Quarterly Investment Report - Q3 2018

London Borough of Tower Hamlets Pension Fund

Legal & General
INVESTMENT MANAGEMENT

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Executive summary as at 30 September 2018

London Borough of Tower Hamlets Pension Fund

Fund overview

The Fund's assets are managed by investing in the pooled funds shown in the table below.

Important update

On-fund costs (OFC) deducted from the unit price of the Fund

Please use the link to access our latest Local Government Pension Scheme thought piece, LGPS Intelligence: www.lgim.com/lgpsintelligence

Funds held

Fund	Market index
London Borough of Tower Hamlets	
All World Equity Index (OFC)	FTSE All-World NetTax (UKPN)
MSCI World Low Carbon Target Index Fund-GBP Currency Hedged (OFC)	MSCI World Low Carbon GBP Hedged
All World Equity Index Fund - GBP Currency Hedged (OFC)	Composite
London Borough Tower Hamlets Temp	
Transition CSUF STBP	-

Fund performance (%)

Period	Fund (gross of fees)
Q3 2018	4.67
1 Year	8.17
3 Years	11.82
5 Years	8.49
Since inception	9.56

Inception date: 30 Jul 2010

Performance figures shown for periods in excess of one year are annualised

Fund cashflows

	GBP
Value at start of quarter	552,444,910
Net transactions	(215,970,418)
Value at end of quarter	360,380,443

Pricing basis: mid

Source: Legal & General Investment Management

Legal & General INVESTMENT MANAGEMENT

Valuation summary as at 30 September 2018

London Borough of Tower Hamlets Pension Fund

To instantly view and download all valuations, transaction statements, performance, pricing and quarterly reports please log into our client portal www.lgimconnect.com. A breakdown of any investments, disinvestments and switches is also detailed in the Transaction Statements which have been issued to your nominated recipients.

Fund	Value at start of quarter			Net transactions (GBP)	Value at end of quarter		
	GBP (mid)	Total (%)	Distribution (%)		GBP (mid)	Total (%)	Distribution (%)
London Borough of Tower Hamlets							
All World Equity Index (OFC)	80,898,622		16.90	-	85,486,091		23.72
MSCI World Low Carbon Target Index Fund-GBP Currency Hedged (OFC)	239,027,802		49.92	-	251,551,867		69.80
All World Equity Index Fund - GBP Currency Hedged (OFC)	158,828,609		33.18	(142,390,000)	23,339,742		6.48
Total London Borough of Tower Hamlets Assets	**478,755,033**	**86.66**	**100.00**	**(142,390,000)**	**360,377,700**	**100.00**	**100.00**
London Borough Tower Hamlets Temp							
Over 5y Index-Linked Gilts (OFC)	73,677,153		99.98	(73,570,418)	-		-
Transition CSUF STBP	12,724		0.02	(10,000)	2,743		100.00
Total London Borough Tower Hamlets Temp Assets	**73,689,877**	**13.34**	**100.00**	**(73,580,418)**	**2,743**	**0.00**	**100.00**
Total	**552,444,910**	**100.00**	**-**	**(215,970,418)**	**360,380,443**	**100.00**	**-**

Source: Legal & General Investment Management

Performance summary as at 30 September 2018

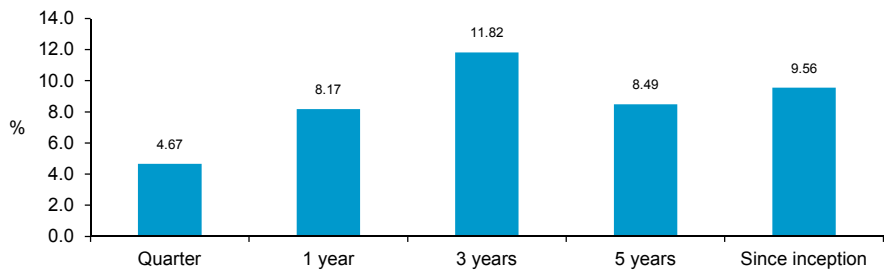
London Borough of Tower Hamlets Pension Fund

Performance to date (%)

	Quarter	1 year	3 years	5 years	Since inception
Fund (gross of fees)	4.67	8.17	11.82	8.49	9.56

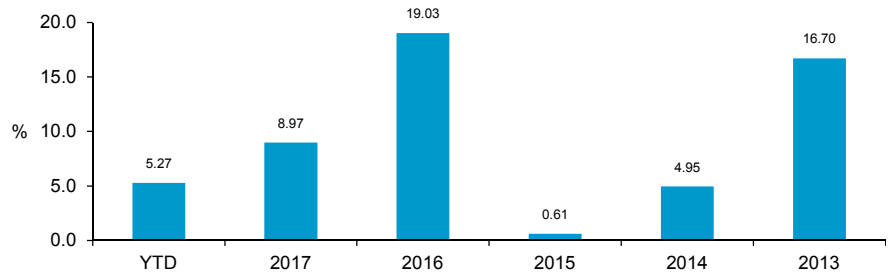
Inception date: 30 Jul 2010

Performance figures shown for periods in excess of one year are annualised



Calendar year performance (%)

	Year to date	2017	2016	2015	2014	2013
Fund (gross of fees)	5.27	8.97	19.03	0.61	4.95	16.70



Notes:

The performance tables/charts above show the time-weighted returns i.e. taking out the effects of cash flow, for the total Fund and where applicable its benchmark. Performance figures for any externally managed funds are excluded unless managed on the LGIM investment only platform. All performance returns are for the entire period stated, except where a bought or (sold) date denotes part period, as detailed on the following page.

