

Legal & General Emerging Markets  
Government Bond (US\$) Index Fund

**Interim Manager's  
Short Report  
for the period ended  
10 May 2017**

**EVERY  
DAY  
MATTERS.®**





## **Investment Objective and Policy**

The objective of this Fund is to provide income. The Fund will achieve this objective by investing primarily in emerging market government bonds which are included in the JPMorgan Emerging Markets Bond Index Plus.

Securities will be held with weightings generally proportionate to the weightings in the JPMorgan Emerging Markets Bond Index Plus. The bonds the Fund invests in will be composed primarily of securities issued by sovereign entities and which are denominated in US Dollar. Sub-investment grade bonds may be used.

The Fund may also invest in other transferable securities, fixed interest 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 countries, 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.

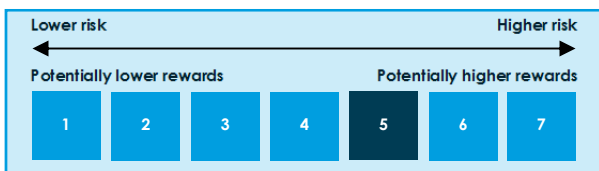
## Fund Facts

Period End Dates for Distributions:	10 May, 10 Nov	
Distribution Dates:	10 Jan, 10 Jul	
Ongoing Charges Figures:	10 May 17	10 Nov 16
I-Class	0.29%	0.29%
L-Class	0.04%	0.04%
F-Class	0.48%	0.48%
C-Class	0.19%	0.19%

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 a representative benchmark have moved up and down in the past.
- This Fund is in category five because it invests in bonds issued by the governments of developing countries. These generally provide higher rewards and higher risks than investments in cash and lower rewards and lower risks than investments in 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 10 July 2017 is 1.5117p per unit for distribution units and 1.7594p per unit for accumulation units.

### **L-Class**

The distribution payable on 10 July 2017 is 1.5286p per unit for distribution units.

### **F-Class**

The distribution payable on 10 July 2017 is 1.5152p per unit for distribution units and 1.7631p per unit for accumulation units.

### **C-Class**

The distribution payable on 10 July 2017 is 1.5152p per unit for distribution units and 1.7657p 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)
I-Class			
Distribution Units	10,722,137	18,943,370	56.60
Accumulation Units	214,903,412	317,783,021	67.63
L-Class			
Distribution Units	392,424,510	685,320,885	57.26
F-Class			
Distribution Units	42,890	75,728	56.64
Accumulation Units	128,199	189,463	67.66
C-Class			
Distribution Units	6,063,384	10,671,727	56.82
Accumulation Units	697,254	1,027,491	67.86

**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.**

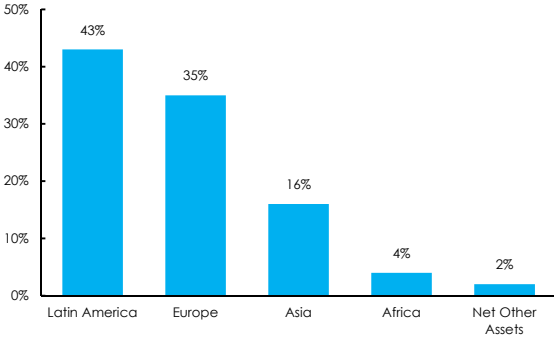
**Exchange rate changes may cause the value of any overseas investments to rise or fall.**

## Portfolio Information

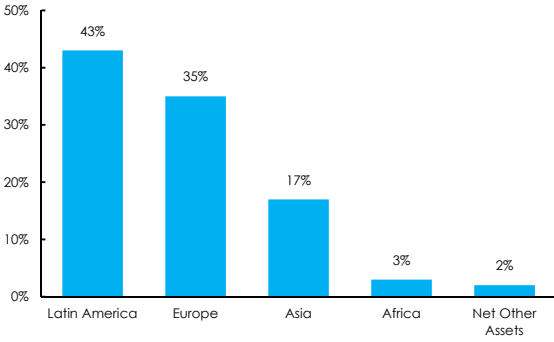
The top 10 holdings and their associated weighting at the current period end and preceding year end were:

