

Legal & General Short Dated  
Sterling Corporate Bond Index Fund

**Annual Manager's  
Short Report  
for the year ended  
15 February 2018**

**EVERY  
DAY  
MATTERS.®**





## Investment Objective and Policy

The Fund aims to track the total return of the Markit iBoxx Sterling Corporates 1-5 Index (the “Index”) (after adjustment for management charges and taxation).

The Fund will invest primarily in the securities that make up the constituents of the Index. The bonds the Fund invests in will be primarily composed of short dated investment grade Sterling denominated corporate bonds and will be held with weightings generally proportionate to the weightings in the Index.

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 the purpose of efficient portfolio management.

## 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.

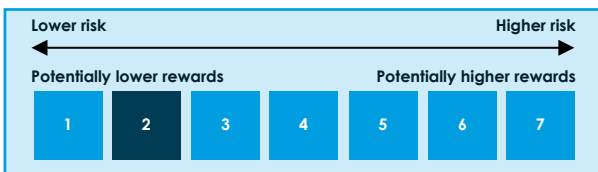
## Fund Facts

|                                     |                |           |
|-------------------------------------|----------------|-----------|
| Period End Dates for Distributions: | 15 Feb, 15 Aug |           |
| Distribution Dates:                 | 15 Apr, 15 Oct |           |
| Ongoing Charges Figures:            | 15 Feb 18      | 15 Feb 17 |
| I-Class                             | 0.14%          | 0.14%     |
| C-Class                             | 0.09%          | 0.09%     |
| L-Class                             | 0.05%          | 0.05%     |

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 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.
- This Fund is in category two 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

### I-Class

The distribution payable on 15 April 2018 is 0.5116p per unit for distribution units and 0.5501p per unit for accumulation units.

### C-Class

The distribution payable on 15 April 2018 is 0.5125p per unit for distribution units and 0.5510p per unit for accumulation units.

### L-Class

The distribution payable on 15 April 2018 is 0.5134p per unit for distribution units.

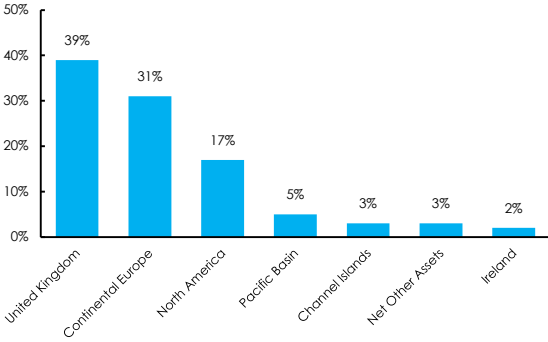
## Portfolio Information

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

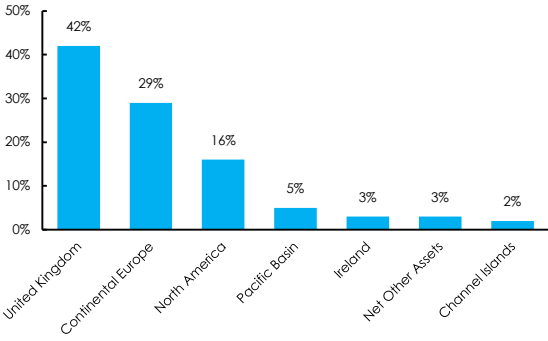
| Top 10 Holdings at<br>15 February 2018                             |                                  | Top 10 Holdings at<br>15 February 2017                   |                                  |
|--|----------------------------------|--|----------------------------------|
| Holding  | Percentage of<br>Net Asset Value | Holding  | Percentage of<br>Net Asset Value |
| Barclays Bank<br>10% 21/05/2021                                    | 2.03%                            | Barclays Bank<br>10% 21/05/2021                          | 2.79%                            |
| Barclays Bank<br>2.375% 06/10/2023                                 | 1.26%                            | E.ON International<br>Finance 6% 30/10/2019              | 1.23%                            |
| Imperial Brands Finance<br>9% 17/02/2022                           | 1.08%                            | Bank of America<br>6.125% 15/09/2021                     | 1.06%                            |
| UBS 1.25% 10/12/2020   | 0.92%                            | Nationwide Building<br>Society 5.625%<br>09/09/2019      | 1.01%                            |
| Wells Fargo<br>2.125% 22/04/2022                                   | 0.91%                            | Citigroup<br>5.125% 12/12/2018                           | 0.97%                            |
| Deutsche Telekom<br>International Finance<br>6.5% 08/04/2022       | 0.87%                            | Abbey National<br>Treasury Services<br>1.875% 17/02/2020 | 0.95%                            |
| Western Power<br>Distribution East<br>Midlands<br>5.25% 17/01/2023 | 0.81%                            | BP Capital Markets<br>4.325% 10/12/2018                  | 0.92%                            |
| Investec Bank<br>9.625% 17/02/2022                                 | 0.77%                            | Telefonica Emisiones<br>5.597% 12/03/2020                | 0.91%                            |
| Credit Suisse Group<br>Funding Guernsey<br>3% 27/05/2022           | 0.77%                            | Glencore Finance<br>6.5% 27/02/2019                      | 0.89%                            |
| E.ON International<br>Finance 6% 30/10/2019                        | 0.74%                            | UBS 6.625% 11/04/2018                                    | 0.88%                            |

