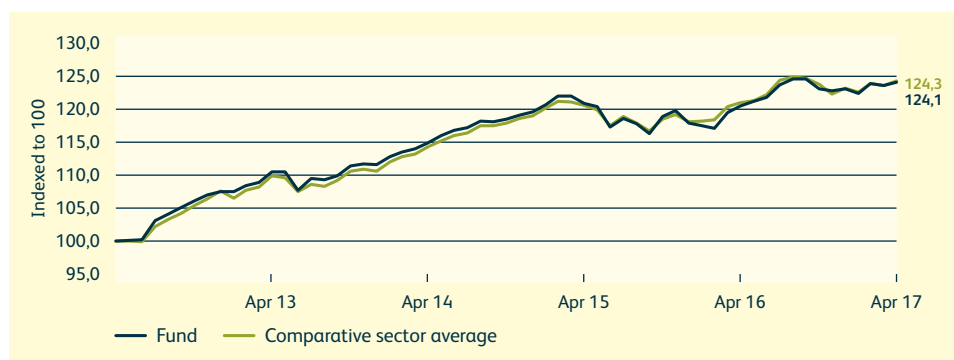


Euro Class A

Summary

- The fund underperformed the sector after European government bonds sold off following a rally in the wake of the first round French election victory for Emmanuel Macron.
- The fund's short duration position weighed slightly on performance for the month.
- Fund Manager Stefan Isaacs increased the portfolio's holdings in floating rate notes by adding issues from the Bank of America.

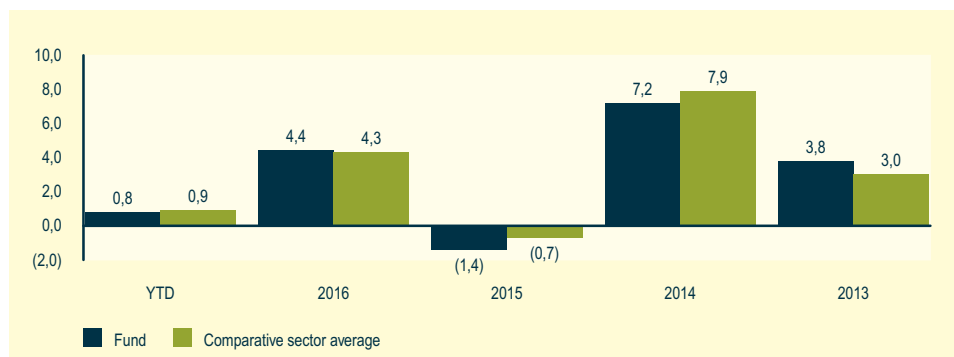
Performance over 5 years



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	+1,4	+0,8	+3,0	+2,6	+4,4	+4,5	+4,1
Index	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sector	+0,5	+1,4	+0,9	+2,7	+2,9	+4,5	+4,0	+3,9
Ranking	71/98	46/98	37/98	28/95	61/90	37/77	9/47	12/31
Quartile ranking	3	2	2	2	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)	€1.904,63
Fund type	OEIC, incorporated in the UK
Comparative sector	Morningstar EUR Corporate Bond sector
Number of issuers	192
Distribution yield (Acc)	1.08 %
Distribution yield (Inc)	2.23 %
Underlying yield (Acc)	1.08 %
Underlying yield (Inc)	1.08 %
Yield to expected maturity*	1,20 %
Modified duration (years)	4,4
Spread duration (years)	5,93
Average maturity (years)	7,03
Average coupon	2,88
Volatility†	3,44 %
Average credit rating	A-
Share type	Acc & Inc
Ongoing charge	1,15 %

*Source: Morningstar, three-year annualised volatility, as at 30 April 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 March 2017
Ratings should not be taken as a recommendation.

Asset breakdown (%)

	Physical	CDS short	CDS long	Net
Government bonds	8,5	0,0	0,0	8,2
Investment grade corporate bonds	77,4	-4,8	4,6	77,2
Fixed rate	74,4	-0,5	1,9	75,7
Floating rate	3,1	0,0	0,0	3,1
Index linked	0,0	0,0	0,0	0,0
Credit default swap indices	0,0	-4,3	2,8	-1,5
High yield corporate bonds	6,8	0,0	0,0	6,8
Fixed rate	6,8	0,0	0,0	6,8
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	6,1	0,0	0,5	6,6
Cash	1,2	0,0	0,0	1,2

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	13,7	0,0	0,0	13,4
AA	8,0	0,0	0,0	8,0
A	26,6	-0,5	3,4	29,6
BBB	43,6	-4,3	1,7	41,0
BB	6,2	0,0	0,0	6,2
B	0,5	0,0	0,0	0,5
CCC	0,1	0,0	0,0	0,1
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	1,2	0,0	0,0	1,2

