

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

Monthly Fund Review as at 31 March 2018

For investment professionals only



Highlights

- Emerging bond markets delivered mixed returns in March.
- The prospect of an escalating US-China trade war was among key factors that weighed on investors' sentiment.
- Fund Manager Claudia Calich participated in several new issues of bonds that she felt offered attractive value.

Risks associated with this fund

For any past performance shown, please note that past performance is not a guide to future performance.

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.

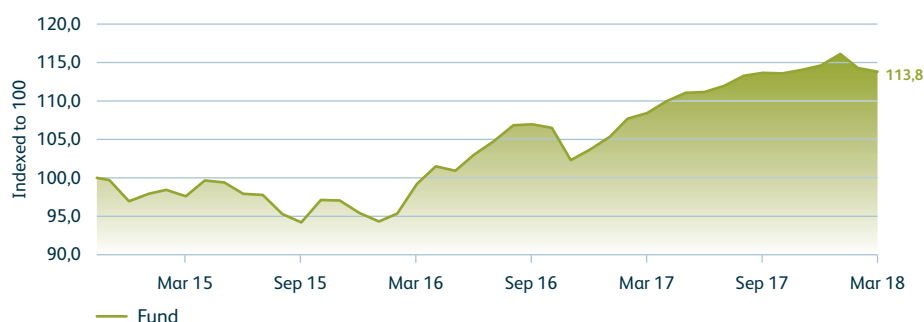
The value of the fund may fall if the issuer of a fixed income security held is unable to pay income payments or repay its debt (known as a default).

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 March)

From To	01.04.17 31.03.18	01.04.16 31.03.17	01.04.15 31.03.16	01.04.14 31.03.15	01.04.13 31.03.14
Euro A-H Acc	5,0%	9,3%	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	-0,4	-0,7	-0,7	+5,0	+5,3	N/A	+3,9	+3,9
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

Past performance is not a guide to future performance.

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)	€1.039,25
Number of issuers	100
Distribution yield (Acc) (as at 29/03/18)	4,82%
Distribution yield (Inc) (as at 29/03/18)	6,24%
Underlying yield (Acc) (as at 29/03/18)	4,82%
Underlying yield (Inc) (as at 29/03/18)	4,82%
Yield to expected maturity*	6,79%
Modified duration (years)	6,0
Spread duration (years)	4,76
Average maturity (years)	11,25
Average coupon	6,42
Volatility†	5,58%
Average credit rating	BB+
Share type	Acc & Inc
Ongoing charge	1,45%

*Source: Morningstar, three-year annualised volatility, as at 31 March 2018

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 28 February 2018
Ratings should not be taken as a recommendation.

Asset breakdown (%)

	Physical	CDS short	CDS long	Net
Government bonds - local currency	31,8	0,0	0,0	31,8
Government bonds - hard currency	36,0	0,0	0,0	36,0
Credit - local currency	5,2	0,0	0,0	5,2
Credit - hard currency	24,2	0,0	0,0	24,2
Cash	2,8	0,0	0,0	2,8

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	3,8	0,0	0,0	3,8
AA	1,0	0,0	0,0	1,0
A	6,8	0,0	0,0	6,8
BBB	19,8	0,0	0,0	19,8
BB	22,7	0,0	0,0	22,7
B	30,7	0,0	0,0	30,7
CCC	1,4	0,0	0,0	1,4
CC	0,0	0,0	0,0	0,0
C	0,0	0,0	0,0	0,0
D	1,0	0,0	0,0	1,0
No rating	10,0	0,0	0,0	10,0
Cash	2,8	0,0	0,0	2,8

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
Sovereign	33,9	0,0	0,0	33,9
Foreign Sovereign	33,9	0,0	0,0	33,9
Energy	4,6	0,0	0,0	4,6
Banking	3,3	0,0	0,0	3,3
Real Estate	3,0	0,0	0,0	3,0
Agency	2,7	0,0	0,0	2,7
Local-Authority	2,7	0,0	0,0	2,7
Consumer Goods	2,0	0,0	0,0	2,0
Telecommunications	1,6	0,0	0,0	1,6
Transportation	1,4	0,0	0,0	1,4
Financial Services	1,4	0,0	0,0	1,4
Supranational	1,1	0,0	0,0	1,1
Healthcare	1,0	0,0	0,0	1,0
Services	0,9	0,0	0,0	0,9
Media	0,7	0,0	0,0	0,7
Utility	0,6	0,0	0,0	0,6
Capital Goods	0,5	0,0	0,0	0,5
Retail	0,5	0,0	0,0	0,5
Investment grade indices	0,0	0,0	0,0	0,0
High yield indices	0,0	0,0	0,0	0,0
Other	1,2	0,0	0,0	1,2
Cash	2,8	0,0	0,0	2,8

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	4,2	0,0	0,0	4,2
Russia	3,6	0,0	0,0	3,6
Argentina	3,6	0,0	0,0	3,6
Nigeria	3,0	0,0	0,0	3,0
Singapore	3,0	0,0	0,0	3,0
Ukraine	2,9	0,0	0,0	2,9
Turkey	2,5	0,0	0,0	2,5
Indonesia	2,5	0,0	0,0	2,5
Dominican Republic	2,3	0,0	0,0	2,3
Other	63,6	0,0	0,0	63,6
Cash	2,8	0,0	0,0	2,8

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	55,5	58,1
Indian rupee	2,9	2,9
Euro	6,6	2,8
Brazilian real	2,7	2,7
Singapore dollar	2,7	2,7
Russian ruble	2,5	2,5
Uruguay peso	2,1	2,1
Indonesian rupiah	1,9	1,9
Malaysian ringgit	1,9	1,9
Other	21,3	22,5

Hedged to relevant share class currency.