Holdings with a maturity date greater than 5 years from 15 February 2018 are 'callable' by the issuer within the next 5 years and are therefore likely to mature before the final maturity date shown.

## Fund Holdings as at 15 February 2018



## Fund Holdings as at 15 February 2017



## Comparative Tables

### I-Class Distribution Units

#### Change in Net Asset Value per Unit

| Accounting Year ending                             | 15/02/18<br>(pence<br>per unit) | 15/02/17<br>(pence<br>per unit) | 15/02/16<br>(pence<br>per unit) |
|--|---------------------------------|---------------------------------|---------------------------------|
| Opening net asset value per unit                   | 50.95                           | 49.33                           | 50.59                           |
| Return before operating charges*                   | 0.62                            | 2.98                            | 0.20                            |
| Operating charges<br>(calculated on average price) | (0.07)                          | (0.07)                          | (0.07)                          |
| Return after operating charges*                    | 0.55                            | 2.91                            | 0.13                            |
| Distributions on income units <sup>^</sup>         | (1.05)                          | (1.29)                          | (1.39)                          |
| Closing net asset value per unit                   | 50.45                           | 50.95                           | 49.33                           |
| * after direct transaction costs of:               | —                               | —                               | —                               |

#### Performance

|                      |       |       |       |
|----------------------|-------|-------|-------|
| Return after charges | 1.08% | 5.90% | 0.26% |
|----------------------|-------|-------|-------|

#### Other Information

|                             |             |             |            |
|-----------------------------|-------------|-------------|------------|
| Closing net asset value (£) | 102,255,479 | 68,177,676  | 22,958,079 |
| Closing number of units     | 202,670,660 | 133,815,312 | 46,541,369 |
| Operating charges           | 0.14%       | 0.14%       | 0.14%      |
| Direct transaction costs    | 0.00%       | 0.00%       | 0.00%      |

#### Prices

|                    |        |        |        |
|--------------------|--------|--------|--------|
| Highest unit price | 52.03p | 51.99p | 51.07p |
| Lowest unit price  | 50.97p | 49.37p | 49.65p |

<sup>^</sup> Distributions on income units are shown gross of taxation.

<sup>†</sup> 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

### I-Class Accumulation Units

#### Change in Net Asset Value per Unit

| Accounting Year ending                                       | 15/02/18<br>(pence<br>per unit) | 15/02/17<br>(pence<br>per unit) | 15/02/16<br>(pence<br>per unit) |
|--|---------------------------------|---------------------------------|---------------------------------|
| Opening net asset value per unit                             | 54.23                           | 51.33                           | 51.49                           |
| Return before operating charges*                             | 0.66                            | 3.11                            | 0.19                            |
| Operating charges<br>(calculated on average price)           | (0.08)                          | (0.07)                          | (0.07)                          |
| Return after operating charges*                              | 0.58                            | 3.04                            | 0.12                            |
| Distributions <sup>^</sup>                                   | (1.12)                          | (1.35)                          | (1.41)                          |
| Retained distributions on<br>accumulation units <sup>^</sup> | 1.12                            | 1.21                            | 1.13                            |
| Closing net asset value per unit                             | 54.81                           | 54.23                           | 51.33                           |
| * after direct transaction costs of:                         | —                               | —                               | —                               |

#### Performance

|                      |       |       |       |
|----------------------|-------|-------|-------|
| Return after charges | 1.07% | 5.92% | 0.23% |
|----------------------|-------|-------|-------|

#### Other Information

|                             |             |             |            |
|-----------------------------|-------------|-------------|------------|
| Closing net asset value (£) | 253,475,294 | 103,070,462 | 44,724,156 |
| Closing number of units     | 462,478,733 | 190,077,925 | 87,122,745 |
| Operating charges           | 0.14%       | 0.14%       | 0.14%      |
| Direct transaction costs    | 0.00%       | 0.00%       | 0.00%      |

#### Prices

|                    |        |        |        |
|--------------------|--------|--------|--------|
| Highest unit price | 55.52p | 54.41p | 51.98p |
| Lowest unit price  | 54.25p | 51.38p | 51.09p |

<sup>^</sup> Distributions are shown gross of taxation. The amounts shown for 'Retained distributions on accumulation units' are net of 20% income tax, except for the 2017 final distribution, which will be paid on a gross basis.

