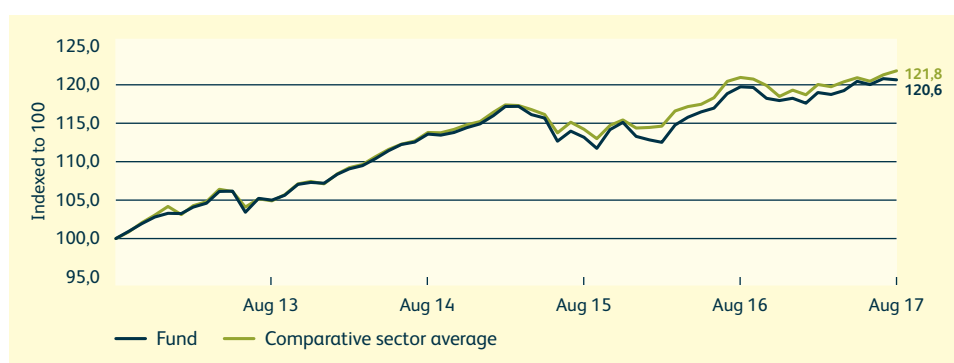


## Euro Class A

### Summary

- Government bond yields moderately rallied and credit spreads widened on the back of rising tensions between North Korea and the US in August.
- Fund manager Stefan Isaacs remains constructive on eurozone credit but increasingly nervous on prospects for the UK's economy.
- He slightly reduced the fund's spread duration, as valuations come closer to post-crisis highs.

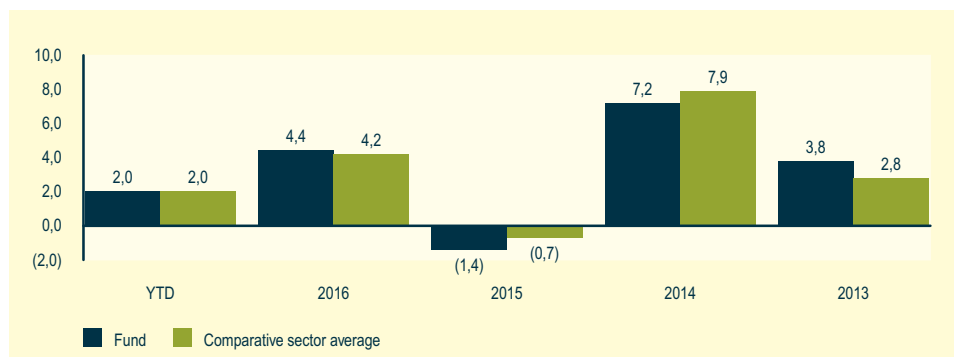
### Performance over 5 years



### 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             | -0,1        | +0,2         | +2,0    | +0,8       | +2,0             | +3,8             | +4,5                  | +4,1                     |
| Index            | N/A         | N/A          | N/A     | N/A        | N/A              | N/A              | N/A                   | N/A                      |
| Sector           | +0,4        | +0,7         | +2,0    | +0,6       | +2,3             | +3,9             | +4,0                  | +3,9                     |
| Ranking          | 98/102      | 97/101       | 44/101  | 31/99      | 61/96            | 42/82            | 8/48                  | 12/32                    |
| Quartile ranking | 4           | 4            | 2       | 2          | 3                | 3                | 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

|                                    |                                       |
|------------------------------------|---------------------------------------|
| <b>Fund manager</b>                | Stefan Isaacs                         |
| <b>Fund manager tenure from</b>    | 30 March 2007                         |
| <b>Deputy fund manager</b>         | Wolfgang Bauer                        |
| <b>Launch date</b>                 | 13 January 2003                       |
| <b>Launch of share class</b>       | 13 January 2003                       |
| <b>Fund size (millions)</b>        | €1.957,86                             |
| <b>Fund type</b>                   | OEIC, incorporated in the UK          |
| <b>Comparative sector</b>          | Morningstar EUR Corporate Bond sector |
| <b>Number of issuers</b>           | 205                                   |
| <b>Distribution yield (Acc)</b>    | 1,20 %                                |
| <b>Distribution yield (Inc)</b>    | 2,35 %                                |
| <b>Underlying yield (Acc)</b>      | 1,20 %                                |
| <b>Underlying yield (Inc)</b>      | 1,20 %                                |
| <b>Yield to expected maturity*</b> | 1,04 %                                |
| <b>Modified duration (years)</b>   | 4,5                                   |
| <b>Spread duration (years)</b>     | 5,81                                  |
| <b>Average maturity (years)</b>    | 6,39                                  |
| <b>Average coupon</b>              | 2,76                                  |
| <b>Volatility†</b>                 | 3,43 %                                |
| <b>Average credit rating</b>       | A-                                    |
| <b>Share type</b>                  | Acc & Inc                             |
| <b>Ongoing charge</b>              | 1,16 %                                |

