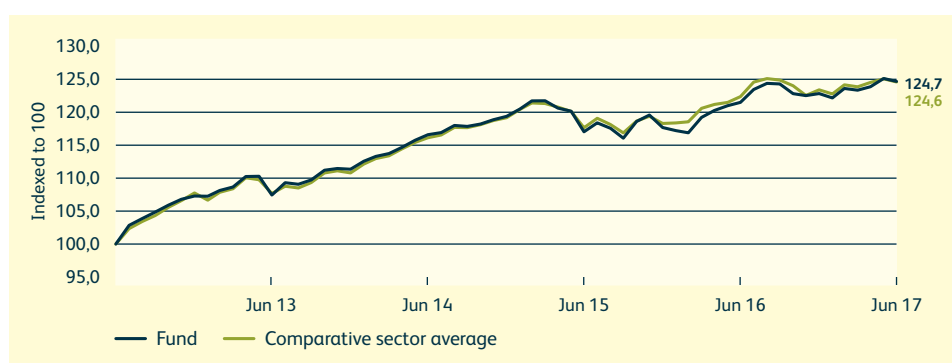


Euro Class A

Summary

- June was a challenging month for bond markets as hawkish central bank rhetoric caused bond yields to rise sharply towards the end of the period.
- Fund Manager Stefan Isaacs added to the weighting in financials, preferring securities further down the capital structure.
- The fund remains short duration to reflect Stefan's view that bond yields offer limited value at current levels.

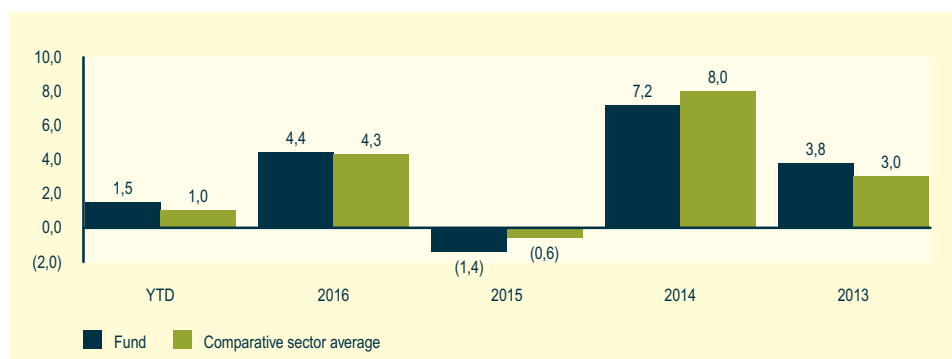
Performance over 5 years



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	+1,1	+1,5	+2,6	+2,3	+4,5	+4,5	+4,1
Index	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sector	-0,4	+0,6	+1,0	+1,8	+2,5	+4,5	+3,9	+3,9
Ranking	36/100	14/100	17/100	16/98	49/93	34/81	8/47	12/32
Quartile ranking	2	1	1	1	3	2	1	2

Annual performance (%)



Past performance is not a guide to future performance.

The value of investments and the income from them will fluctuate. This will cause the fund price to fall as well as rise. There is no guarantee the fund objective will be achieved and you may not get back the original amount you invested.

The fund allows for the extensive use of derivatives.

Key information

Fund manager	Stefan Isaacs
Fund manager tenure from	30 March 2007
Deputy fund manager	Wolfgang Bauer
Launch date	13 January 2003
Launch of share class	13 January 2003
Fund size (millions)	€1.952,11
Fund type	OEIC, incorporated in the UK
Comparative sector	Morningstar EUR Corporate Bond sector
Number of issuers	204
Distribution yield (Acc)	1,00 %
Distribution yield (Inc)	2,15 %
Underlying yield (Acc)	1,00 %
Underlying yield (Inc)	1,00 %
Yield to expected maturity*	1,25 %
Modified duration (years)	4,5
Spread duration (years)	5,91
Average maturity (years)	6,42
Average coupon	2,80
Volatility†	3,44 %
Average credit rating	A-
Share type	Acc & Inc
Ongoing charge	1,15 %

*Source: Morningstar, three-year annualised volatility, as at 30 June 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 in the valuation currency of the fund and is gross of fund expenses (including hedging differences). A fund may hold callable bonds whose yields are calculated on the basis of expected maturity.

