

Legal & General Emerging Markets  
Government Bond (Local Currency)  
Index Fund

**Interim Manager's  
Short Report  
for the period ended  
20 October 2018**





## **Investment Objective and Policy**

The objective of the Fund is to provide a return in line with the JPMorgan GBI-EM Global Diversified Local Currency Index (after adjustment for management charges and taxation).

The Fund will invest primarily in the constituents of the JPMorgan GBI-EM Global Diversified Local Currency Index. Securities will be held with weightings generally proportionate to the weightings in the JPMorgan GBI-EM Global Diversified Local Currency Index. The bonds the Fund invests in will be composed primarily of securities issued by emerging market sovereign entities and which are denominated in the national currency of the issuer. Sub-investment grade bonds will be used.

The Fund may also invest in other transferable securities, permitted deposits, money market instruments, cash, near cash and units in collective investment schemes.

The Fund may hold derivatives for Efficient Portfolio Management purposes.

## **Risk Profile**

### **Credit Risk**

This Fund is invested in financial securities such as bonds. With these investments, there is a risk of suffering loss due to a party not meeting its financial obligations. This risk is managed by monitoring the financial stability of investments and companies, via credit ratings.

### **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.

### **Currency Risk**

This Fund is invested in overseas financial securities. The performance of the Fund may therefore be affected by changes in exchange rates. This risk may be managed by the use of forward currency contracts, which aim to manage the effect of changing exchange rates.

### **Interest Rate Risk**

This Fund is invested in interest bearing securities. The performance of the Fund may therefore be affected by changes in interest rates. The active monitoring and adjustment of the investments in the portfolio manages this risk.

## Fund Facts

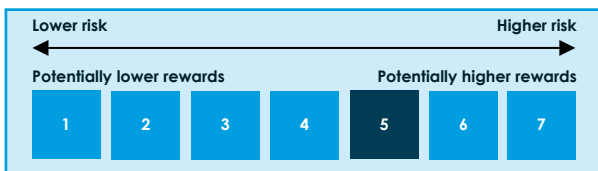
Period End Dates for Distributions:	20 January, 20 April, 20 July and 20 October	
Distribution Dates:	20 March, 20 June, 20 September and 20 December	
Ongoing Charges Figures:	20 Oct 18	20 Apr 18
R-Class†	0.73%	–
I-Class	0.35%	0.35%
C-Class	0.25%	0.25%
L-Class	0.14%	0.14%

† R-Class Units launched on 1 June 2018.

The Ongoing Charges Figure (OCF) is the ratio of the Fund's total disclosable 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 or government bonds which are sensitive to changes in interest rates, inflation and credit. This can be driven by political and economic changes and other significant events and may cause the value to go up and down. Bonds that are closer to their maturity date tend to be more stable in value. Bonds are generally considered to be higher risk investments than cash, but lower risk than 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.

## Distribution Information

### R-Class

The distribution payable on 20 December 2018 is 0.6067p per unit for distribution units and 0.6112p per unit for accumulation units.

### I-Class

The distribution payable on 20 December 2018 is 0.6875p per unit for distribution units and 0.7789p per unit for accumulation units.

### C-Class

The distribution payable on 20 December 2018 is 0.6895p per unit for distribution units and 0.7809p per unit for accumulation units.

### L-Class

The distribution payable on 20 December 2018 is 0.6913p per unit for distribution units and 0.7832p per unit for accumulation units.

## Net Asset Values and Units in Issue

Class	Net Asset Value (£)	Units in Issue	Net Asset Value per Unit (p)
R-Class			
Distribution Units	20,565	43,362	47.43
Accumulation Units	106,623	220,220	48.42
I-Class			
Distribution Units	61,843,048	114,960,543	53.80
Accumulation Units	213,790,625	346,365,485	61.72
C-Class			
Distribution Units	1,078	2,000	53.90
Accumulation Units	102,681,131	165,915,678	61.89
L-Class			
Distribution Units	442,598,813	818,073,270	54.10
Accumulation Units	209,528,906	337,539,428	62.08

