

Legal & General
Sterling Corporate Bond Index Fund

**Annual Manager's
Short Report
for the year ended
20 May 2017**

**EVERY
DAY
MATTERS.®**



Investment Objective and Policy

The objective of this Fund is to track the performance of the Markit iBoxx Sterling Non-Gilts ex BBB (after adjustment for management charge and taxation).

The Fund will invest primarily in the securities that make up the constituents of the Markit iBoxx Sterling Non-Gilts ex BBB Index. Securities in the Markit iBoxx Sterling Non-Gilts ex BBB Index will be held with weightings generally proportionate to their issuance of debt.

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.

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.

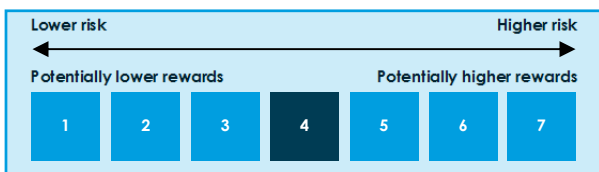
Fund Facts

Period End Dates for Distributions:	20 Feb, 20 May, 20 Aug and 20 Nov	
Distribution Dates:	20 Jan, 20 Apr, 20 Jul and 20 Oct	
Ongoing Charges Figures:	20 May 17	20 May 16
F-Class	0.37%	0.38%
I-Class	0.14%	0.15%
C-Class	0.09%	0.10%
L-Class	0.03%	0.04%

The Ongoing Charges Figure (OCF) is the ratio of the Fund's total discloseable costs (excluding overdraft interest) to the average net assets of the Fund.

The OCF is intended to provide a reliable figure which gives the most accurate measure of what it costs to invest in a fund and is calculated based on the last period's figures.

Risk and Reward Profile



- This risk and reward profile is based on historical data which may not be a reliable indication of the Fund's risk and reward category in the future.
- The category is based on the rate at which the value of the Fund and the index it is tracking have moved up and down in the past.
- This Fund is in category four because it invests in investment grade bonds which generally provide higher rewards and higher risks than investments in cash and lower rewards and lower risks than investments in sub-investment grade bonds or 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

F-Class

The distribution payable on 20 July 2017 is 0.3273p per unit for distribution units and 0.3628p per unit for accumulation units.

I-Class

The distribution payable on 20 July 2017 is 0.3268p per unit for distribution units and 0.3624p per unit for accumulation units.

C-Class

The distribution payable on 20 July 2017 is 0.3268p per unit for distribution units and 0.3623p per unit for accumulation units.

L-Class

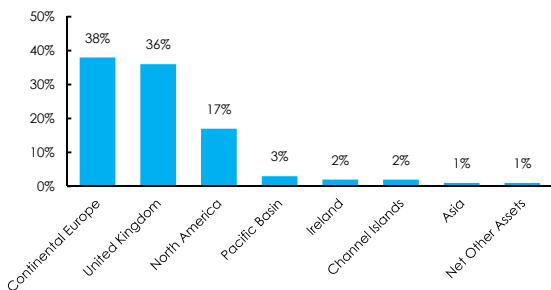
The distribution payable on 20 July 2017 is 0.3287p per unit for distribution units.

Portfolio Information

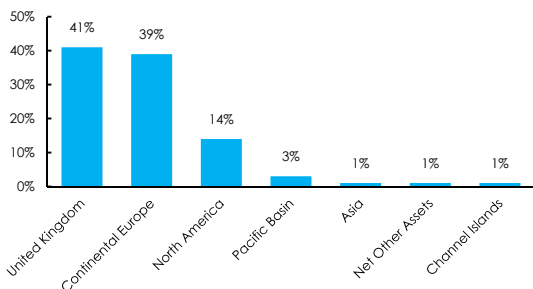
The top 10 holdings and their associated weighting at the current and preceding year ends were:

