M&G Emerging Markets Bond Fund - USD Class A

Monthly Fund Review as at 31 May 2018

For investment professionals only

M&G INVESTMENTS

Highlights

- Emerging debt markets declined in May as risk aversion increased among global bond investors.
- Amid lower price levels, we added positions to the fund on a selective basis where we felt appealing value could be found.
- This activity included topping up some oil-related issues that we believe should be helped by stronger oil prices.

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.

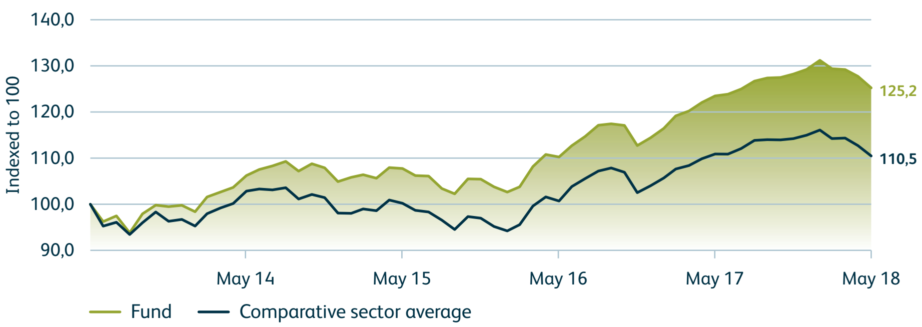
The value of the fund may fall if the issuer of a fixed income security held is unable to pay income payments or repay its debt (known as a default).

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)

	2017	2016	2015	2014	2013
USD A Acc	13,0%	10,2%	-1,1%	5,2%	-0,7%

Performance over 5 years



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	Manager tenure (%) p.a.	Since launch (%) p.a.
Fund	-2,0	-3,2	-3,1	+1,4	+5,1	+4,6	+5,3	+8,1
Index	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sector	-2,0	-3,3	-3,9	-0,4	+3,3	+2,1	+3,2	+8,4
Ranking	82/131	74/130	27/128	17/119	11/97	2/81	11/88	12/18
Quartile ranking	3	3	1	1	1	1	1	3

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.

Past performance is not a guide to future performance.

The past performance has been calculated using a different currency to your home currency. The returns shown here may increase or decrease due to currency fluctuations when compared to past performance returns calculated using your home currency.

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	19 April 2012
Fund size (millions)	$1.275,81
Comparative sector	Morningstar Global Emerging Markets Bond sector
Number of issuers	102
Distribution yield (Acc)	4,84%
Distribution yield (Inc)	6,23%
Underlying yield (Acc)	4,84%
Underlying yield (Inc)	4,84%
Yield to expected maturity*	6,96%
Modified duration (years)	5,5
Spread duration (years)	4,06
Average coupon	6,49
Volatility†	5,78%
Average credit rating	BB+
Share type	Acc & Inc
Ongoing charge	1,43 %

†Source: Morningstar, three-year annualised volatility, as at 31 May 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 30 April 2018

Ratings should not be taken as a recommendation.

Asset breakdown (%)

	Physical	CDS short	CDS long	Net
Government bonds - local currency	32,7	0,0	0,0	32,7
Government bonds - hard currency	36,6	0,0	0,0	36,6
Credit - local currency	5,2	0,0	0,0	5,2
Credit - hard currency	23,0	0,0	0,0	23,0
Cash	2,5	0,0	0,0	2,5

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	4,2	0,0	0,0	4,2
AA	2,7	0,0	0,0	2,7
A	7,1	0,0	0,0	7,1
BBB	18,2	0,0	0,0	18,2
BB	21,2	0,0	0,0	21,2
B	30,5	0,0	0,0	30,5
CCC	1,6	0,0	0,0	1,6
CC	0,0	0,0	0,0	0,0
C	0,1	0,0	0,0	0,1
D	1,2	0,0	0,0	1,2
No rating	10,7	0,0	0,0	10,7
Cash	2,5	0,0	0,0	2,5

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	35,1	0,0	0,0	35,1
Foreign Sovereign	34,2	0,0	0,0	34,2
Energy	4,8	0,0	0,0	4,8
Local-Authority	3,1	0,0	0,0	3,1
Real Estate	3,0	0,0	0,0	3,0
Agency	2,6	0,0	0,0	2,6
Consumer Goods	2,2	0,0	0,0	2,2
Banking	2,1	0,0	0,0	2,1
Telecommunications	1,6	0,0	0,0	1,6
Financial Services	1,4	0,0	0,0	1,4
Healthcare	1,4	0,0	0,0	1,4
Transportation	1,2	0,0	0,0	1,2
Supranational	1,0	0,0	0,0	1,0
Services	0,9	0,0	0,0	0,9
Media	0,9	0,0	0,0	0,9
Utility	0,5	0,0	0,0	0,5
Capital Goods	0,5	0,0	0,0	0,5
Basic Industry	0,5	0,0	0,0	0,5
Retail	0,4	0,0	0,0	0,4
Investment grade indices	0,0	0,0	0,0	0,0
High yield indices	0,0	0,0	0,0	0,0
Cash	2,5	0,0	0,0	2,5

