

Highlights

- December was a positive month for almost all equity markets, most of which rallied, with emerging and Asian markets in the vanguard, along with the UK. Bond markets experienced greater divergence in returns.
- The convertibles market and the fund were adversely affected by falls in particular stocks, notably bonds issued by Steinhoff.
- The fund's Steinhoff convertibles were sold, while bonds from Kunlun Energy and Mitsubishi Chemicals were purchased.

Risks associated with this fund

For any past performance shown, please note that past performance is not a guide to current or future performance and the performance data does not take into account any entry and exit charges incurred on the purchase and sale of shares but does take into account the ongoing charge.

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 ending December)

From To	01.01.17 31.12.17	01.01.16 31.12.16	01.01.15 31.12.15	01.01.14 31.12.14	01.01.13 31.12.13
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.	Since tenure (%) p.a.	Since inception (%) p.a.
Fund	-0,6	+0,2	+2,2	+2,2	+2,3	+4,9	+4,8	+4,8
Index	-1,0	-0,3	+4,4	+4,4	+2,8	+5,2	+5,7	+5,7
Sector	-0,5	+0,5	+5,1	+5,1	+2,5	+4,6	+4,6	+4,6
Ranking	34/62	41/62	53/61	53/61	27/54	19/44	14/35	14/35
Quartile ranking	3	3	4	4	2	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)	€2.036,99
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	120
Delta	0,50
Convexity	5,11%
Points over bond floor to maturity	13,5%
Elasticity	43,3%
Expected life (years)	2,0
Portfolio yield*	0,99%
Duration (years)	1,5
Share type	Acc & Inc
Ongoing charge	1,68%

* 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 November 2017
Ratings should not be taken as a recommendation.

Credit rating breakdown (%)

	Fund
AAA	0,0
AA	0,0
A	12,5
BBB	24,4
BB	22,2
B	2,0
CCC	0,7
CC	0,0
C	0,0
D	0,0
No Rating	38,2

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	22,9
Industrials	15,4
Financials	15,2
Basic materials	11,9
Healthcare	8,6
Consumer services	8,5
Oil & gas	3,2
Telecommunications	2,2
Consumer goods	2,2
Utilities	1,1
Investment Grade indices	0,0
High Yield indices	0,0
Other	4,6
Cash	4,1

Largest holdings (%)

	Fund
Citrix Systems 0.5% 15-Apr-2019	3,7
Priceline Group 0.9% 15-Sep-2021	2,8
RAG-Stiftung 0% 18-Feb-2021	2,7
Altaba 0% 01-Dec-2018	2,6
Cemex 3.72% 15-Mar-2020	2,5
DP World 1.75% 19-Jun-2024	2,4
Siemens 1.65% 16-Aug-2019	2,3
Bayer AG 0.05% 15-Jun-2020	2,2
RAG-Stiftung 0% 16-Mar-2023	2,2
NXP Semiconductors 1% 01-Dec-2019	2,2

Country breakdown (%)

	Fund
US	34,6
Netherlands	12,4
Germany	11,5
China	4,5
Mexico	4,4
Japan	3,8
Singapore	2,8
UK	2,6
Other	19,3
Cash	4,1

Currency breakdown (%)

	Fund
US dollar	62,0
Euro	23,8
British pound	6,0
Japanese yen	3,3
Singapore dollar	2,8
Chinese renminbi	0,9
Hong Kong dollar	0,8
Canadian dollar	0,4

Commentary

Most equity markets performed strongly in December, led by Asia and the emerging markets, although UK equities also rose. Continental European equity markets were a notable exception and, on the whole, were flat or slightly down. Bond markets suffered in comparison, with yields ticking up in the US and Europe. Convertibles performed well during 2017 and were the second best-performing major asset class, ahead of bonds but behind equities. However, the market declined in December, adversely affected by significant weakness in some individual stocks. Furthermore, the US dollar fell, particularly against the euro but also relative to sterling, which reduced the returns from US convertibles (the bulk of the market) to investors in Europe and the UK. Hedged share classes performed better than unhedged. The fund declined during the month, but returns were ahead of the Thomson Reuters Global Focus Convertibles Index, although performance was boosted by a positive price swing.

Once again, the weakness of the US dollar weighed on returns. While several US convertibles rose in price in local terms, currency movements eroded the gains.

In December, the convertibles market was dominated by the collapse of Steinhoff, the South Africa-based global retailer. Three Steinhoff convertibles were held in the fund in the belief that, since the group had received approval from regulators and auditors to list in Germany in 2015, the governance of the company met international standards. This proved not to be the case and the prices of Steinhoff shares and convertibles fell sharply in early December when the group announced that the CEO had resigned and that accounting irregularities were to be investigated to see whether earlier financial statements would have to be restated. Given the ongoing uncertainty about the situation, Fund Manager Léonard Vinville took advantage of a rebound in the prices of the convertibles to sell the holdings and close the positions. Since then, the prices of the convertibles have continued to fall, contributing to the decline in the Convertibles Index, which contains all three convertibles.

The fund's overweight positions in two Steinhoff convertibles were the largest detractors to relative performance in December. Conversely, an underweight holding in a third issue was beneficial to relative performance.

Elsewhere, a convertible from US technology group OSI Systems also weighed on performance.

Fortunately, it was not all bad news and, after a challenging year for the sector, two convertibles issued by healthcare companies added value. Bonds from German dialysis provider Fresenius Medical Care rose as the company is expected to reap material positive effects from US tax reforms, while an aggressive cost-cutting programme announced at Teva Pharmaceutical raised hopes that the company may recover. A convertible from US online travel services provider Priceline also rose in price, while a stake in the shares of Gemalto proved beneficial after the international digital security firm accepted a takeover bid from Thales.

Key changes

As mentioned, the fund's exposure to Steinhoff was closed entirely. On the other hand, Léonard re-established a position in the convertible from Hong Kong-listed gas provider Kunlun Energy after a substantial price fall since the holding was sold in the second quarter of 2017. Kunlun should benefit from the Chinese government's policies to encourage greater gas usage. Léonard also purchased a five-year convertible from Mitsubishi Chemical in Japan, which should complement the existing holding of seven-year bonds.

Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A Acc	GB00B1Z68494	MGGLCOE LN	1,50%	1,66%	€1.000	€75
Euro A Inc	GB00B929RL77	MGCEUAI LN	1,50%	1,66%	€1.000	€75
Euro A-H Acc	GB00B4X3NX75	MGGCAHE LN	1,50%	1,68%	€1.000	€75
Euro A-H Inc	GB00B933KJ72	MGCEAHI LN	1,50%	1,68%	€1.000	€75
Euro B Acc	GB00B95HC793	MGCEBAC LN	2,00%	2,16%	€1.000	€75
Euro B Inc	GB00BYQRBR68	MGGCBIN LN	2,00%	2,16%	€1.000	€75
Euro B-H Acc	GB00B92WYV59	MGCEBHA LN	2,00%	2,18%	€1.000	€75
Euro B-H Inc	GB00BYQRBS75	MGGCBHI LN	2,00%	2,18%	€1.000	€75
Euro C Acc	GB00B1Z68502	MGGCEC LN	0,75%	0,91%	€500.000	€50.000
Euro C Inc	GB00BK6MC479	MGGCECI LN	0,75%	0,91%	€500.000	€50.000
Euro C-H Inc	GB00BK6MCS86	MGGCECH LN	0,75%	0,93%	€500.000	€50.000
Euro C-H Acc	GB00B4WZ0397	MGGCCHE 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 July 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 December 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 December 2017 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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