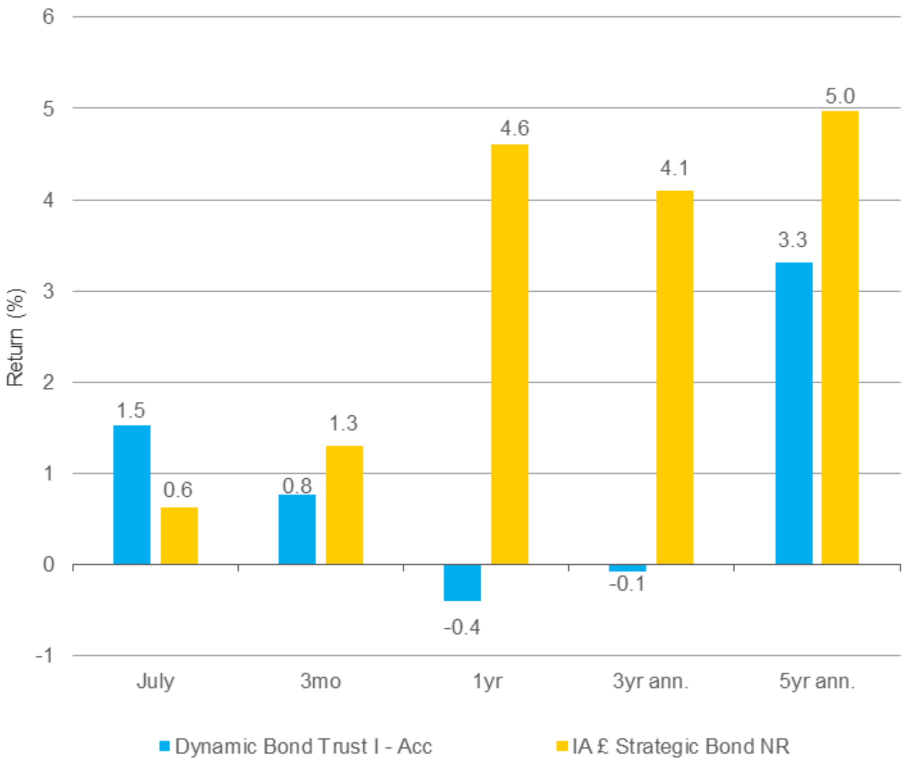
Legal & General Dynamic Bond Trust

Fund Update – July 2017

Performance (net of fees)



Source: Lipper, 31/07/2017. Past performance is not a guide to future performance.

KEY FUND CHARACTERISTICS

Fund size
£513m

Benchmark
GBP 3m LIBOR

Target
+ 5.0% p.a. (rolling 5-year periods, gross) vs. benchmark

Non-sterling exposures
90% hedged
Various currencies

Distribution frequency
Quarterly

Legal structure
UK Unit Trust, UCITS compliant

Ongoing charges
0.63% (I class)

Dealing cut-off time
12.00 (noon) GMT

ISIN
GB00B1TWMW95 (I class - Acc)

Launched
30 April 2007

Source: LGIM, 31/07/2017.

MARKET OVERVIEW

Yellen and Draghi settled markets with a more calming message about future monetary policy tightening following June's sharp increase in government bond yields.

We saw downward pressure on Treasury yields and US dollar with Donald Trump's inability to push healthcare legislation through Congress - implication being that growth-boosting tax legislation is now less likely to pass any time soon.

Credit spreads tightened significantly as the mini taper-tantrum of June reversed, with high yield and emerging markets debt also boosted by a recovery in commodity prices.

Within investment grade credit, EUR outperformed both GBP and USD, boosted by continued ECB buying and a relatively light new issue calendar.

Start of the Q2 earnings season showed strong growth versus 2016. However, while US equity markets have been boosted by some of the early announcements, European equity markets have been held back by the relative strength of the Euro, putting downward pressure on future foreign earnings.

