b>Software &amp; Computer Services</b>		
	— 0.23% (0.25%)		
13,688,035	eServGlobal <sup>1</sup>	615,962	0.23
	<b>BERMUDA — 0.41% (0.41%)</b>		
	<b>Mining — 0.41% (0.41%)</b>		
2,906,036	Petra Diamonds	1,083,951	0.41
	<b>CHANNEL ISLANDS — 1.65% (1.82%)</b>		
	<b>Support Services — 0.00% (0.23%)</b>		
	<b>Travel &amp; Leisure — 1.65% (1.59%)</b>		
160,000	Wizz Air	4,393,600	1.65
	<b>GIBRALTAR — 1.59% (2.02%)</b>		
	<b>Travel &amp; Leisure — 1.59% (2.02%)</b>		
2,486,118	888	4,233,859	1.59
	<b>ISLE OF MAN — 0.78% (0.70%)</b>		
	<b>Electronic &amp; Electrical Equipment</b>		
	— 0.78% (0.70%)		
1,571,429	Strix Group <sup>1</sup>	2,086,858	0.78
	<b>SINGAPORE — 0.00% (0.29%)</b>		
	<b>Alternative Energy — 0.00% (0.29%)</b>		
	<b>UNITED STATES — 0.86% (1.08%)</b>		
	<b>Support Services — 0.86% (1.08%)</b>		
3,400,000	Boku <sup>1</sup>	2,278,000	0.86
<b>Portfolio of investments<sup>3</sup></b>		252,031,009	94.61
<b>Net other assets</b>		14,370,479	5.39
<b>Total net assets</b>		£266,401,488	100.00%

<sup>1</sup> These securities are quoted on the Alternative Investment Market and comprise 19.58% of the net assets of the Trust.

<sup>2</sup> Delisted securities are valued at the Manager's best assessment of their fair and reasonable value.

<sup>3</sup> All investments are admitted to an official stock exchange unless otherwise stated.

Total purchases for the period: £13,600,853.

Total sales for the period: £26,755,876.

## Financial Statements

### Statement of Total Return for the period ended 18 December 2018

	19/06/18 to 18/12/18		19/06/17 to 15/12/17 <sup>1</sup>	
	£	£	£	£
<b>Income</b>				
Net capital (losses)/ gains		(72,227,176)		18,822,698
Revenue	3,780,058		3,543,908	
Expenses	(2,378,457)		(2,900,669)	
Interest payable and similar charges	(4)		(2,422)	
<b>Net revenue before taxation</b>	<u>1,401,597</u>		<u>640,817</u>	
Taxation	—		—	
<b>Net revenue after taxation for the period</b>		<u>1,401,597</u>		<u>640,817</u>
<b>Total return before distributions</b>		<u>(70,825,579)</u>		<u>19,463,515</u>
Distributions		<u>(1,663,426)</u>		<u>(642,281)</u>
<b>Change in net assets attributable to Unitholders from investment activities</b>		<u>£(72,489,005)</u>		<u>£18,821,234</u>

### Statement of Change in Net Assets attributable to Unitholders for the period ended 18 December 2018

	19/06/18 to 18/12/18		19/06/17 to 15/12/17 <sup>1</sup>	
	£	£	£	£
<b>Opening net assets attributable to Unitholders</b>		348,213,237		334,407,948
Amounts received on issue of units	11,555,307		5,997,959	
Amounts paid on cancellation of units	<u>(21,629,441)</u>		<u>(17,973,552)</u>	
		(10,074,134)		(11,975,593)
<b>Change in net assets attributable to Unitholders from investment activities</b>		(72,489,005)		18,821,234
Retained distributions on accumulation units		738,649		76,270
Unclaimed distributions		<u>12,741</u>		<u>38,660</u>
<b>Closing net assets attributable to Unitholders</b>		<u>£266,401,488</u>		<u>£341,368,519</u>

<sup>1</sup> The Trust's Interim accounting date has been moved to 15 December 2017 in order to facilitate the closure of E-Class.

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 18 December 2018

	18/12/18 £	18/06/18 £
<b>ASSETS</b>		
<b>Fixed assets:</b>		
Investments	252,031,009	337,413,395
<b>Current assets:</b>		
Debtors	998,589	1,813,918
Cash and bank balances	<u>15,180,470</u>	<u>12,133,515</u>
<b>Total assets</b>	<b><u>268,210,068</u></b>	<b><u>351,360,828</u></b>
<b>LIABILITIES</b>		
<b>Creditors:</b>		
Distributions payable	(899,886)	(1,346,563)
Other creditors	<u>(908,694)</u>	<u>(1,801,028)</u>
<b>Total liabilities</b>	<b><u>(1,808,580)</u></b>	<b><u>(3,147,591)</u></b>
<b>Net assets attributable to Unitholders</b>	<b><u>£266,401,488</u></b>	<b><u>£348,213,237</u></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.