Top 10 Holdings at 20 May 2017		Top 10 Holdings at 20 May 2016	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
KFW 6% 07/12/2028	1.26%	European Investment Bank 1.5% 01/02/2019	1.58%
European Investment Bank 1.5% 01/02/2019	1.19%	KFW 6% 07/12/2028	1.14%
KFW 1.125% 23/12/2019	1.09%	European Investment Bank 1.375% 15/01/2018	0.98%
European Investment Bank 6% 07/12/2028	0.88%	European Investment Bank 6% 07/12/2028	0.88%
European Investment Bank 5.625% 07/06/2032	0.86%	KFW 5.55% 07/06/2021	0.83%
KFW 5.55% 07/06/2021	0.82%	European Investment Bank 5.625% 07/06/2032	0.68%
European Investment Bank 5% 15/04/2039	0.65%	European Investment Bank 5% 15/04/2039	0.68%
Pfizer 6.5% 03/06/2038	0.63%	Pfizer 6.5% 03/06/2038	0.64%
European Investment Bank 5.375% 07/06/2021	0.62%	European Investment Bank 5.375% 07/06/2021	0.63%
European Investment Bank 2.5% 31/10/2022	0.62%	KFW 5.75% 07/06/2032	0.62%

Fund Holdings as at 20 May 2017



Fund Holdings as at 20 May 2016



Comparative Tables

F-Class Distribution Units

Change in Net Asset Value per Unit

Accounting year ending	20/05/17 (pence per unit)	20/05/16 (pence per unit)	20/05/15 (pence per unit)
Opening net asset value per unit	53.10	52.50	49.80
Return before operating charges	4.80	2.22	4.47
Operating charges (calculated on average price)	(0.21)	(0.20)	(0.19)
Return after operating charges	4.59	2.02	4.28
Distributions on income units [^]	(1.33)	(1.42)	(1.58)
Closing net asset value per unit after direct transaction costs of:	56.36 —	53.10 —	52.50 —

Performance

Return after charges	8.64%	3.85%	8.59%
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Other Information

Closing net asset value (£)	1,126	1,061	1,049
Closing number of units	1,998	1,998	1,998
Operating charges [†]	0.37%	0.38%	0.37%
Direct transaction costs	0.00%	0.00%	0.00%

Prices

Highest unit price	59.28p	54.25p	55.96p
Lowest unit price	53.20p	51.34p	49.46p

[^] Distributions on income units are shown gross of taxation.

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

Past performance is not a guide to future performance.

The price of units and any income from them may go down as well as up.

Comparative Tables continued

F-Class Accumulation Units

Change in Net Asset Value per Unit

Accounting year ending	20/05/17 (pence per unit)	20/05/16 (pence per unit)	20/05/15 (pence per unit)
Opening net asset value per unit	58.12	56.25	52.03
Return before operating charges	5.25	2.39	4.75
Operating charges (calculated on average price)	(0.23)	(0.21)	(0.20)
Return after operating charges	5.02	2.18	4.55
Distributions [^]	(1.47)	(1.52)	(1.65)
Retained distributions on accumulation units [^]	1.31	1.21	1.32
Closing net asset value per unit	62.98	58.12	56.25
after direct transaction costs of:	—	—	—

Performance

Return after charges	8.64%	3.88%	8.74%
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Other Information

Closing net asset value (£)	8,243	79,148	603
Closing number of units	13,089	136,183	1,072
Operating charges [†]	0.37%	0.38%	0.37%
Direct transaction costs	0.00%	0.00%	0.00%

Prices

Highest unit price	64.87p	59.03p	59.19p
Lowest unit price	58.22p	54.96p	51.71p

[^] Distributions are shown gross of taxation. The amounts shown for 'Retained distributions on accumulation units' are net of 20% income tax, except for distributions made from April 2017 onwards, which will be paid on a gross basis – See Significant Changes on page 15.

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Comparative Tables continued

I-Class Distribution Units

Change in Net Asset Value per Unit

Accounting year ending	20/05/17 (pence per unit)	20/05/16 (pence per unit)	20/05/15 (pence per unit)
Opening net asset value per unit	53.04	52.34	49.47
Return before operating charges	4.77	2.19	4.49
Operating charges (calculated on average price)	(0.08)	(0.08)	(0.08)
Return after operating charges	4.69	2.11	4.41
Distributions on income units [^]	(1.33)	(1.41)	(1.54)
Closing net asset value per unit	56.40	53.04	52.34
after direct transaction costs of:	—	—	—

Performance

Return after charges	8.84%	4.03%	8.91%
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Other Information

Closing net asset value (£)	34,632,075	44,107,382	40,043,090
Closing number of units	61,404,804	83,159,735	76,510,670
Operating charges [†]	0.14%	0.15%	0.16%
Direct transaction costs	0.00%	0.00%	0.00%

Prices

Highest unit price	59.23p	54.16p	55.66p
Lowest unit price	53.13p	51.15p	49.16p

[^] Distributions on income units are shown gross of taxation.

