

# M&G Emerging Markets Bond Fund - Euro Class A-H

Monthly Fund Review as at 31 December 2017

For investment professionals only



## Highlights

- Hard and local currency emerging market bonds registered gains in the final month of 2017.
- Local currency sovereigns delivered the best performance.
- Among transaction activity, Fund Manager Claudia Calich added bonds from financial issuers in Kazakhstan and Nigeria.

## Risks associated with this fund

For any past performance shown, please note that past performance is not a guide to current or future performance and the performance data does not take into account any entry and exit charges incurred on the purchase and sale of shares but does take into account the ongoing charge.

The value of investments and the income from them will rise and fall. This will cause the fund price, as well as any income paid by the fund, to fall as well as rise. There is no guarantee the fund will achieve its objective, and you may not get back the amount you originally invested.

The fund may use derivatives with the aim of profiting from a rise or a fall in the value of an asset (for example, a company's bonds). However, if the asset's value varies in a different manner, the fund may incur a loss.

Changes in currency exchange rates will affect the value of your investment.

The fund may use derivatives in a limited way to gain exposure to investments exceeding the value of the fund (leverage). This may cause greater changes in the fund's price and increase the risk of loss.

The fund will invest in emerging markets which are generally smaller, more sensitive to economic and political factors, and where investments are less easily bought and sold. In exceptional circumstances, the fund may encounter difficulties when selling or collecting income from these investments, which could cause the fund to incur a loss. In extreme circumstances, it could lead to the temporary suspension of dealing in shares in the fund.

The value of the fund may fall if the issuer of a fixed income security held is unable to pay income payments or repay its debt (known as a default).

Further risk factors that apply to the fund can be found in the fund's Key Investor Information Document (KIID).

## Single year performance (5 years ending December)

From To	01.01.17 31.12.17	01.01.16 31.12.16	01.01.15 31.12.15	01.01.14 31.12.14	01.01.13 31.12.13
Euro A-H Acc	10,5%	8,7%	-1,6%	n/a	n/a

## Performance since launch



## Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	Since tenure (%) p.a.	Since inception (%) p.a.
Fund	+0,5	+0,8	+10,5	+10,5	+5,7	N/A	+4,4	+4,4
Index	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sector	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Please note that the performance data shown for this fund, prior to the launch of the share class, is simulated using sterling returns converted to the currency of the share class. Like all past performance, simulated past performance is not a guide to future performance.

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Hedged share classes aim to mirror the performance of another share class. We cannot guarantee that the hedging objective will be achieved. The hedging strategy will limit holders of the hedged share class from benefiting if the hedged share class currency falls against the Euro. Please note that this fund comes with further risks that are explained in the Key Investor Information Document.

## Things you should know

The fund allows for the extensive use of derivatives.

## Key information

Fund manager	Claudia Calich
Fund manager tenure from	2 December 2013
Deputy fund manager	Charles De Quinsonas
Launch date	15 October 1999
Launch of share class	10 November 2014
Fund size (millions)	€845,04
Number of issuers	101
Distribution yield (Acc)	4,64%
Distribution yield (Inc)	6,03%
Underlying yield (Acc)	4,64%
Underlying yield (Inc)	4,64%
Yield to expected maturity*	6,28%
Modified duration (years)	5,8
Spread duration (years)	4,65
Average maturity (years)	9,54
Average coupon	6,54
Volatility <sup>†</sup>	5,47%
Average credit rating	BB+
Share type	Acc & Inc
Ongoing charge	1,46%

<sup>†</sup>Source: Morningstar, three-year annualised volatility, as at 31 December 2017

The distribution yield reflects the amounts that may be expected to be distributed over the next 12 months as a percentage of the share price, as at the date shown. It is based on a snapshot of the portfolio on that day. It does not include any preliminary charge and investors may be subject to tax on distributions. It is the fund's policy to offset certain charges against income for accumulation share classes and to offset certain charges against capital for income share classes. These charges include the annual management charge, administration fee and share class hedging fee (where applicable). As a result, yield figures for income and accumulation share classes may differ significantly. 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 price of the fund as at the date shown. It is based on a snapshot of the portfolio on that day. It does not include any preliminary charge and investors may be subject to tax on distributions. For the fund's income share classes, the distribution yield is higher than the underlying yield only because a portion of the fund's expenses are charged to capital. This has the effect of increasing distribution(s) for the year and constraining the fund's capital performance to an equivalent extent.

\* The yield to expected maturity is calculated gross of fund expenses and includes effects from derivative instruments and currency forwards. It is calculated at fund level in the valuation currency of the fund. A fund may hold callable bonds whose yields are calculated on the basis of expected maturity.

## Fund ratings

Overall Morningstar rating **★★★★**  
Source of Morningstar ratings: Morningstar, as at 30 November 2017  
Ratings should not be taken as a recommendation.

