

Legal & General  
Sterling Corporate Bond Index Fund

**Interim Manager's  
Short Report  
for the period ended  
20 November 2013**





## 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. 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.

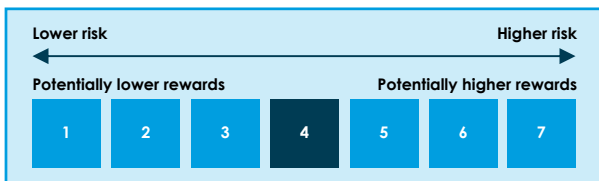
## Fund Facts

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 13	20 May 13
I-Class	0.19%	0.21%
F-Class	0.38%	0.37%
L-Class	0.04%	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 Index the Fund is tracking has 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.

## Fund Performance

Accounting Date	Net Asset Value Of Fund	Net Asset Value Per Unit	Number Of Units In Issue
20 May 13			
I-Class			
Distribution Units	£24,345,898	50.63p	48,086,694
Accumulation Units	£12,974,452	51.52p	25,181,954
F-Class*			
Distribution Units	£1,021	51.10p	1,998
Accumulation Units	£1,034	52.01p	1,988
L-Class			
Distribution Units	£52,192,494	50.70p	102,949,027
20 Nov 13			
I-Class			
Distribution Units	£24,668,198	48.84p	50,506,144
Accumulation Units	£12,496,631	50.32p	24,831,987
F-Class*			
Distribution Units	£984	49.25p	1,998
Accumulation Units	£1,009	50.75p	1,988
L-Class			
Distribution Units	£74,690,593	48.94p	152,603,378

\* F-Class units were launched on 19 December 2012.

There are no additional prior period comparative figures as the Fund launched on 28 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.**

## Distribution Information

### I-Class

The distribution payable on 20 January 2014 is 0.3088p net per unit for distribution units and 0.3162p net per unit for accumulation units.

### F-Class

The distribution payable on 20 January 2014 is 0.3104p net per unit for distribution units and 0.3187p net per unit for accumulation units.

### L-Class

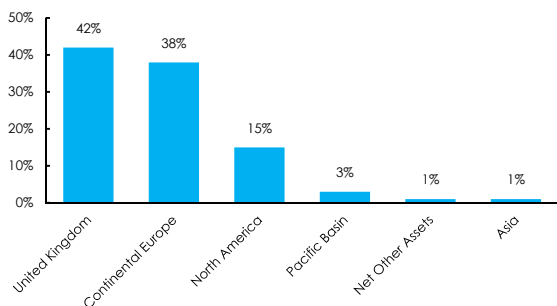
The distribution payable on 20 January 2014 is 0.3093p net per unit for distribution units.

## Portfolio Information

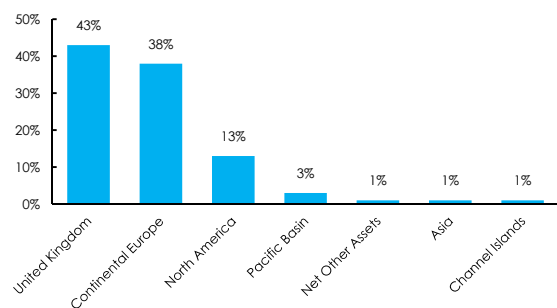
The top 10 holdings and their associated weighting for the current period and preceding year are:

Top 10 Holdings at 20 November 2013		Top 10 Holdings at 20 May 2013	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
KFW 6% 07/12/2028	1.08%	KFW 6% 07/12/2028	1.11%
European Investment Bank 6% 07/12/2028	1.06%	European Investment Bank 6% 07/12/2028	1.05%
European Investment Bank 5.625% 07/06/2032	0.90%	European Investment Bank 5.625% 07/06/2032	0.79%
KFW 5.55% 07/06/2021	0.86%	KFW 5.55% 07/06/2021	0.71%
European Investment Bank 4.375% 08/07/2015	0.79%	European Investment Bank 4.375% 08/07/2015	0.70%
Pfizer 6.5% 03/06/2038	0.65%	European Investment Bank 5.375% 07/06/2021	0.66%
KFW 5.5% 07/12/2015	0.61%	European Investment Bank 3% 07/12/2015	0.59%
European Investment Bank 3% 07/12/2015	0.61%	KFW 2.75% 17/09/2015	0.54%
European Investment Bank 5% 15/04/2039	0.61%	European Investment Bank 4.875% 07/09/2016	0.53%
European Investment Bank 5.375% 07/06/2021	0.60%	European Investment Bank 5.5% 15/04/2025	0.53%