Source: Legal & General Investment Management

Legal & General
INVESTMENT MANAGEMENT

Performance summary as at 30 September 2018

London Borough of Tower Hamlets Pension Fund

	Bought/(Sold) date*	Quarter's performance (%)			1 Year's performance (%)			3 Year's performance (%)		
		Fund	Index**	Relative	Fund	Index**	Relative	Fund	Index**	Relative
London Borough of Tower Hamlets										
All World Equity Index (OFC)		5.67	5.64	0.03	-	-	-	-	-	-
MSCI World Low Carbon Target Index Fund-GBP Currency Hedged (OFC)		5.24	5.15	0.09	-	-	-	-	-	-
All World Equity Index Fund - GBP Currency Hedged (OFC)		4.65	4.61	0.04	-	-	-	-	-	-
Total London Borough of Tower Hamlets Assets		**5.12**	**-**	**-**	**9.78**	**-**	**-**	**12.37**	**-**	**-**
London Borough Tower Hamlets Temp										
Over 5y Index-Linked Gilts (OFC)	(06 Sep 2018)	(0.14)	(0.14)	0.00	-	-	-	-	-	-
Transition CSUF STBP		0.09	-	-	-	-	-	-	-	-
Total London Borough Tower Hamlets Temp Assets		**(0.83)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**4.67**	**-**	**-**	**8.17**	**-**	**-**	**11.82**	**-**	**-**

*All performance returns are for the entire period stated, except where a bought or (sold) date denotes part period.

** For some funds a comparator will be shown instead of an Index. Comparators are shown for information purposes and the fund is not managed against these.

Notes:

The performance summary table shows the returns for each fund compared with the total return of the relevant market index, composite index or comparator. The Total line(s) show the time-weighted returns i.e. taking out the effects of cash flow, for the total Fund and where applicable its benchmark. All fund returns are shown before the deduction of charges except those marked '(Net)', '(chgs)' or '(charges included)'. Some index returns are net of fees. Performance figures shown for periods in excess of one year are annualised. Externally managed funds, where applicable, are excluded. Additional information on fund level performance can be found in the fund sections later in the report.

Where applicable, the performance shown takes into account the return of funds held prior to the inception of the OFC funds.

Source: Legal & General Investment Management

Our views

Thought leadership

Fundamentals – What the battle against plastic means for oil demand

Governments around the world have committed to reducing the consumption of single-use plastic and increasing their rate of recycling. We believe that the market has missed what the consequences of using less plastic will be for petrochemical companies and, crucially, the long-term demand for oil.

http://www.lgim.com/uk/en/insights/our-thinking/long-term-thinking/what-the-battle-against-plastic-means-for-oil-demand.html

Broadening the universe: The strategic case for alternative credit

The falls over the past two years in high yield and emerging market debt credit spreads, along with indications of late-cycle behaviour in the US, has led some investors to be nervous about allocating to these areas. But should pension schemes reconsider?

http://www.lgim.com/uk/en/insights/our-thinking/client-solutions/broadening-the-universe-the-strategic-case-for-alternative-credit.html

Can better financial wellbeing lead to higher savings?

The DC pensions industry has moved forward since auto-enrolment was introduced, with many more saving into a pension. This is great news, but challenges remain. How do we help individuals see the value in saving more for a future that seems a long way off?

http://www.lgim.com/uk/en/insights/our-thinking/client-solutions/can-better-financial-wellbeing-lead-to-higher-savings.html

Market views

CIO Outlook – Expect the bumpy journey to continue

Investors have been buffeted by a large number of negative headlines in 2018. We remain of the view that tightening global liquidity conditions are likely to exacerbate market volatility – weighing on sentiment and influencing the timing of the next downturn.

http://www.lgim.com/uk/en/insights/our-thinking/market-insights/expect-the-bumpy-journey-to-continue.html

Good growth, poor politics

The latest market outlook from LGIM's Asset Allocation team, which outlines how developments in trade tensions, emerging economies and European politics may determine the trajectory of markets over the coming months.

http://www.lgim.com/uk/en/insights/our-thinking/market-insights/good-growth-poor-politics.html

The Future World Blog

The Future World Blog is about sharing our thinking across all investment types, whether they are pensions-specific or multi-asset solutions, alongside thoughts from our distribution and sales teams driven by our conversations with you as clients. Through this blog, we're incredibly excited to be pushing towards having more robust and honest conversations that allow us to be fluid in our approach and therefore better invest in the future, together.

https://futureworldblog.lgim.com/home

Source: Legal & General Investment Management

LGIM news

Company news

Legal & General H1 2018 results: Consistent delivery of growth from all divisions

"Legal & General again delivered consistent, positive results, with five of our six businesses increasing their operating profits for the first half of 2018. Operating profit from divisions increased 7% to £1.1 billion and RoE was 20.3%. We are confident that Legal & General is strongly positioned for growth in H2 and beyond."