Fund ratings

Overall Morningstar rating	★★★★
Morningstar Analyst rating	Bronze

Source of Morningstar ratings: Morningstar, as at 31 May 2017
 Ratings should not be taken as a recommendation.

Asset breakdown (%)

	Physical	CDS short	CDS long	Net
Government bonds	7,6	0,0	0,0	3,5
Investment grade corporate bonds	74,8	-6,9	10,5	78,5
Fixed rate	73,3	-0,5	2,1	74,9
Floating rate	1,6	0,0	0,0	1,6
Index linked	0,0	0,0	0,0	0,0
Credit default swap indices	0,0	-6,3	8,4	2,1
High yield corporate bonds	8,5	0,0	0,0	8,5
Fixed rate	8,4	0,0	0,0	8,4
Floating rate	0,0	0,0	0,0	0,0
Index linked	0,0	0,0	0,0	0,0
Credit default swap indices	0,0	0,0	0,0	0,0
Securitised	5,7	0,0	0,5	6,3
Cash	3,3	0,0	0,0	3,3

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	12,9	0,0	0,0	8,8
AA	8,0	0,0	0,0	8,0
A	25,8	0,0	4,7	30,4
BBB	41,5	-6,9	6,3	41,0
BB	7,9	0,0	0,0	7,9
B	0,4	0,0	0,0	0,4
CCC	0,0	0,0	0,0	0,0
CC	0,0	0,0	0,0	0,0
C	0,0	0,0	0,0	0,0
D	0,0	0,0	0,0	0,0
No rating	0,3	0,0	0,0	0,3
Cash	3,3	0,0	0,0	3,3

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
Banking	25,2	0,0	0,0	25,2
Telecommunications	6,5	0,0	0,3	6,8
Insurance	6,5	0,0	0,0	6,5
Utility	6,4	0,0	0,0	6,4
Healthcare	6,1	0,0	0,0	6,1
Energy	5,1	0,0	0,8	5,9
Consumer				
Non-Cyclical	4,5	0,0	0,0	4,5
Financial Services	3,6	0,0	0,0	3,6
Real Estate	3,5	0,0	0,0	3,5
Sovereign	7,6	0,0	0,0	3,5
Capital Goods	3,4	0,0	0,0	3,4
Mortgage Backed	3,3	0,0	0,0	3,3
Basic Industry	2,4	0,0	0,6	2,9
Asset Backed	2,4	0,0	0,5	2,9
Technology & Electronics	2,8	0,0	0,0	2,8
Services	2,1	0,0	0,0	2,1
Finance & Investment	1,3	0,0	0,0	1,3
Media	1,3	0,0	0,0	1,3
Consumer Cyclical	1,3	0,0	0,0	1,3
Automotive	1,2	-0,5	0,5	1,2
Investment grade indices	0,0	-6,3	8,4	2,1
High Yield indices	0,0	0,0	0,0	0,0
Cash	3,3	0,0	0,0	3,3

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
US	28,0	0,0	0,3	28,3
France	15,5	0,0	0,0	15,5
UK	9,8	-6,3	8,9	12,4
Germany	13,5	-0,5	0,5	9,3
Switzerland	6,0	0,0	0,3	6,3
Italy	4,7	0,0	0,0	4,7
Spain	3,8	0,0	0,8	4,6
Netherlands	4,0	0,0	0,0	4,0
Ireland	2,7	0,0	0,0	2,7
Belgium	1,8	0,0	0,0	1,8
Other	6,8	0,0	0,3	7,1
Cash	3,3	0,0	0,0	3,3

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
Euro	91,8	98,8
British pound	4,9	0,9
US dollar	3,3	0,3
Swiss franc	0,0	0,0

Maturity breakdown (%)

