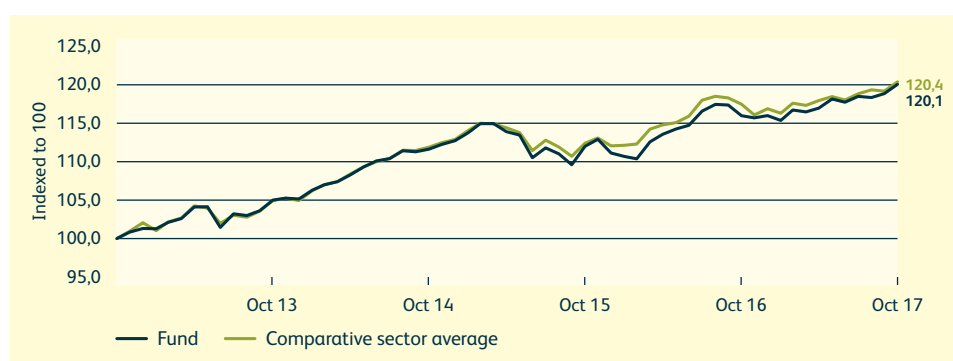


## Summary

- Central bank activity was the main driver of markets in October, across the US, UK and Europe. Most parts of the bond market rose modestly.
- Fund Manager Stefan Isaacs increased the fund's short position relative to a comparable index, after yields declined across Europe.
- Stefan was active in the primary and secondary markets. He is keeping a close eye on the fund's financials position, in an environment of strongly performing financials.

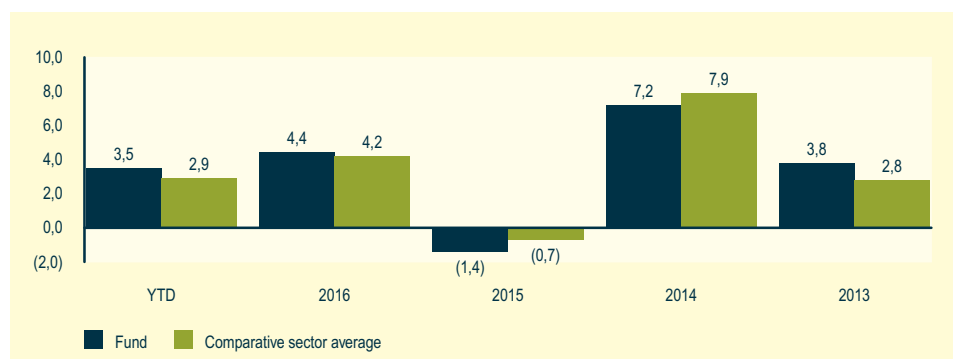
## Performance over 5 years



## 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	+1,0	+1,3	+3,5	+3,5	+2,5	+3,7	+4,6	+4,1
Index	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sector	+1,0	+1,3	+2,9	+2,4	+2,4	+3,8	+4,0	+4,0
Ranking	61/104	55/103	23/102	13/101	42/97	39/84	9/49	13/33
Quartile ranking	3	3	1	1	2	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

<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>	€1.973,95
<b>Fund type</b>	OEIC, incorporated in the UK
<b>Comparative sector</b>	Morningstar EUR Corporate Bond sector
<b>Number of issuers</b>	204
<b>Distribution yield (Acc)</b>	1,14 %
<b>Distribution yield (Inc)</b>	2,28 %
<b>Underlying yield (Acc)</b>	1,14 %
<b>Underlying yield (Inc)</b>	1,14 %
<b>Yield to expected maturity*</b>	0,92 %
<b>Modified duration (years)</b>	4,5
<b>Spread duration (years)</b>	5,66
<b>Average maturity (years)</b>	6,27
<b>Average coupon</b>	2,66 %
<b>Volatility†</b>	3,46 %
<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 October 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 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 30 September 2017  
Ratings should not be taken as a recommendation.

## Asset breakdown (%)

	Physical	CDS short	CDS long	Net
<b>Government bonds</b>	10,7	0,0	0,0	5,9
<b>Investment grade corporate bonds</b>	72,0	-6,9	11,2	76,3
Fixed rate	70,3	-0,5	2,7	72,5
Floating rate	1,7	0,0	0,0	1,7
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>	8,4	0,0	0,0	8,4
Fixed rate	8,1	0,0	0,0	8,1
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
<b>Securitised</b>	6,3	0,0	0,5	6,8
<b>Cash</b>	2,6	0,0	0,0	2,6

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	14,2	0,0	0,0	9,4
AA	7,7	0,0	0,0	7,7
A	23,9	0,0	4,7	28,6
BBB	43,3	-6,9	7,0	43,4
BB	7,5	0,0	0,0	7,5
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	0,0	0,0	0,0	0,0
<b>Cash</b>	2,6	0,0	0,0	2,6