\*Source: Morningstar, three-year annualised volatility, as at 31 August 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

|                                   |        |
|-----------------------------------|--------|
| <b>Overall Morningstar rating</b> | ★★★★   |
| <b>Morningstar Analyst rating</b> | Bronze |

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

## Asset breakdown (%)

|   | Physical    | CDS short   | CDS long    | Net         |
|---|-------------|-------------|-------------|-------------|
| <b>Government bonds</b>                 | <b>8,8</b>  | <b>0,0</b>  | <b>0,0</b>  | <b>4,6</b>  |
| <b>Investment grade corporate bonds</b> | <b>74,4</b> | <b>-6,9</b> | <b>10,6</b> | <b>78,1</b> |
| Fixed rate                              | 72,8        | -0,5        | 2,1         | 74,4        |
| 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         | -6,4        | 8,5         | 2,1         |
| <b>High yield corporate bonds</b>       | <b>8,3</b>  | <b>0,0</b>  | <b>0,0</b>  | <b>8,3</b>  |
| Fixed rate                              | 8,2         | 0,0         | 0,0         | 8,2         |
| 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         |
| <b>Securitised</b>                      | <b>6,3</b>  | <b>0,0</b>  | <b>0,5</b>  | <b>6,9</b>  |
| <b>Cash</b>                             | <b>2,3</b>  | <b>0,0</b>  | <b>0,0</b>  | <b>2,3</b>  |

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       | 14,3     | 0,0       | 0,0      | 10,1 |
| AA        | 8,1      | 0,0       | 0,0      | 8,1  |
| A         | 25,2     | 0,0       | 4,7      | 30,0 |
| BBB       | 41,8     | -6,9      | 6,4      | 41,3 |
| BB        | 7,7      | 0,0       | 0,0      | 7,7  |
| B         | 0,5      | 0,0       | 0,0      | 0,5  |
| 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 | 0,0      | 0,0       | 0,0      | 0,0  |
| Cash      | 2,3      | 0,0       | 0,0      | 2,3  |

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                  | 24,1     | 0,0       | 0,0      | 24,1 |
| Telecommunications       | 6,8      | 0,0       | 0,3      | 7,1  |
| Utility                  | 6,6      | 0,0       | 0,0      | 6,6  |
| Healthcare               | 6,3      | 0,0       | 0,0      | 6,3  |
| Insurance                | 6,1      | 0,0       | 0,0      | 6,1  |
| Energy                   | 5,2      | 0,0       | 0,8      | 6,0  |
| Sovereign                | 8,8      | 0,0       | 0,0      | 4,6  |
| Real Estate              | 3,8      | 0,0       | 0,0      | 3,8  |
| Consumer Non-Cyclical    | 3,7      | 0,0       | 0,0      | 3,7  |
| Capital Goods            | 3,7      | 0,0       | 0,0      | 3,7  |
| Asset Backed             | 3,2      | 0,0       | 0,5      | 3,7  |
| Financial Services       | 3,5      | 0,0       | 0,0      | 3,5  |
| Basic Industry           | 2,6      | 0,0       | 0,6      | 3,2  |
| Mortgage Backed          | 3,1      | 0,0       | 0,0      | 3,1  |
| Technology & Electronics | 2,9      | 0,0       | 0,0      | 2,9  |
| Services                 | 2,0      | 0,0       | 0,0      | 2,0  |
| Finance & Investment     | 1,4      | 0,0       | 0,0      | 1,4  |
| Consumer Cyclical        | 1,3      | 0,0       | 0,0      | 1,3  |
| Media                    | 1,2      | 0,0       | 0,0      | 1,2  |
| Automotive               | 1,2      | -0,5      | 0,5      | 1,2  |
| Investment grade indices | 0,0      | -6,4      | 8,5      | 2,1  |
| High Yield indices       | 0,0      | 0,0       | 0,0      | 0,0  |
| Other                    | 0,2      | 0,0       | 0,0      | 0,2  |
| Cash                     | 2,3      | 0,0       | 0,0      | 2,3  |

