

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

**Interim Manager's  
Short Report  
for the period ended  
10 May 2013**





## **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 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 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

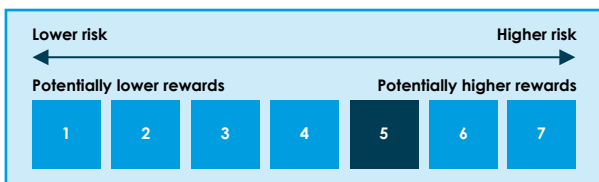
Period End Dates for Distributions:	10 May, 10 Nov
Distribution Dates:	10 Jan, 10 Jul
Ongoing Charges Figures:	10 May 13
I-Class	0.32%
L-Class	0.05%
F-Class	0.49%

\* There are no comparative figures as the Fund launched 11 December 2012.

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 Index the Fund is exposed to has 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.

## Fund Performance

Accounting Date	Net Asset Value Of Fund	Net Asset Value Per Unit	Number Of Units In Issue
10 May 13*			
I-Class			
Distribution Units	£133,620	51.32p	260,375
Accumulation Units	£107,403,941	52.04p	206,406,741
L-Class			
Distribution Units	£1,028	51.40p	2,000
F-Class			
Distribution Units	£1,046	51.73p	2,022
Accumulation Units	£1,060	52.42p	2,022

\* There are no comparative figures as the Fund launched 11 December 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.**

## Distribution Information

### I-Class

The distribution payable on 10 July 2013 is 0.7126p net per unit for distribution units and 0.7126p net per unit for accumulation units.

### L-Class

The distribution payable on 10 July 2013 is 0.7135p net per unit for distribution units.

### F-Class

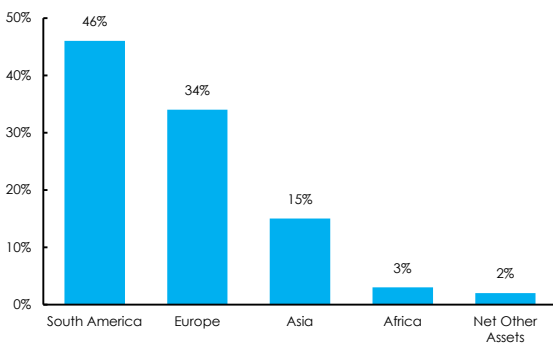
The distribution payable on 10 July 2013 is 0.7012p net per unit for distribution units and 0.7012p net per unit for accumulation units.

## Portfolio Information

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

Top 10 Holdings at 10 May 2013*	
Holding	Percentage of Net Asset Value
Russian Federation 7.50% 31/03/2030	5.34%
Russian Federation 12.75% 24/06/2028	1.72%
Mexico (United Mexican States) 6.05% 11/01/2040	1.69%
Brazilian (Federative Republic of) 10.125% 15/05/2027	1.69%
Russian Federation 11% 24/07/2018	1.68%
Russian Federation 5% 29/04/2020	1.47%
Mexico (United Mexican States) 5.625% 15/01/2017	1.44%
Mexico (United Mexican States) 4.75% 08/03/2044	1.41%
Philippines (Republic of) 7.75% 14/01/2031	1.37%
Philippines (Republic of) 6.375% 23/10/2034	1.35%

## Fund Holdings as at 10 May 2013\*



\* There are no comparative figures as the Fund launched 11 December 2012.

## Unit Price Range and Net Revenue

### I-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2012 <sup>(1)</sup>	50.13p	49.07p	—
2013 <sup>(3)</sup>	52.71p	49.25p	0.7126p
<b>Accumulation Units</b>			
2012 <sup>(1)</sup>	50.13p	49.07p	—
2013 <sup>(3)</sup>	52.72p	49.25p	0.7126p

### L-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2012 <sup>(1)</sup>	50.13p	49.07p	—
2013 <sup>(3)</sup>	52.76p	49.26p	0.7135p

### F-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2012 <sup>(2)</sup>	50.52p	49.07p	—
2013 <sup>(3)</sup>	53.12p	49.64p	0.7012p
<b>Accumulation Units</b>			
2012 <sup>(2)</sup>	50.52p	49.07p	—
2013 <sup>(3)</sup>	53.13p	49.64p	0.7012p

<sup>(1)</sup> From 11 December 2012.

