

Legal & General Dynamic Bond Trust

**Interim Manager's  
Short Report  
for the period ended  
5 March 2014**

**EVERY  
DAY  
MATTERS.®**





## **Investment Objective and Policy**

The investment objective is to achieve a total return by investing principally in a range of fixed and variable rate income securities.

The Trust will have a wide discretionary (unconstrained) approach to asset allocation and may invest in Investment Grade and sub-Investment Grade securities with a credit rating from a recognised credit rating service or which are listed or traded in an OECD country.

A significant proportion (90%) of the Trust's exposure to non-Sterling denominated holdings will be hedged into Sterling.

While the Trust will generally seek to invest principally in a combination of income securities and their derivatives, (including credit default swaps and other Over the Counter (OTC) instruments), it may also invest in any or all of the following: collective investment schemes, equities, other transferable securities, money market instruments/cash, near cash and deposits. At times, the Trust may invest in cash, near cash and/or deposits up to 100% and have derivatives exposures of up to 100% of the Trust's assets.

## **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 holds investments 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.

### **Investment Risk**

Financial derivative instruments may be used to enhance investment returns, manage risk and to help protect returns from market falls. There may be a higher risk of loss by investing in a trust which uses derivatives in this way, than if you choose a trust which doesn't use derivatives to enhance performance. This risk is managed by policies laid out in the Derivatives Risk Management Process for the Trust.

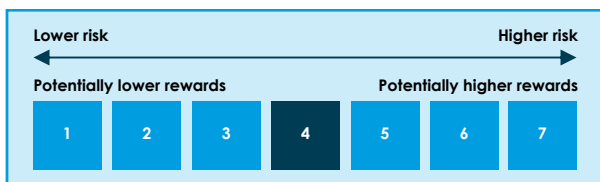
## Trust Facts

Period End Dates for Distributions:	5 Mar, Jun, Sep, Dec	
Distribution Dates:	5 Feb, May, Aug, Nov	
Ongoing Charges Figures:	5 Mar 14	5 Sep 13
R-Class	1.42%	1.42%
I-Class	0.63%	0.63%
L-Class	0.03%	0.03%
X-Class	0.63%	0.63%
F-Class	0.92%	0.92%

The Ongoing Charges Figure (OCF) is the ratio of the Trust's total discloseable costs (excluding overdraft interest) and all costs suffered through holdings in underlying Collective Investment Schemes, 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 a flexible mixture of bonds. These generally provide higher rewards and higher risks than investments in cash and lower rewards and lower risks than investments 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	£259,125,071	61.26p	422,977,362
Accumulation Units	£383,449,028	74.59p	514,059,236
I-Class			
Distribution Units	£528,494,122	62.14p	850,538,021
Accumulation Units	£120,335,888	76.62p	157,056,551
L-Class			
Distribution Units	£149,157,976	62.95p	236,931,058
X-Class			
Distribution Units	£132,344,534	62.52p	211,690,346
Accumulation Units	£33,712,224	81.75p	41,240,504
5 Sep 12			
R-Class			
Distribution Units	£255,366,847	62.76p	406,879,766
Accumulation Units	£346,013,958	79.09p	437,486,947
I-Class			
Distribution Units	£521,382,991	63.87p	816,256,942
Accumulation Units	£116,699,044	81.82p	142,634,405
L-Class			
Distribution Units	£151,408,174	64.91p	233,251,937
X-Class			
Distribution Units	£138,058,740	64.26p	214,838,883
Accumulation Units	£39,610,912	88.15p	44,935,105
5 Sep 13			
R-Class			
Distribution Units	£182,090,993	64.82p	280,904,043
Accumulation Units	£298,294,205	84.52p	352,934,746
I-Class			
Distribution Units	£655,672,609	66.20p	990,453,188
Accumulation Units	£131,665,529	88.06p	149,526,435
L-Class			
Distribution Units	£258,380,960	67.48p	382,907,856
X-Class			
Distribution Units	£170,475,457	66.60p	255,972,683
Accumulation Units	£70,168,321	95.75p	73,282,210
F-Class*			
Distribution Units	£13,767	65.53p	21,009
Accumulation Units	£164,450	85.58p	192,168

\* There are no prior year comparatives for the F-Class which launched on 19 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.**