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	23,7	0,0	0,0	23,7
Telecommunications	7,9	0,0	0,3	8,1
Utility	6,0	0,0	0,0	6,0
Healthcare	6,0	0,0	0,0	6,0
Sovereign	10,7	0,0	0,0	5,9
Energy	5,0	0,0	0,8	5,8
Insurance	5,8	0,0	0,0	5,8
Real Estate	3,9	0,0	0,0	3,9
Consumer Non-Cyclical	3,7	0,0	0,0	3,7
Asset Backed	3,2	0,0	0,5	3,7
Financial Services	3,6	0,0	0,0	3,6
Capital Goods	3,4	0,0	0,0	3,4
Mortgage Backed	3,2	0,0	0,0	3,2
Technology & Electronics	2,9	0,0	0,0	2,9
Basic Industry	1,3	0,0	1,2	2,4
Services	2,3	0,0	0,0	2,3
Finance & Investment	1,4	0,0	0,0	1,4
Consumer Cyclical	1,3	0,0	0,0	1,3
Automotive	1,2	-0,5	0,5	1,2
Media	1,1	0,0	0,0	1,1
Investment grade indices	0,0	-6,4	8,5	2,1
High Yield indices	0,0	0,0	0,0	0,0
<b>Cash</b>	2,6	0,0	0,0	2,6

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	27,6	0,0	0,3	27,9
France	14,9	0,0	0,0	14,9
UK	8,7	-6,4	9,0	11,3
Germany	13,1	-0,5	0,5	8,2
Spain	5,9	0,0	0,8	6,7
Switzerland	5,6	0,0	0,9	6,5
Italy	5,2	0,0	0,0	5,2
Netherlands	4,5	0,0	0,0	4,5
Ireland	2,8	0,0	0,0	2,8
Belgium	1,8	0,0	0,0	1,8
Other	7,2	0,0	0,3	7,4
<b>Cash</b>	2,6	0,0	0,0	2,6

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	92,0	98,8
British pound	4,4	0,9
US dollar	3,6	0,3
Swiss franc	0,0	0,0

## Maturity breakdown (%)

	Physical
0 - 1 years	1,2
1 - 3 years	14,5
3 - 5 years	20,9
5 - 7 years	19,5
7 - 10 years	24,1
10 - 15 years	10,5
15+ years	6,8
<b>Cash</b>	2,6

## Duration breakdown by currency and asset class

	Physical	Futures	Swaps	Net
Euro	5,0	-0,5	0,0	4,5
US dollar	0,2	-0,2	0,0	0,0
British pound	0,1	-0,1	0,0	0,0
Other	0,0	0,0	0,0	0,0
<b>Total</b>	5,4	-0,9	0,0	4,5

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

	Fund
Johnson & Johnson	2,5
Intesa Sanpaolo	2,0
AT&T	1,7
UBS	1,6
Bank of America	1,6
Morgan Stanley	1,6
Verizon Communications	1,6
JP Morgan	1,5
Berkshire Hathaway	1,4
Wells Fargo	1,4

## Performance review

Most areas of the global bond markets delivered modest gains in October, despite some weak performance from the US Treasury market in the run-up to the appointment of a new chair of the Federal Reserve. In Europe, as widely expected, the European Central Bank confirmed its quantitative easing (QE) programme would be reduced and, relevantly for bond markets, the bank's tone was notably dovish in delivering the announcement. The Bank will reduce the amount of its monthly net purchases from €60 billion to €30 billion from January 2018 for nine months, but is leaving the door open to extend QE beyond September 2018, or to raise the monthly purchase amounts, if necessary.

Investors also continued to expect that a UK interest rate rise was imminent (the Bank of England confirmed a 0.25% rate hike on 2 November). Sterling weakened versus the US dollar, giving back some of the gains it made against the greenback in the previous month.

UK inflation hit 3.0% year-on-year in September, up from 2.9% a month earlier, and a full percentage point above the Bank of England's target. While rising import costs created by the weaker sterling have now – almost fully – passed through, committee members are becoming increasingly concerned that Brexit may leave the economy prone to more persistent price pressures, particularly if there were to be a change in political leadership.

Yields on 10 year gilts tightened slightly to 1.3% by the end of the month, reversing part of their sharp spike a month earlier, while those on bunds also moved slightly lower, to 0.4%. Yields on 10 year US Treasuries widened slightly to 2.4%. Spreads on investment grade and high yield corporate bond moved ever tighter, most notably on euro-denominated debt.

In this environment, the fund delivered a solid positive return.

## Key changes

Stefan reduced the fund's duration slightly from 0.5 years short to 0.74 years short of a comparable index, as yields fell across Europe. Duration ended the month at 4.5 years. He closed out the very small (around -0.03 years) negative sterling duration position.

Following a strong month for credit, Stefan slightly reduced the fund's spread duration to 5.66 years, although this is still moderately longer than the index at 5.24 years, reflecting his view that valuations are tight.

Stefan added some newly-issued bonds from Verizon and Wind, and added some Ryanair paper which looked attractively valued. Within financials, he increased exposure to subordinated debt from Intesa. He took profits in some bonds from Volkswagen and Allianz.

Stefan maintains his close focus on the fund's financials position, as Europe's banks continue to perform well (particularly in the additional Tier 1 capital sub-asset class).

## 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 Inc	GB00BK6MBH38	MGECECI LN	0,50 %	0,66 %	€ 500.000	€50.000
Euro C Acc	GB0032179045	MGECEBC 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.

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