<sup>(2)</sup> From 19 December 2012.

<sup>(3)</sup> The above tables show the highest offer and lowest bid prices to 10 May 2013 and the net revenue per unit to 10 July 2013.

**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.**

## **Manager's Investment Report**

The Fund launched on 11 December 2012 at a price of 50p. The bid price of the Fund's I-Class accumulation units at midday on 10 May 2013 was 52.04p, an increase of 4.08%. 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 mid prices. On this basis, over the review period, the Fund rose by 5.07% compared with the benchmark Index rise of 4.70% on a total return basis, in Sterling adjusted terms (Source: Rimes), a tracking deviation of +0.37%.

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## **Market/Economic Review**

Emerging markets continued to drive global economic growth during the review period, benefitting from lower debt to GDP (Gross Domestic Product) ratios compared to developed market economies. As monetary easing from the Bank of Japan and the European Central Bank has begun to filter through markets, inflows into hard currency emerging markets for the year to date reached US\$28 billion by the beginning of May 2013.

Emerging market cyclical activity indicators, exports and retail sales in particular, have been softer. Moreover, inflation has generally been contained, reflecting both this cyclical softness and the stability in global commodity prices. Brazil and Russia also saw some easing of inflationary pressures, even though the levels are still considered too high and outside the target ranges. Brazil increased its key interest rate by 25 basis points in April, taking the Selic rate to 7.50%. The Russian Central Bank continued to leave its Refinancing rate at 8.25%.

## **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.

JP Morgan Chase review the benchmark Index on a monthly basis. With the exception of Romania joining the benchmark Index universe in March 2013, becoming the 18th Index constituent country, there were no changes to the benchmark Index during the review period. When the Romanian stocks entered the benchmark Index, the Fund's holdings were rebalanced accordingly.

During the review period the Index spread over US Treasuries widened by just 2 basis points to 262 basis points. The regional fund breakdown at the end of the review period was; Latin America 46.09%, EMEA (Europe, Middle East and Africa) 36.67% and Asia 15.38%. At the end of the period the Fund held 139 of the 140 bonds in the Index, issued by 18 countries.



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

### **Outlook**

Growth across emerging markets has been weaker than anticipated in the first quarter of 2013. Emerging markets are still expected to lead global economic growth over the year, albeit at more subdued levels than witnessed in previous years. In general, LGIM remains slightly more positive than consensus on GDP growth prospects for 2013.

In Brazil, the world's second-largest emerging market, the government is under pressure to contain inflation which has breached upper band limits. Growth was disappointing into the end of 2012. However, with investment recovering, signs of improving competitiveness and supportive fiscal policy, consensus forecasts are for 3.5% GDP growth over 2013, and potentially a further increase in interest rates. Mexico should also see robust growth in 2013, and inflation remains relatively benign.

The lower than expected growth in Russia reflected weaker investment and the monetary tightening over the last 18 months, which is associated with transition towards inflation targeting policy. There is scope for monetary easing given this slowdown and steady consumer and external demand, although we have marginally decreased our growth forecast for this year.

Inflation has been one of the main concerns for emerging markets over the past few months. Softer global food and energy prices are helping ease these concerns, as has a slowdown in wage growth. There are still pockets of high inflation, such as Argentina, but this is now a more localised concern. This may provide a backdrop for easier monetary policy, with Brazil perhaps the only exception among the larger emerging market economies.

Legal & General Investment Management Limited  
(Investment Adviser)  
12 June 2013

## **Manager's Report and Accounts**

A copy of the Interim long Form Manager's Report is available free of charge by telephoning 0370 050 0955, by writing to the Manager or is 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.

## **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

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

F-Class is only available for investment through authorised intermediaries, platforms or to investors having received advice.

## **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.

## **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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