

M&G European Corporate Bond Fund - Euro Class A

Monthly Fund Review as at 31 March 2018

For investment professionals only



Highlights

- March was another challenging month for risk assets, with further weakness in global equities now starting to spill over into credit markets. In these circumstances, the fund declined.
- Fund Manager Stefan Isaacs added some risk back to the portfolio over the month, mainly by participating in some new issues.
- The fund retained its slightly short duration position at 4.6 years.

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 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 Acc	1,8%	3,5%	-2,1%	7,0%	4,7%

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	-0,2	-0,9	-0,9	+1,8	+1,0	+2,9	+4,3	+3,9
Index	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sector	-0,1	-0,6	-0,6	+1,6	+1,2	+3,0	+3,8	+3,8
Ranking	62/110	99/108	99/108	30/103	59/100	45/86	10/50	13/33
Quartile ranking	3	4	4	2	3	3	1	2

Past performance is not a guide to future performance.

Things you should know

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)	€1.962,37
Fund type	OEIC, incorporated in the UK
Comparative sector	Morningstar EUR Corporate Bond sector
Number of issuers	201
Distribution yield (Acc) (as at 29/03/18)	0,90%
Distribution yield (Inc) (as at 29/03/18)	2,05%
Underlying yield (Acc) (as at 29/03/18)	0,90%
Underlying yield (Inc) (as at 29/03/18)	0,90%
Yield to expected maturity*	1,00%
Modified duration (years)	4,6
Spread duration (years)	5,40
Average maturity (years)	6,27
Average coupon	2,43
Volatility†	3,42%
Average credit rating	A-
Share type	Acc & Inc
Ongoing charge	1,16%

*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 ★★★★
 Morningstar Analyst rating Bronze
 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	13,7	0,0	0,0	8,9
Investment grade corporate bonds	69,9	-6,5	10,8	74,2
Fixed rate	66,5	0,0	2,2	68,6
Floating rate	3,4	0,0	0,0	3,4
Index linked	0,0	0,0	0,0	0,0
Credit default swap indices	0,0	-6,5	8,6	2,1
High yield corporate bonds	8,7	0,0	0,0	8,7
Fixed rate	8,4	0,0	0,0	8,4
Floating rate	0,3	0,0	0,0	0,3
Index linked	0,0	0,0	0,0	0,0
Credit default swap indices	0,0	0,0	0,0	0,0
Securitised	5,8	0,0	0,5	6,3
Cash	2,0	0,0	0,0	2,0

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	17,0	0,0	0,0	12,2
AA	7,8	0,0	0,0	7,8
A	24,5	0,0	4,8	29,3
BBB	37,9	-6,5	6,5	38,0
BB	7,8	0,0	0,0	7,8
B	0,9	0,0	0,0	0,9
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	2,1	0,0	0,0	2,1
Cash	2,0	0,0	0,0	2,0

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	25,0	0,0	0,0	25,0
Sovereign	13,7	0,0	0,0	8,9
Telecommunications	8,0	0,0	0,3	8,3
Insurance	7,4	0,0	0,0	7,4
Healthcare	5,9	0,0	0,0	5,9
Utility	5,5	0,0	0,0	5,5
Energy	4,1	0,0	0,8	4,9
Consumer Goods	4,5	0,0	0,0	4,5
Asset Backed	2,9	0,0	0,5	3,4
Capital Goods	3,2	0,0	0,0	3,2
Real Estate	3,0	0,0	0,0	3,0
Technology & Electronics	2,9	0,0	0,0	2,9
Mortgage Backed	2,9	0,0	0,0	2,9
Basic Industry	1,3	0,0	0,6	1,9
Automotive	1,0	0,0	0,5	1,6
Retail	1,5	0,0	0,0	1,5
Financial Services	1,2	0,0	0,0	1,2
Covered Bonds	0,9	0,0	0,0	0,9
Media	0,8	0,0	0,0	0,8
Transportation	0,7	0,0	0,0	0,7
Services	0,7	0,0	0,0	0,7
Government Guaranteed	0,5	0,0	0,0	0,5
Local-Authority	0,2	0,0	0,0	0,2
Investment grade indices	0,0	-6,5	8,6	2,1
High yield indices	0,0	0,0	0,0	0,0
Other	0,1	0,0	0,0	0,1
Cash	2,0	0,0	0,0	2,0

