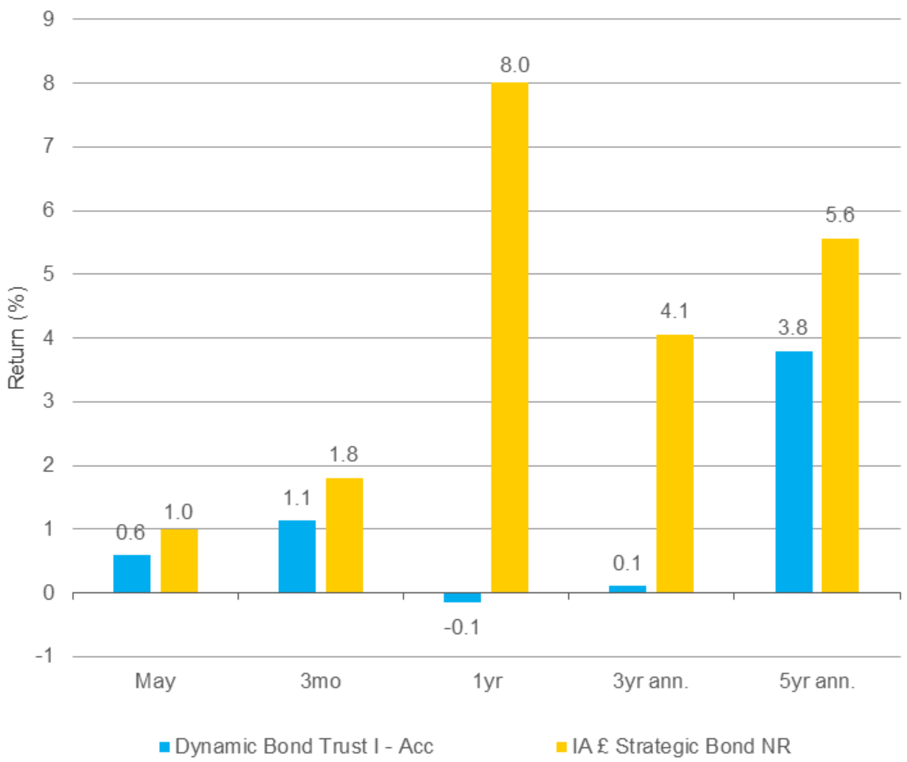
Legal & General Dynamic Bond Trust

Fund Update – May 2017

Performance (net of fees)



Source: Lipper, 31/05/2017. Past performance is not a guide to future performance.

KEY FUND CHARACTERISTICS

Fund size
£573m

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, 31/05/2017.

MARKET OVERVIEW

Risk assets continued to perform well at the start of May following Macron's victory in the first round of the French Presidential elections. However, this calm was disrupted in the middle of the month by negative US political developments as the fallout from Trump's dismissal of FBI director Comey suggested that tax reform would have a reduced priority. Indeed, Trump was even faced with impeachment speculation. That said, volatility proved temporary with credit spreads managing to finish the month a little tighter even though issuance was seasonably heavy.

PORTFOLIO REVIEW

Our allocations to US HY and EM performed well as risk assets continued to rally on the back of an anticipated shallower path to US rate hikes than had been previously expected. This offset any contagion from concerns over weakening commodities. Sector specific single name shorts in HY Telecoms and Retail also contributed to performance.

Our long dollar position versus ZAR and CNY detracted from performance over the month; this was partially offset by longs in RUB and INR. Weakening US domestic data and concerns over Trump failing to deliver a fiscal stimulus package resulted in a strong retracement of the trade weighted dollar index (a measure of the value of the US dollar relative to other world currencies) in May.

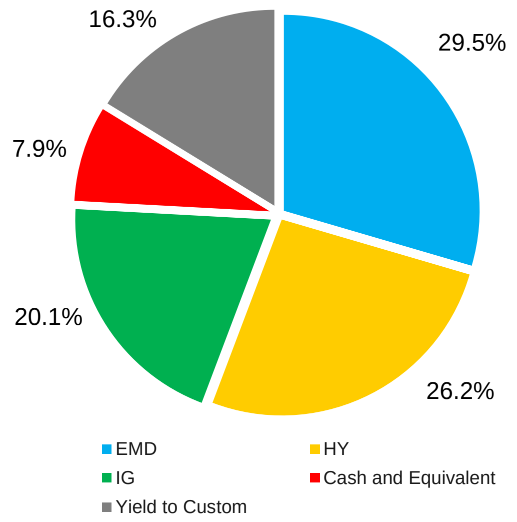
Our long position in AUD and NZD front end rates continued to perform well as general weakening in the domestic macro outlook, as well as weakening commodity prices resulted in lower yields in the Antipodean complex. However, this was offset by the negative contribution from our US steepener trade which underperformed as a result of an aggressive flattening of the US yield curve with data suggesting that the US economy was weakening.

Legal & General
INVESTMENT MANAGEMENT

Source: LGIM, 30/05/2017. All attribution is based on gross performance.

