

Legal & General Dynamic Bond Trust  
**Interim Manager's  
Short Report  
for the period ended  
5 March 2018**

**EVERY  
DAY  
MATTERS.®**





## **Investment Objective and Policy**

The investment objective of this Trust is to achieve growth of capital and income 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. It represents the potential loss the Trust 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 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.

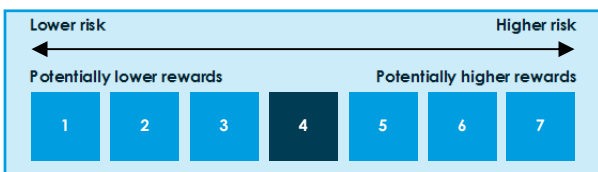
## Trust Facts

Period End Dates for Distributions:	5 Mar, Jun, Sep, Dec	
Distribution Dates:	5 Feb, May, Aug, Nov	
Ongoing Charges Figures:	5 Mar 18	5 Sep 17
R-Class	1.42%	1.42%
F-Class	0.92%	0.92%
I-Class	0.63%	0.63%
X-Class	0.63%	0.63%
L-Class	0.03%	0.03%

The Ongoing Charges Figure (OCF) is the ratio of the Trust's total disclosable 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 indicator 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 number highlighted above reflects the higher of the rate at which the Trust's unit price could move up and down based on the Trust's performance target and internal risk limit, or the rate at which a representative mix of the underlying investments has moved up and down in the past. If the Trust has at least five years' track record, the number could instead reflect the rate at which the Trust's unit price has moved up and down in the past, but only when this would put the Trust in a higher category. Higher numbers mean the potential reward could be greater, but this comes with increased risk of losing money.
- The Trust is in category four 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 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.

## **Distribution Information**

### **R-Class**

The distribution payable on 5 May 2018 is 0.8267p per unit for distribution units and 1.2787p per unit for accumulation units.

### **F-Class**

The distribution payable on 5 May 2018 is 0.8838p per unit for distribution units and 1.3792p per unit for accumulation units.

### **I-Class**

The distribution payable on 5 May 2018 is 0.9176p per unit for distribution units and 1.4700p per unit for accumulation units.

### **X-Class**

The distribution payable on 5 May 2018 is 0.9230p per unit for distribution units and 1.6463p per unit for accumulation units.

### **L-Class**

The distribution payable on 5 May 2018 is 0.9947p 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)
<b>R-Class</b>			
Distribution Units	2,639,716	4,622,914	57.10
Accumulation Units	21,393,552	23,878,772	89.59
<b>F-Class</b>			
Distribution Units	48,862	83,687	58.39
Accumulation Units	64,834	69,986	92.64
<b>I-Class</b>			
Distribution Units	112,389,318	189,622,536	59.27
Accumulation Units	101,985,993	105,772,628	96.42
<b>X-Class</b>			
Distribution Units	34,363,375	57,638,027	59.62
Accumulation Units	3,474,008	3,216,912	107.99
<b>L-Class</b>			
Distribution Units	140,101,705	228,775,482	61.24

