

Legal & General High Income Trust

**Annual Manager's  
Short Report  
for the year ended  
5 September 2013**





## Investment Objective and Policy

The investment objective is to invest in a variety of fixed interest securities, including overseas issues, in order to achieve a high income.

Securities selected will normally be of an investment rating commensurate with the objective.

## Risk Profile

### Credit Risk

This Trust 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. 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 Trust is invested in overseas financial securities. The performance of the Trust 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 Trust is invested in interest bearing securities. The performance of the Trust may therefore be affected by changes in interest rates. The active monitoring and adjustment of the investments in the portfolio manages this risk.

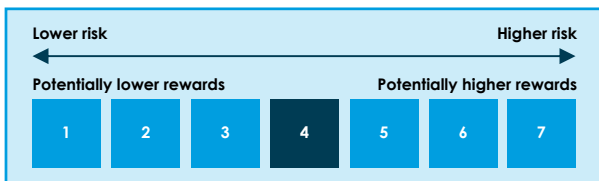
## Trust Facts

Period End Dates for Distributions:	5 Mar, Jun, Sept, Dec	
Distribution Dates:	5 Feb, May, Aug, Nov	
Ongoing Charges Figures:	5 Sep 13	5 Sep 12
R-Class	1.15%	1.15%
A-Class	1.15%	1.15%
I-Class	0.41%	0.42%
G-Class	0.01%	0.01%
X-Class	0.41%	0.42%
F-Class	0.65%	0.65%

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

The OCF is intended to provide a reliable figure which gives the most accurate measure of what it costs to invest in a trust 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 Trust's risk and reward category in the future.
- The category is based on the rate at which the value of the Trust has moved up and down in the past.
- This Trust is in category four because it invests in sub-investment grade bonds which generally provide higher rewards and higher risks than other investments such as investment grade bonds or deposits. It also provides lower rewards and lower risks than investing in company shares.
- The Trust's category is not guaranteed to remain the same and may change over time.
- Even a trust in the lowest category is not a risk free investment.

## Trust Performance

Accounting Date	Net Asset Value Of Trust	Net Asset Value Per Unit	Number Of Units In Issue
5 Sep 11			
R-Class			
Distribution Units	£1,170,096,223	49.00p	2,388,115,721
Accumulation Units	£127,033,320	91.15p	139,361,058
A-Class			
Distribution Units	£11,767,099	49.00p	24,016,139
Accumulation Units	£7,342,204	91.15p	8,054,717
I-Class			
Distribution Units	£362,443,997	48.98p	739,917,011
Accumulation Units	£72,116,490	94.00p	76,720,650
G-Class			
Distribution Units	£513	49.37p	1,039
Accumulation Units	£857	74.59p	1,149
X-Class			
Distribution Units	£15,300,908	49.19p	31,105,856
Accumulation Units	£3,317,309	99.57p	3,331,798
5 Sep 12			
R-Class			
Distribution Units	£1,106,732,778	49.39p	2,240,813,953
Accumulation Units	£119,524,743	96.88p	123,369,212
A-Class			
Distribution Units	£9,635,497	49.39p	19,508,953
Accumulation Units	£6,333,074	96.88p	6,536,694
I-Class			
Distribution Units	£58,684,285	49.38p	118,848,066
Accumulation Units	£66,655,727	100.50p	66,321,488
G-Class			
Distribution Units	£523	49.76p	1,051
Accumulation Units	£933	81.20p	1,149
X-Class			
Distribution Units	£4,671,310	49.58p	9,420,836
Accumulation Units	£3,599,121	108.02p	3,331,798
F-Class*			
Distribution Units	£992	49.82p	1,991
Accumulation Units	£1,004	97.76p	1,027

\* F-Class units launched on 17 August 2012.

**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.**

## Trust Performance continued

Accounting Date	Net Asset Value Of Trust	Net Asset Value Per Unit	Number Of Units In Issue
5 Sep 13			
R-Class			
Distribution Units	£1,114,974,924	49.14p	2,268,921,087
Accumulation Units	£115,862,781	101.15p	114,550,043
A-Class			
Distribution Units	£8,835,053	49.14p	17,978,946
Accumulation Units	£5,003,898	101.15p	4,947,207
I-Class			
Distribution Units	£50,615,401	49.13p	103,026,998
Accumulation Units	£78,655,272	105.55p	74,518,680
G-Class			
Distribution Units	£520	49.48p	1,051
Accumulation Units	£998	86.86p	1,149
X-Class			
Distribution Units	£3,971,925	49.33p	8,051,379
Accumulation Units	£484,867	114.99p	421,655
F-Class*			
Distribution Units	£686,492	49.56p	1,385,137
Accumulation Units	£65,614	102.65p	63,922

\* F-Class units launched on 17 August 2012.

