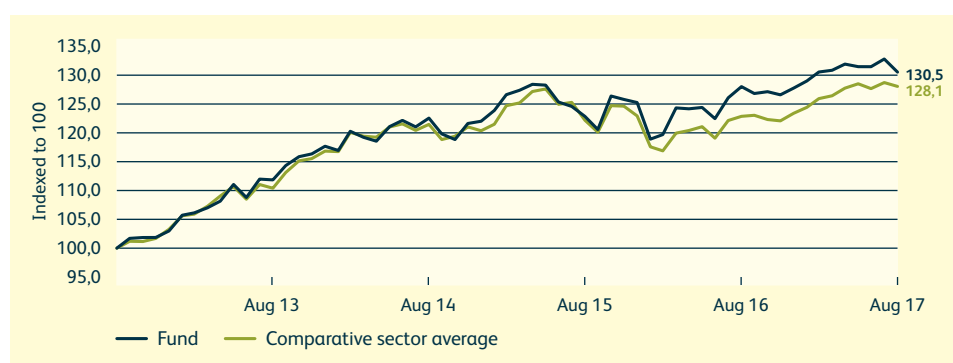


Euro Class A-H

Summary

- Despite a build-up in geopolitical tension, August was a relatively uneventful month for most financial markets, albeit with some pockets of weakness. Currency movements had a significant effect, however.
- Fund performance was disappointing, behind the comparative index, with the major influence being holdings of convertibles from Teva Pharmaceuticals, which fell sharply.
- It was a quiet month in terms of portfolio activity.

Performance over 5 years



Key information

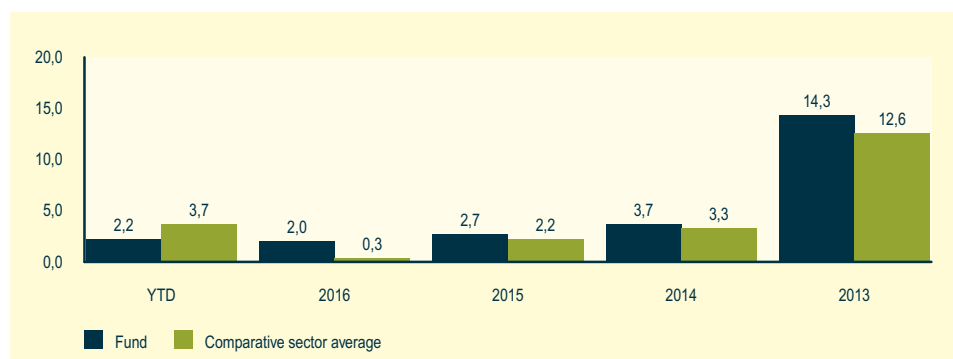
| | |
|---|--|
| Fund manager | Léonard Vinville |
| Fund manager tenure from | 13 July 2007 |
| Deputy fund managers | David Romani, Yannis Karachalios |
| Launch date | 13 July 2007 |
| Launch of share class | 21 May 2010 |
| Fund size (millions) | €2.053,77 |
| Fund type | OEIC, incorporated in the UK |
| Comparative index | Thomson Reuters Global Focus Convertible Hedged EUR Index |
| Comparative sector | Morningstar Convertible Bond - Global EUR Hedged sector |
| Number of holdings | 115 |
| Delta | 0,47 |
| Convexity | 4,46 % |
| Points over bond floor to maturity | 12,1 % |
| Elasticity | 40,5 % |
| Expected life (years) | 2,1 |
| Portfolio yield* | 1,24 % |
| Duration (years) | 1,5 |
| Share type | Acc & Inc |
| Ongoing charge | 1,69 % |

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 | -1,7 | -0,7 | +2,2 | +2,0 | +2,1 | +5,5 | +5,0 | +5,0 |
| Index | -0,4 | -0,4 | +4,0 | +5,2 | +2,6 | +5,8 | +5,9 | +5,9 |
| Sector | -0,6 | -0,4 | +3,7 | +4,2 | +1,8 | +4,9 | +4,6 | +4,6 |
| Ranking | 62/62 | 40/61 | 48/61 | 49/59 | 18/50 | 13/42 | 12/35 | 12/35 |
| Quartile ranking | 4 | 3 | 4 | 4 | 2 | 2 | 2 | 2 |

* 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.

