

Legal & General  
Sterling Corporate Bond Index Fund  
**Interim Manager's  
Short Report  
for the period ended  
20 November 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.

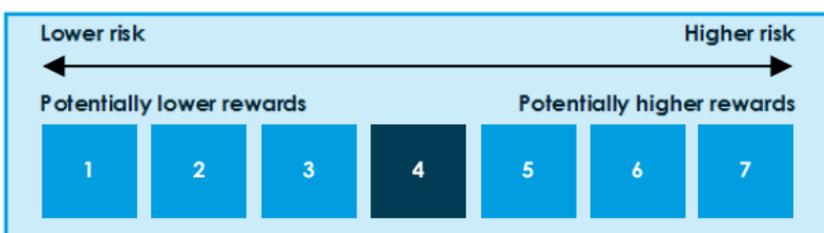
## Fund Facts

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 Nov 17	20 May 17
F-Class	0.37%	0.37%
I-Class	0.14%	0.14%
C-Class	0.09%	0.09%
L-Class	0.03%	0.03%

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 January 2018 is 0.3058p per unit for distribution units and 0.3438p per unit for accumulation units.

### I-Class

The distribution payable on 20 January 2018 is 0.3065p per unit for distribution units and 0.3439p per unit for accumulation units.

### C-Class

The distribution payable on 20 January 2018 is 0.3071p per unit for distribution units and 0.3444p per unit for accumulation units.

### L-Class

The distribution payable on 20 January 2018 is 0.3086p per unit for distribution units.

## Net Asset Values and Units in Issue

Class	Net Asset Value (£)	Units in Issue	Net Asset Value per Unit (p)
F-Class			
Distribution Units	1,109	1,998	55.51
Accumulation Units	15,064	24,028	62.69
I-Class			
Distribution Units	34,812,501	62,617,721	55.60
Accumulation Units	166,582,684	265,617,321	62.72
C-Class			
Distribution Units	7,582,610	13,610,648	55.71
Accumulation Units	28,301,288	45,047,497	62.83
L-Class			
Distribution Units	372,792,620	665,938,986	55.98

**Past performance is not a guide to future performance.**

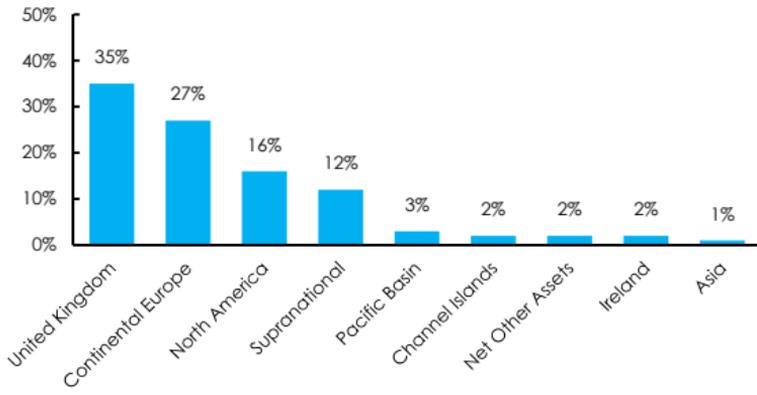
**The price of units and any income from them may go down as well as up.**

## Portfolio Information

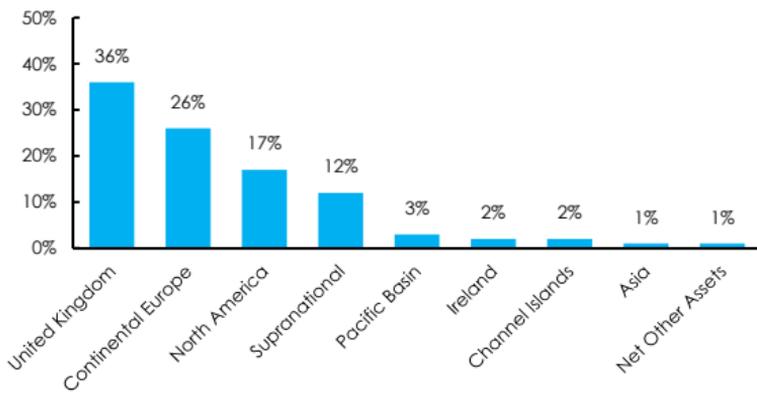
The top 10 holdings and their associated weighting at the current period end and preceding year end were:

Top 10 Holdings at 20 November 2017		Top 10 Holdings at 20 May 2017	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
Kreditanstalt fuer Wiederaufbau 6% 07/12/2028	1.21%	Kreditanstalt fuer Wiederaufbau 6% 07/12/2028	1.26%
European Investment Bank 1.5% 01/02/2019	1.18%	European Investment Bank 1.5% 01/02/2019	1.19%
Kreditanstalt fuer Wiederaufbau 1.125% 23/12/2019	1.07%	Kreditanstalt fuer Wiederaufbau 1.125% 23/12/2019	1.09%
Kreditanstalt fuer Wiederaufbau 5.55% 07/06/2021	0.93%	European Investment Bank 6% 07/12/2028	0.88%
European Investment Bank 6% 07/12/2028	0.91%	European Investment Bank 5.625% 07/06/2032	0.86%
European Investment Bank 5.625% 07/06/2032	0.83%	Kreditanstalt fuer Wiederaufbau 5.55% 07/06/2021	0.82%
European Investment Bank 2.5% 31/10/2022	0.74%	European Investment Bank 5% 15/04/2039	0.65%
Pfizer 6.5% 03/06/2038	0.70%	Pfizer 6.5% 03/06/2038	0.63%
European Investment Bank 5% 15/04/2039	0.67%	European Investment Bank 5.375% 07/06/2021	0.62%
Kreditanstalt fuer Wiederaufbau 5.75% 07/06/2032	0.65%	European Investment Bank 2.5% 31/10/2022	0.62%

## Fund Holdings as at 20 November 2017



## Fund Holdings as at 20 May 2017



## **Manager's Investment Report**

During the period under review, the bid price of the Fund's I-Class accumulation units fell by 0.32%. 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 period, the Fund fell by 0.24%, compared with the Index fall of 0.16% (Source: Bloomberg), producing a tracking difference of -0.08%.

**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**

The major international bond markets have struggled to make headway over the last six months, as investors began to discount an end to the low growth, low inflation environment that has prevailed since the global financial crisis. The Federal Reserve (Fed) sanctioned a gradual tightening of monetary policy, raising interest rates in June and signalling a further rate hike prior to the year-end. The Fed also began unwinding its asset purchase programme, known as quantitative easing (QE), in October. Although the European Central Bank (ECB) announced it would taper its QE programme from January, the ECB commented it stood ready to extend QE beyond next September if necessary. Conventional gilts ended the period lower, as did index-linked securities. In the UK, inflation accelerated to its highest level for over five years in September, as the depreciation in Sterling since last year's EU referendum has fed through to import prices. The Bank of England increased interest rates by 0.25% to 0.5%, which was well anticipated by the market. Sterling-denominated corporate bonds outperformed gilts with an upsurge in issuance so far in 2017.

## **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 period 66 bonds were added to the Index. 52 of these were new issues, 14 were bonds upgraded from a BBB to an A rating. 25 bonds left the Index after being downgraded to a BBB rating. 23 bonds exited the Index after falling below one year to maturity, 3 left after being called and 2 bonds exited the Index

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

following tender offers which left the amount outstanding below the minimum required. The Fund participated in 52 new issues across sectors such as telecoms, financials, utilities, housing associations, consumer goods and MBS.

The Fund experienced net positive cash flow during the review period. 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. 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 lead to higher volatility in markets if investors decide the withdrawal is premature.

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, weakening potential growth and political instability is more accurately reflected in valuations.

Legal & General Investment Management Limited  
(Investment Adviser)  
12 December 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 0.13%, whilst over the last three years to the end of November 2017, the annualised Tracking Error of the Fund 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, 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:

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 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







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Financial Conduct Authority**

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