**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.**

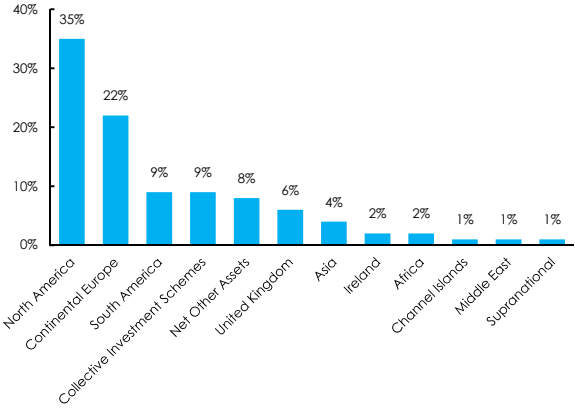
## Portfolio Information

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

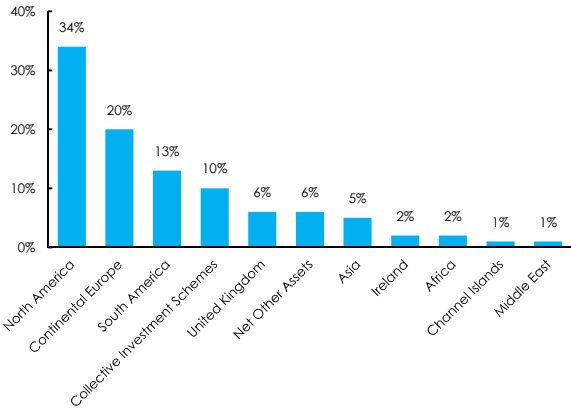
Top 10 Holdings at 5 March 2018		Top 10 Holdings at 5 September 2017	
Holding	Percentage of Net Asset Value	Holding	Percentage of Net Asset Value
Legal & General High Income Trust 'R' Inc	8.98%	Legal & General High Income Trust 'R' Inc	9.99%
Italy Buoni Poliennali Del Tesoro 3.5% 01/12/2018	4.18%	Diamond Finance Corporation 8.35% 15/07/2046	3.65%
Diamond Finance Corporation 8.35% 15/07/2046	3.51%	O'Reilly Automotive 3.6% 01/09/2027	2.07%
Autopistas del Sol 7.375% 30/12/2030	1.93%	Embarq 7.995% 01/06/2036	1.87%
Petroleos Mexicano 6.75% 21/09/2047	1.75%	Charter Communications Operating 6.834% 23/10/2055	1.84%
Softbank 6.875% Open Maturity	1.62%	Autopistas del Sol 7.375% 30/12/2030	1.82%
Argentine Republic Government International Bond 6.25% 09/11/2047	1.62%	Rite Aid 9.25% 15/03/2020	1.81%
Gol Finance 7% 31/01/2025	1.52%	Wind Acquisition 7.375% 23/04/2021	1.79%
VMware 3.9% 21/08/2027	1.47%	Petroleos Mexicano 6.75% 21/09/2047	1.70%
Bombardier 7.5% 15/03/2025	1.42%	Petrobras Global Finance 6.125% 17/01/2022	1.69%



## Trust Holdings as at 5 March 2018



## Trust Holdings as at 5 September 2017



## **Manager's Investment Report**

During the period under review, the bid price of the Trust's R-Class accumulation units rose by 1.12%. This compares to a rise in the iBoxx Sterling Non-Gilts Index of 0.56% over the review period on a total return basis (Source: Bloomberg).

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

## **Market/Economic Review**

With global economic growth accelerating, expectations of rising inflation have weakened investment grade bond markets globally. The US Federal Reserve (Fed) sanctioned a gradual tightening of monetary policy, raising interest rates to 1.5% in December, while signalling three further rate hikes in 2018. The Fed also began unwinding its asset purchase programme, known as quantitative easing (QE), in October.

However, the period under review saw continued positive returns across high yield bond markets, despite some volatility in the middle of the final quarter of 2017 amid a large amount of corporate issuance, and again in February 2018 amid a global sell-off on riskier assets on concerns that the Federal Reserve may be required to raise US interest rates more rapidly than anticipated. Meanwhile, emerging bond markets continued to attract substantial inflows from international investors looking for higher levels of income.

## **Trust Review**

The Trust delivered positive returns over the period under review. We continued to favour long investment grade positions in the US technology, media and telecoms sectors, as well as in selected opportunities in Europe.

These long holdings are balanced by short positions in selected US retailers and auto managers where we believe the outlook to be less favourable. We also hold long positions in short-dated emerging market and US high yield debt, balanced by short positions in selected European high yield companies.

In global rates markets, we believe the best risk/reward trade-off is holding long positions in short-dated US, Australian and New Zealand rates, and short positions in long-dated US, German and Italian rates. Elsewhere in the portfolio, we favour long positions in the US Dollar versus a range of emerging market currencies.

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

### **Outlook**

Looking ahead, if inflation fear fades then investors may focus on robust growth once more. However, if credit spreads continue to widen and if the US Dollar rallies significantly, then this could lead to negative credit events and a growth slowdown.

We are relatively comfortable with the structural demand for long-dated treasuries and investment grade credit from pension funds, while riskier asset classes such as high yield and emerging markets could come under more pressure.

Overall, we think that there has been a regime shift and that market volatility is likely to remain structurally higher going forward, arguing for a cautious credit portfolio.

Legal & General Investment Management Limited

(Investment Adviser)

19 March 2018

## **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.

## **Dual Pricing Arrangement**

The Manager's fixed dual pricing arrangement has a set spread to account for the costs of transacting in a particular Trust. 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 Trust in the form of a payment from the Manager. This provides an enhanced return to the Trust, though the size of any return will be dependent on the size of subscriptions and redemptions.

## **Significant Changes**

### **New Unit Class: C-Class**

With effect from 12 March 2018, C-Class units have launched with accumulation units available.

## Minimum Investment Amounts

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

R-Class	£500
F-Class	£500
I-Class	£1,000,000
C-Class	£50,000,000
X-Class	£1,000,000
L-Class	£100,000

F-Class units are only available to:

- i) investors who have received advice from authorised intermediaries and platforms in relation to their investment in units in the Trust and
- ii) authorised intermediaries or 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 only available to distributors who actively market and distribute such units (or whom the Manager believes intends to do so) and to whom the Manager has confirmed by letter that they meet the criteria for investment in such units.

X-Class are gross units which are only available to investors who are eligible to invest in gross units and who have completed a satisfactory Declaration of Eligibility and Undertaking.

L-Class is not available to retail customers and is intended only for investment by Legal & General group companies.

## 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.

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 PLC

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**

PricewaterhouseCoopers LLP

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London SE1 2RT



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Financial Conduct Authority**

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