<sup>†</sup> 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.

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## Comparative Tables continued

### C-Class Distribution Units

#### Change in Net Asset Value per Unit

| Accounting Year ending                             | 15/02/18<br>(pence<br>per unit) | 15/02/17<br>(pence<br>per unit) | 15/02/16<br>(pence<br>per unit) |
|--|---------------------------------|---------------------------------|---------------------------------|
| Opening net asset value per unit                   | 51.02                           | 49.38                           | 50.60                           |
| Return before operating charges*                   | 0.63                            | 2.98                            | 0.22                            |
| Operating charges<br>(calculated on average price) | (0.05)                          | (0.05)                          | (0.05)                          |
| Return after operating charges*                    | 0.58                            | 2.93                            | 0.17                            |
| Distributions on income units <sup>^</sup>         | (1.05)                          | (1.29)                          | (1.39)                          |
| Closing net asset value per unit                   | 50.55                           | 51.02                           | 49.38                           |
| * after direct transaction costs of:               | —                               | —                               | —                               |

### Performance

|                      |       |       |       |
|----------------------|-------|-------|-------|
| Return after charges | 1.14% | 5.93% | 0.34% |
|----------------------|-------|-------|-------|

### Other Information

|                             |            |            |            |
|-----------------------------|------------|------------|------------|
| Closing net asset value (£) | 43,588,751 | 35,749,130 | 11,025,291 |
| Closing number of units     | 86,228,081 | 70,067,497 | 22,329,342 |
| Operating charges           | 0.09%      | 0.09%      | 0.09%      |
| Direct transaction costs    | 0.00%      | 0.00%      | 0.00%      |

### Prices

|                    |        |        |        |
|--------------------|--------|--------|--------|
| Highest unit price | 52.11p | 52.05p | 51.10p |
| Lowest unit price  | 51.05p | 49.41p | 49.69p |

<sup>^</sup> Distributions on income units are shown gross of taxation.

<sup>†</sup> 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.

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## Comparative Tables continued

### C-Class Accumulation Units

#### Change in Net Asset Value per Unit

| Accounting Year ending                                       | 15/02/18<br>(pence<br>per unit) | 15/02/17<br>(pence<br>per unit) | 15/02/16<br>(pence<br>per unit) |
|--|---------------------------------|---------------------------------|---------------------------------|
| Opening net asset value per unit                             | 54.29                           | 51.37                           | 51.50                           |
| Return before operating charges*                             | 0.66                            | 3.11                            | 0.20                            |
| Operating charges<br>(calculated on average price)           | (0.05)                          | (0.05)                          | (0.05)                          |
| Return after operating charges*                              | 0.61                            | 3.06                            | 0.15                            |
| Distributions <sup>^</sup>                                   | (1.12)                          | (1.35)                          | (1.41)                          |
| Retained distributions on<br>accumulation units <sup>^</sup> | 1.12                            | 1.21                            | 1.13                            |
| Closing net asset value per unit                             | 54.90                           | 54.29                           | 51.37                           |
| * after direct transaction costs of:                         | —                               | —                               | —                               |

#### Performance

|                      |       |       |       |
|----------------------|-------|-------|-------|
| Return after charges | 1.12% | 5.96% | 0.29% |
|----------------------|-------|-------|-------|

#### Other Information

|                             |             |             |             |
|-----------------------------|-------------|-------------|-------------|
| Closing net asset value (£) | 214,244,212 | 179,161,936 | 137,908,448 |
| Closing number of units     | 390,229,876 | 329,999,671 | 268,461,621 |
| Operating charges           | 0.09%       | 0.09%       | 0.09%       |
| Direct transaction costs    | 0.00%       | 0.00%       | 0.00%       |

#### Prices

|                    |        |        |        |
|--------------------|--------|--------|--------|
| Highest unit price | 55.61p | 54.48p | 52.00p |
| Lowest unit price  | 54.31p | 51.41p | 51.12p |

<sup>^</sup> Distributions are shown gross of taxation. The amounts shown for 'Retained distributions on accumulation units' are net of 20% income tax, except for the 2017 final distribution, which will be paid on a gross basis.

<sup>†</sup> 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.