Nigel Wilson, Group Chief Executive

https://www.legalandgeneralgroup.com/media-centre/press-releases/h1-2018-consistent-delivery-of-growth-from-divisions/

Double win for LGIM real assets at AREF awards

LGIM Real Assets has had a clean sweep for the Investment Performance awards at The Association of Real Estate (AREF) Annual Dinner and Awards 2018, which took place on Wednesday 26 September.

https://www.legalandgeneralgroup.com/media-centre/press-releases/double-win-for-lgim-real-assets-at-aref-awards/

Our investment solutions

Legal & General Mastertrust surpasses £5 billion in AUM

Legal & General announced that its Mastertrust has surpassed £5 billion in assets under management, reflecting the continuing appeal of the structure for Defined Contribution (DC) schemes looking to ease administrative burdens and ultimately achieve better investment outcomes for their employees.

https://www.legalandgeneralgroup.com/media-centre/press-releases/legal-general-mastertrust-surpasses-5-billion-in-aum/

Legal & General's Leisure Fund grows to over £600m

Legal & General announced that it has acquired Broadway Plaza in Birmingham, on behalf of its Leisure Fund, from Aviva Investors for £46.95 million, growing the fund to over £600 million.

https://www.legalandgeneralgroup.com/media-centre/press-releases/legal-generals-leisure-fund-acquires-birminghams-broadway-plaza/

Awards for excellence

corporate adviser AWARDS 18 WINNER Best ESG Asset Manager

2018 Property Awards Winner

PROFESSIONAL PENSIONS UK PENSIONS AWARDS 2018 WINNER Property Manager of the Year

PROFESSIONAL PENSIONS UK PENSIONS AWARDS 2017 WINNER 20 Years of Excellence in Investment Management

European Pensions AWARDS 2018 WINNER Investment Manager of the Year

LAPF INVESTMENTS AWARDS 2018 WINNER Transition Manager of the Year www.lapfinvestmentsawards.com

Source: Legal & General Investment Management

Legal & General INVESTMENT MANAGEMENT

Global equities: market background

Global equity markets

Despite continued volatility, global equity markets extended their march upwards in the third quarter of the year, with the MSCI World Index reversing all of the losses seen at the beginning of the year **(Figure 1).** The global trade war has transformed into a bilateral dispute between the US and China when talks deteriorated, but it alleviated pressure on Europe, as well as Mexico and Canada.

In the US, economic data reading were strong and indices reached new all-time highs. Mainland European stocks were broadly flat as investors focused on the well-publicised political risks surrounding Italy. The Italian government tensions had a negative impact on risk assets after the government agreed a higher deficit target for 2019. Political turmoil also dampened sentiment in the UK as prime minister Theresa May's proposal framework for leaving the European Union was strongly opposed by Brussels' chief negotiator Michel Barnier.

Emerging market equities also lost ground over the period **(Figure 2)** following a dramatic turn of events for Turkey and Argentina, with significant falls in their respective currencies. Tensions eased in September but Chinese equities still weakened following the announcement that the US was to place 10% tariffs on around $200 billion of imports from China, with the percentage set to rise to 25% next year.

