

Highlights

- Despite political uncertainty in Italy and President Trump threatening to impose trade tariffs on even the US's closest allies, global stockmarkets generally rallied in May.
- The convertibles market reflected the movements in stockmarkets, albeit to a lesser extent. The fund's returns were positive.
- The convertible from Qiagen was sold, while a Shutterfly convertible reached maturity. We also reduced holdings in several issues whose risk profile differed from the desired range.

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.

The fund may use derivatives to gain exposure to investments exceeding the value of the fund (leverage). This may cause greater changes in the fund's price and increase the risk of 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)

	2017	2016	2015	2014	2013
Euro A-H Acc	2,2%	2,0%	2,7%	3,7%	14,3%

Performance over 5 years



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	Manager tenure (%) p.a.	Since launch (%) p.a.
Fund	+0,1	-0,9	-1,8	-2,5	-0,0	+2,9	+4,3	+4,3
Index	+0,2	-0,6	+0,1	+0,2	+0,7	+3,8	+5,4	+5,4
Sector	+0,3	-0,3	+0,2	+1,3	+0,7	+3,3	+4,5	+4,5
Ranking	33/61	50/61	55/61	57/60	32/54	21/43	16/33	16/33
Quartile ranking	3	4	4	4	3	2	2	2

Past performance is not a guide to future performance.

Hedged share classes aim to mirror the performance of another share class. We cannot guarantee that the hedging objective will be achieved. The hedging strategy will limit holders of the hedged share class from benefiting if the hedged share class currency falls against the currencies of the fund's investments. Please note that this fund comes with further risks that are explained in the Key Investor Information Document.

Things you should know

The fund allows for the extensive use of derivatives.

Key information

Fund manager	Léonard Vinville
Fund manager tenure from	13 July 2007
Deputy fund managers	David Romani Yannis Karachalios
Launch date	13 July 2007
Launch of share class	21 May 2010
Fund size (millions)	€1.913,32
Fund type	OEIC, incorporated in the UK
Comparative index	Thomson Reuters Global Focus Convertible Hedged EUR Index Morningstar Convertible Bond - Global EUR Hedged sector
Comparative sector	
Number of holdings	117
Delta	0,48
Convexity	5,27%
Points over bond floor to maturity	12,4%
Elasticity	41,1%
Expected life (years)	2,1
Portfolio yield*	1,24%
Duration (years)	1,5
Share type	Acc & Inc
Ongoing charge	1,69%

* Portfolio yield is the average yield to maturity, or yield to put if applicable, of the holdings in the fund. If, however, that redemption yield is negative, the running yield is used in the calculation.

Fund ratings

Overall Morningstar rating **★★★**
Source of Morningstar ratings: Morningstar, as at 30 April 2018
Ratings should not be taken as a recommendation.

Credit rating breakdown (%)

	Fund
AAA	0,0
AA	0,0
A	12,8
BBB	24,7
BB	16,7
B	1,3
CCC	0,7
CC	0,0
C	0,0
D	0,0
No rating	43,7

Pre-packaged bank-issued synthetics: 0,0%

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 (%)

	Fund
Technology	22,1
Industrials	18,2
Basic materials	15,3
Financials	15,0
Healthcare	8,3
Consumer services	6,0
Oil & gas	5,5
Consumer goods	3,4
Telecommunications	1,9
Utilities	0,6
Other	4,0
Cash	-0,4

Largest holdings (%)

	Fund
DP World 1.75% 19-Jun-2024	3,1
RAG-Stiftung 0% 18-Feb-2021	2,9
Citrix Systems 0.5% 15-Apr-2019	2,9
Siemens Financieringsmaatschappij NV 1.65% 16-Aug-2019	2,9
NXP Semiconductors 1% 01-Dec-2019	2,8
Cemex 3.72% 15-Mar-2020	2,7
RAG-Stiftung 0% 16-Mar-2023	2,4
Capitaland 1.95% 17-Oct-2023	2,2
Yahoo! 0% 01-Dec-2018	2,2
Extra Space Storage LP 3.125% 05-Oct-2020	2,2

Country breakdown (%)

	Fund
US	32,2
Netherlands	12,4
Germany	11,6
Japan	5,0
France	4,9
China	4,6
Mexico	4,3
Singapore	3,7
Other	21,8
Cash	-0,4

Currency breakdown (%)

	Fund
US dollar	53,8
Euro	24,5
Japanese yen	13,7
Singapore dollar	3,7
British pound	1,6
Chinese renminbi	1,0
Hong Kong dollar	0,9
Canadian dollar	0,5
Mexican peso	0,3
Other	0,1

Commentary

Despite political chaos in Italy and President Trump threatening to impose trade tariffs on even the US's closest allies, global stockmarkets rallied in May. There was, however, a broad spread of returns, with the Nasdaq and UK markets performing strongly while markets in Latin America and Europe struggled. Government bond markets were generally positive, with yields falling in the US, UK and Germany. The convertibles market reflected the movements in stockmarkets, albeit to a lesser extent.