Annual performance (%)



Fund ratings

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

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.

Credit rating breakdown (%)

| | Fund |
|-----------|------|
| AAA | 0,0 |
| AA | 0,0 |
| A | 9,0 |
| BBB | 20,6 |
| BB | 19,7 |
| B | 2,6 |
| CCC | 0,6 |
| CC | 0,0 |
| C | 0,0 |
| D | 0,0 |
| No Rating | 47,5 |

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 | 20,8 |
| Financials | 16,4 |
| Industrials | 12,6 |
| Basic materials | 9,1 |
| Consumer services | 8,5 |
| Healthcare | 8,2 |
| Telecommunications | 5,1 |
| Consumer goods | 4,8 |
| Oil & gas | 4,7 |
| Utilities | 1,6 |
| Investment Grade indices | 0,0 |
| High Yield indices | 0,0 |
| Other | 5,0 |
| Cash | 3,1 |

Largest holdings (%)

| | Fund |
|--------------------------------------|------|
| Citrix Systems 0.5 % 15-Apr-2019 | 4,2 |
| Altaba 0 % 01-Dec-2018 | 3,7 |
| Priceline Group 0.9 % 15-Sep-2021 | 2,8 |
| Cemex 3.72 % 15-Mar-2020 | 2,6 |
| Evonik Industries 0.0 % 18-Feb-2021 | 2,6 |
| Veon 0.25 % 20-Sep-2019 | 2,3 |
| Siemens 1.65 % 16-Aug-2019 | 2,3 |
| NXP Semiconductors 1.0 % 01-Dec-2019 | 2,2 |
| Evonik Industries 0.0 % 16-Mar-2023 | 2,1 |
| Capitaland 1.95 % 17-Oct-2023 | 2,0 |

Country breakdown (%)

| | Fund |
|-------------|------|
| US | 35,7 |
| Netherlands | 12,1 |
| Germany | 9,2 |
| Mexico | 4,2 |
| China | 4,0 |
| UK | 3,3 |
| Japan | 3,0 |
| Singapore | 2,8 |
| Other | 22,6 |
| Cash | 3,1 |

Currency breakdown (%)

| | Fund |
|------------------|------|
| US dollar | 63,2 |
| Euro | 25,8 |
| British pound | 4,8 |
| Singapore dollar | 2,8 |
| Japanese yen | 2,5 |
| Hong Kong dollar | 0,6 |
| Chinese renminbi | 0,3 |

Performance review

Despite the increase in geopolitical tension, especially on the Korean peninsula, as well as uncertainty about President Trump's administration and the effect of Hurricane Harvey, August proved to be relatively uneventful for most financial markets. There were, however, certain pockets of weakness. 'Safer' assets outperformed risk assets, with government bond markets rallying while developed stockmarkets lagged. The convertibles market was adversely affected by the weakness of global equities and the widening of credit spreads, as well as some big falls in individual stocks. Once again, currency movements were significant, as the euro strengthened further relative to most currencies while sterling weakened.

The performance of the fund was disappointing in August, weighed down by some large price falls in several holdings. By some distance, the largest detractors were positions in two convertibles issued by Teva Pharmaceuticals, a generic drugs manufacturer that is headquartered in Israel but whose shares mainly trade as US-listed American depositary receipts (ADRs). Shares in the company fell sharply in price when the group released quarterly earnings numbers that missed analysts' forecasts, along with reduced revenue guidance. The business was also adversely affected by the US Food and Drug Administration (FDA) introducing new laws designed to drive down drug prices. During the month, the shares halved in value, a move that was almost completely replicated in the group's mandatory convertible, which fell by 45%. The group's traditional convertible bond benefited from a degree of downside protection but still declined some 16%, as the credit spread widened.