PORTFOLIO REVIEW

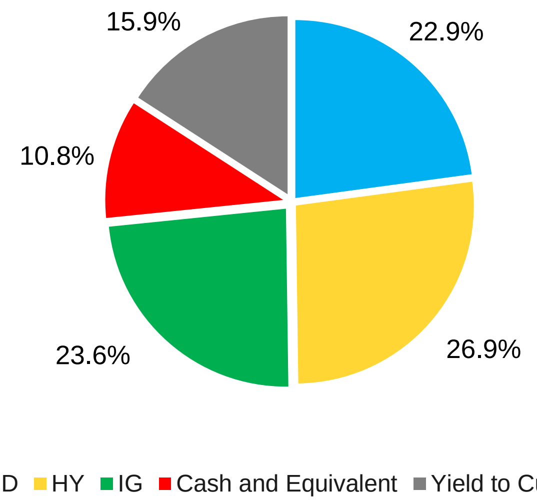
The fund delivered positive returns in July, with overall credit carry boosting performance. Positive contributions were notable from our long positions in short-dated emerging market and high yield names, as well as 5-year US credit and 30-year US TMT names. Stock selection was also positive for performance over the month, with notable contributors being Softbank (Japanese Global Telecom Company), Manuten Coop (Italy's number 1 business services company) and US Steel Services (USA's third largest steel company) following strong earnings results. Elsewhere in the portfolio, rates positioning contributed positively to performance as both the US and core European interest rate curves steepened.

Legal & General INVESTMENT MANAGEMENT

Source: LGIM, 31/07/2017.

FUND POSITIONING – JULY 2017

Dynamic Bond Trust Asset Allocation (PV%)



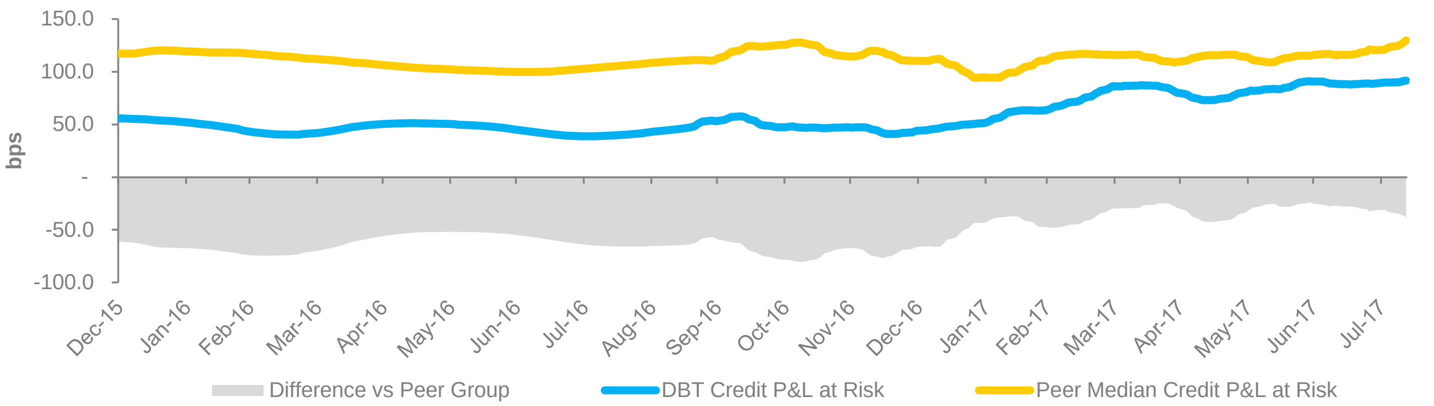
Top 5 Holdings

Dell Computer Corporation	Technology	3.5%
Softbank Corporation	Technology	2.5%
Wind Acquisition	Telecoms	2.3%
Petroleo Brasileiro SA	Oil & Gas	2.2%
Manutencoop Facility Management SPA	Industrials	2.1%

Portfolio Characteristics

Duration	3.3 yrs
Yield-to-worst	5.8%

Dynamic Bond Trust Risk Profile Versus Peers (bps)



Dynamic Bond Trust Duration Exposure Profile

Source: LGIM internal data, for illustrative purposes only. 31/07/2017. Subject to change at any time and should not be relied upon.

The risk profile chart is based on the credit risk sensitivity of DBT and a selected number of relevant peers as determined by cross asset factor analysis. Risk: P&L bps made by the fund for a 5% move tighter in credit spreads.

PORTFOLIO THEMES AND POSITIONING

Earnings season has been robust and economic growth remains solid, but with tight credit valuations, the near-term focus is on monetary tapering.

The process has been well flagged by policymakers and they will be hoping to avoid surprises, but markets have benefitted significantly from easy liquidity over the years, and a reversal is a significant step.

US legislation will also be important, as there remains a chance of a government shutdown in October. However, assuming this is avoided, attention will turn to tax cuts.

Geopolitical risk is heightened in the Korean peninsula, but recent market weakness might have more to do with US credit market indigestion.

Overall, with easy monetary policy being tapered, we expect pressure to build in the coming months and the impact on yields and the dollar will be the key for broad credit markets.