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	27,1	0,0	0,3	27,3
France	13,8	0,0	0,0	13,8
Germany	15,8	0,0	0,5	11,5
UK	9,0	0,0	0,5	9,6
Switzerland	5,9	0,0	0,6	6,5
Netherlands	6,0	0,0	0,0	6,0
Spain	4,3	0,0	0,8	5,1
Italy	4,9	0,0	0,0	4,9
Ireland	2,8	0,0	0,0	2,8
Belgium	2,2	0,0	0,0	2,2
Other	6,3	0,0	0,0	6,3
Investment grade indices	0,0	-6,5	8,6	2,1
Cash	2,0	0,0	0,0	2,0

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	93,3	100,6
US dollar	2,9	-0,6
British pound	3,8	0,1
Swiss franc	0,0	0,0

Maturity breakdown (%)

	Physical
0 - 1 years	4,6
1 - 3 years	13,0
3 - 5 years	17,2
5 - 7 years	25,1
7 - 10 years	23,4
10 - 15 years	8,7
15+ years	6,0
Cash	2,0

Duration breakdown by currency and asset class

	Physical	Futures	Swaps	Net
Euro	5,0	-0,4	0,0	4,6
US dollar	0,2	-0,2	0,0	0,0
British pound	0,1	-0,2	0,0	0,0
Total	5,3	-0,7	0,0	4,6

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

	Fund
Johnson & Johnson	2,5
Goldman Sachs	1,8
JP Morgan	1,7
AT&T	1,7
Intesa Sanpaolo	1,6
Bank of America	1,6
Morgan Stanley	1,6
Verizon Communications	1,5
Wells Fargo	1,4
Deutsche Telekom AG	1,4

Commentary

Politics remained in the spotlight in March, with the US administration announcing a raft of protectionist measures, most notably against China. Markets were also spooked by the indecisive but firmly anti-establishment election result in Italy. In Germany, the strong support of SPD members in favour of a grand coalition ended almost six months of political uncertainty. Finally, the UK and EU27 reached a deal on Brexit transition arrangements, paving the way for the beginning of trade negotiations.

On the monetary policy front, the US Federal Reserve delivered a widely expected rate hike of 25 basis points (bps), while the Bank of England signalled its intention to raise rates in May. The European Central Bank dropped its easing bias, although it does not appear to be in any immediate hurry to normalise monetary policy just yet.

It was another weak month for credit, with spreads now wider than at the end of 2017. US and Euro investment grade spreads both widened by 15bps over the month, while global HY spreads widened by 29bps, ending the month 50bps above their January lows.

The fund declined over the month, mainly due to widening credit spreads.

Key changes

Stefan held the fund's duration around 0.6 years short versus a comparable index (4.6 years versus 5.2 years). The fund's duration consists almost entirely of EUR interest rate risk. He continues to exit faith in Europe's economic recovery and in the ability of the ECB to have faith from its quantitative easing programme in a well-ordered fashion.

Having taken the fund's spread duration to around neutral at the start of March, Stefan took the opportunity to add back some risk, mostly via the new issues market. At the end of the month, the fund's credit spread duration stood at around 5.4 years, slightly longer than a comparable index. Among the fund's government bond holdings, Stefan switched out of Portuguese and Spanish government debt into the Netherlands, after decent performance by the former two markets.

Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A Acc	GB0032178856	MGECEBA LN	1,00%	1,16%	€1.000	€75
Euro A Inc	GB00B959HG95	MGECEBAE LN	1,00%	1,16%	€1.000	€75
Euro C Acc	GB0032179045	MGECEBEC LN	0,50%	0,66%	€500.000	€50.000
Euro C Inc	GB00BK6MBH38	MGECECI 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 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 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 shares. Copyright © 2018 Morningstar UK Limited. All Rights Reserved. Ratings should not be taken as recommendation.

The Morningstar Analyst Rating™. © 2018 Morningstar. All Rights Reserved. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Ratings should not be taken as recommendation.

