IBM Cash Fund

FUND SIZE: £179 million

IN A NUTSHELL

- Security - investments issued by the UK Government
- Liquidity - high quality UK Treasury bills are liquid instruments

GLOSSARY

Annuity A pension which guarantees an income for life bought with the cash value of a pension account

Counterparties The parties on either side of a transaction

Credit markets 'Fixed income', 'bonds' and 'credit' are typically used interchangeably to refer to financial markets where debt securities are traded. Unlike equities, when investors acquire a debt security, it represents a loan to the organisation behind it (i.e. government, corporation, etc)

Debt Management Office (DMO) The DMO is an agency of HM Treasury and is responsible for carrying out the Government's debt management policy

Investment classes Different types of investments, for example, equities, bonds or cash

Pension date The date on which an individual starts to receive a pension

Return In this case, the income derived from cash deposits and other short-term investments

Risk The possibility that an investment will lead to a gain or a loss - the higher the risk, the higher anticipated rewards or potential losses, the lower the risk, the lower the anticipated rewards or potential losses

Short-term investments Cash or bonds with a short "life-span" of up to one year are considered to be short-term investments

Volatile Subject to fluctuations in value, caused by rising and falling stock markets, interest rates and for overseas investments, exchange rate between currencies

WHY LEGAL & GENERAL INVESTMENT MANAGEMENT?

Legal & General Investment Management is one of the largest investment managers in the UK, with more than £347 billion* under management and over 3,300* company pension scheme clients. We offer a wide range of investment products designed to meet the needs of pension schemes and their members, all managed by dedicated fund management teams and supported by award winning client service.

*Data as at 30 September 2011.

INVESTING FOR SHORT-TERM SECURITY

A treasury bill is a short term (less than one year) government bond that does not pay interest. They are instead issued at a discount to their face value.

The Fund invests in Treasury Bills issued by the UK Government. To assist liquidity the Fund may also invest in short term (up to 7 days) cash deposits typically with the Debt Management Office (DMO) or with financial institutions where the Government has a shareholding. The Fund is likely to be of specific interest to investors who want to provide for a cash sum on their pension date. Unlike equities, its capital value is not affected by changes in stock market levels. The UK Treasury Bills Fund, therefore, provides protection against stock market falls but sacrifices the potential for long-term growth from equity type investments.

Although investing in the UK Treasury Bills Fund can be attractive in times of heightened market uncertainty it is generally not considered a suitable long-term investment.

Different investment classes have different risk and return characteristics. Equities, for example, have produced higher levels of return, in the long term, but are subject to considerable volatility in the short term. The suitability of one investment class over another, changes throughout your working life, as your tolerance for the volatility in your capital value changes.

As you near your pension date

If you wish to take a cash sum at your pension date, you may wish to start allocating a proportion of your pension account in a low risk, readily realisable investment such as the UK Treasury Bills Fund. As you approach this date, moving your money out of more volatile investments into this Fund can help provide for your final sum.

By switching part of your pension account into this Fund shortly before your pension date, you may be able to lock in the capital value, and protect your fund from the volatility of financial markets.

Legal & General
INVESTMENT MANAGEMENT

MARKET HIGHLIGHTS OVER 12 MONTHS TO 30 SEPTEMBER 2011

The global economic recovery has faced some significant challenges during the past 12 months. Consumer sentiment, particularly in the major economies, has been weak as high levels of unemployment, rising food and energy costs and credit constraints have curtailed spending. Significantly, the emerging economies have remained the principal driving force of global economic growth, as countries such as China, India and Brazil continue to grow far more rapidly than the major developed economies. Increasing competition for resources was the key factor behind the strength of commodity markets for much of the review period, triggering a rise in inflationary pressures although commodity prices have softened of late as the global growth outlook has deteriorated. Governments in the G7 countries have to varying degrees tried to reduce their budget deficits and implement austerity programmes, while simultaneously leaving interest rates at historically low levels, accompanied in the US and the UK by asset purchases (quantitative easing) aimed at reviving growth. However, the recovery has been lacklustre with the recent weakening in business and consumer confidence signalling a significant risk of a ‘double-dip’ recession.

In recent months, equity markets have become increasingly volatile. Two adverse developments have led to a broad-based loss of confidence and a bout of risk aversion. First, public squabbling around the raising of the US debt-ceiling culminated in a US debt downgrade by S&P. Second the European debt crisis has intensified with both Italy and Spain the recent focal points of concern. Even before these events, global growth appeared to have slowed quite sharply in the second quarter. This was partly due to some temporary shocks, most notably supply disruptions following the Japanese earthquake and the squeeze on real incomes from higher oil prices, exacerbated by political unrest in the Middle East, but also due to less growth momentum than previously anticipated. Some improvement in second half growth is expected, but leading indicators suggest any rebound is likely to be modest at best.

Encouragingly, quarterly earnings announcements have generally matched or exceeded expectations as the corporate sector is relatively healthy, with companies across a broad range of industries taking the opportunity to reduce debt levels.

As the period drew to a close, the principal concern for bond investors became the European sovereign debt crisis, focused on the southern European members of the single currency bloc. Although Greece is still at risk of defaulting on its debt obligations, the spotlight has been focused of late on Italy and Spain, with government debt levels in these latter economies coming under harsh scrutiny by the financial markets. Both the Italian and Spanish bond markets were subject to heavy selling pressure with the European Central Bank intervening to buy up both countries’ sovereign debt in attempt to restore confidence. However concerns remain that unless the European Financial Stability Facility, effectively a contingency fund, can be substantially increased, the authorities will lack sufficient fire power to contain the crisis. Fears of contagion risk from the sovereign debt crisis have focused on the banking sector, where the ECB recently announced a new liquidity operation to alleviate short-term funding pressures. Significantly, government bond yields in the US, Germany have fallen sharply as investors reduced the risk profile of their portfolios. This has also been reflected in the credit markets, where corporate bonds in more cyclical sectors and subordinated financial securities have sold off sharply.

IMPORTANT INFORMATION

Legal & General Investment Management Limited provides Investment Management services to Legal & General Assurance (Pensions Management) Limited, the operating company for the Fund. Both companies are authorised and regulated by the Financial Services Authority.

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Past performance is not a guide to the future. This document should not be taken as an invitation to deal in Legal & General investments or any of the stated stock markets.

PERFORMANCE

	Fund Gross %	Index %
June 2011 - Sept 2011	0.1	0.1
Sept 2010 - Sept 2011	0.5	0.5
Sept 2009 - Sept 2010	0.5	0.4
Since inception to 30 Sept 2011	0.5	0.4

Returns are calculated on the basis of closing middle-market prices. Fund Gross returns are before the deduction of fees.

The source of all information is LGIM unless otherwise stated.