FUND POSITIONING – MAY 2017

Dynamic Bond Trust Asset Allocation (PV%)



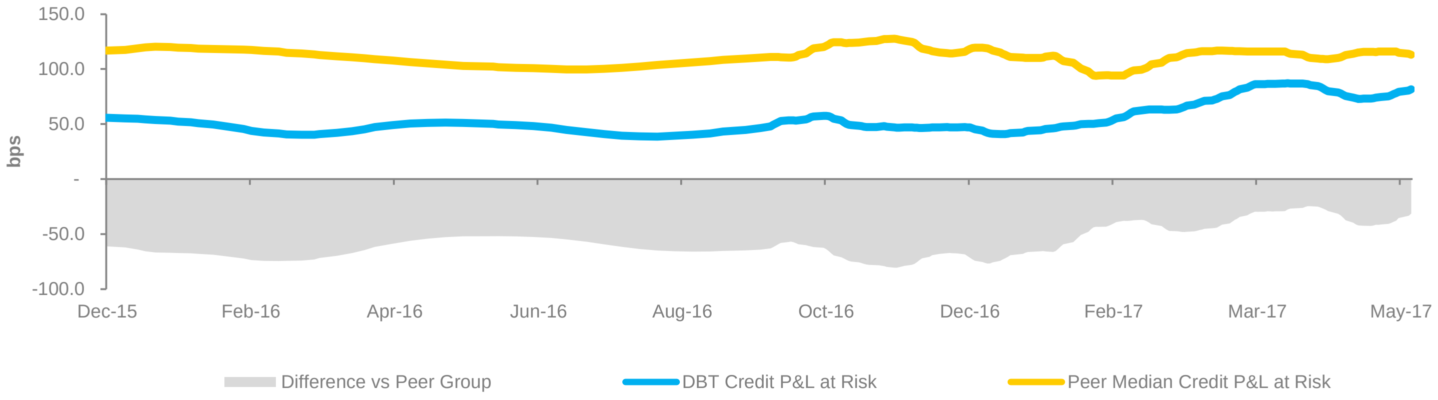
Top 5 Holdings

Petroleo Brasileiro	Oil & Gas	3.7%
Dell Computer Corporation	Technology	3.6%
GTLK OAO	Financials	2.5%
Charter Communications	Telecoms	2.3%
Wind Acquisition	Telecoms	2.3%

Portfolio Characteristics

Duration	3.6 yrs
Distribution yield* (net of charges, gross of tax)	6.9%
Underlying yield* (net of charges, gross of tax)	6.6%

Dynamic Bond Trust Risk Profile Versus Peers (bps)



Dynamic Bond Trust Duration Exposure Profile

Source: LGIM internal data, for illustrative purposes only. 31/05/2017. 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.

*As of April 2017. The **distribution yield** reflects the amounts that may be expected to be distributed over the next twelve months as a percentage of the mid-market unit price of the fund as at the date shown. It is based on a snapshot of the portfolio on that day and is not a guarantee of future returns. It does not include any initial charges and investors may be subject to tax on their distributions. The **underlying yield** reflects the annualised income net of expenses of the fund (calculated in accordance with relevant accounting standards) as a percentage of the mid-market unit price of the fund as at the date shown. It is based on a snapshot of the portfolio on that day and is not a guarantee of future returns. It does not include any initial charges and investors may be subject to tax on their distributions.

PORTFOLIO THEMES AND POSITIONING

Macro conditions are currently providing supportive backdrop for risky assets. However, it is important not to neglect the fact that monetary policy tightening still clearly represents a medium term risk, but something we are not overly concerned with in the near term. While this macro backdrop should remain supportive for risk assets in the very near term, valuations already largely reflect this benign backdrop, suggesting limited upside.

We are focused on the potential tail risk of China escalating given recent liquidity tightening in the context of their debt mountain, with a significant warning sign of matters escalating being a strong appreciation in the US dollar.

We think there is still a downside risk for commodities with oil inventories at elevated levels and now higher than the pre-OPEC agreed production cut levels. US Shale is largely being blamed for this increase, however the market is neglecting the fact that this remains a double edged sword with demand failing to pick up and absorb the glut of supply. Add to this the geo-political volatility in Qatar which could provide tail risks in either direction.

Geo-political volatility as a whole remains elevated across both sides of the Atlantic. Closer to home UK political risk remains shrouded in a cloud of uncertainty.

Looking ahead, markets are broadly pricing in a continuation of the supportive macro backdrop. However, monetary tightening is drawing nearer and the global structural problems of excessive debt and declining potential growth loom large. For this reason, we remain cautiously positioned even though market volatility is currently very low. We are particularly focused on Chinese policy tightening given the implications for global trade and commodity demand. In addition, of course, politics remains very important in both Europe and the US.

EMERGING MARKETS

Long short end 0-2 year duration, exceptions being Argentina

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, New Zealand and Korean rates, 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, 30/05/2017. All attribution is based on gross performance.

Legal & General Dynamic Bond Trust

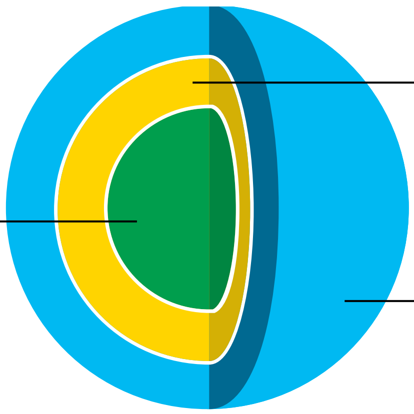
Reasons to invest

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