Figure 1: Global equities march higher

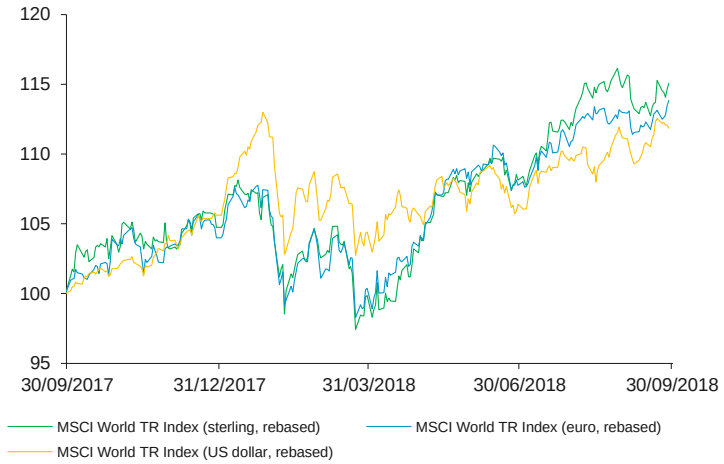
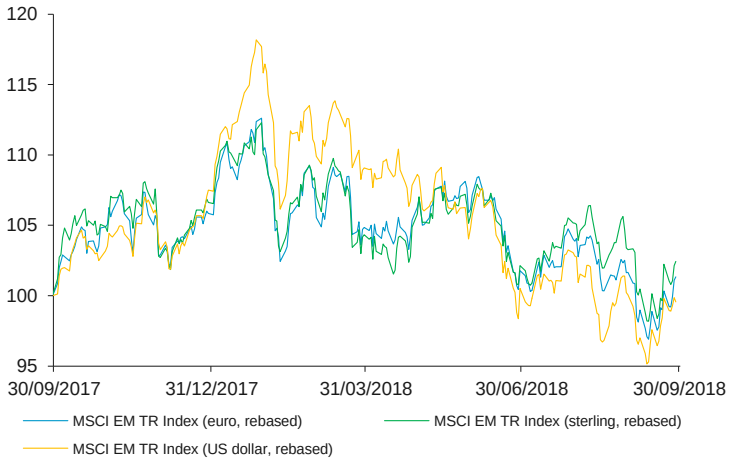


Figure 2: Emerging markets continue to weaken



Source: Legal & General Investment Management

Global government bonds: market background

Global sovereign markets

Global government 10-year bond yields edged up over the third quarter **(Figure 3)**. As the market had been expecting, the Federal Reserve (Fed) chose to raise rates to 2.25% **(Figure 4)**. Strong US economic indicators, including consumer confidence and non-farm payrolls data, supported the rise. The market expects a further increase in December.

In Europe, Mario Draghi delivered a positive assessment of economic growth. However, despite the hawkish rhetoric, the market concluded that the European Central Bank is unlikely to raise rates sooner than late 2019.

In the UK, the Bank of England performed in line with market expectations and raised rates in August to 0.75% **(Figure 4)**. The Monetary Policy Committee communicated that in order to meet the bank's inflation target further monetary tightening would be required, although they also stressed that this scenario is subject to change as a result of ongoing Brexit negotiations.

Figure 3: 10-year yields edge higher

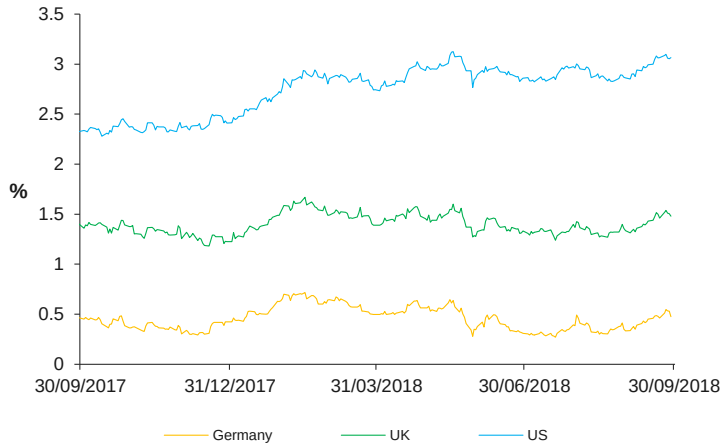
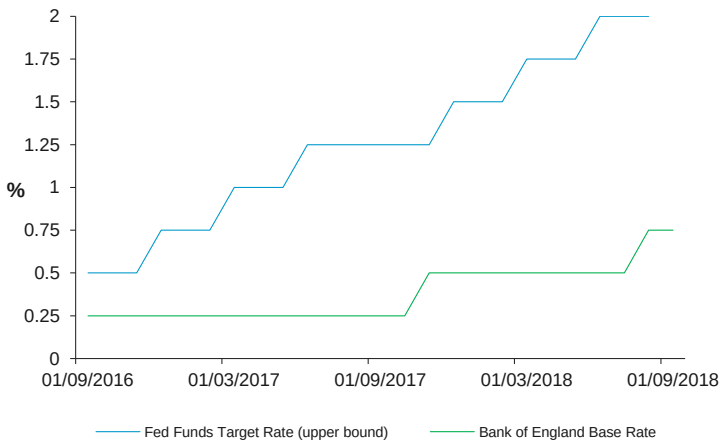


Figure 4: Fed and Bank of England raise rates



Source: Legal & General Investment Management

Global corporate bonds: market background

Global credit markets

Major corporate bond markets had another positive quarter amid a continued backdrop of improving global economic growth. Credit spreads (the additional yield available on corporate bonds compared to government bonds from the same region) fell slightly across major developed markets **(Figure 5)**.

Global corporate bonds continued to be undeterred by hawkish sentiment from central banks, with investors judging that rising interest rates were a function of continued global economic strength. US consumer confidence hit a new expansion high, in part a reflection of strong data on the number of jobless claims **(Figure 6)**.