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Comparative Tables continued

I-Class Accumulation Units

Change in Net Asset Value per Unit

Accounting year ending	20/05/17 (pence per unit)	20/05/16 (pence per unit)	20/05/15 (pence per unit)
Opening net asset value per unit	57.93	55.94	51.63
Return before operating charges	5.23	2.37	4.73
Operating charges (calculated on average price)	(0.09)	(0.08)	(0.09)
Return after operating charges	5.14	2.29	4.64
Distributions [^]	(1.46)	(1.52)	(1.62)
Retained distributions on accumulation units [^]	1.31	1.22	1.29
Closing net asset value per unit	62.92	57.93	55.94
after direct transaction costs of:	—	—	—

Performance

Return after charges	8.87%	4.09%	8.99%
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Other Information

Closing net asset value (£)	173,958,256	107,759,194	51,283,178
Closing number of units	276,462,964	186,010,236	91,668,334
Operating charges [†]	0.14%	0.15%	0.16%
Direct transaction costs	0.00%	0.00%	0.00%

Prices

Highest unit price	64.69p	58.83p	58.81p
Lowest unit price	58.03p	54.68p	51.31p

[^] Distributions are shown gross of taxation. The amounts shown for 'Retained distributions on accumulation units' are net of 20% income tax, except for distributions made from April 2017 onwards, which will be paid on a gross basis – See Significant Changes on page 15.

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

Past performance is not a guide to future performance.

The price of units and any income from them may go down as well as up.

Comparative Tables continued

C-Class Distribution Units

Change in Net Asset Value per Unit

Accounting year ending	20/05/17 (pence per unit)	20/05/16 (pence per unit)	20/05/15 (pence per unit)
Opening net asset value per unit	53.11	52.38	49.48
Return before operating charges	4.77	2.19	4.51
Operating charges (calculated on average price)	(0.05)	(0.05)	(0.06)
Return after operating charges	4.72	2.14	4.45
Distributions on income units [^]	(1.33)	(1.41)	(1.55)
Closing net asset value per unit	56.50	53.11	52.38
after direct transaction costs of:	—	—	—

Performance

Return after charges	8.89%	4.09%	8.99%
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Other Information

Closing net asset value (£)	11,535,205	16,556,469	505,866
Closing number of units	20,415,948	31,175,710	965,831
Operating charges [†]	0.09%	0.10%	0.12%
Direct transaction costs	0.00%	0.00%	0.00%

Prices

Highest unit price	59.31p	54.23p	55.70p
Lowest unit price	53.20p	51.19p	49.17p

[^] Distributions on income units are shown gross of taxation.

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

Past performance is not a guide to future performance.

The price of units and any income from them may go down as well as up.

Comparative Tables continued

C-Class Accumulation Units

Change in Net Asset Value per Unit

Accounting year ending	20/05/17 (pence per unit)	20/05/16 (pence per unit)	20/05/15 (pence per unit)
Opening net asset value per unit	57.99	55.95	51.65
Return before operating charges	5.24	2.40	4.70
Operating charges (calculated on average price)	(0.06)	(0.06)	(0.07)
Return after operating charges	5.18	2.34	4.63
Distributions [^]	(1.46)	(1.51)	(1.62)
Retained distributions on accumulation units [^]	1.31	1.21	1.29
Closing net asset value per unit	63.02	57.99	55.95
after direct transaction costs of:	—	—	—

Performance

Return after charges	8.93%	4.18%	8.96%
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Other Information

Closing net asset value (£)	20,057,871	23,552,562	1,105
Closing number of units	31,828,891	40,615,826	1,975
Operating charges [†]	0.09%	0.10%	0.12%
Direct transaction costs	0.00%	0.00%	0.00%

Prices

Highest unit price	64.76p	58.89p	58.84p
Lowest unit price	58.09p	54.71p	51.33p

[^] Distributions are shown gross of taxation. The amounts shown for 'Retained distributions on accumulation units' are net of 20% income tax, except for distributions made from April 2017 onwards, which will be paid on a gross basis – See Significant Changes on page 15.