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## **Distribution Information**

### **R-Class**

The distribution payable on 5 November 2013 is 0.5829p net per unit for distribution units and 1.1857p net per unit for accumulation units.

### **A-Class**

The distribution payable on 5 November 2013 is 0.5829p net per unit for distribution units and 1.1857p net per unit for accumulation units.

### **I-Class**

The distribution payable on 5 November 2013 is 0.6576p net per unit for distribution units and 1.3946p net per unit for accumulation units.

### **G-Class**

The distribution payable on 5 November 2013 is 0.8848p gross per unit for distribution units and 1.5218p gross per unit for accumulation units.

### **X-Class**

The distribution payable on 5 November 2013 is 0.8270p gross per unit for distribution units and 1.8961p gross per unit for accumulation units.

### **F-Class**

The distribution payable on 5 November 2013 is 0.6337p net per unit for distribution units and 1.3043p net per unit for accumulation units.

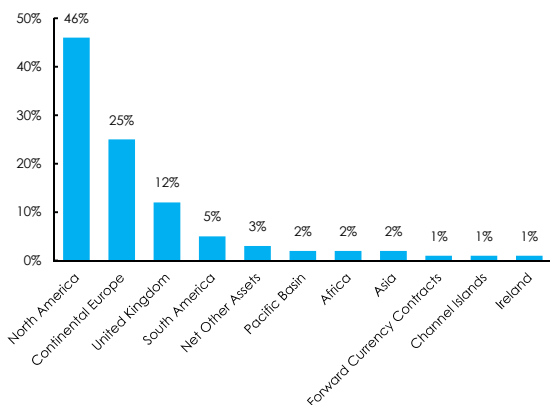
## Portfolio Information

The top 10 holdings and their associated weighting for the current and preceding year are:

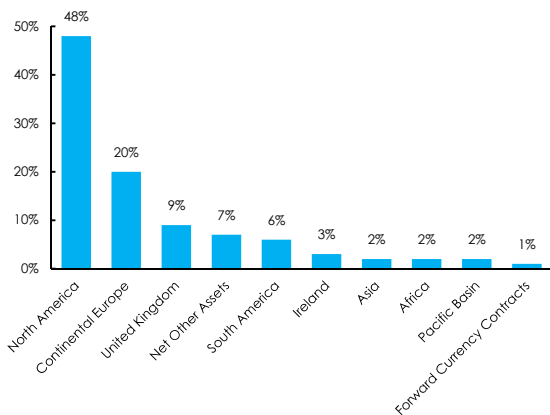
Top 10 Holdings at 5 September 2013		Top 10 Holdings at 5 September 2012	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
Seneca Gaming 8.25% 01/12/2018	1.61%	BRT Escrow 8% 18/08/2018	1.65%
GXS Worldwide 9.75% 15/06/2015	1.54%	Virgin Media Finance 8.875% 15/10/2019	1.63%
Kerling 10.625% 01/02/2017	1.31%	Seneca Gaming 8.25% 01/12/2018	1.54%
Advanced Micro Devices 7.5% 15/08/2022	1.29%	GXS Worldwide 9.75% 15/06/2015	1.53%
Anglian Water (Osprey) Financing 7% 31/01/2018	1.20%	Ziggo Bond 8% 15/05/2018	1.44%
Arqiva Broadcast 9.5% 31/03/2020	1.02%	Foodcorp 8.75% 01/03/2018	1.43%
Ball 5% 15/03/2022	1.01%	UPC Germany 9.625% 01/12/2019	1.29%
Hilcorp Energy 8% 15/02/2020	1.00%	MTS International Funding 8.625% 22/06/2020	1.25%
Bakkavor Finance 8.25% 15/02/2018	0.99%	AES 8% 15/10/2017	1.24%
Wind Acquisition Finance 7.375% 15/02/2018	0.97%	VIP Finance Ireland 7.748% 02/02/2021	1.21%



## Trust Holdings as at 5 September 2013



## Trust Holdings as at 5 September 2012



## Unit Price Range and Net Revenue

### R-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2008	55.99p	36.31p	3.0825p
2009	51.13p	36.78p	2.9637p
2010	53.98p	48.33p	3.0126p
2011	54.57p	44.85p	2.9413p
2012	51.36p	46.99p	2.5585p
2013 <sup>(1)</sup>	52.44p	48.79p	2.4271p
<b>Accumulation Units</b>			
2008	83.84p	57.35p	4.5932p
2009	85.97p	59.18p	4.6986p
2010	94.91p	82.44p	5.1039p
2011	98.42p	83.43p	5.2809p
2012	101.70p	88.67p	4.8590p
2013 <sup>(1)</sup>	105.40p	99.25p	4.8476p