## Trust Performance continued

Accounting Date	Net Asset Value Of Trust	Net Asset Value Per Unit	Number Of Units In Issue
5 Mar 14			
R-Class			
Distribution Units	£113,868,202	66.74p	170,606,548
Accumulation Units	£247,766,250	88.40p	280,275,003
I-Class			
Distribution Units	£763,156,272	68.27p	1,117,779,522
Accumulation Units	£217,116,695	92.41p	234,959,326
L-Class			
Distribution Units	£355,966,336	69.70p	510,719,910
X-Class			
Distribution Units	£200,304,479	68.69p	291,605,185
Accumulation Units	£71,817,595	100.93p	71,154,697
F-Class*			
Distribution Units	£40,081	67.56p	59,328
Accumulation Units	£46,871	89.70p	52,253

\* There are no prior year comparatives for the F-Class which launched on 19 December 2012.

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## **Distribution Information**

### **R-Class**

The distribution payable on 5 May 2014 is 0.4963p net per unit for distribution units and 0.6579p net per unit for accumulation units.

### **I-Class**

The distribution payable on 5 May 2014 is 0.5745p net per unit for distribution units and 0.7711p net per unit for accumulation units.

### **L-Class**

The distribution payable on 5 May 2014 is 0.6281p net per unit for distribution units.

### **X-Class**

The distribution payable on 5 May 2014 is 0.7260p gross per unit for distribution units and 1.0564p gross per unit for accumulation units.

### **F-Class**

The distribution payable on 5 May 2014 is 0.5382p net per unit for distribution units and 0.7113p net per unit for accumulation units.

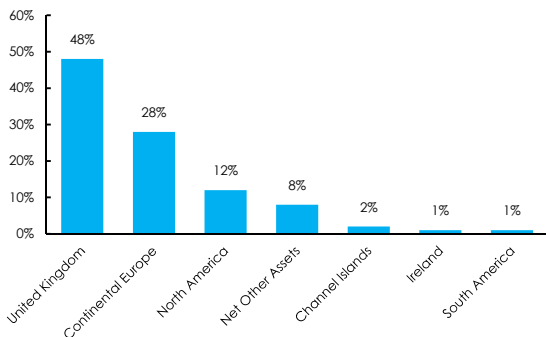
## Portfolio Information

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

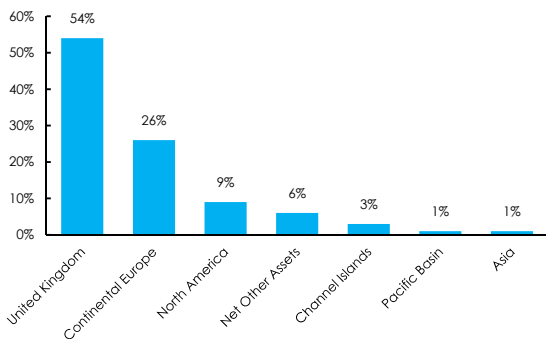
Top 10 Holdings at 5 March 2014		Top 10 Holdings at 5 September 2013	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
Legal & General High Income Trust R-Class	9.91%	Legal & General High Income Trust R-Class	9.89%
Telecom Italia 5.625% 29/12/2015	2.07%	Treasury 4.5% 07/09/2034	2.57%
Santander Finance Preferred 11.3% Perpetual	1.99%	Treasury 0.125% Index-Linked 22/03/2029	2.39%
Obrig Do Tes Medio Prazo 4.75% 14/06/19	1.98%	Bank of Scotland 11% 17/01/2014	2.08%
Scottish & Southern Energy 5.453% Open Maturity	1.84%	Scottish & Southern Energy 5.453% Open Maturity	2.05%
BAA 7.125% 01/03/2017	1.45%	Treasury 1.25% Index-Linked 22/11/2017	1.63%
Lloyds TSB Bank Floating Rate 29/05/2020	1.44%	Italy (Republic of) 6% 04/08/2028	1.44%
Italy (Republic of) 6% 04/08/2028	1.42%	National Westminster Bank 7.875% 09/09/2015	1.44%
EDP Finance 8.625% 04/01/2024	1.31%	Scottish Widows 5.125% Open Maturity	1.36%
National Westminster Bank 7.875% 09/09/2015	1.30%	Treasury 1.25% Index-Linked 22/11/2027	1.32%