**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.**

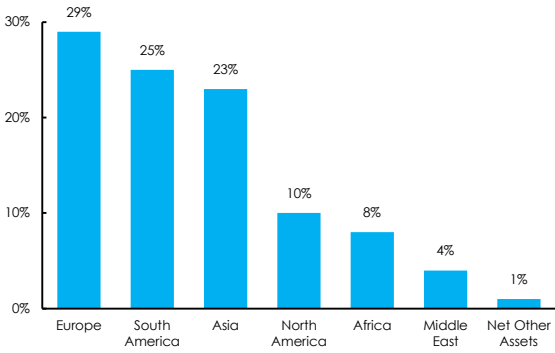
**Exchange rate changes may cause the value of any overseas investments to rise or fall.**

## Portfolio Information

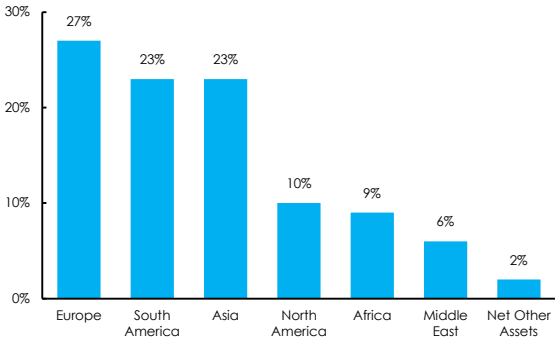
The top 10 holdings and their associated weighting at the current period end and preceding year end were:

Top 10 Holdings at 20 October 2018		Top 10 Holdings at 20 April 2018	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
Brazil Government International Bond 0% 01/07/2020	1.91%	Colombia Government International Bond 7.5% 26/08/2026	1.69%
Brazil Government International Bond 10% 01/01/2023	1.76%	Brazil Government International Bond 0% 01/07/2020	1.52%
Colombia Government International Bond 7% 04/05/2022	1.64%	Brazil Government International Bond 10% 01/01/2023	1.48%
South Africa Government International Bond 10.5% 21/12/2026	1.46%	Colombia Government International Bond 7% 04/05/2022	1.41%
Colombia Government International Bond 7.5% 26/08/2026	1.42%	South Africa Government International Bond 10.5% 21/12/2026	1.31%
Mexico Government International Bond 8% 11/06/2020	1.32%	Mexico Government International Bond 10% 05/12/2024	1.21%
Brazil Government International Bond 10% 01/01/2025	1.31%	Mexico Government International Bond 8% 11/06/2020	1.19%
Brazil Government International Bond 10% 01/01/2021	1.21%	South Africa Government International Bond 8.75% 28/02/2048	1.17%
Mexico Government International Bond 6.5% 10/06/2021	1.19%	Thailand Government International Bond 3.65% 17/12/2021	1.05%
South Africa Government International Bond 8.75% 28/02/2048	1.04%	Brazil Government International Bond 10% 01/01/2027	1.01%

### Fund Holdings as at 20 October 2018



### Fund Holdings as at 20 April 2018



## **Manager's Investment Report**

During the period under review, the price of the Fund's I-Class accumulation units decreased by 4.81%. JP Morgan Chase, the Index compiler, calculates the benchmark Index at the end of the business day using closing bid prices, whereas the Fund is valued using prevailing bid prices at 12 noon. Therefore, for tracking purposes the Fund has been revalued using closing prices. On this basis over the review period, the Fund fell by 4.74%, compared with a fall in the Index of 4.57% (Source: LGIM), producing a tracking difference of -0.17%.

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**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.**

## **Market/Economic Review**

The major international bond markets struggled to make headway during the review period, as central banks continued to withdraw the extraordinary monetary support that has been in place since the global financial crisis. The US Federal Reserve (Fed) raised interest rates by 0.25% in June and again in September, signalling another hike before the year-end and further tightening in 2019. The Fed also continued unwinding its asset purchase programme, known as quantitative easing (QE). Although the European Central Bank (ECB) announced it would cease its QE programme at the end of 2018, the ECB has reassured investors that it would not raise interest rates at least until mid-2019.