## Fund Holdings as at 20 November 2013



## Fund Holdings as at 20 May 2013



## Unit Price Range and Net Revenue

### I-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2012 <sup>(1)</sup>	51.15p	48.94p	—
2013 <sup>(3)</sup>	52.27p	47.74p	1.1685p
2014 <sup>(4)</sup>	—	—	0.3088p
<b>Accumulation Units</b>			
2012 <sup>(1)</sup>	51.15p	48.94p	—
2013 <sup>(3)</sup>	52.87p	48.88p	1.1790p
2014 <sup>(4)</sup>	—	—	0.3162p

### F-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2012 <sup>(2)</sup>	51.16p	49.57p	—
2013 <sup>(3)</sup>	52.74p	48.12p	0.9309p
2014 <sup>(4)</sup>	—	—	0.3104p
<b>Accumulation Units</b>			
2012 <sup>(2)</sup>	51.43p	49.82p	—
2013 <sup>(3)</sup>	53.38p	49.32p	0.9571p
2014 <sup>(4)</sup>	—	—	0.3187p

### L-Class Units

Year	Highest Offer	Lowest Bid	Net Revenue
<b>Distribution Units</b>			
2012 <sup>(1)</sup>	51.17p	48.94p	—
2013 <sup>(3)</sup>	52.34p	47.82p	1.1724p
2014 <sup>(4)</sup>	—	—	0.3093p

<sup>(1)</sup> The Fund's units were launched on 28 August 2012.

<sup>(2)</sup> F-Class units were launched on 19 December 2012.

<sup>(3)</sup> The above tables show the highest offer and lowest bid prices to 20 November 2013.

<sup>(4)</sup> The above tables show the net revenue per unit to 20 January 2014.

**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.**

## **Manager's Investment Report**

During the period under review, the bid price of the Trust's I-Class accumulation units fell by 2.33%. Markit iBoxx, the Index compiler, calculates the benchmark Index at the end of the business day using closing prices, whereas the Trust is valued using prevailing prices at 12 noon. Therefore, for tracking purposes the Trust has been revalued using closing prices and adjusted for the effects of charges and taxation. On this basis, over the review period from the close of business on 20 May 2013 to the close of business on 20 November 2013, the Trust fell 1.97%, compared with the benchmark Index fall of 1.80% (Source: Bloomberg), producing a tracking difference of -0.17%.

Factors which are likely to affect the ability of the Fund to track the performance of the Index include, but are not limited to, transaction costs (from Index turnover and income re-investment), portfolio weightings not being exactly the same as the Index, small amounts of cash not being invested in stock, Efficient Portfolio Management and illiquid components.

**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**

As 2013 progressed, the economic outlook became more favourable. The UK not only avoided the feared double or triple dip recession, but also saw positive growth as easing credit conditions helped fuel growth in manufacturing, the housing market and consumer spending. In addition, the Bank of England announced its forward guidance policy along with the expectation that interest rates would remain at all time lows for the near future. Concerns over the lack of growth and the loss of the UK's prized triple-A rating in the first quarter of the year now seem a distant memory.

Returns from UK gilts have remained poor in comparison with the Sterling corporate bond market. Corporate bonds performed well, led by European investment grade bonds and global high yield bonds, supported by the combination of better global growth and quantitative easing measures still in place across the globe. The European sovereign debt crisis, whilst not over, has faded into the background as the US Federal Reserve's announcement of the potential tapering of bond buying and the tense negotiations over the US debt ceiling have taken centre stage. The later decision to delay tapering saw both investment grade and high yield bonds benefiting from the subsequent risk rally.



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

### **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 period, 29 bonds were added to the Index. One bond was upgraded to an A rating (iBoxx methodology) and all the rest were new issues. In addition, 17 bonds left the Index after being downgraded to a BBB rating. Any bonds with less than a year to maturity also left the Index. The Fund participated in 12 new issues and three corporate actions in respect of financial bonds.

The Fund experienced net positive cash flow during the 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**

The UK is expected to continue to see improvements in economic growth during the remainder of 2013 and throughout 2014. As this upturn has also been reflected in the US and Europe, the UK's main export partners, it should help to improve trade flows as well. However, the speed of the domestic credit recovery will need to be closely monitored to ensure that it does not have a negative impact on growth, inflation or interest rates. In addition, concerns remain over the US debt ceiling, which will be revisited in early 2014, as well as the potential impact of possible further slowdowns in emerging markets.

Demand for higher yielding corporate bonds is expected to remain high, continuing to put a strain on inventory, particularly at the long end. Supply and demand issues are thus likely to persist into 2014.

Legal & General Investment Management Limited  
(Investment Adviser)  
18 December 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.

## **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 0.11%, whilst over the period since launch on 28 August 2012 to the end of November 2013, the annualised Tracking Error 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.

## **Minimum Investment Amounts**

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

I-Class	£1,000,000
F-Class	£500
L-Class	£500,000

## **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

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**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 No. 01009418  
Registered office:  
One Coleman Street,  
London EC2R 5AA  
[www.legalandgeneral.com](http://www.legalandgeneral.com)  
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