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Dear Shareholder

## The Charibond Charities Fixed Interest Common Investment Fund

A number of themes continued to influence the performance of global financial markets in the past year, including higher interest rates and inflation. In the US, the Federal Reserve increased interest rates in stages by a total of 1 %, while the Bank of England (BoE) announced two increases each of 0.25 percentage points. These moves lifted the UK base rate up to 0.75 %, and were largely in response to annual inflation remaining above the BoE's target of 2 %.

As noted in my recent shareholder letters, anticipated and actual rises in inflation or interest rates tend to adversely affect the performance of bonds <sup>[a]</sup>, particularly government bonds. Indeed, US government bond prices fell in the review period. While UK government bonds delivered better results than their US counterparts, the performance of these assets was also subdued. Shorter dated government bonds recorded only slight gains, while longer dated bonds registered modestly higher returns.

The performance of corporate bond markets also varied. In the UK, the different segments of the high-quality corporate bond market recorded small increases or marginally negative/flat returns. More general declines were experienced in this area of the US corporate bond market.

A key factor that dampened sentiment towards corporate bonds globally was the introduction of trade tariffs between the US and China. Anti-free trade measures can reduce companies' export revenues, and this prospect contributed to corporate bonds reversing some of their gains from earlier in the period. In addition, the UK's corporate outlook faced much uncertainty regarding the eventual terms of the country's Brexit deal with the European Union. As the review period drew to a close, there were also increasing signs that global economic growth forecasts were moderating. Such considerations led us to reduce the fund's overall exposure to corporate bonds, while maintaining the view that value could still be found in this area of the market on a selective basis.

In the fund's last Interim Report, I confirmed some changes that we had made to the fund's positioning and distribution policy <sup>[b]</sup>. This included extending the fund manager's freedom to reduce the portfolio's sensitivity to rising interest rates. We favoured this strategy, which is known as holding short duration, amid the outlook for strengthening inflation and higher interest rates. While these conditions can detract from the performance of bonds, holding short duration typically helps to counter this effect and support a fund's capital value. In turn, the fund's duration was significantly shortened as the manager sought to provide this support.

We continue to believe that prioritising capital preservation through a short duration investment strategy serves the best interests of shareholders. However, as I have noted before, this strategy also carries a trade-off in terms of the income that the fund can generate. Consequently, the Board decided it was necessary to

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Board: D S S Chichester (Chairman), A W Behrens, B S Bostrom, S M Corbett LVO, A F Gibbs, L E Linaker, G A Prescott BA FCA, N C Talbot Rice.

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Registered Office as above. Charibond is registered with the Charity Commission for England and Wales: No. 271815.

reduce the fund's distribution yield<sup>[c]</sup>. As at 1 November 2018, the distribution yield of the fund was 2.3%, which reflects this reduction becoming effective. On 1 November 2017, the fund's distribution yield was 3.7%.

Charibond recorded a flat total return of 0.0% (the combination of income and growth of capital) over the 12 months to 1 November 2018. This outcome largely reflects the generally challenging period for the performance of bonds, with the fund's positioning bias towards short-dated government securities being a factor that held back its returns. Despite the recent underperformance of this segment, this remains our preferred positioning for the fund. The FTSE British Government All Stocks Index – a broad index of UK government bonds – returned 1.3% over the same period. Please remember that past performance is not a guide to future performance. Prices may fluctuate and a charity may not get back the amount it originally invested.

With regard to our plans to convert Charibond to a new Charity Authorised Investment Fund (CAIF), M&G has been making good progress and is currently waiting to receive the approval of the Charity Commission, before a final submission to the Financial Conduct Authority.

One copy of this letter is sent to the registered address of each charity holding Charibond. We would be delighted to send additional copies on request. You will notice that the format of the enclosed report has been updated. The changes have been implemented to keep the fund in line with the latest accounting and reporting requirements. You may also download the report from our website at [www.mandg.co.uk/charities/forms-and-literature/](http://www.mandg.co.uk/charities/forms-and-literature/) or call the M&G Charity Team.

If you have any queries regarding Charibond's investment policy, please contact Richard Macey, Director of Charities, on 020 7548 3731. If you have any administrative queries, please write to the M&G Charity Team at PO Box 9038, Chelmsford CM99 2XF; alternatively, you may email the team at [charities@mandg.co.uk](mailto:charities@mandg.co.uk) or call them on 0800 917 4472.

Yours sincerely



D S S Chichester  
Chairman of the Board of Charibond

Single year performance (5 years ending October)					
From	01.11.17	01.11.16	01.11.15	01.11.14	01.11.13
To	31.10.18	31.10.17	31.10.16	31.10.15	31.10.14
	%	%	%	%	%
Charibond *	-0.0	+1.2	+9.6	+3.0	+4.5

\* Income shares, price to price with income reinvested.

Source: Morningstar, Inc.

Past performance is not a guide to future performance.

The value of fixed interest investments, and the yield from them, will fluctuate. This will cause the fund share price to fall as well as rise and a charity may not receive back the amount it originally invested.

<sup>[a]</sup> A bond is a loan in the form of a security, usually issued by a government (government bond) or a company (corporate bond), which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

<sup>[b]</sup> Distributions represent a share in the net income of the fund and are paid out to Income shareholders or reinvested for Accumulation shareholders at set times of the year (monthly, quarterly, half yearly or annually).

<sup>[c]</sup> Distribution yield expresses the amount that is expected to be distributed by the fund over the next 12 months as a percentage of the share price as at a certain date. It is based on the expected gross income less the ongoing charges.