Top 10 Holdings at 10 May 2017		Top 10 Holdings at 10 November 2016	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
Russian Federation 7.5% 31/03/2030	3.76%	Russian Federation 7.5% 31/03/2030	3.95%
Argentina Republic Government International Bond 7.5% 22/04/2026	1.96%	Argentina Republic Government International Bond 7.5% 22/04/2026	2.10%
Argentina Republic Government International Bond 8.28% 31/12/2033	1.80%	Argentina Republic Government International Bond 8.28% 31/12/2033	1.85%
Argentina Republic Government International Bond 6.875% 22/04/2021	1.33%	Argentina Republic Government International Bond 6.875% 22/04/2021	1.39%
Mexico Government International Bond 4.75% 08/03/2044	1.29%	Brazilian Government International Bond 4.25% 07/01/2025	1.29%
Brazilian Government International Bond 4.25% 07/01/2025	1.15%	Russian Federation 12.75% 24/06/2028	1.24%
Mexico Government International Bond 6.05% 11/01/2040	1.14%	Mexico Government International Bond 4.75% 08/03/2044	1.14%
Colombia Government International Bond 5% 15/06/2045	1.13%	Russian Federation 11% 24/07/2018	1.14%
Russian Federation 5% 29/04/2020	1.10%	Mexico Government International Bond 4% 02/10/2023	1.13%
Turkey Government International Bond 7.375% 05/02/2025	1.06%	Philippine Government International Bond 9.5% 02/02/2030	1.09%

### Fund Holdings as at 10 May 2017



### Fund Holdings as at 10 November 2016





## **Manager's Investment Report**

During the period under review, the bid price of the Fund's I-Class accumulation units fell by 1.44%. JP Morgan Chase, the Index compiler, calculates the benchmark Index at the end of the business day using closing mid 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, closing exchange rates and ignoring the effects of Fund charges and taxation. On this basis over the review period, the Fund rose by 1.07%, compared with a rise in the benchmark Index of 1.27% (Source: JP Morgan Chase), producing a tracking difference of -0.20%.

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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**

During 2017 so far, emerging market (EM) assets have benefited from the fading risks of imminent policies coming from the US administration that would disrupt trade or significantly boost growth, inflation and rates in the US, as well as evidence of what looks like a global cyclical pick-up in business activity and confidence. These forces are by now well-understood and EM investors are already bullishly positioned.

Since March, the US Dollar has weakened versus EM currencies, US rates moved lower on fading policy risks, and US data surprises fell amid an apparent rotation in growth from the US to the rest of the world, all of which has helped the performance of EM assets. While markets are looking for new drivers ahead, there is nothing significant on the horizon in the coming months.

EM bonds gained further ground in April, propelled by further inflows from international investors in search of higher yielding securities. The broader JP Morgan Emerging Markets Bond Index Global return for April was 1.63% in local currency terms, although this translated into a return of -1.77% in Sterling as the Pound rallied in response to the UK government's calling of a snap general election for June.

In several emerging economies, notably Brazil, Mexico and India, governments have been addressing budget deficits and pursuing policies aimed at fiscal consolidation and control of inflation. This has helped to boost currency values in many emerging economies and encouraged inflows into bonds denominated in local currencies. The main political event during April occurred in Turkey, where the focus was on the Presidential referendum. As widely expected, Erdogan was successful in securing a package of constitutional amendments leading to an Executive Presidency. The perceived political stability that comes with Erdogan openly taking control of the country triggered a significant relief rally in Turkish assets.

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

### **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 outperformed US treasuries over the review period, the Index yield spread over US treasuries tightening by 49 basis points to 320 basis points. Compared to some other emerging market (EM) debt indices, the EMBI+ Index is relatively stable, having a constant 156 constituents at the beginning and end of the review period. There was no change to the country composition of the Index, with 16 countries represented.

The regional breakdown of the Index at the end of the review period was EMEA (Europe, Middle East and Africa) 39.53%, Asia 16.21% and Latin America 44.26%. The most significant changes were reductions in the Index weights of Indonesia (-0.96%) and Philippines (-0.64%), with increases in the weights of Argentina (+1.10%) and Brazil (+0.68%).

At the end of the period, the Fund held 172 bonds issued by 16 countries. The Index consisted of 156 bonds issued by 16 countries.

### **Outlook**

EM growth forecast upgrades have accelerated as post-US election fears related to tightening financial conditions and trade protectionism have faded. Following the US election last year, there was an anticipation of greater US fiscal stimulus that would have boosted demand and in turn posed upside risks to EM growth. The bulk of the benefits of this stimulus would have accrued in the US, based on pronouncements made during the campaign promising stronger trade protectionism. It is likely that higher US growth would have tightened global financial conditions through a steeper US term structure, dampening real activity in EM. However, such fears have since faded, which, along with some country-specific factors, has led to a spate of meaningful growth forecast upgrades across EM economies. At the aggregate level, EM growth is now expected to reach 4.4% in 2017, with the higher GDP growth expected in EM Asia and EMEA EM outweighing the downward revisions in Latin America.

Legal & General Investment Management Limited

(Investment Adviser)

23 May 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](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 0.05%, whilst the annualised Tracking Error of the Fund over the last three years to the end of May 2017, is 0.07%. 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
L-Class	£500,000
F-Class	£500
C-Class	£100,000,000

L-Class is only available for investment to companies within the Legal & General Group.

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.

## 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.

**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 Limited

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**

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