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	4,8	0,0	0,0	4,8
Argentina	4,5	0,0	0,0	4,5
Russia	4,1	0,0	0,0	4,1
Mexico	3,6	0,0	0,0	3,6
Singapore	3,3	0,0	0,0	3,3
Ukraine	2,7	0,0	0,0	2,7
Peru	2,6	0,0	0,0	2,6
Nigeria	2,6	0,0	0,0	2,6
Turkey	2,5	0,0	0,0	2,5
Indonesia	2,4	0,0	0,0	2,4
Other	64,5	0,0	0,0	64,5
Cash	2,5	0,0	0,0	2,5

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	54,6	60,9
Singapore dollar	3,1	3,1
Russian ruble	2,9	2,9
Indian rupee	2,6	2,6
South African rand	2,0	2,0
Brazilian real	1,9	1,9
Uruguay peso	1,9	1,9
Malaysian ringgit	1,9	1,9
Indonesian rupiah	1,8	1,8
Other	27,2	20,9

Maturity breakdown (%)

	Physical
0 - 1 years	10,7
1 - 3 years	5,0
3 - 5 years	16,8
5 - 7 years	14,0
7 - 10 years	27,1
10 - 15 years	6,8
15+ years	17,2
Cash	2,5

Duration breakdown by currency and asset class

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

Largest issuers (%)

	Fund
Singapore	3,1
Russia	2,9
Nigeria	2,6
Dominican Republic	2,3
Mexico	2,2
Egypt	2,1
South Africa	2,0
Brazil	1,9
Uruguay	1,9
Malaysia	1,9

Commentary

Emerging bond markets declined in May amid risk-averse sentiment that was driven by a variety of factors. These included increased volatility due to economic and political challenges in Turkey and Argentina. Concerns in Turkey focused on the country's debt levels and inflation, while central bank policy mistakes in Argentina were largely blamed for a sharp depreciation of the peso. In developed markets, political uncertainty also heightened in Italy over the formation of a coalition government following recent elections. In addition, the Spanish Prime Minister was ousted on 1 June in a parliamentary vote of no confidence.

In the emerging debt markets, local currency-denominated government bonds recorded the poorest returns. As represented by the JP Morgan GBI-EM Global Diversified Index, local currency sovereigns declined by 5.0% in May. Hard currency emerging market sovereigns, as tracked by the JP Morgan Emerging Markets Bond (EMBI) Global Diversified Index, returned -0.9%. For emerging market corporate bonds, the JP Morgan Corporate EMBI (CEMBI) Broad Diversified Index fell by 0.7%. All returns are stated in US dollar terms.

This backdrop detracted from the fund's performance in the month, as the portfolio remained invested in globally diversified holdings of emerging market government and corporate bonds. In turn, the fund registered a decline that was broadly in line with its sector average in the period.

Key changes

The fund's transaction activity included some additional purchases of bonds that we felt offered appealing value following the sell-off across emerging markets. We topped up some oil-related plays in the Sub-Saharan Africa region, for example, such as sovereign bonds in Angola and Gabon. In our view, these issuers should be helped by the recent strengthening of oil prices. The fund's sales among government bonds included sovereign debt in Romania and Jordan.

In the emerging market corporate bond sub-asset class, we added a position in Brazil Foods after spreads widened on the securities. We also participated in new issues that we felt were attractively priced from China Gas and Hunt Oil in Peru.

Elsewhere, in an example of how we seek to evaluate if periods of increased volatility may offer potential buying opportunities, we added a position of around 1.5% in local currency government bonds in Argentina. We had exited this exposure during this year's first quarter, which helped to mitigate the effect on the fund's performance of the peso's recent sharp depreciation. In our assessment, the bonds declined to levels that started to offer decent compensation for the risks, with the size of the peso's fall leaving the currency no longer overvalued.

We also assessed this compensation within the context of Argentina's negotiations with the IMF, which we believe help to offset the adverse factors of higher political risk and renewed economic and inflation concerns in the country. On June 7, Argentina agreed with the IMF a US$50 billion standby arrangement for three years, subject to IMF board approval.

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Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
USD A Acc	GB00B7JRFN80	MGEMUAA LN	1,25%	1,43%	$1.000	$75
USD A Inc	GB00BK6MBV71	MGEBUAI LN	1,25%	1,43%	$1.000	$75
USD C Inc	GB00BK6MBW88	MGEBUCI LN	0,60%	0,78%	$500.000	$50.000
USD C Acc	GB00B7KG2775	MGEMUCA LN	0,60%	0,78%	$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 May 2018, USD Class A 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 May 2018 unless indicated otherwise.

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