## Asset breakdown (%)

	Physical	CDS short	CDS long	Net
Government bonds - local currency	30,6	0,0	0,0	30,6
Government bonds - hard currency	37,4	0,0	0,0	37,4
Credit - local currency	4,2	0,0	0,0	4,2
Credit - hard currency	24,6	0,0	0,0	24,6
Cash	3,2	0,0	0,0	3,2

CDS short: bought protection (short credit exposure); CDS long: sold protection (long credit exposure)

The columns may not always add up when reading across as physical bond holdings and/or cash are sometimes used as collateral for CDS exposure.

## Credit rating breakdown (%)

	Physical	CDS short	CDS long	Net
AAA	2,9	0,0	0,0	2,9
AA	1,9	0,0	0,0	1,9
A	6,5	0,0	0,0	6,5
BBB	18,5	0,0	0,0	18,5
BB	25,0	0,0	0,0	25,0
B	31,8	0,0	0,0	31,8
CCC	1,3	0,0	0,0	1,3
CC	0,4	0,0	0,0	0,4
C	0,0	0,0	0,0	0,0
D	0,4	0,0	0,0	0,4
No rating	8,0	0,0	0,0	8,0
Cash	3,2	0,0	0,0	3,2

CDS short: bought protection (short credit exposure); CDS long: sold protection (long credit exposure)

The columns may not always add up when reading across as physical bond holdings and/or cash are sometimes used as collateral for CDS exposure.

Where a security has not been rated by Standard & Poor's, Fitch or Moody's, we may use M&G's internal credit rating. Based on a comparison of all available ratings for each security, the most conservative rating (S&P, Fitch, Moody's or M&G's internal rating) is taken into consideration. The ratings so identified are then expressed or converted into M&G's ratings format to obtain uniform information for all securities in the portfolio.

## Industry breakdown (%)

	Physical	CDS short	CDS long	Net
Quasi & Foreign Government	40,8	0,0	0,0	40,8
Sovereign	32,4	0,0	0,0	32,4
Energy	5,3	0,0	0,0	5,3
Banking	4,0	0,0	0,0	4,0
Services	4,0	0,0	0,0	4,0
Telecommunications	2,6	0,0	0,0	2,6
Real Estate	2,1	0,0	0,0	2,1
Consumer Non-Cyclical	1,4	0,0	0,0	1,4
Utility	1,1	0,0	0,0	1,1
Basic Industry	0,9	0,0	0,0	0,9
Consumer Cyclical	0,8	0,0	0,0	0,8
Capital Goods	0,7	0,0	0,0	0,7
Financial Services	0,6	0,0	0,0	0,6
Investment Grade indices	0,0	0,0	0,0	0,0
High Yield indices	0,0	0,0	0,0	0,0
Cash	3,2	0,0	0,0	3,2

CDS short: bought protection (short credit exposure); CDS long: sold protection (long credit exposure)

The columns may not always add up when reading across as physical bond holdings and/or cash are sometimes used as collateral for CDS exposure.

## Country breakdown (%)

	Physical	CDS short	CDS long	Net
Brazil	5,9	0,0	0,0	5,9
Mexico	5,2	0,0	0,0	5,2
Argentina	4,8	0,0	0,0	4,8
Russia	3,7	0,0	0,0	3,7
Peru	3,6	0,0	0,0	3,6
Singapore	3,5	0,0	0,0	3,5
Indonesia	3,3	0,0	0,0	3,3
Nigeria	3,0	0,0	0,0	3,0
United Arab Emirates	2,9	0,0	0,0	2,9
India	2,8	0,0	0,0	2,8
Other	58,2	0,0	0,0	58,2
Cash	3,2	0,0	0,0	3,2

CDS short: bought protection (short credit exposure); CDS long: sold protection (long credit exposure)

The columns may not always add up when reading across as physical bond holdings and/or cash are sometimes used as collateral for CDS exposure.

## Currency breakdown (%)

	Pre-hedge	Post-hedge
US dollar	59,2	64,4
Singapore dollar	2,9	2,9
Russian ruble	2,6	2,6
Indonesian rupiah	2,5	2,5
Indian rupee	2,3	2,3
Brazilian real	2,2	2,2
Peruvian nuevo sol	2,1	2,1
Uruguay peso	2,0	2,0
Thai baht	2,0	2,0
Other	22,1	16,9

Hedged to relevant share class currency.

## Maturity breakdown (%)

	Physical
0 - 1 years	9,0
1 - 3 years	4,2
3 - 5 years	13,0
5 - 7 years	18,7
7 - 10 years	28,5
10 - 15 years	4,1
15+ years	19,3
Cash	3,2

## Duration breakdown by currency and asset class

	Physical	Futures	Swaps	Net
US dollar	3,8	0,0	0,0	3,8
Euro	0,3	0,0	0,0	0,3
British pound	0,1	0,0	0,0	0,1
Other	1,6	0,0	0,0	1,6
Total	5,8	0,0	0,0	5,8

## Largest issuers (%)

	Fund
Brazil	3,2
Singapore	2,9
Peru	2,8
Russia	2,6
Indonesia	2,5
Egypt	2,3
National Highways Authority of India	2,3
Mexico	2,3
Argentina	2,2
Thailand	2,0

## Commentary

Emerging bond markets delivered gains in December, helped by factors such as the encouraging global economic outlook as 2017 drew to a close. Amid this backdrop, a widely expected 0.25% rise in US interest rates did not appear to weaken investors' optimism towards emerging market assets. However, while the performance of risk assets generally benefited from the prospect of synchronised global economic growth as 2017 progressed, the caution of tighter monetary policy and the possibility of firmer inflation also remained key themes as the year ended.