In Europe, business investment across the region continued to grow at a healthy pace, supported by loose credit conditions and, low interest rates. Global high yield bonds performed well in the third quarter, with spreads falling significantly, although emerging market bonds were weak given the financial and political turmoil in Turkey and Argentina.

Figure 5: Credit spreads tighten modestly

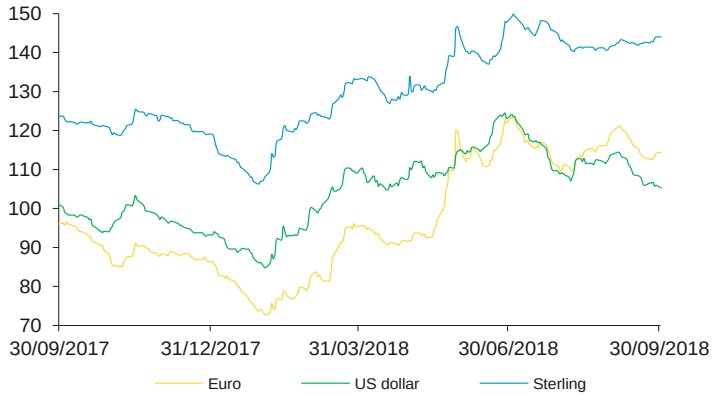
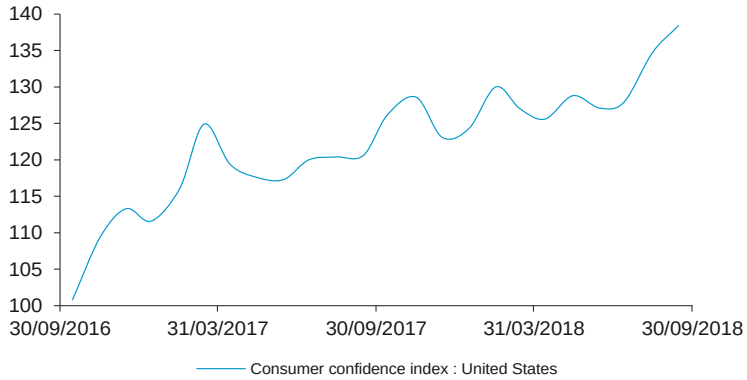


Figure 6: US consumer confidence rises



Source: Legal & General Investment Management

Currencies: market background

Currency markets

The US dollar continued to push higher on the back of particularly strong domestic economic data and relative weakness in emerging markets **(Figure 7).** The US Federal Reserve raised interest rates late in the quarter and continued its hawkish rhetoric, with its statement no longer including the phrase that the stance of monetary policy remains accommodative.

Sterling remained broadly stable over the quarter against the euro and the dollar as the prospect of 'no deal' Brexit continued to dominate headlines and high-profile members of the cabinet tendered their resignations. This was despite the Bank of England delivering a well-anticipated rate rise in August and chief negotiator Barnier stating that the EU was willing to offer the UK a close relationship after Brexit.

Emerging market currencies were weak over the quarter as a result of a number of high profile negative incidents, particularly in relative terms to the dollar's strength. The Turkish lira was especially weak, falling more than 17% in a single day due to a widening of its current account deficit and following the US decision to increase tariffs on Turkish steel and aluminium imports. This was helped slightly in September when the central bank raised rates to 24% in order to restore credibility.