### A-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2008	57.67p	36.31p	3.0825p
2009	52.66p	36.78p	2.9637p
2010	55.60p	48.33p	3.0126p
2011	56.21p	44.85p	2.9413p
2012	52.90p	46.99p	2.5586p
2013 <sup>(1)</sup>	54.01p	48.79p	2.4271p
<b>Accumulation Units</b>			
2008	86.35p	57.35p	4.5932p
2009	88.55p	59.18p	4.6986p
2010	97.76p	82.44p	5.1039p
2011	101.30p	83.43p	5.2809p
2012	104.80p	88.70p	4.8589p
2013 <sup>(1)</sup>	108.60p	99.25p	4.8476p

<sup>(1)</sup> The above tables show the highest offer and lowest bid prices to 5 September 2013 and the net revenue per unit to 5 November 2013.

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## Unit Price Range and Revenue continued

### I-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2008	56.14p	36.10p	3.3523p
2009	51.33p	36.77p	3.1696p
2010	54.03p	48.33p	3.3019p
2011	54.63p	44.86p	3.2468p
2012	51.42p	47.00p	2.8440p
2013 <sup>(1)</sup>	52.48p	48.80p	2.7287p
<b>Accumulation Units</b>			
2008	85.09p	57.93p	5.0244p
2009	88.13p	60.19p	5.1095p
2010	97.41p	85.28p	5.7149p
2011	101.30p	86.08p	5.9903p
2012	105.70p	91.62p	5.5864p
2013 <sup>(1)</sup>	109.80p	103.50p	5.6668p

### G-Class Units

Year	Highest Offer	Lowest Bid	Gross Revenue
<b>Distribution Units</b>			
2008	56.77p	38.02p	4.3711p
2009	51.84p	38.71p	4.1821p
2010	54.64p	48.72p	4.4153p
2011	55.33p	45.30p	4.3106p
2012	52.04p	47.65p	3.8085p
2013 <sup>(1)</sup>	53.04p	49.21p	3.6543p
<b>Accumulation Units</b>			
2008	62.98p	45.36p	4.8857p
2009	67.56p	46.97p	5.0170p
2010	75.99p	64.78p	5.7871p
2011	79.85p	68.36p	15.1360p
2012	85.97p	73.13p	5.9245p
2013 <sup>(1)</sup>	89.83p	84.81p	6.1507p

<sup>(1)</sup> The above tables show the highest offer and lowest bid prices to 5 September 2013 and the revenue per unit to 5 November 2013.

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## Unit Price Range and Revenue continued

### X-Class Units

Year	Highest Offer	Lowest Bid	Gross Revenue
<b>Distribution Units</b>			
2008 <sup>(1)</sup>	56.28p	37.87p	1.8230p
2009	51.62p	37.17p	3.9891p
2010	54.41p	48.55p	4.1544p
2011	55.07p	45.11p	4.0853p
2012	51.82p	47.27p	3.5757p
2013 <sup>(2)</sup>	52.83p	49.04p	3.4311p
<b>Accumulation Units</b>			
2008 <sup>(1)</sup>	85.32p	61.31p	2.8339p
2009	90.92p	61.68p	6.4848p
2010	101.80p	87.76p	7.3916p
2011	106.80p	91.31p	7.8707p
2012	114.20p	97.58p	7.4468p
2013 <sup>(2)</sup>	119.10p	112.50p	7.6696p

### F-Class Units\*

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2012 <sup>(3)</sup>	51.94p	49.76p	0.6197p
2013 <sup>(2)</sup>	52.92p	49.22p	2.7731p
<b>Accumulation Units</b>			
2012 <sup>(3)</sup>	103.00p	96.44p	1.2015p
2013 <sup>(2)</sup>	106.80p	100.70p	5.5160p

\* F-Class units launched on 17 August 2012.

<sup>(1)</sup> From 1 April 2008.

<sup>(2)</sup> The above tables show the highest offer and lowest bid prices to 5 September 2013 and the revenue per unit to 5 November 2013.

<sup>(3)</sup> The above table shows the highest offer and lowest bid prices from 17 August 2012 to 31 December 2012.

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## **Manager's Investment Report**

During the year under review, the bid price of the Trust's R-Class accumulation units rose by 4.47%.

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## **Market/Economic Review**

The global economy has faced some headwinds over the review year. Initially, the European sovereign (government) debt crisis held centre stage as policymakers struggled to address concerns that several heavily indebted countries would be forced to leave the Euro. The emerging market economies were initially the driving force of global growth but there has been a slowdown in China as the authorities attempt to cool credit-fuelled spending.

Governments in the G7 countries have to varying degrees implemented austerity programmes, while simultaneously leaving interest rates at historically low levels. In the US, UK and Japan this has been accompanied by further asset purchases and quantitative easing (QE) aimed at reviving growth.