Maturity breakdown (%)

	Physical
0 - 1 years	6,3
1 - 3 years	5,7
3 - 5 years	14,0
5 - 7 years	18,5
7 - 10 years	28,3
10 - 15 years	5,5
15+ years	18,9
Cash	2,8

Duration breakdown by currency and asset class

	Physical	Futures	Swaps	Net
US dollar	3,6	0,0	0,0	3,6
Euro	0,5	0,0	0,0	0,5
British pound	0,2	0,0	0,0	0,2
Other	1,7	0,0	0,0	1,7
Total	6,0	0,0	0,0	6,0

Largest issuers (%)

	Fund
Brazil	3,5
Singapore	2,7
Nigeria	2,5
Russia	2,5
Mexico	2,4
Dominican Republic	2,3
Uruguay	2,1
Indonesia	1,9
Ecuador	1,9
Malaysia	1,9

Commentary

Emerging debt markets recorded mixed returns in March, with sovereign bonds delivering modest gains while emerging market corporate credit declined. In the developed (?) bond markets, results were also varied, with riskier areas of credit declining and underperforming core government debt.

Among key themes across financial markets, the prospect of an escalating trade war between the US and China became an increasing concern for investors. In addition, the Federal Reserve confirmed another quarter of a percentage point rise in US interest rates. However, the move was widely expected as the US economy continued to perform well.

Within the emerging bond markets, local currency-denominated government debt registered the best returns. As measured by the JP Morgan GBI-EM Global Diversified Index, local currency emerging market sovereigns gained 1.0%. Hard currency emerging market sovereigns, represented by the JP Morgan Emerging Markets Bond (EMBI) Global Diversified Index, returned 0.3%. In the emerging market corporate bond space, the JP Morgan Corporate EMBI (CEMBI) Broad Diversified Index fell by 0.2%. All returns are stated in US dollar terms.

The fund recorded a slight decline in the month. While Claudia made some adjustments to its holdings during the period, the portfolio remained globally diversified in hard and local currency-denominated emerging market government and corporate bonds.

Key changes

The fund's transaction activity in March included its participation in several new issues that Claudia felt offered attractive value. Among these purchases were US dollar-denominated corporate bonds from the Israeli multi-national Teva Pharmaceutical, as well as Dubai-based property company MAF Group. In contrast, a holding was sold in Transnet, the South African transportation group.

Among hard currency government bonds, Claudia bought newly issued euro-denominated securities from the government of Senegal, while a position in Cote d'Ivoire sovereign debt was reduced. In the local currency space, sovereign bonds were added in Malaysia. Claudia has recently taken a favourable view towards the country on valuation grounds and factors such as its oil production capability in the context of firmer oil prices. A recent hike in interest rates in Malaysia should also support sentiment towards the ringgit, in her view.

At the end of March, the fund's overall allocation to local currency government debt stood at 31.8%, while its weighting in hard currency sovereigns was 36.0%. In terms of its corporate bond exposures, the fund was 24.2% invested in hard currency corporate credit and 5.2% invested in local currency corporate bonds.

The fund's largest allocations to emerging market currencies at the end of the period were to the Indian rupee, Brazilian real, and Singapore dollar. The fund's exposure to the US dollar was broadly stable at 58.1%.

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%	1,43%	€1.000	€75
Euro A Inc	GB00B93RT031	MGEBAI LN	1,25%	1,43%	€1.000	€75
Euro A-H Acc	GB00BPYP3J58	MGEAHA LN	1,25%	1,45%	€1.000	€75
Euro A-H Inc	GB00BPYP3K63	MGEAHI LN	1,25%	1,45%	€1.000	€75
Euro B Inc	GB00BYQRBM14	MGEMBI LN	1,75%	1,93%	€ 1.000	€ 75
Euro B Acc	GB00B8BXQV60	MGEBEA LN	1,75%	1,93%	€1.000	€75
Euro B-H Inc	GB00BYQRBP45	MGEMBI LN	1,75%	1,95%	€ 1.000	€ 75
Euro B-H Acc	GB00BYQRBN21	MGEMBHA LN	1,75%	1,95%	€ 1.000	€ 75
Euro C Acc	GB00B7JRF614	MGEMECA LN	0,60%	0,78%	€500.000	€50.000
Euro C Inc	GB00BK6MBT59	MGEBCI LN	0,60%	0,77%	€ 500.000	€ 50.000
Euro C-H Inc	GB00BPYP3M87	MGECHI LN	0,60%	0,80%	€500.000	€50.000
Euro C-H Acc	GB00BPYP3L70	MGECHA LN	0,60%	0,80%	€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 31 December 2017.

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 March 2018, 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 March 2018 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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