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	23,9	0,0	0,0	23,9
Sovereign	8,5	0,0	0,0	8,2
Telecommunications	6,7	0,0	0,3	6,9
Utility	6,7	0,0	0,0	6,7
Insurance	6,6	0,0	0,0	6,6
Healthcare	6,1	0,0	0,0	6,1
Energy	5,0	0,0	0,8	5,8
Consumer				
Non-Cyclical	4,4	0,0	0,0	4,4
Financial Services	4,3	0,0	0,0	4,3
Capital Goods	3,8	0,0	0,0	3,8
Mortgage Backed	3,6	0,0	0,0	3,6
Services	3,6	0,0	0,0	3,6
Real Estate	3,1	0,0	0,0	3,1
Asset Backed	2,5	0,0	0,5	3,0
Basic Industry	2,3	0,0	0,3	2,6
Technology & Electronics	2,5	0,0	0,0	2,5
Finance & Investment	1,4	0,0	0,0	1,4
Media	1,4	0,0	0,0	1,4
Automotive	1,3	-0,5	0,5	1,4
Consumer Cyclical	1,2	0,0	0,0	1,2
Investment grade indices	0,0	-4,3	2,8	-1,5
High Yield indices	0,0	0,0	0,0	0,0
Cash	1,2	0,0	0,0	1,2

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	28,4	0,0	0,3	28,7
France	14,5	0,0	0,0	14,5
Germany	14,1	-0,5	0,5	13,8
UK	11,7	-3,8	3,3	11,2
Switzerland	6,1	0,0	0,0	6,1
Italy	5,0	0,0	0,0	5,0
Spain	3,7	0,0	0,8	4,5
Netherlands	4,4	0,0	0,0	4,4
Ireland	2,9	0,0	0,0	2,9
Belgium	1,1	0,0	0,0	1,1
Other	6,9	-0,5	0,3	6,7
Cash	1,2	0,0	0,0	1,2

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	91,1	99,5
US dollar	3,6	0,4
British pound	5,3	0,1
Swiss franc	0,0	0,0

Maturity breakdown (%)

	Physical
0 - 1 years	1,8
1 - 3 years	12,6
3 - 5 years	24,7
5 - 7 years	16,8
7 - 10 years	24,2
10 - 15 years	7,8
15+ years	10,8
Cash	1,2

Duration breakdown by currency and asset class

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

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

	Fund
Johnson & Johnson	2,7
Channel Link Enterprises Finance	1,9
Intesa Sanpaolo	1,8
Berkshire Hathaway	1,7
JP Morgan	1,7
UBS	1,6
Bank of America	1,6
Morgan Stanley	1,6
Wells Fargo	1,5
Goldman Sachs	1,5

Performance review

In the first half of April, market attention remained focused on the first round of the French election. This and increased geopolitical concerns around Syria and North Korea, combined with weaker US economic data – owing to some unwinding of Trump 'reflation trades' – resulted in a weak start to the month. This environment triggered increased aversion to risks among investors and generally led to higher government bond prices, while volatility also reached the highest level seen in the year to date. French sovereign debt proved the exception to the government bond rally as investors sought safety, and accordingly, OATs sold off in the first half of the month. A rise in German bund yields further narrowed the gap between the two.

Markets reversed following the first-round election results, with the volatility index also reaching close to all-time lows. The win by the progressive and pro-European candidate Emmanuel Macron pushed most mainstream government bond yields back to within a few basis points of their starting point for the month.

Developments in the French presidential election resulted in investment grade bonds falling slightly across the board during the month. European spreads tightened, while US dollar and sterling spreads were broadly unchanged. At the index level, US investment grade bonds rose by 1.0%, with AAA and BBB paper gaining the most (+1.1%), while AA rated bonds rose 0.8% and A rated bonds returned 0.9%. Meanwhile, European and UK investment grade bonds rose modestly, with BBB rated issues again the best-performing segment in each region.

The relief felt by investors over the weakening populist threat resulted in inflows of around US\$2.3 billion into European investment grade credit just in the week after the first round French election. As had been widely expected, the European Central Bank maintained interest rates in April, based on subdued inflationary pressures, despite reduced downside growth risks.

Against this backdrop, the fund produced a modest positive return in euro terms, although its short duration position weighed slightly on performance. However, currency movements, namely the rise in sterling vis-à-vis the euro, resulted in negative returns for the fund's sterling share classes.

Key changes

Ahead of the French election, Stefan sold out of Spanish government bonds in favour of French government bonds, and bought Italian government bonds on weakness, while hedging the duration. This position was partially sold down following the election. The fund's overweight to credit was slightly reduced by buying protection on the iTraxx EUR Main index.

The fund is still positioned for higher risk-free yields as the European economy gradually improves. With spreads in financials continuing to fall, Stefan sees opportunities in specific pockets within the financial sector, including subordinated financials and insurance companies. He also sees value in asset-backed securities (ABS) owing to their floating nature. The fund's net exposure to ABS stands at 3.0%. Stefan continues to invest in reverse yankee bonds (euro-denominated issues from US companies). Finally, he increased the fund's exposure to floating rate notes by adding some issues from the Bank of America.

The fund is invested in a diversified portfolio consisting mainly of investment grade corporate bonds with smaller exposures to government debt and high yield bonds. At the end of April, its net allocation to investment grade credit was 77.2%, while high yield credit was 6.8%, government debt 8.2% and securitised debt 6.6%.

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 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 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 April 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 April 2017 unless indicated otherwise.

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