Returns from emerging bond markets have been disappointing over the last six months. Market volatility has risen on concerns that the Federal Reserve may be required to raise US interest rates more rapidly than anticipated, while escalating trade tensions between the US and China have also unsettled investors. In recent months, currency weakness has been pronounced in emerging economies with large current account deficits, notably in Turkey and Argentina. Concerns, that sustained weakness in local currencies would increase debt servicing costs, have also affected emerging bond markets. Nevertheless, issuance levels have remained high as both sovereign and corporate borrowers have looked to attract international investors.

## **Fund Review**

All investment activity was prompted either by unit holder investment or redemption, or by changes in the profile of the benchmark Index. The Fund experienced net positive cash flow during the review period.

The Fund's bond holdings marginally underperformed US treasuries over the review period, the Index yield spread over US treasuries widening by 38 basis points to 311 basis points.

Compared to some other emerging market (EM) debt indices, the GBI-EM Global Diversified Index is relatively stable, having 214 constituents at the end of the review period compared to 215 at the



## **Manager's Investment Report continued**

beginning. Dominican Republic entered the Index at the end of April 2018 bringing the total number of countries to 19.

The regional breakdown of the Index at the end of the review period was EMEA (Europe, Middle East and Africa) 41.88%, Asia 23.2% and Latin America 35.1%. The most significant changes were reductions in the Index weights of Turkey (-2.1%) and South Africa (-0.4%), with increases in the weights of Brazil (+1.3%) and Peru (+0.4%).

At the end of the review period the Fund held 227 bonds issued by 19 countries. The Index consisted of 214 bonds issued by 19 countries.

### **Outlook**

Looking ahead, the coming months look set to maintain the challenging and volatile time for the emerging market fixed income universe. This heightened volatility and uncertain outcome are materialised through the continuation of the unwind of the Fed Asset Purchase Program, together with the termination of the ECB QE program. In addition, uncertainty on the direction and timing of the protectionist US economic policy could disrupt the emerging markets economies further. Finally, as always, disruption to the Chinese growth story is expected to be a particular point of focus for the markets. These risks should be balanced with potential supporting factors: Economic stimulus set to be unveiled by the Chinese Authorities, US mid-term elections that are expected to deliver a change of majority in the House of Representatives, slowdown of the US growth that could put the brakes on the planned interest rate hikes from the Fed. Finally, we still believe that an increased interdependence of developing country economies provides a buffer, as does the relative improvement in emerging market versus developed market fundamentals over the past years.

The Fund remains well placed to capture the performance of the Index.

Legal & General Investment Management Limited  
(Investment Adviser)  
14 November 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](http://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 period, the annualised Tracking Error of the Fund is 0.21%, whilst since launch on 29 January 2016 to the end of September 2018, the annualised Tracking Error of the Fund is 0.24%. These Tracking Errors are within the anticipated Tracking Error levels set out in the Fund's Prospectus of +/-0.50% per annum.

## **EU Savings Directive**

The Fund has been reviewed against the requirements of the Directive 2003/48/EC on Taxation of savings in the form of interest payments (ESD), following the HM Revenue & Customs debt investment reporting guidance notes.

Under the Directive, information is collected about the payment of distributions to residents in certain other countries and is reported to HM Revenue & Customs to be exchanged with Tax authorities in those countries.

The Fund falls within the 25% debt investment reporting threshold. This means that details of all distributions and redemption proceeds paid to non UK investors will be reported by Legal & General (Unit Trust Managers) Limited to HM Revenue & Customs to be exchanged with the relevant Tax authorities.

## **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 are as follows:

R-Class	£100
I-Class	£1,000,000
C-Class	£100,000,000
L-Class	£100,000

In addition, monthly contributions can be made into the R-Class with a minimum amount of £20 per month.

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.

L-Class units are not available to retail customers and are intended only for investment by Legal & General group of companies.

## Other Information

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

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

## Significant Change

### New Unit Class: R-Class

With effect from 1 June 2018, R-Class units have been launched with accumulation and distribution units available.

**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 SE

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







**Authorised and regulated by the  
Financial Conduct Authority**

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