For Investment Professionals and Institutional Investors only. Not for onward distribution. No other persons should rely on any information contained within. Distribution of this document in or from Switzerland is not permissible with the exception of the distribution to Qualified Investors according to the Swiss Collective Investment Schemes Act, the Swiss Collective Investment Schemes Ordinance and the respective Circular issued by the Swiss supervisory authority ("Qualified Investors"). Supplied for the use by the initial recipient (provided it is a Qualified Investor) only. In Spain the M&G Investment Funds are registered for public distribution under Art. 15 of Act 35/2003 on Collective Investment Schemes as follows: M&G Investment Funds (1) reg. no 390, M&G Investment Funds (2) reg. no 601, M&G Investment Funds (3) reg. no 391, M&G Investment Funds (5) reg. no 972, M&G Investment Funds (7) reg. no 541, M&G Investment Funds (9) reg. no 930, M&G Investment Funds (12) reg. no 1415, M&G Investment Funds (14), reg. no 1243, M&G Global Dividend Fund reg. no 713 M&G Dynamic Allocation Fund reg. no 843, M&G Global Macro Bond Fund reg. no 1056 and M&G Optimal Income Fund reg. no 522, M&G (Lux) Investment Funds 1 reg. no 1551. The collective investment schemes referred to in this document (the "Schemes") are open-ended investment companies with variable capital, incorporated in England and Wales in respect of M&G Investment Funds and in Luxembourg in respect of M&G (Lux) Investment Funds. In the Netherlands, all funds referred to are UCITS and registered with the Dutch regulator, the AFM. This information is not an offer or solicitation of an offer for the purchase of investment shares in one of the Funds referred to herein. Purchases of a Fund should be based on the current Prospectus. The Instrument of Incorporation, Prospectus, Key Investor Information Document, annual or interim Investment Report and Financial Statements, are available free of charge, in paper form, from the ACD: M&G Securities Limited, Laurence Pountney Hill, London, EC4R 0HH, GB; or one of the following - M&G International Investments Limited, German branch, mainBuilding, Taunusanlage 19, 60325 Frankfurt am Main; the Austrian paying agent: Société Générale Vienna Branch, Zweigniederlassung Wien Prinz Eugen-Strasse, 8-10/5/Top 11 A-1040 Wien, Austria; the Luxembourg paying agent: Société Générale Bank & Trust SA, Centre operational 28-32, place de la Gare L-1616 Luxembourg; the Danish paying agent: Nordea Bank Danmark A/S Issuer Services, Securities Services, Hermes Hus, Helgeshøj Allé 33, Postbox 850, DK-0900, Copenhagen C, Denmark; Allfunds Bank, Calle Estafeta, No 6 Complejo Plaza de la Fuente, La Moraleja, 28109, Alcobendas, Madrid, Spain; M&G International Investments Limited or its French branch; the French centralising agent of the Fund: RBC Investors Services Bank France; or the Swedish paying agent: Nordea Bank AB (publ), Smålandsgatan 17, 105 71 Stockholm, Sweden. For Switzerland, please refer to by M&G International Investments Switzerland AG, Talstrasse 66, 8001 Zurich or Société Générale, Paris, Zurich Branch, Talacker 50, P.O. Box 5070, 8021 Zurich, which acts as the Swiss representative of the Schemes (the "Swiss Representative") and acts as their Swiss paying agent. For Italy, they can also be obtained on the website: www.mandgitalia.it. For Ireland, they are available in English language and can also be obtained from the Irish facilities agent, Société Générale SA, Dublin Branch, 3rd Floor IFSC House – The IFSC Dublin 1, Ireland. For Germany and Austria, copies of the Instrument of incorporation, annual or interim Investment Report, Financial Statements and Prospectus are available in English and the Prospectus and Key Investor Information Document/s are available in German. For Greece, they are available in English, except the Key Investor Information Document/s which is available in Greek, from the Greek Representative: Eurobank Ergasias S.A. 8, Othonos Street, 10557 Athens. **Before subscribing you should read the Prospectus**, which includes investment risks relating to these funds. The information contained herein is not a substitute for independent advice. This financial promotion is issued by M&G Securities Limited (registered in England, No. 90776), authorised and regulated by the Financial Conduct Authority in the UK. Registered office: Laurence Pountney Hill, London EC4R 0HH. The Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários, the "CMVM") has received a passporting notification under Directive 2009/65/EC of the European Parliament and of the Council and the Commission Regulation (EU) 584/2010 enabling the fund to be distributed to the public in Portugal.

Contact M&G

Austria
www.mandg.at

Belgium
www.mandg.be

Denmark
www.mandg.dk

Finland
www.mandg.fi

France
www.mandg.fr

Germany
www.mandg.de

Greece
www.mandg.gr

Ireland
www.mandg-investments.ie

Italy
www.mandgitalia.it

Luxembourg
www.mandg.lu

Netherlands
www.mandg.nl

Norway
www.mandg.no

Portugal
www.mandg.pt

Spain
www.mandg.es

Sweden
www.mandg.se

Switzerland
www.mandg.ch