Figure 7: US dollar index rises

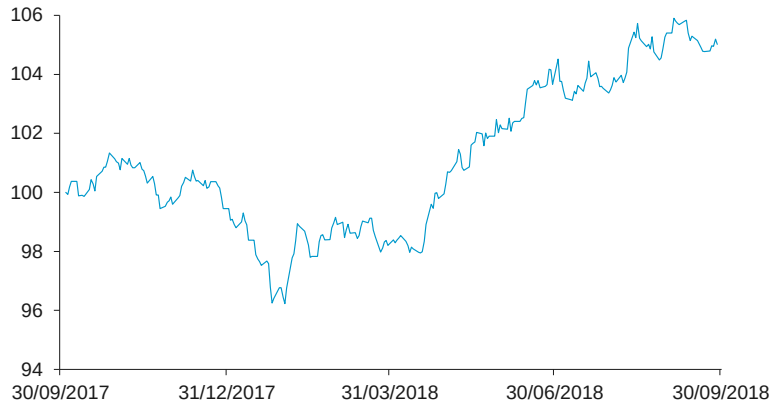


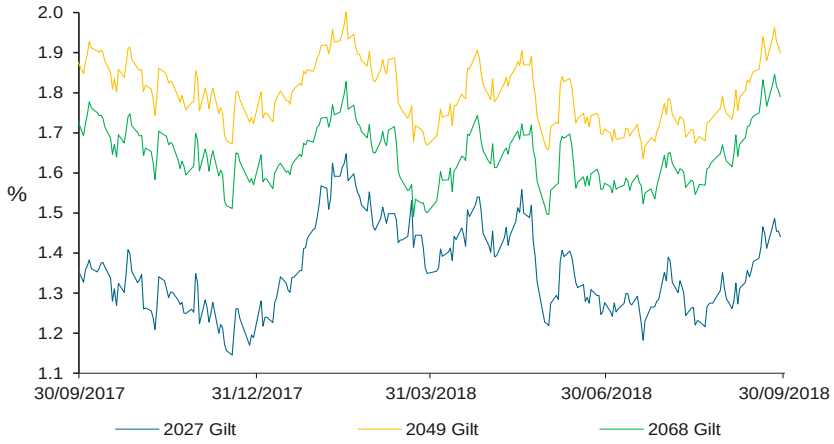
Figure 8: Sterling stabilises

Source: Legal & General Investment Management

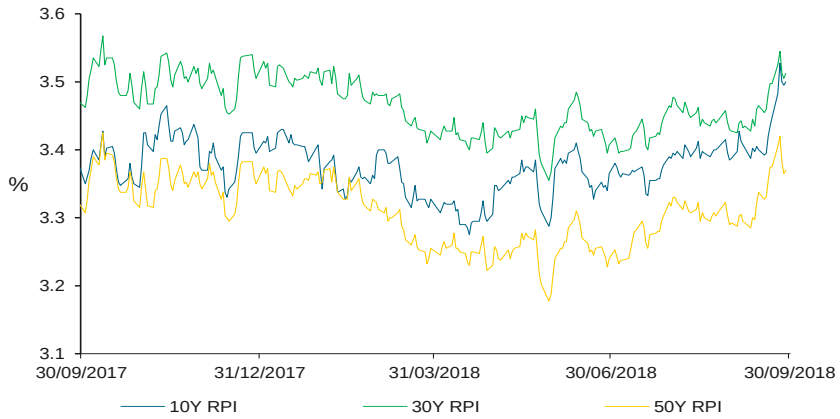
LDI Market Background

Sterling interest rate and inflation market background

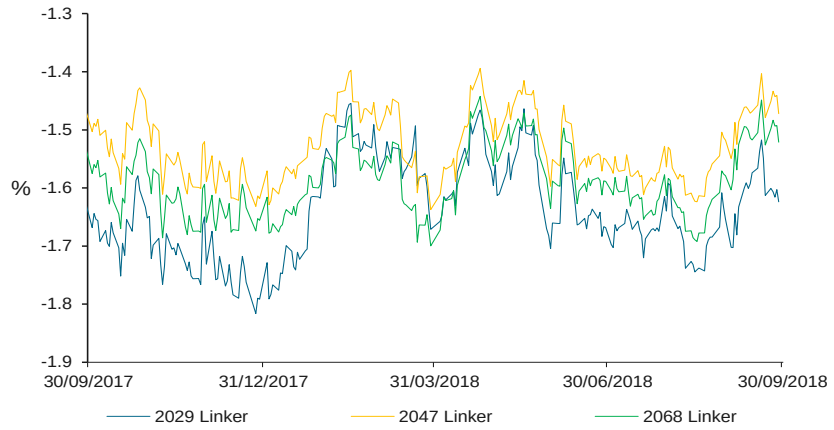
Nominal yields



Swap-based inflation



Real yields



Sterling LDI markets

In the third quarter of 2018, the Bank of England performed in line with market expectations and raised rates in August to 0.75%. The Monetary Policy Committee communicated that in order to meet the bank's inflation target further monetary tightening would be required, although they also stressed that this scenario is subject to change as a result of ongoing Brexit negotiations.

Nominal yields rose across the board following more upbeat economic data. Meanwhile, inflation expectations have picked up again following, amongst other things, Brexit-related sterling weakness and slightly higher-than-expected inflation prints Real yields increased across the board as nominal yields increased by more than inflation expectations.

Source: Legal & General Investment Management

Fund reports performance as at 30 September 2018

	Price series	Quarter		Year to date		1 year		3 years		5 years	
		Fund	Index**	Fund	Index**	Fund	Index**	Fund	Index**	Fund	Index**
MSCI World Low Carbon Target Index Fund-GBP Currency Hedged (OFC)	Weekly close	5.24	5.15	5.94	5.60	11.31	10.87	-	-	-	-
All World Equity Index Fund - GBP Currency Hedged (OFC)	Weekly close	4.65	4.61	4.90	4.83	10.55	10.49	13.65	13.61	-	-
Transition CSUF STBP	Weekly close	0.09	-	(8.19)	-	-	-	-	-	-	-
All World Equity Index (OFC)	Weekly close	5.67	5.64	7.93	7.86	13.41	13.35	19.82	19.75	-	-

** For some funds a comparator will be shown instead of an Index. Comparators are shown for information purposes and the fund is not managed against these.

Notes:

The performance summary table shows the returns for each fund compared with the total return of the relevant market index, composite index or comparator. All fund returns are shown before deduction of charges except those marked '(Net)', '(chgs)' or '(charges included)'. Some index returns are net of fees. Externally managed funds, where applicable, are excluded.