	Physical
0 - 1 years	1,4
1 - 3 years	13,3
3 - 5 years	24,6
5 - 7 years	18,3
7 - 10 years	23,6
10 - 15 years	7,3
15+ years	8,3
Cash	3,3

Duration breakdown by currency and asset class

	Physical	Futures	Swaps	Net
Euro	5,1	-0,5	0,0	4,5
US dollar	0,3	-0,3	0,0	0,0
British pound	0,2	-0,2	0,0	0,0
Other	0,0	0,0	0,0	0,0
Total	5,5	-1,0	0,0	4,5

Largest issuers (excluding government bonds and CDS indices, %)

	Fund
Johnson & Johnson	2,6
Intesa Sanpaolo	2,0
JP Morgan	1,6
UBS	1,6
Morgan Stanley	1,6
Bank of America	1,6
Berkshire Hathaway	1,5
Goldman Sachs	1,4
Wells Fargo	1,4
Engie	1,4

Performance review

June was a challenging month for bond markets as hawkish central bank rhetoric in a still-muted environment for inflation caused bond yields to rise sharply towards the end of the period. In particular, European Central Bank (ECB) President Mario Draghi hinted at a less accommodative stance in 2018, while Bank of England Governor Mark Carney also warned of plans to decrease monetary stimulus. Accordingly, bond yields surged to their highest level since August 2015, while government bond yields in the rest of Europe experienced similar highs. This sell-off contrasted with the rest of the period, which had seen yields falling on low volatility, softening economic data in the UK and US – as opposed to stronger growth in Europe – and lower oil prices.

In this environment, investment grade credit nevertheless continued to enjoy positive momentum. Despite the volatility caused by the anticipation of rising rates, inflows

remained strong, pushing spreads tighter: for the seventh month in a row, spreads closed lower (or were unchanged) compared with their starting point.

Over the month, performance for investment grade corporate bonds was mainly driven by the underlying government bond yields rather than spreads. Given that Treasuries outperformed bunds and particularly gilts, US dollar investment grade credit (+0.2%) outperformed euro (-0.5%) and sterling investment grade credit (-1.2%). However, in pure spread terms, euro-denominated investment grade credit outperformed sterling and US dollar-denominated paper, led by financials.

High yield markets experienced more mixed fortunes against a backdrop of falling oil prices and disappointing first-quarter retail sales. Bright spots included European high yield credit, in particular the financial sector, which also benefited from a market-friendly bank rescue in Italy.

Over the month, the fund produced a slightly negative return. Stefan remains of the view that bond yields offer limited value at these levels and any action by the ECB will be carried out in a measured fashion.

Key changes

The fund is still positioned for higher risk-free yields as the European economy gradually improves. In an evolution of the fund's financial theme, Stefan currently sees value in instruments further down the capital structure within this sector. He added some hybrid securities in the form of additional tier-1 (AT1) securities from Santander and Rabobank, and contingent convertible bonds (CoCos) from Credit Agricole, BNP Paribas and BBVA. The purchases were financed through the sale of some Lower Tier 2 debt. He also added to a 2.25% perpetual bond from energy giant Total and invested in a new issue from HSBC.

The fund remains long spread duration (5.91 years against 5.18 years for the sector), but short duration (4.52 years versus 5.18 years) to reflect the valuation challenge. In terms of the fund's net asset allocation over the month, the portfolio consisted mainly of investment grade corporate bonds (78.5%) with smaller exposures to government debt (3.5%), high yield bonds (8.5%) and securitised debt (6.3%).

Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A Inc	GB00B959HG95	MGECEBAE LN	1,00 %	1,15 %	€1.000	€75
Euro A Acc	GB0032178856	MGECEBEA LN	1,00 %	1,15 %	€1.000	€75
Euro C Inc	GB00BK6MBH38	MGECECEI LN	0,50 %	0,66 %	€ 500.000	€50.000
Euro C Acc	GB0032179045	MGECEBEC LN	0,50 %	0,66 %	€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 2016.

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 30 June 2017, Euro 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 30 June 2017 unless indicated otherwise.

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