As US economic data began to improve in the latter part of the review year, concerns that the US Federal Reserve (Fed) would scale back QE emerged in May 2013. These were subsequently vindicated as Fed Chairman Ben Bernanke announced in June that, should the economy continue to recover in line with forecasts, the pace of QE would be tapered during the second half of 2013, with the bond-buying programme on course to end by mid-2014. This sparked a slide in bond and equity markets that lasted into late June.

Reassurance that US interest rate rises were not on the immediate horizon, coupled with a bout of some softer US economic data, helped bond markets recover in July, only to lose ground in August on fresh signs that the US employment market was strengthening, potentially paving the way for QE to be wound down. This volatility around expected interest rate movements is likely to continue.

Meanwhile, the eurozone economic backdrop improved as, led by Germany, the region finally emerged from recession. In the UK, there were also encouraging signs of growth, as supportive credit conditions boosted the housing market and evidence emerged of increased consumer spending. Despite the better economic data posted across developed markets, lingering concerns include the prolonged austerity programmes in the eurozone and the potential impact from a slowdown in the major emerging economies. Conditions remained supportive of high yield with companies able to refinance at lower interest rates in a market hungry for yield.

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

### **Trust Review**

As central banks implemented unprecedented levels of stimulus early in the review year, lower-rated and riskier bonds generally outperformed higher-rated, better-quality issues as investors were emboldened by central banks' determination and sought high levels of yield further out the risk spectrum.

In the Trust, we looked to capitalise on improving sentiment towards risk-based assets by increasing risk exposure, biasing the portfolio's holdings towards parts of the market supported by Legal & General Investment Management's (LGIM) macroeconomic views. We maintained a broad preference for core eurozone credits from issuers in countries like Germany, over Spanish or Italian credit, aware that sovereign risks could increasingly influence the latter. Throughout 2012, we were also overweight in emerging markets, which helped to offset the drag on overall yield from being underweight in riskier peripheral European names. We retained our overweight exposure to the UK, taking positions in bonds set to do well given our expected outlook for more resilient than expected consumer spending. This included a bond issued by travel operator Thomas Cook, bought after the price had become overly depressed in our view (we later took profits as the bond's price rallied towards par), as well as retailers including DFS and Bakkavor Finance, and pub group Marstons Issuer.

As the review year progressed and we grew increasingly wary of the outlook for growth, particularly in China, emerging market holdings began to look overvalued. As a result, the overweight position in emerging markets was neutralised, and we added to selected holdings in the UK, US and Europe. This change in allocations worked well as emerging markets started to underperform.

Despite the noise and concern around tapering of asset purchases in the US, global growth looked set to gradually improve, led by developed markets. This provided further support for high yield assets. Consequently, the overweight exposure to the UK and Europe in the Trust was maintained as was the bias to lower rated bonds which have the ability to absorb interest rate rises and tend to perform well in a period of improving sentiment and risk appetite. Towards the end of the review year, we began to selectively add to our emerging market holdings where valuations improved, chiefly in Chinese issuers.

### **Outlook**

Looking at the outlook for the UK economy, credit conditions are improving modestly and UK economic growth is expected to be greater and quicker than elsewhere in Europe for the remainder of this year and next. The Bank of England has affirmed its resolve to prevent interest rates from rising prematurely and potentially derailing any recovery, with the new Governor Mark Carney providing forward guidance on monetary policy to the markets.

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

US economic data has continued to stabilise, and the prospect of tapering this year now looks priced into the market. In the eurozone, despite recent evidence that rising export demand and improving domestic consumption are helping to drive Germany's economic outlook, we believe that the outlook remains more subdued as the underlying causes of the debt crisis have yet to be addressed, which makes prudent stock selection especially important in the region.

There are a number of potential risks looking ahead, not least US debt negotiations, Middle East volatility and European political uncertainty, but the market does not seem particularly vulnerable unless the situation markedly deteriorates. Should the economic backdrop improve in line with consensus forecasts, corporate bonds should continue to be supported in the medium term.

Legal & General Investment Management Limited  
(Investment Adviser)  
30 September 2013

## **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.

## **EU Savings Directive**

The Trust 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 Trust 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.

## **Minimum Investment Amounts**

The minimum initial lump sum investment amounts for each class are as follows:

R-Class	£500
A-Class	£500
I-Class	£1,000,000
G-Class	£100,000
X-Class	£1,000,000
F-Class	£500

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

## **Other Information**

The information in this report is designed to enable unitholders to understand how the Trust 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 Trust can be obtained by telephoning 0370 050 0955 or by writing to the Manager.



**Manager**

Legal & General (Unit Trust Managers) Limited

Registered in England 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**

National Westminster Bank Plc

Trustee and Depositary Services

135 Bishopsgate

London EC2M 3UR

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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