Where applicable, the performance shown takes into account the return of funds held prior to the inception of the OFC funds.

Source: Legal & General Investment Management

MSCI World Low Carbon Target Index Fund

30 September 2018

Fund characteristics

	Fund
Number of holdings	1,238

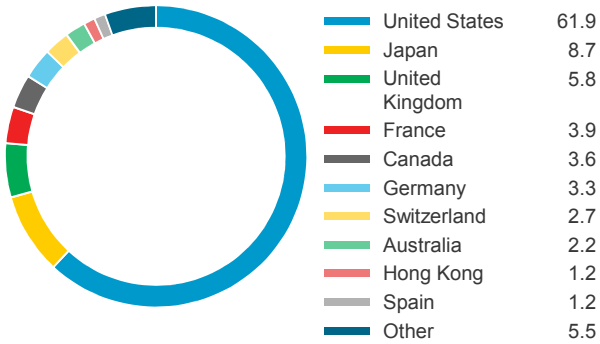
Sector breakdown (%)

	Fund
Information Technology	19.2
Financials	17.4
Industrials	13.0
Health Care	12.9
Consumer Discretionary	12.8
Consumer Staples	8.2
Energy	4.7
Materials	3.4
Communication Services	3.0
Real Estate	2.8
Other	2.6
Total	**100.0**

Top 10 holdings (%)

	Fund
Apple Inc	2.8
Microsoft Corporation	2.1
Amazon.com	2.0
Alphabet	1.8
Johnson & Johnson	0.9
Facebook Class A	0.9
JPMorgan Chase & Co	0.9
Bank of America	0.7
VISA	0.7
Pfizer	0.7
Total	**13.5**

Country breakdown (%)



Totals may not sum due to rounding

For factsheets and other key information please visit our website http://www.fundslibrary.co.uk/FundsLibrary.BrandedTools/Lgim/FundCentral

Source: Legal & General Investment Management

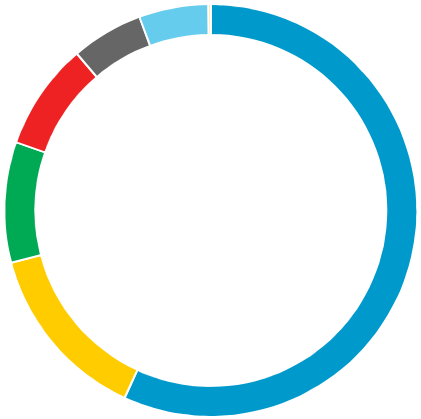
Legal & General INVESTMENT MANAGEMENT

All World Equity Index Fund

30 September 2018

Asset allocation (%)

	Fund	Benchmark
UK (World) Equity Index Fund	5.63	5.68
North America Equity Index Fund	56.86	56.81
Europe (ex UK) Equity Index Fund	14.06	14.19
Japan Equity Index Fund	8.39	8.34
Asia Pacific (ex Japan) Developed Equity Index Fund	5.43	5.41
Middle East/Africa Developed Equity Index Fund	0.19	0.18
World Emerging Markets Equity Index Fund	9.44	9.39
Total	**100.00**	**100.00**



North America Equity Index Fund	56.9
Europe (ex UK) Equity Index Fund	14.1
World Emerging Markets Equity Index Fund	9.4
Japan Equity Index Fund	8.4
UK (World) Equity Index Fund	5.6
Asia Pacific (ex Japan) Developed Equity Index Fund	5.4
Middle East/Africa Developed Equity Index Fund	0.2

Totals may not sum due to rounding

For factsheets and other key information please visit our website http://www.fundslibrary.co.uk/FundsLibrary.BrandedTools/Lgim/FundCentral

Source: Legal & General Investment Management

Corporate Governance - Thought Leadership

Action and impact

LGIM's Non-Executive Director Breakfast event

LGIM held its third non-executive director event in September, which gathered 82 non-executive directors, board chairs and company secretaries of FTSE 350 companies.

Our discussions focussed on the importance of corporate transparency for companies as expectations on their role have evolved. We discussed how important they also are for investors given that they are themselves under pressure from their clients and the government to evaluate and integrate Environmental, Social and Governance (ESG) considerations into their investments. This was illustrated in our discussion around the importance of diversity and how this data is used by LGIM at investment level.

The corporate governance team was joined by an expert from the University of Oxford who presented on how new technologies can help develop ESG data.

Lastly, we presented on what we learned from the 2018 voting season on topics such as overboarding, pay ratios, pre-emption resolutions and activism. We also discussed how to prepare for the 2019 vote season, especially given the recent review of the UK Corporate Governance Code.