## Trust Holdings as at 5 March 2014



## Trust Holdings as at 5 September 2013



## Unit Price Range and Revenue

### R-Class Units\*

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2009	64.20p	45.69p	2.5676p
2010	68.50p	61.16p	2.7088p
2011	67.88p	57.25p	2.4311p
2012	67.81p	58.88p	2.0962p
2013	69.74p	64.38p	2.2243p
2014 <sup>(1)</sup>	69.77p	66.07p	1.0305p
<b>Accumulation Units</b>			
2009	72.80p	49.48p	2.7933p
2010	80.28p	70.72p	3.0844p
2011	81.19p	69.74p	2.8826p
2012	86.07p	72.42p	2.5895p
2013	90.14p	82.79p	2.8387p
2014 <sup>(1)</sup>	91.73p	86.85p	1.3544p

### I-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2009	62.91p	45.95p	2.7105p
2010	67.31p	61.79p	2.9550p
2011	66.83p	58.12p	2.6939p
2012	67.11p	59.81p	2.3709p
2013	69.12p	65.72p	2.5205p
2014 <sup>(1)</sup>	69.36p	67.56p	1.1807p
<b>Accumulation Units</b>			
2009	71.78p	49.95p	2.9595p
2010	79.61p	71.44p	3.3913p
2011	80.80p	71.69p	3.2294p
2012	86.63p	74.56p	2.9637p
2013	91.36p	85.84p	3.2923p
2014 <sup>(1)</sup>	93.09p	90.67p	1.5775p

\* A-Class units were replaced by R-Class units on 14 June 2010.

<sup>(1)</sup> The above tables show the highest offer and lowest bid prices to 5 March 2014 and the net revenue per unit to 5 May 2014.

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## Unit Price Range and Revenue continued

### L-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2009	63.44p	46.11p	2.8388p
2010	68.06p	62.37p	3.1321p
2011	67.68p	58.90p	2.8851p
2012	68.29p	60.66p	2.5500p
2013	70.42p	66.96p	2.7213p
2014 <sup>(1)</sup>	70.85p	68.94p	1.2860p

### X-Class Units\*

Year	Highest Offer	Lowest Bid	Gross Revenue
<b>Distribution Units</b>			
2009	63.49p	46.23p	3.5155p
2010	67.88p	62.20p	3.7205p
2011	67.41p	58.46p	3.3962p
2012	67.68p	60.17p	2.9938p
2013	69.64p	66.17p	3.1585p
2014 <sup>(1)</sup>	69.94p	68.04p	1.4879p
<b>Accumulation Units</b>			
2009	72.24p	51.60p	4.0018p
2010	84.25p	75.30p	4.4444p
2011	86.00p	76.49p	4.2748p
2012	93.64p	79.57p	3.9900p
2013	99.67p	92.79p	4.4144p
2014 <sup>(1)</sup>	101.60p	98.92p	2.1519p

\* G-Class units were replaced by X-Class units on 8 May 2009.

<sup>(1)</sup> The above tables show the highest offer and lowest bid prices to 5 March 2014 and the revenue per unit to 5 May 2014.

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## Unit Price Range and Revenue continued

### F-Class Units\*

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2012 <sup>(1)</sup>	66.31p	64.92p	—
2013	68.41p	65.03p	1.7656p
2014 <sup>(2)</sup>	68.60p	66.85p	1.1103p
<b>Accumulation Units</b>			
2012 <sup>(1)</sup>	84.30p	82.54p	—
2013	88.73p	83.53p	2.2852p
2014 <sup>(2)</sup>	90.36p	88.05p	1.4586p

\* There are no prior year comparatives for the F-Class which launched on 19 December 2012.

<sup>(1)</sup> The above table shows the highest offer and lowest bid prices from 19 December 2012 to 31 December 2012.

<sup>(2)</sup> The above table shows the highest offer and lowest bid prices to 5 March 2014 and the net revenue per unit to 5 May 2014.

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## **Manager's Investment Report**

During the period under review, the bid price of the Trust's R-Class accumulation units rose by 4.60%. This compares to a rise in the IBoxx Sterling Non-Gilts Index of 4.91% over the review period, on a total return basis (Source: Bloomberg).