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## Comparative Tables continued

### L-Class Distribution Units

#### Change in Net Asset Value per Unit

| Accounting Year ending                             | 15/02/18<br>(pence<br>per unit) | 15/02/17<br>(pence<br>per unit) | 15/02/16<br>(pence<br>per unit) |
|--|---------------------------------|---------------------------------|---------------------------------|
| Opening net asset value per unit                   | 51.10                           | 49.43                           | 50.64                           |
| Return before operating charges*                   | 0.62                            | 2.99                            | 0.21                            |
| Operating charges<br>(calculated on average price) | (0.03)                          | (0.03)                          | (0.03)                          |
| Return after operating charges*                    | 0.59                            | 2.96                            | 0.18                            |
| Distributions on income units <sup>^</sup>         | (1.05)                          | (1.29)                          | (1.39)                          |
| Closing net asset value per unit                   | 50.64                           | 51.10                           | 49.43                           |
| * after direct transaction costs of:               | —                               | —                               | —                               |

#### Performance

|                      |       |       |       |
|----------------------|-------|-------|-------|
| Return after charges | 1.15% | 5.98% | 0.36% |
|----------------------|-------|-------|-------|

#### Other Information

|                             |             |             |            |
|-----------------------------|-------------|-------------|------------|
| Closing net asset value (£) | 89,038,588  | 53,370,474  | 30,921,012 |
| Closing number of units     | 175,809,821 | 104,453,181 | 62,559,528 |
| Operating charges           | 0.05%       | 0.05%       | 0.05%      |
| Direct transaction costs    | 0.00%       | 0.00%       | 0.00%      |

#### Prices

|                    |        |        |        |
|--------------------|--------|--------|--------|
| Highest unit price | 52.20p | 52.11p | 51.13p |
| Lowest unit price  | 51.12p | 49.47p | 49.73p |

<sup>^</sup> Distributions on income units are shown gross of taxation.

<sup>†</sup> 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.

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## **Manager's Investment Report**

During the year under review, the bid price of the Fund's I-Class accumulation units rose by 1.07%. 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. On this basis over the review period, the Fund performance was 1.06%, compared with the Index performance of 0.81%, producing a tracking difference of 0.25%.

**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 Review**

The global economic background has improved over the review year, led by a solid growth in the major developed economies. Despite a rise in commodity prices, with the oil price ending the review year at a three-year high, inflationary pressures worldwide have remained subdued. The Federal Reserve (Fed) sanctioned a gradual tightening of monetary policy, raising interest rates three times over the review year. The Fed also began unwinding its asset purchase programme, known as quantitative easing (QE), in October. The European Central Bank (ECB) announced it would reduce its monthly asset purchase programme with effect from 2018 however, with inflation remaining subdued, the ECB has signalled monetary policy will remain accommodative.

In the UK, both economic and political uncertainty have heightened over the review year, as the June general election resulted in a hung parliament and Brexit negotiations began. The Bank of England (BoE) voted to increase interest rates to 0.5% in November, removing the emergency support announced in August 2016 in the wake of the EU referendum. The sharp devaluation of Sterling following the EU referendum has fed through to inflation, which has accelerated above the BoE's 2% target to record a five-year high in recent months. The Bank's decision to add high quality corporate bonds to its QE programme sparked an upsurge in new issuance in the Sterling-denominated market in 2017. The BoE completed its programme in March, but income-seeking investors continued to purchase corporate bonds as yields on government bonds remained unattractively low.

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

### **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, 103 bonds were added to the Index; thirty-one were new issues and two bonds entered the Index due to rating upgrade. The rest were existing bonds that entered the Index by falling below five years to maturity.

Six bonds left the Index after the amount remaining in issue on the bonds fell below the Index minimum issue size following a corporate action; three bonds left after being called. A further fifty-eight bonds with less than a year to maturity also left the Index. The Fund participated in twenty-nine new issues from issuers including Deutsche Bank, LVMH, Wells Fargo and National Australia Bank. The Fund also took part in five corporate actions across a range of sectors.

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**

Looking ahead, central banks are expected to gradually remove their support. This could lead to higher volatility in markets if investors decide the withdrawal is premature or too fast. As interest rates rise to attract money into government bonds, we could see the 'hunt for yield' trade that has supported credit markets in recent years start to fade.

In the UK, the BoE signalled a tightening earlier than anticipated by the market and raised the possibility of two rate hikes in 2018. We think this is the next critical phase for credit markets and could lead to wider spreads as premium for structural risks of excess debt, weak productivity and political instability is more accurately reflected in valuations.

The Fund remains well positioned to capture the performance of the Short-Dated Corporate Bond market.

Legal & General Investment Management Limited

(Investment adviser)

9 March 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 year, the annualised Tracking Error of the Fund is 0.01%, whilst over the last three years to the end of February 2018, the annualised Tracking Error of the Fund is 0.02%. 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:

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

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 only available for investment to companies within the Legal & General Group.

## **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.

## **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

## **Trustee**

Northern Trust Global Services Limited

Trustee and Depositary 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**

PricewaterhouseCoopers LLP

7 More London Riverside

London SE1 2RT

**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)  
SDB0418