A summary of our discussion is available on our website at:
https://www.events-lgim.com/LGIM/media/uploaded/EVLGIM/event_106/LGIMs_Annual_Non-Executive_Director_Breakfast_-_2018__2_.pdf

Publication of four guides on key governance topics

As a large and mainstream investor, we are committed to promote governance best practice as we believe this is an essential element of a company's long-term success. We published this quarter a series of 2-pager guides on the following topics to help companies better align with international best practice:

- The separation of the roles of CEO and board chair
- Board oversight in Mergers and Acquisitions
- The role of the Lead Independent Director
- The nomination of board chairs

These thought-pieces are available on our website at:
http://www.lgim.com/uk/en/capabilities/corporate-governance/influencing-the-debate/

Principles for Responsible Investment (PRI) in-person conference 2018

LGIM attended the PRI conference in San Francisco. We spoke on a panel on how to embed diversity in corporate strategy and culture. We also spoke on a panel along with experts at the Public Funds Forum in California on issues facing investors protecting their rights around the world.

Unilever – engagement success

This quarter, Unilever announced its intention to unify their dual corporate structure and move their headquarters to the Netherlands. This required approval of 75% of shareholders. LGIM took the unusual step of pre-declaring our voting intention ahead of the company's extraordinary shareholder meeting due to be held at the end of October.

Our Director of corporate governance Sacha Sadan commented to the press on LGIM's decision to vote against these proposals:

"We understand Unilever has explored a number of alternatives in reaching its final decision. However, we do not believe Unilever has made a compelling case for many PLC shareholders to support the recommendation in favour of Dutch incorporation. Therefore, we intend to vote against Unilever's proposed resolution." We also explained our position to our clients in a detailed briefing statement.

Our vote decision was covered by the main national media including the BBC and the Financial Times. On 5th October, the board announced it had decided to withdraw its proposal given that it did not receive support from a significant group of shareholders.

Expansion of voting coverage

LGIM expanded its voting coverage to the following nine new markets this quarter: Chile, Colombia, Czech Republic, Greece, Pakistan, Philippines, Qatar, Turkey, United Arab Emirates.

Our voting covered 97% of FTSE All Share in 2017 and we aim to continue to further expand our coverage where it is possible to do so. Please note that our global voting policy applies to these new markets, for more information please consult our website at: https://documentlibrary.lgim.com/documentlibrary/library_55458.html

New joiners

Our corporate governance team expanded this quarter with the appointment of John Hoeppner as Head of US Stewardship and Sustainable Investments of LGIM America. John is working in our Chicago office in liaison with the team in London and helps develop our ESG activity at LGIMA.

James Malone also joined the team in London as a Corporate Governance Analyst and supports the team in its voting and engagement activities globally.

For more information, please go to: www.lgim.com/cgupdate

Source: Legal & General Investment Management

Dealing costs as at 30 September 2018

London Borough of Tower Hamlets Pension Fund

Costs of dealing in units during quarter

	Total unit transactions (GBP)*	Total dealing costs (GBP)**	Average dealing costs (%)**
Excluding Assets	142,787,423	139,743	0.10
Including Assets	215,990,418	139,743	0.06

*Unit transactions represent the sum of all activity and may not match total net transactions figures displayed elsewhere in the report

**Where applicable, figures shown in brackets represent total savings made rather than costs incurred

Fund dealing cost during quarter (%)

Fund	Explicit dealing costs (% within fund)
MSCI World Low Carbon Target Index Fund-GBP Currency Hedged (OFC)	Less than 0.01%
All World Equity Index Fund - GBP Currency Hedged (OFC)	less than 0.01%
All World Equity Index (OFC)	Less than 0.01%

*Fees are deducted from within the Fund - the fee scale is shown in your proposal form

#Custody and administration costs are borne by the Fund where applicable

Notes to this disclosure - client specific information for pooled fund clients

Proportion of portfolio covered by the Code at period end: All asset classes are covered with the exception of Property which is outside of the Code.
Fund management fees: The fees applicable to your arrangements are shown in your quarterly invoice (unless otherwise stated).
Custody costs borne directly by the fund: Custody costs are included in the fund management fees and are, therefore, not borne directly by the pooled fund (except in the circumstances stated opposite).
Transaction values/explicit dealing costs: There are two tables within this dealing cost section. The first give details of the total cost to the scheme of dealing in units during the reporting period calculated by comparing the actual value of the units dealt with their mid value. The second table provides an estimate of the total explicit dealing costs incurred by each of the pooled funds during the quarter, after allowing for the dealing costs received by the pooled fund through the bid/offer spread from the dealing in units. In the second table, only the explicit dealing costs are shown.
Underwriting/sub-underwriting commissions received: Any commissions received are credited to the funds that underwrote the share issue.
Stock lending: Stock lending occurs in limited number of overseas equities index funds. All income arising from stock lending less the custodian/administrator's costs are credited to the funds lending the stocks. LGIM does not receive any revenue from the stock lending.
Taxation: Any UK stamp duty and overseas taxes are included in the costs shown. VAT is not payable on the fund management fees under current legislation.

Source: Legal & General Investment Management

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