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## **Market/Economic Review**

Corporate bonds generated solid gains during the review period, reflecting investors' ongoing willingness to accept credit risk in return for the prospect of higher returns. Government bonds delivered more muted gains; although US and UK economic data continued to strengthen, core government bond markets found some support from signs that inflationary pressures are softening. Lower-rated credit once again delivered robust returns, with high yield debt outperforming investment grade, suggesting that investors are becoming increasingly confident that the improving global economic environment will help even lower-rated companies to service their debt burdens.

Given the robust US economic backdrop, the Federal Reserve (Fed) announced in December that the \$85billion per month quantitative easing programme would be progressively wound down from January, with bond repurchases reduced by \$10billion per month should the economy continue to recover in line with forecasts. This prompted speculation that the Fed could oversee higher short-term interest rates by early 2015 should the economy's growth meet expectations. Similarly, speculation grew that the UK's Bank Rate could rise from its present 0.5% in 2015, potentially even in the run-up to the general election. Having identified a 7.0% jobless rate as the threshold below which the Bank of England's Monetary Policy Committee (MPC) would begin to consider raising borrowing costs, the MPC subsequently appeared to backtrack as the jobless total fell from 7.7% in July to 7.1% in November, ahead of expectations, stressing that the economic recovery needed to build further momentum before higher borrowing costs could be considered. In the meantime, workers are increasingly less fearful of losing their jobs which is helping to support consumer spending and UK economic growth.

## **Trust Review**

We positioned the portfolio to benefit from steady levels of economic growth, favouring credit risk over interest rate risk. We have around three-quarters of the Trust invested in high yield debt and bonds issued by financials, particularly 'subordinated' bonds (credit that would rank as lower priority than other bonds higher in the capital structure in the event of liquidation) as we believe the macroeconomic environment and on-going demand for yield remains supportive of these asset classes. However, with credit

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

spreads grinding ever tighter, we have bought protection using Index-based options against the risk that an external shock, such as a rapid deterioration in Chinese economic activity, results in the underperformance of our favoured areas.

Although we believe that firmer economic data has shifted the timescale for higher official borrowing costs in both the US and the UK, we expect short-term rates to remain low in historic terms, although we see greater scope for medium-dated yields to rise in response to firmer economic conditions. With this in mind we have maintained interest rate risk (duration) at close to 0, in part effected by a short position in 5 year interest rates. In addition, with a view to being able to reinvest at higher yields in the medium-term and to maintain the income on the Trust in the near term, around half of the higher yielding assets held are bonds which we expect to mature or repay over the next three years or so. Assets include financials, including Spain's Santander, Crédit Agricole of France and UK-based HSBC, and high yield bonds, favouring companies in sectors and countries we believed will benefit from the improving economic environment. Our purchases included US issuers Stone Energy and auto transporter Jack Cooper.

## **Outlook**

Although the latest US economic data has been slightly disappointing, we believe that the underlying trend remains encouraging, with adverse weather largely responsible for the slowdown. Meanwhile, the Eurozone economies are showing more positive signs, helped by the European Central Bank's commitment to support growth. We believe that UK growth could continue to positively surprise this year, although we are vigilant to the risk that lax lending could see a reoccurrence of 'boom and bust' over the medium-term. However, we believe that emerging markets could represent a more immediate headwind to the global economic recovery. Political concerns in some economies, coupled with unease over the economic slowdown in China and the risk of military intervention in Ukraine, could accelerate capital outflows from countries such as Russia and Turkey.

Nevertheless, our central scenario for the remainder of this year is that the global economic recovery continues at a steady pace, an environment that should support corporate earnings growth and ensure that credit default rates remain low. While the portfolio remains positioned for this benign scenario, our use of derivatives, at minimal cost, should provide us with some protection against potential near-term geopolitical market surprises.

Legal & General Investment Management Limited  
(Investment Adviser)

27 March 2014

## **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.

## **Significant Changes**

### **Change in Fund Manager**

The Fund Manager, Richard Hodges, has notified Legal & General Investment Management Limited of his intention to leave the company later this year. He will be replaced by another experienced fixed income Fund Manager.

There will be no change to the investment management process by the investment manager as a result of this change in personnel.

### **Minimum Investment Amounts**

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

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

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

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

F-Class units are only available for investment through a financial adviser.

## **Other Information**

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

## **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**

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**

Legal & General  
(Unit Trust Managers) Limited  
Registered in England and Wales No. 01009418  
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DBT0514