## Trust Information

### Net Asset Values and Units in Issue

Class	Net Asset Value (£)	Units in Issue	Net Asset Value per Unit (p)
R-Class			
Distribution Units	175,332,809	22,125,792	792.44
Accumulation Units	22,566,892	2,518,788	895.94
F-Class			
Distribution Units	518	64	809.38
Accumulation Units	57,124	6,051	944.04
I-Class			
Distribution Units	3,154,444	389,679	809.50
Accumulation Units	3,625,792	375,005	966.86
C-Class			
Accumulation Units	61,663,909	145,612,921	42.35

**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

	18 Dec 18	18 Jun 18
R-Class	1.53%	1.66%
F-Class	1.03%	1.16%
I-Class	0.78%	0.83%
C-Class	0.60%	0.60%

The Ongoing Charges Figure (OCF) is the ratio of the Trust's total disclosable 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.

## Trust Information continued

### Distribution Information

#### **R-Class**

The distribution payable on 18 February 2019 is 3.9415p per unit for distribution units and 4.4662p per unit for accumulation units.

#### **F-Class**

The distribution payable on 18 February 2019 is 6.1406p per unit for distribution units and 7.0525p per unit for accumulation units.

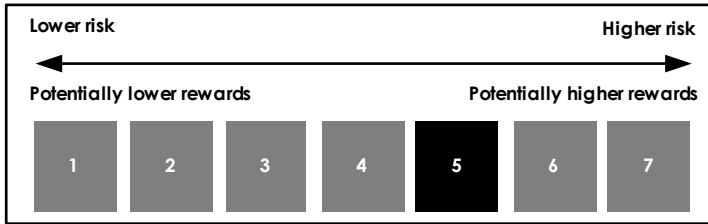
#### **I-Class**

The distribution payable on 18 February 2019 is 7.1301p per unit for distribution units and 8.4426p per unit for accumulation units.

#### **C-Class**

The distribution payable on 18 February 2019 is 0.4079p per unit for accumulation units.

## 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 number highlighted above reflects the rate at which the Trust's unit price has moved up and down in the past. If the Trust has less than five years' track record, the number also reflects the rate at which a representative benchmark 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 Trust 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 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.



## General Information

### Constitution

Launch date:	9 September 1985
Period end dates for distributions:	18 December, 18 June
Distribution dates:	18 February, 18 August
Minimum initial lump sum investment:	R-Class £100 F-Class* £500 I-Class £1,000,000 C-Class** £20,000,000
Minimum monthly contributions:	R-Class £20 F-Class* £50 I-Class N/A C-Class** N/A
Valuation point:	12 noon
Fund management fees:	R-Class Annual 1.53% F-Class* Annual 1.03% I-Class Annual 0.78% C-Class** Annual 0.60%
Initial charge:	Nil for all existing unit classes

\* F-Class units are only available to:

- (i) investors who have received advice from authorised intermediaries, platforms or other distributors in relation to their investment in units in the Trust; and
- (ii) distributors who the Manager reasonably considers will adequately bear the costs of marketing to and acquiring investors at no or limited cost to the Manager, and to whom the Manager has confirmed that such distributor or investor meets the criteria for investment in such units.

\*\* C-Class units are available to certain eligible investors who meet the criteria for investment in such units as outlined in the share class policy of the Manager, which is available to investors in the C-Class upon request. Where investors in the C-Class no longer continue to meet the criteria for investment in such units, further investment in such units may not be permitted.

### Pricing and Dealing

The prices are published on the internet at [www.legalandgeneral.com/investments/fund-information/daily-fund-prices](http://www.legalandgeneral.com/investments/fund-information/daily-fund-prices) immediately after they become available.

Dealing in units takes place on a forward pricing basis, from 8:30am to 6:00pm, 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 or on the internet at [www.legalandgeneral.com](http://www.legalandgeneral.com). Units may normally be sold back to the Manager on any business day at the bid price calculated at the following valuation point.

## General Information continued

### ISA Status

This Trust may be held within this tax advantaged savings arrangement. The favourable tax treatment of ISAs may not be maintained. For full written information, please contact your usual financial adviser or ring 0370 050 0955.

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

### 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.

### Dual Pricing Arrangement

The Manager's fixed dual pricing arrangement has a set spread to account for the costs of transacting in a particular Trust. 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 Trust in the form of a payment from the Manager. This provides an enhanced return to the Trust, though the size of any return will be dependent on the size of subscriptions and redemptions.

## 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 (resigned 17 October 2018)  
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 SE  
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)