Currency movements had a significant effect on the convertibles market, as the US dollar strengthened relative to sterling and the euro. Since the majority of the convertibles universe is denominated in US dollars, a rising greenback boosts returns to UK and European investors. Hedged share classes lagged unhedged. The fund's returns were positive and broadly in line with the Thomson Reuters Global Focus Convertibles Index, apart from the sterling unhedged share class, which lagged. Performance was supported by stock selection in Japan, as well as the industrial and financial sectors.

The earnings season continued to have a major impact on the performance of the fund. Several convertible issuers reported results that were ahead of analysts' expectations, resulting in higher share prices that were reflected in the companies' convertibles. This included convertibles from ON Semiconductor and Supernus Pharmaceuticals from the US, and Japanese personal goods manufacturer Unicharm. In a similar vein, the convertible from US equity investment group Altaba rose when Alibaba, in which it holds a large stake, reported very strong revenue growth. A convertible from NXP Semiconductor rallied in anticipation of China approving the acquisition by Qualcomm.

Conversely, results that came in below analysts' expectations weighed on our holdings of two convertibles from voice recognition software provider Nuance Communications. Exposure to German chemicals producers Evonik and Bayer cost some performance as European stocks came under pressure from the political crisis in Italy. Meanwhile, trade tensions caused weakness in a convertible from Mexican telecoms group America Movil.

Key changes

During May, we sold the position in Qiagen's in-the-money convertible bonds, which had high delta and short tenor, but we still retain a position in the company's other, less equity-sensitive convertible bonds. The convertible from Shutterfly, a US photo services provider, reached maturity at which time we converted our bonds into equity in the company.

We added a stake in the equity of CRRC Corporation, a Chinese manufacturer of railway rolling stock, to improve the equity sensitivity of an existing convertible position. We also established a holding in Glencore, the multinational resources company, by purchasing a call option on the company's shares, feeling the option offered more attractive value characteristics than the available convertible.

Finally, we made some adjustments to the fund in order to increase the asymmetric profile, with the aim of participating in any further equity market rallies but also limiting the potential downside in the event of share price weakness. We reduced the size of several highly equity sensitive convertibles, such as those from Citrix Systems and Red Hat.

Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A Inc	GB00B929RL77	MGCEUAI LN	1,50%	1,67%	€1.000	€75
Euro A Acc	GB00B1268494	MGGLCOE LN	1,50%	1,67%	€1.000	€75
Euro A-H Inc	GB00B933KJ72	MGCEAHI LN	1,50%	1,69%	€1.000	€75
Euro A-H Acc	GB00B4X3NX75	MGGAHE LN	1,50%	1,69%	€1.000	€75
Euro B Inc	GB00BYQRBR68	MGCEBIN LN	2,00%	2,17%	€1.000	€75
Euro B Acc	GB00B95HC793	MGCEBAC LN	2,00%	2,17%	€1.000	€75
Euro B-H Inc	GB00BYQRBS75	MGCEBHI LN	2,00%	2,19%	€1.000	€75
Euro B-H Acc	GB00B92WV59	MGCEBHA LN	2,00%	2,19%	€1.000	€75
Euro C Acc	GB00B1268502	MGGLCEC LN	0,75%	0,92%	€500.000	€50.000
Euro C Inc	GB00BK6MC479	MGCEECI LN	0,75%	0,92%	€500.000	€50.000
Euro C-H Inc	GB00BK6MC586	MGCECHI LN	0,75%	0,94%	€500.000	€50.000
Euro C-H Acc	GB00B4WZ0397	MGGCCHE LN	0,75%	0,94%	€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 January 2018.

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 May 2018, Euro Class A-H 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 May 2018 unless indicated otherwise.

The Morningstar Overall Rating based on the fund's Euro Class A-H shares. Copyright © 2018 Morningstar UK Limited. All Rights Reserved. Ratings should not be taken as recommendation.

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