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          | 27,7     | 0,0       | 0,3      | 28,0 |
| France      | 15,7     | 0,0       | 0,0      | 15,7 |
| UK          | 8,9      | -6,4      | 9,0      | 11,5 |
| Germany     | 14,6     | -0,5      | 0,5      | 10,4 |
| Switzerland | 6,2      | 0,0       | 0,3      | 6,5  |
| Italy       | 4,8      | 0,0       | 0,0      | 4,8  |
| Netherlands | 4,5      | 0,0       | 0,0      | 4,5  |
| Spain       | 3,5      | 0,0       | 0,8      | 4,3  |
| Ireland     | 2,6      | 0,0       | 0,0      | 2,6  |
| Belgium     | 1,8      | 0,0       | 0,0      | 1,8  |
| Other       | 7,4      | 0,0       | 0,3      | 7,6  |
| Cash        | 2,3      | 0,0       | 0,0      | 2,3  |

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      | 99,6       |
| US dollar     | 3,5       | 0,3        |
| British pound | 4,7       | 0,1        |
| Swiss franc   | 0,0       | 0,0        |

## Maturity breakdown (%)

|               | Physical |
|---------------|----------|
| 0 - 1 years   | 1,4      |
| 1 - 3 years   | 14,6     |
| 3 - 5 years   | 23,1     |
| 5 - 7 years   | 18,8     |
| 7 - 10 years  | 23,7     |
| 10 - 15 years | 7,8      |
| 15+ years     | 8,4      |
| Cash          | 2,3      |

## Duration breakdown by currency and asset class

|               | Physical | Futures | Swaps | Net |
|---------------|----------|---------|-------|-----|
| Euro          | 5,0      | -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         | 5,4      | -1,0    | 0,0   | 4,5 |

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

|                   | Fund |
|-------------------|------|
| Johnson & Johnson | 2,5  |
| Intesa Sanpaolo   | 2,0  |
| JP Morgan         | 1,7  |
| UBS               | 1,6  |
| Morgan Stanley    | 1,6  |
| Bank of America   | 1,6  |
| Engie             | 1,4  |
| Goldman Sachs     | 1,4  |
| Wells Fargo       | 1,4  |
| Citigroup         | 1,4  |

## Performance review

August was a mixed month for fixed income markets: solid gains in government bonds contrasted with weakness in credit as rising tensions between North Korea and the US weighed on sentiment. With the lack of any major economic developments this month, markets were largely driven by geopolitical events, with discontent around President Trump's political agenda and the upcoming debt ceiling debate being another source of uncertainty.

The yield on 10-year US Treasuries rallied from 2.3% to 2.1%, with similar moves (from 1.2% to 1% on 10-year gilts, and 0.5% to 0.4% on 10-year bunds) occurring across core government bonds.

Unsurprisingly, this environment did not bode well for risk assets and, as a result, spreads on investment grade credit and high yield assets widened across the board. In high yield, for example, US high yield spreads widened by around 24 basis points (bps) over the month, while spreads in Europe proved somewhat more resilient and widened by

just 5 bps. Spreads on investment grade sterling credit widened by an average of 3 bps, slightly less than those on their euro and US dollar-denominated counterparts.

## Key changes

Stefan slightly reduced the fund's spread duration during August, from 5.9 to 5.8 years, to reflect the fact that valuations – especially for financials – have moved close to their tightest post-financial crisis levels in recent weeks. However, the fund's spread duration is still longer than a comparable index, and Stefan remains constructive on eurozone credit. This is for various reasons: the European Central Bank is still growing its balance sheet, and while inflation may drift higher, Stefan believes that this is likely to happen slowly and that growth will remain strong. Furthermore, corporate fundamentals are in good shape and eurozone companies are generally behaving prudently.

Stefan is growing increasingly nervous about prospects for the UK economy and is concerned that investment will likely be deferred in the face of Brexit uncertainty. As a result, he has reduced some exposure to UK banks and insurers, eg Aviva, Lloyds, Nationwide and RBS.

Proceeds from these sales were partially channelled into bunds (the fund's 'risk-free' portion) and a new issue from Caxia Bank.

Stefan retains certain positions in European financial Tier 1 debt. However, after strong performance by these holdings, he is monitoring the market for an appropriate exit point.

He held duration short, at around 4.5 years (versus the index's 5.2 years) over the month. Stefan will look to add duration incrementally on any pronounced back-up in yields.

## Fund codes and charges

| Share class | ISIN         | Bloomberg   | Annual management charge | Ongoing charge | Minimum initial investment | Minimum top up investment |
|-------------|--------------|-------------|--------------------------|----------------|----------------------------|---------------------------|
| Euro A Acc  | GB0032178856 | MGECEBEA 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 | MGECECEI 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 30 June 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 August 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 31 August 2017 unless indicated otherwise.

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