Looking ahead, we believe the maintenance of the global debt mountain requires yields to stay low. However, the inability of policymakers to face up to structural problems is troubling. We therefore continue to be cautious ahead of the tapering of monetary support later this year, with high yield and emerging market debt likely to be the most sensitive to such a withdrawal in our view. We generally prefer US dollar corporate bonds given the US economy's sounder structural footing, and we remain cautiously positioned in euro credit where tight valuations are in stark contrast to the region's structural frailty.

EMERGING MARKETS

Long short end 0-2 year duration, exceptions being Argentina and Autopistas del Sol (Costa Rican Toll Roads)

HIGH YIELD

Long US HY credit 0-5 years ex-CCC, short single name European HY issuers

INVESTMENT GRADE

Long US TMT. Single name idiosyncratic opportunities in Europe.

Short US retailers and auto manufacturers

GLOBAL RATES

We believe the best risk/reward is being positioned long short-dated US, Australian and New Zealand, and short long-dated US, German and Italian rates

GLOBAL CURRENCIES

US protectionist policies reflected through long USD versus CNY and MXN

Rising interest rate differentials reflected through long USD versus AUD and ZAR

Relative value opportunities long RUB and INR versus TRY and KRW

Source: LGIM, 31/07/2017.

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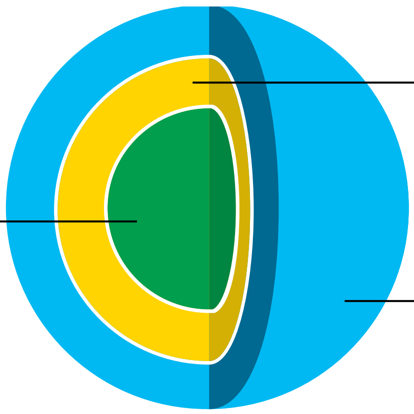
Reasons to invest

The fund aims to achieve growth of capital and income by investing principally in a range of fixed and variable rate income securities.

This makes the fund particularly useful for clients seeking a dynamically managed source of income and growth in a low-yield environment, diversifying their return-seeking portfolio and complementing other fixed income allocations.

DIVERSIFIED ALPHA SOURCES

The fund provides access to diversified sources of returns across a wide range of securities including investment grade, high yield and emerging market debt. It leverages our specialist expertise in all of these distinct areas.



FLEXIBILITY TO BOOST RETURN

The fund has the flexibility to source global investment opportunities, unconstrained by an index, throughout all market conditions. We aim to offer favourable return opportunities versus benchmark-constrained products, regardless of the future course of interest rates.

DOWNSIDE-RISK PROTECTION

We manage the fund to target growth while limiting downside risks. The hedging overlay is designed to manage the downside risk and amplify the upside.

Shahzada Omar Saeed
Portfolio Manager

Omar is a senior macro credit manager with responsibility for the Dynamic Bond Trust, Multi-Strategy Credit and Absolute Return Funds. Omar joined LGIM in February 2015 from Swisscanto Asset Management where he was Head of Global High Yield and managed three global high yield and total return strategies. He was instrumental in the international and domestic growth of the strategies, with his assets under management growing fivefold to £1.0 billion, while also achieving a top-decile performance ranking in the global Lipper peer group. Prior to that, Omar held positions at Western Asset Management and Standard & Poor's. Omar graduated from the Southeastern University with a BS (hons) in finance in 1997 and an MBA in 1999 from Greenwich University.

WHY LGIM FOR GLOBAL FIXED INCOME?

Our Global Fixed Income team is one of the best resourced of its kind. Over 70 investment professionals bring a blend of expertise and experience to the management of regional and global fixed income portfolios.

Large and stable firm	Experienced and well-resourced team	A range of credit strategies	An approach for all market conditions	Constant innovation
LGIM is one of Europe's top 10 largest investment managers and part of a FTSE 100 financial services group.	Over 70 professionals manage in excess of £135 billion* in global fixed income mandates.	LGIM offers regional and global credit capabilities including benchmark-driven, multi-strategy and cashflow-matching strategies.	Our macro-thematic investment process is specifically designed to perform during all market conditions, with no in-built style biases.	We listen closely to our clients and use our experience and expertise to deliver market-leading fixed income solutions.

*Source: LGIM internal data as at 31 December 2016. These figures include assets managed by LGIM America, a SEC Registered Investment Advisor.

CONTACT US FOR MORE INFORMATION

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*Call costs may vary