In the emerging bond markets, the local currency-denominated sovereign sub-asset class recorded the best performance in December. As represented by the JP Morgan GBI-EM Global Diversified Index, local currency emerging market sovereign debt returned 2.0% in the month. Hard currency emerging market sovereigns, as measured by the JP Morgan Emerging Markets Bond (EMBI) Global Diversified Index, generated a gain of 0.7%, while emerging market corporate credit, as tracked by the JP Morgan Corporate EMBI (CEMBI) Broad Diversified Index, returned 0.3%. All returns are stated in US dollar terms.

In this environment, the fund registered a positive return in December, a result that was helped by Claudia's maintenance of a globally diversified portfolio of hard and local currency emerging market debt.

## Key changes

The fund's transaction activity in the final month of the year included buying bonds from United Bank for Africa, a Nigeria-based Pan African bank. Claudia holds a favourable view on Nigeria, which has comparatively low debt levels versus other nations in the region, while banks in the country benefit from decent profitability. In addition, Nigeria is out of recession, although its recovery remains fragile.

Elsewhere in the emerging market corporate credit space, Claudia added a small position in Ukrainian company Kernel Holding, a global supplier of agricultural products. At the end of December, the fund's overall allocation to emerging market corporate bonds stood at 28.8%.

During 2017, Claudia's key fund positioning themes have included increasing its overall allocation to local currency sovereign debt. In her view, the relative attraction of these assets has improved after their underperformance in the previous year, based on factors such as the strengthening of many emerging market currencies against the US dollar and the higher yields that can be found in this segment of the market.

While some profits were taken from the fund's overall allocation to local currency government bonds after solid performance in the year-to-date period, Claudia also added exposure to the Kazakhstani tenge as the fund purchased local currency bonds from the quasi-sovereign Development Bank of Kazakhstan.

At the end of 2017, the fund's largest local currency exposures were to the Singapore dollar, Russian ruble, Indonesian rupiah, Indian rupee, Brazilian real, Peruvian nuevo sol, Uruguay peso and Thai baht. The fund's exposure to the US dollar was just over 64% at the end of the period.

## Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A Acc	GB00B3NMPS60	MGEMEA LN	1,25%	1,44%	€1.000	€75
Euro A Inc	GB00B93RT031	MGEBAI LN	1,25%	1,44%	€1.000	€75
Euro A-H Acc	GB00BPYP3J58	MGEAHA LN	1,25%	1,46%	€1.000	€75
Euro A-H Inc	GB00BPYP3K63	MGEAHI LN	1,25%	1,46%	€1.000	€75
Euro B Acc	GB00B8BXQV60	MGEBEA LN	1,75%	1,95%	€1.000	€75
Euro B Inc	GB00BYQRBM14	MGEMEB LN	1,75%	1,95%	€1.000	€75
Euro B-H Inc	GB00BYQRBP45	MGEMBI LN	1,75%	2,00%	€1.000	€75
Euro B-H Acc	GB00BYQRBN21	MGEMBA LN	1,75%	1,97%	€1.000	€75
Euro C Acc	GB00B7JRF614	MGECEA LN	0,60%	0,79% *	€500.000	€50.000
Euro C Inc	GB00BK6MBT59	MGECEI LN	0,60%	0,79% *	€500.000	€50.000
Euro C-H Acc	GB00BPYP3L70	MGECHA LN	0,60%	0,81% *	€500.000	€50.000
Euro C-H Inc	GB00BPYP3M87	MGECHI LN	0,60%	0,81% *	€500.000	€50.000

The ongoing charge figures disclosed above include direct costs to the fund, such as the annual management charge (AMC), administration charge and custodian charge, but does not include portfolio transaction costs. They are based on expenses for the period ending 30 June 2017.

\* The ongoing charge figure shown here is an estimate. The Fund's annual report for each financial year will include details of the exact charges made. Please note that not all of the share classes listed above might be available in your country.

## Important information

Cash may be held on deposit and/or in the Northern Trust Cash Funds, a range of collective investment schemes.

Source of performance data: Morningstar, Inc., as at 31 December 2017, Euro Class A-H shares, gross income reinvested, price to price basis. Past performance is not a guide to future performance. All other statistics from M&G internal sources, as at 31 December 2017 unless indicated otherwise. The Morningstar Overall Rating based on the fund's Euro Class A-H shares. Copyright © 2018 Morningstar UK Limited. All Rights Reserved. Ratings should not be taken as recommendation.

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