Fund Manager Léonard Vinville previously had a positive view on Teva due to the low valuation of the company and belief that the group's product pipeline was not reflected in the share price. However, the acquisition of Allergan's generics business, which completed a year ago, boosted the group's borrowing to some US\$35 billion in the latest reports, with some massive repayments due in 2019 and 2020. Although the company should be able to service the debt, it will take years to trim leverage. The company is now under pressure to dispose of some non-core assets

to reduce borrowing and maintain its investment grade rating. Teva's chief executive and finance officer both resigned earlier in the year and have not yet been replaced, raising questions about the company's strategic direction and ability to tackle problems and cut costs. As well as causing the share price to decline sharply, this has prompted a reduction in Teva's credit quality. Léonard has now become concerned that Teva's need to reduce its debt burden threatens the group's credit quality and he has reduced the fund's exposure to the firm.

Several other US holdings also performed poorly during the month. This included a convertible from technology group Electronics for Imaging, which was forced to delay the release of quarterly results due to a review of its accounting practices, and two convertibles from Priceline. The online travel services group, which has been a strong performer so far this year, announced revenue guidance that was below analysts' expectations. On the other hand, the convertible from Altaba (previously Yahoo) continued its strong run.

Key changes

Portfolio activity was relatively limited in August. As well as reducing the fund's exposure to Teva, Léonard was also able to realise some profit by trimming the holding of the Altaba convertible. He sold a stake in the equity of US glass packaging manufacturer Owens-Illinois after good performance.

Fund codes and charges

| Share class | ISIN | Bloomberg | Annual management charge | Ongoing charge | Minimum initial investment | Minimum top up investment |
|--------------|--------------|-------------|--------------------------|----------------|----------------------------|---------------------------|
| Euro A Acc | GB00B1Z68494 | MGGGLCOE LN | 1,50 % | 1,67 % | €1.000 | €75 |
| Euro A Inc | GB00B929RL77 | MGCEUAI LN | 1,50 % | 1,68 % | €1.000 | €75 |
| Euro A-H Inc | GB00B933KJ72 | MGCEAHI LN | 1,50 % | 1,70 % | €1.000 | €75 |
| Euro A-H Acc | GB00B4X3NX75 | MGGCAHE LN | 1,50 % | 1,69 % | €1.000 | €75 |
| Euro B Acc | GB00B95HC793 | MGCEBAC LN | 2,00 % | 2,17 % | €1.000 | €75 |
| Euro B Inc | GB00BYQBR68 | MGGCBIN LN | 2,00 % | 2,18 % | €1.000 | €75 |
| Euro B-H Acc | GB00B92WYV59 | MGCEBHA LN | 2,00 % | 2,19 % | €1.000 | €75 |
| Euro B-H Inc | GB00BYQRB575 | MGGCBHI LN | 2,00 % | 2,19 % | €1.000 | €75 |
| Euro C Acc | GB00B1Z68502 | MGGLECE LN | 0,75 % | 0,91 % | €500.000 | €50.000 |
| Euro C Inc | GB00BK6MC479 | MGCEECI LN | 0,75 % | 0,91 % | €500.000 | €50.000 |
| Euro C-H Acc | GB00B4WZ0J97 | MGGCCHE LN | 0,75 % | 0,93 % | €500.000 | €50.000 |
| Euro C-H Inc | GB00BK6MC586 | MGCECHI LN | 0,75 % | 0,93 % | €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 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-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 August 2017 unless indicated otherwise.

The Morningstar Overall Rating based on the fund's Euro Class A-H shares. Copyright © 2017 Morningstar UK Limited. All Rights Reserved. Ratings should not be taken as recommendation.

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