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

Past performance is not a guide to future performance.

The price of units and any income from them may go down as well as up.

Comparative Tables continued

L-Class Distribution Units

Change in Net Asset Value per Unit

Accounting year ending	20/05/17 (pence per unit)	20/05/16 (pence per unit)	20/05/15 (pence per unit)
Opening net asset value per unit	53.32	52.55	49.61
Return before operating charges	4.80	2.21	4.50
Operating charges (calculated on average price)	(0.02)	(0.02)	(0.02)
Return after operating charges	4.78	2.19	4.48
Distributions on income units [^]	(1.34)	(1.42)	(1.54)
Closing net asset value per unit	56.76	53.32	52.55
after direct transaction costs of:	—	—	—

Performance

Return after charges	8.96%	4.17%	9.03%
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Other Information

Closing net asset value (£)	327,140,670	158,630,069	102,161,325
Closing number of units	576,379,473	297,521,323	194,397,382
Operating charges [†]	0.03%	0.04%	0.03%
Direct transaction costs	0.00%	0.00%	0.00%

Prices

Highest unit price	59.55p	54.45p	55.87p
Lowest unit price	53.41p	51.37p	49.30p

[^] Distributions on income units are shown gross of taxation.

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

Past performance is not a guide to future performance.

The price of units and any income from them may go down as well as up.

Manager's Investment Report

During the year under review, the bid price of the Fund's I-Class accumulation units rose by 8.60%. Markit iBoxx, the Index compiler, calculates the benchmark Index at the end of the business day using closing prices, whereas the Fund is valued using prevailing prices at 12 noon. Therefore, for tracking purposes, the Fund has been revalued using closing prices and adjusted for the effects of charges and taxation. On this basis, over the review year, the Fund rose by 8.66%, compared with the benchmark Index rise of 8.64% (Source: Bloomberg), producing a tracking difference of +0.02%.

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.

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"iBoxx" is a registered trademark of International Index Company (IIC), a wholly-owned subsidiary of Markit Group.

Market/Economic Review

Global economic activity has improved markedly over the review year. The recovery has been particularly strong in the manufacturing sector, accompanied by an upturn in global trade volumes. A stabilisation and subsequent increase in commodity prices has been reflected in rising consumer price inflation in the major developed economies. While the recovery has been broad-based, it has been most noticeable in the US where growth accelerated during the second half of 2016 led by consumer demand. There has also been a pick-up in investment spending and inventory levels, as Donald Trump's unexpected victory in the November presidential election focused investors on the prospect of increased infrastructure spending and tax cuts. The Federal Reserve has signalled a gradual tightening of monetary policy, raising interest rates in December 2016 and March 2017 and signalling two further rate hikes in 2017. However, monetary policy remained loose in all the major economies. After the UK voted to leave the European Union (EU) in the June referendum, the Bank of England cut interest rates to 0.25% and extended its asset purchase programme, known as quantitative easing (QE). Encouragingly, the UK economy has weathered the aftermath of the Brexit vote well. Both the European Central Bank and the Bank of Japan continued with the unorthodox policy of negative interest rates. In recent months, European economic indicators have highlighted an improvement in both manufacturing and service sector activity, while in Japan the economy expanded for four straight quarters in 2016. The Chinese authorities have adopted a

Manager's Investment Report continued

range of policy initiatives to boost credit growth and domestic demand as the economy continued its transition from export and investment-driven growth towards consumption.

Over the review year, higher-rated government bonds such as US Treasuries, UK gilts and German bunds were initially underpinned by demand from risk-averse investors, as interest rates remained very low worldwide. However, towards the end of the review year, longer-term interest rates in the major economies moved higher, particularly in the US where investors discounted looser fiscal policy. In the UK, the sharp post-referendum devaluation of Sterling raised expectations that inflation will accelerate over the coming year and consequently Index-linked gilts easily outperformed their conventional counterparts. The Bank of England's decision to add high-quality corporate bonds to its QE programme in August provided a much-needed boost for Sterling-denominated bonds and sparked a wave of new issuance. Emerging market bonds attracted substantial inflows from international investors looking for higher levels of income, outperforming major government bond markets.

