OVER 5 YEAR INDEX-LINKED GILTS INDEX FUND

Data to 30 June 2007

In a Nutshell

- Aims to capture market returns
- Helps safeguard part or all of your pension account in anticipation of buying an annuity which increases over time in line with inflation
- Tracks the FTSE A Index-Linked (Over 5 Year) Index
- Likely to be of specific interest to members nearing their pension date

Glossary

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

**Bonds** Securities issued by Governments or companies which pay a fixed rate of interest. UK Government bonds are called gilts

**Index-linked** Inflation-linked, that is directly related to movements in the Retail Price Index

**Index** A measure of performance of a market

**Index funds** Funds designed to perform broadly in line with a given market index

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

**Investment horizon** The period over which you are looking to maintain your investment (such as until your pension date)

**Long-term** At least 15 years and longer

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

**Returns** In this case, the capital growth and the income derived from investing in a fund or stockmarket

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

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

Why invest in Legal & General Investment Management?

With more than £230 billion assets under management on behalf of over 2,800 pension schemes, Legal & General Investment Management is the largest manager of UK pension fund assets. The phenomenal growth in the popularity of our managers is a sign of the confidence placed in our team’s abilities and is testimony to the innovative nature of our products, our excellent returns and our award winning service to your Trustees who have chosen our funds to be included as fund options within your pension scheme.

Investing for your Pension Date

The Over 5 Year Index-Linked Gilts Index Fund aims to capture the returns of the UK gilt market. It tracks the FTSE A Index-Linked (Over 5 Year) Index and invests in medium and long-term gilts.

Different investment classes have different levels of volatility and risk which means that the levels of return vary greatly. The suitability of one investment class over another therefore changes throughout your working life. This Fund is likely to be of specific interest to members who are nearing their pension date.

Index-linked gilts pay a fixed rate of interest, linked to inflation and have the security of being issued and backed by the UK Government. They offer greater security than equities because their price and therefore their value tends to be less volatile. However, although gilt prices are less volatile their capital value is linked to interest rates and will fall when interest rates are rising and rise when interest rates fall.

Generally, reduced risk means a lower return and index-linked gilt returns have historically been lower than equity returns over the long-term.

Mid to long-term investment horizons

If you have a mid to long-term investment horizon you will usually be aiming to maximise growth in your pension account and so will probably be investing mainly in equities.

As you near your pension date

However, as you near your pension date, you may want to reduce the volatility of the value of your pension account. You can do this by moving part or all of your pension account out of equities and into bonds.

You will also be thinking about buying an annuity and you may want to ensure that the value of your pension account starts to move in line with the cost of buying an annuity. Annuity providers use bonds to back their annuities. Adopting the same investment approach, as annuity providers, that is investing in bonds, will therefore provide some protection against changes in annuity prices as you get near to your pension date.

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Market Highlights Over 12 Months to 30 June 2007

The pace of UK economic growth remained very healthy over the 12-month period under review, with a strong services sector and increasing demand for exports. Similarly in Europe growth was export-driven and gained momentum over the review period, led by the German economy. In contrast, the downturn in the US housing market fed through to the broader economy with growth moderating significantly in the fourth quarter of 2006 and the early months of 2007 as the impact of earlier interest rate hikes fed through.

The UK economy expanded by 3.0% over the year to March 2007, above the rate considered to be trend growth. As a result, inflation remained well above its official 2% target throughout the year under review prompting the Bank of England to raise interest rates four times, taking the base rate to 5.5% at the end of June. In Europe, the ECB raised rates five times, with the latest increase in June taking the benchmark rate to 4%. Rates were also raised twice in Japan, ending the zero interest rate policy, taking them to 0.5% as the domestic economy continued its revival. By contrast, rates in the US were left unchanged over the review period at 5.25%.

In the light of the regional variation in economic indicators, global bond performance was mixed over the year to 30 June. The slower pace of US growth contributed to a 0.1% fall in US Treasury yields to 5.14%. Treasury yields fell significantly in late 2006 as key economic indicators worsened but rose sharply over the second quarter of 2007 as the likelihood of a near-term reduction in interest rates faded. Japanese bond yields fell slightly to 1.88%, exhibiting a similar pattern to the US. By contrast, solid growth and above target inflation saw UK gilt yields rise significantly by over 0.7% to 5.46%, with a similar pattern in Continental Europe where yields appreciated by 0.5% to 4.57%.

As inflationary pressures built over the period demand for index-linked gilts rose and index-linked gilts outperformed corporate bonds and conventional gilts. The asset class attracted significant liability-driven investment from pension funds switching out of equities. Over the 12-month period the total return of the index was 1.5%.

Important Information

Past performance is not a guide to the future and the value of investments can go down as well as up. Investors may not recoup the value of their original investment. The views expressed in this fact sheet are those of Legal & General Investment Management who may or may not have acted upon them. This document should not be taken as an invitation to deal in Legal & General investments or any of the stated stock markets.

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