

Legal & General  
Global Inflation Linked Bond Index Fund

**Interim Manager's  
Short Report  
for the period ended  
5 December 2018**





## **Investment Objective and Policy**

The objective of the Fund is to achieve income and capital growth in line with the performance of the Barclays World Government Ex UK Inflation Linked Bonds TR Hedged GBP Index (the “Index”) (after adjustment for management charges and taxation).

The Fund will invest predominantly in securities that are included in the Index. The Fund will be passively managed and employs a sampling strategy whereby such securities will be held with weightings generally proportionate to the weightings in the Index. The bonds the Fund invests in will be composed primarily of securities issued by sovereign entities excluding the UK which are denominated in the currency of the issuer and which are inflation linked. Sub-investment grade bonds may be held. 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 will use forward foreign exchange or currency future derivatives in order to manage the currency exposure in line with the Index. This may mean that, at times, the Fund may use derivatives for investment purposes\*. The Fund may also hold other types of derivatives for Efficient Portfolio Management purposes only.

\*The Fund does not currently use derivatives for investment 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 or currency futures, which aim to manage the effect of changing exchange rates.

The Fund also utilises forward currency contracts in pursuit of the investment objective. The performance of the Fund may therefore be affected by changes in exchange rates as a result of these positions.

### **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.

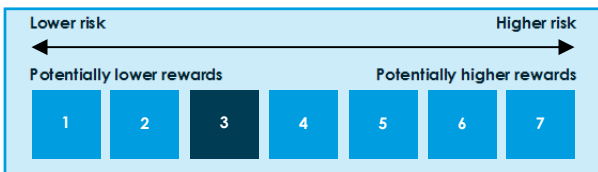
### **Fund Facts**

Period End Dates for Distributions:	5 Jun, 5 Dec	
Distribution Dates:	5 Aug, 5 Feb	
Ongoing Charges Figures:	5 Dec 18	5 Jun 18
F-Class	0.51%	0.51%
I-Class	0.27%	0.27%
C-Class	0.17%	0.17%
L-Class	0.07%	0.07%

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 three 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

### F-Class

The distribution payable on 5 February 2019 is 0.4120p per unit for distribution units and 0.4267p per unit for accumulation units.

### I-Class

The distribution payable on 5 February 2019 is 0.4754p per unit for distribution units and 0.4957p per unit for accumulation units.

### C-Class

The distribution payable on 5 February 2019 is 0.5021p per unit for distribution units and 0.5207p per unit for accumulation units.

### L-Class

The distribution payable on 5 February 2019 is 0.5285p 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	146,241	288,247	50.73
Accumulation Units	265,197	500,277	53.01
I-Class			
Distribution Units	101,268,565	199,188,992	50.84
Accumulation Units	467,194,402	871,450,593	53.61
C-Class			
Distribution Units	69,202,761	135,994,327	50.89
Accumulation Units	95,968,329	178,215,964	53.85
L-Class			
Distribution Units	376,250,311	739,032,168	50.91

**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.**

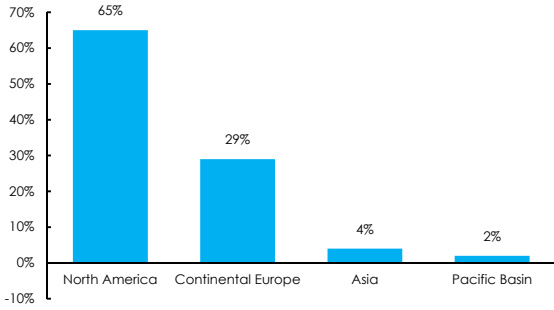
**Exchange rate changes may cause the value of any overseas investments to rise or fall.**

## Portfolio Information

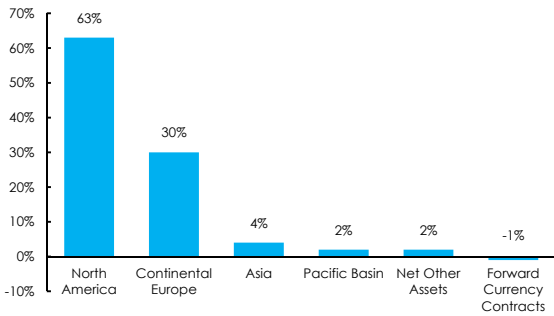
The top 10 holdings and their associated weighting at the current period end and preceding year end were:

Top 10 Holdings at 5 December 2018		Top 10 Holdings at 5 June 2018	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
US Treasury Index Linked Bond 0.125% 15/04/2020	2.64%	US Treasury Index Linked Bond 0.125% 15/04/2020	2.27%
US Treasury Index Linked Bond 0.125% 15/04/2022	2.20%	US Treasury Index Linked Bond 0.125% 15/04/2021	2.26%
US Treasury Index Linked Bond 0.125% 15/07/2022	2.18%	US Treasury Index Linked Bond 0.625% 15/01/2024	2.26%
US Treasury Index Linked Bond 0.125% 15/01/2022	2.17%	US Treasury Index Linked Bond 0.125% 15/04/2022	2.22%
US Treasury Index Linked Bond 0.625% 15/01/2026	2.17%	US Treasury Index Linked Bond 0.125% 15/07/2022	2.15%
US Treasury Index Linked Bond 0.125% 15/01/2023	2.17%	US Treasury Index Linked Bond 1.125% 15/01/2021	2.15%
US Treasury Index Linked Bond 0.375% 15/07/2023	2.13%	US Treasury Index Linked Bond 0.125% 15/07/2024	2.13%
US Treasury Index Linked Bond 0.375% 15/07/2025	2.13%	US Treasury Index Linked Bond 0.375% 15/07/2025	2.11%
US Treasury Index Linked Bond 0.25% 15/01/2025	2.13%	US Treasury Index Linked Bond 0.25% 15/01/2025	2.06%
US Treasury Index Linked Bond 0.125% 15/04/2021	2.12%	US Treasury Index Linked Bond 0.625% 15/01/2021	2.01%

## Fund Holdings as at 5 December 2018



## Fund Holdings as at 5 June 2018





## **Manager's Investment Report**

During the period under review, the bid price of the Fund's F-Class accumulation units fell by 1.23%. Barclays, 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 3pm. Therefore, for tracking purposes the Fund has been revalued using closing prices. On this basis over the review period, the Fund performance was -1.01%, compared with the Index performance of -0.97% (Source: Bloomberg), producing a tracking difference of -0.04%.

**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.**

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

## **Market/Economic Review**

In the US, yields rose over the period as the Federal Reserve (Fed) raised rates as expected to 2.25% at its September meeting and signaled it was on course for another hike at the year end and three more in 2019. There were some higher points for the Consumer Price Index (CPI) over the summer (July 2.9% YOY) but the Fed's preferred measure of inflation PCE (personal consumption expenditure) held steady at 2%. The Fed's policy of gradual rate hikes seems vindicated as Q2 GDP grew at its fastest rate in almost four years (4.2% annualised) and indicators suggest a very tight labour market. The Fed's policy has started to draw fire from President Trump but this has been low key so far. The US Tips yield curve flattened over the period under review driven by the short end, the real yield on 1-year rose 290bps, the 2-year rose by 87bps whilst at the long end the 10-year rose 18bps and the 30-year by 21bps. In Europe, bond yields in the peripheral markets came under pressure as the Italian political situation came under scrutiny. Concerns grew that Italian voters might be questioning the benefits of its Eurozone membership and despite the formation of a more market favourable coalition the next big test for Italy was its autumn budget. The Italian government bond market suffered increased volatility and significantly reduced liquidity due to daily market speculation and political comments during the negotiations on budgetary spending levels. During the reporting period the Italian 10-year real yield ranged from a low of 1.36% to a high of 2.51% finishing the period at 2.01%. The yield curve flattened with the 1-year yield rising by 159bps and the 30-year by 37bps. In the UK the BoE raised its base rate by 25bps to 75bps in August but despite the backdrop of above target inflation (CPI rose to 2.7% YOY in August) and low unemployment they will be wary of hiking again in the midst of the Brexit timetable.

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

### **Fund Review**

The US had six monthly auctions over the period, totalling \$59 billion of new issuance. A new 10-year bond was launched in July and was subsequently re-opened another two times, raising \$35 billion; the 30-year benchmark bond was reopened twice for a total of \$10 billion, increasing its size to \$18.7 billion; whilst the 5-year benchmark was only reopened once with issuance totalling \$14 billion. One bond, the 1.875% July 2019, left the Index at the end of July when its remaining life to maturity fell below one year. For the remaining countries within the Index three bonds left, one each from France, Italy and Spain, whilst one bond from Australia and Spain entered the Index.

The Fund experienced net negative cash flow during the period, which was raised in such a way so as to ensure the Fund maintained an Index distribution at all times.

### **Outlook**

The world economy is currently growing around 3.25% (long run average 2.75%), however we expect growth to slow as we head into the second half of 2019 and have reduced our 2019 growth forecast from 3.3% to 3.1% (consensus 3.2%). Despite continued robust global growth, we are worried about the escalating trade war; our measure of global manufacturing inventories suggests that global manufacturing should slow towards trend (depending on trade-war intensity). The US economy has been booming, up 3.4% for Q3 GDP growth, though this had been revised down slightly from 3.5% as estimated in October. We expect gradual cooling, partly as the trade war begins to undermine growth but also further slowing in 2nd half of 2019 as the 2018 fiscal stimulus wears off. We see core inflation picking up over the next few months due to the pass through from higher producer prices and tariffs into goods prices; also unit labour cost pressures from the tighter labour market and the unwind of some temporary factors. The Euro area growth outlook is reasonable despite some signs of weakness in Q3 with weaker confidence surveys; the ECB announced it would cease its QE programme at the end of 2018 but is not expected to raise rates until the 2nd half of 2019.

Legal & General Investment Management Limited  
(Investment Adviser)  
7 January 2019

## **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 0.06%, whilst over the last three years to the end of December 2018, the annualised Tracking Error of the Fund 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, 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	£100,000

In addition, monthly contributions can be made into the F-Class with a minimum amount of £50 per month.

F-Class units are only available to:

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

**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

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**

KPMG LLP

15 Canada Square,

London E14 5GL





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

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