Fund Review

All investment activity was prompted either by unit holder activity or by monthly changes in the profile of the benchmark Index.

During the review year, 86 bonds were added to the Index. 80 of these were new issues, four were bonds upgraded from a BBB to an A rating and the remaining two entered after their amount outstanding increased above the Index's minimum size. 11 bonds left the Index after being downgraded to a BBB rating. 66 bonds exited the Index after falling below one year to maturity, two left after being called and 11 bonds exited the Index following tender offers which left the amount outstanding below the minimum required. There were also two sinking bonds that were deleted due to the retirement of principal leaving the size in issue as too small for the Index. The Fund participated in 80 new issues and 12 corporate actions across sectors such as telecommunications, financials, utilities, housing associations, consumer goods and mortgage-backed securities.

The Fund experienced net positive cash flow during the review year. The cash flows were used to adjust the Fund's holdings in such a way so as to ensure the Fund maintained an Index distribution at all times. The Fund was also rebalanced at each month end in line with the revised Index distribution.

Outlook

With low government bond yields and few obvious risks on the immediate horizon, many investors are chasing yields with strong inflows to risky asset classes. However, this benign environment is being reflected in tight credit valuations and low implied equity volatility. Looking ahead, we are worried about the impact of a withdrawal of monetary support from central banks. This could

Manager's Investment Report continued

lead to higher volatility in markets if investors decide the withdrawal is premature. In the UK, we expect, despite the election result being much closer than anticipated, the current gilt-friendly budget deficit reduction measures to continue, which should support gilt yields.

Legal & General Investment Management Limited

(Investment Adviser)

13 June 2017

Manager's Report and Accounts

Copies of the most recent Interim and Annual Long Form Manager's Reports are available free of charge by telephoning 0370 050 0955, by writing to the Manager or are available on the internet at www.legalandgeneral.com/investments/fund-information/managers-reports.

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

Information on Tracking Error

The 'Tracking Error' of a Fund is the measure of the volatility of the differences between the return of the Fund and the return of the benchmark Index. It provides an indication of how closely the Fund is tracking the performance of the benchmark Index after considering things such as Fund charges and taxation.

Using monthly returns, over the review year, the annualised Tracking Error of the Fund is 0.12%, whilst the annualised tracking error over the past three years to the end of May 2017 is 0.10%. 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, through 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:

F-Class*	£500
I-Class	£1,000,000
C-Class**	£100,000,000
L-Class†	£500,000

*F-Class units are only available to:

- i) investors who have received advice from authorised intermediaries and platforms in relation to their investment in units in the Fund and
- ii) authorised intermediaries or 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 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.

Other Information

The information in this report is designed to enable unitholders to understand how the Fund has performed during the year under review and how it is invested at the year end. Further information on the activities and performance of the Fund can be obtained by telephoning 0370 050 0955 or by writing to the Manager.

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

Significant Changes

Gross Distribution Payments

We'd like to make you aware of an HM Revenue & Customs ruling which became effective from 6 April 2017. Where interest distributions were previously paid net, we are required to start paying all interest distributions on a gross basis, starting with the April 2017 interim distribution payment. Prior to 6 April 2017, interest distributions were paid to clients after the deduction of 20% income tax, unless the client has completed a gross declaration form. From 6 April 2017, we will not deduct tax on any interest distributions and all payments will be made gross.

It will become your responsibility to make any declarations to HM Revenue & Customs. If you are in any doubt as to your taxation position, please consult a professional adviser.

Authorised Fund Manager

Legal & General (Unit Trust Managers) Limited

Registered in England and Wales No. 01009418

Registered office:

One Coleman Street,

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Telephone: 0370 050 3350

Authorised and regulated by the Financial Conduct Authority

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

Trustee

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50 Bank Street,

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London E14 5NT

Authorised by the Prudential Regulation Authority and regulated

by the Financial Conduct Authority and the Prudential

Regulation Authority

Independent Auditors

PricewaterhouseCoopers LLP

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London SE1 2RT

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

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