

# M&G (Lux) Global Floating Rate High Yield Fund

First quarter 2019

Fund manager – James Tomlins

FOR INVESTMENT PROFESSIONALS ONLY



## Highlights

- After a turbulent year for financial markets, high yield bonds bounced back strongly in the first quarter of 2019.
- The fund delivered a solid return, although relative performance was held back by the underweight exposure to more cyclical sectors, in particular energy companies.
- We maintain a positive assessment for high yield markets and believe the fund remains well placed to generate further steady returns as we move into the later stages of the economic cycle.

### Main risks associated with this fund:

For any past performance shown, please note that past performance is not a guide to future performance.

The value and income from the fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.

Investments in bonds are affected by interest rates, inflation and credit ratings. It is possible that bond issuers will not pay interest or return the capital. All of these events can reduce the value of bonds held by the fund.

High yield bonds usually carry greater risk that the bond issuers may not be able to pay interest or return the capital.

The fund is exposed to different currencies. Derivatives are used to minimise, but may not always eliminate, the impact of movements in currency exchange rates.

The hedging process seeks to minimise, but cannot eliminate, the effect of movements in exchange rates on the performance of the hedged share class. Hedging also limits the ability to gain from favourable movements in exchange rates.

Further risk factors that apply to the fund can be found in the fund's Key Investor Information Document (KIID).

### Things you should know:

The fund allows for the extensive use of derivatives.

### Important information:

On 7 December 2018, the non-sterling assets of the M&G Global Floating Rate High Yield Fund, a UK-authorized OEIC which launched on 11 September 2014, merged into the M&G (Lux) Global Floating Rate High Yield Fund, a Luxembourg-authorized SICAV, which launched on 13 September 2018. The SICAV is run by the same fund manager, applying the same investment strategy, as the UK-authorized OEIC.

## Quarterly, YTD and calendar year performance (5 years)

	3 months %	YTD %	2018 %	2017 %	2016 %	2015 %	2014 %
<b>Euro A-H<sup>1</sup></b>	2.6	2.6	-2.6	1.6	6.5	-0.4	N/A
<b>Index<sup>1</sup></b>	3.6	3.6	-1.3	2.7	11.1	-0.7	2.1
<b>USD A<sup>2</sup></b>	3.4	3.4	0.2	3.7	7.8	0.1	N/A
<b>Index<sup>2</sup></b>	4.4	4.4	1.5	4.8	12.7	-0.2	2.2

### Past performance is not a guide to future performance.

*<sup>1</sup> Source: Morningstar Inc., as at 31 March 2019, EUR A-H class shares, income reinvested, price-to-price basis.*

Fund performance prior to 21 September 2018 is that of the EUR A-H class share of the M&G Global Floating Rate High Yield Fund, a UK-authorized OEIC, which merged into this fund on 7 December 2018. Tax rates and charges may differ.

Comparative index from 2013 to 31 March 2016 is the ICE BofAML Global Floating Rate High Yield (EUR Hedged) Index. From 1 April 2016 it is the ICE BofAML Global Floating Rate High Yield 3% Constrained (EUR Hedged) Index.

*<sup>2</sup> Source: Morningstar Inc., as at 31 March 2019, USD A class shares, income reinvested, price-to-price basis.*

Fund performance prior to 21 September 2018 is that of the USD A class share of the M&G Global Floating Rate High Yield Fund, a UK-authorized OEIC, which merged into this fund on 7 December 2018. Tax rates and charges may differ.

Comparative index prior to 31 March 2016 is the ICE BofAML Global Floating Rate High Yield (USD Hedged) Index. From 1 April 2016 it is the ICE BofAML Global Floating Rate High Yield 3% Constrained (USD Hedged) Index.

## Performance and portfolio positioning

After a turbulent year for financial markets, high yield bonds bounced back strongly in the first quarter of 2019. Investor sentiment has been bolstered by a more dovish stance from the world's central banks, growing optimism over the US-China trade talks and a strong rally in oil prices from December lows.

The fund delivered a solid return in the first three months of 2019, although it lagged the global high yield FRN index. The fund's underweight exposure to more cyclical sectors weighed on relative performance. In particular, our cautious stance in energy meant we did not fully capture the strong recovery in this part of the market as oil prices surged higher. Holding some

cash, in anticipation of deployment ahead of more compelling opportunities becoming available, also acted as a slight performance detractor over the period.

However, the fund benefited from its overweight US exposure relative to the mainly European-focused high yield FRN index. Its underweight retail exposure also proved helpful as the sector continued to face pressure amid long-term structural headwinds. Relative returns were also helped by positive credit selection within the media, retail, banking, energy and healthcare sectors.

## Portfolio activity and outlook

In a somewhat quieter period for the primary high yield FRN market, activity was more focused on the secondary market this quarter. We purchased bonds from a variety of issuers, including pharmaceutical packaging specialist Bormioli Pharma and recycling companies Paprec and Groupe Ecore. In terms of sales, we reduced our positions in several names, including debt management company Garfunkelux, paper manufacturer Lecta and mobile operator Wind Tre.

Looking ahead, we maintain a positive assessment for high yield markets. While conscious of the recent softening in data, we expect the global economy to continue to grow at a modest pace, which should provide solid support for high yield companies. Furthermore, businesses overall continue to be managed on a

conservative basis, maintaining manageable levels of debt and comfortable interest cover ratios.

However, at this stage of the economic cycle we are keeping a relatively defensive stance, with a preference for non-cyclical business backed by high-quality assets, such as packaging companies and cable operators. We remain underweight more cyclical areas, such as energy and retail, where we think investors are not generally being compensated for the risks.

As a floating rate high yield strategy, with a bias towards senior-secured issues, we believe the fund is well placed to generate steady returns while withstanding further periods of market volatility as we move into the later stages of the economic cycle.

Asset allocation (%)	Net %
Corporate floating rate notes	60.5
Fixed rate bonds + swaps	12.9
Credit default swaps	0.9
Credit default indices	21.7
Low risk assets	0.0
Cash	4.1

Country	Country allocation (%)			Net %
	Physical %	CDS short %	CDS long %	
UK	15.0	0.0	0.9	15.8
Italy	13.7	0.0	0.0	13.7
France	8.8	0.0	0.0	8.8
US	18.2	0.0	0.0	8.8
Luxembourg	7.8	0.0	0.0	7.8
Netherlands	4.9	0.0	0.0	4.9
Germany	2.8	0.0	0.0	2.8
Spain	2.4	0.0	0.0	2.4
Switzerland	2.2	0.0	0.0	2.2
New Zealand	1.8	0.0	0.0	1.8
Other	5.0	0.0	0.0	5.0
High yield indices	0.0	0.0	21.7	21.7
Cash	17.3	0.0	0.0	4.1

Source of all portfolio data: M&G, as at 31 March 2019.

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.

## Long-term performance

Euro A-H	1 year %	3 years % pa	5 years % pa	Since launch %
M&G (Lux) Global Floating Rate High Yield Fund	0.5	2.5	N/A	1.5
Comparative index	1.9	4.8	2.9	2.9

Source: Morningstar Inc., as at 31 March 2019, EUR A-H class shares, income reinvested, price-to-price basis.

Fund performance prior to 21 September 2018 is that of the EUR A-H class share of the M&G Global Floating Rate High Yield Fund, a UK-authorized OEIC, which merged into this fund on 7 December 2018. Tax rates and charges may differ. 'Since launch' refers to the launch date of the M&G Global Floating Rate High Yield Fund's EUR A-H class share, which was 11 September 2014.

Comparative index prior to 31 March 2016 is the ICE BofAML Global Floating Rate High Yield (EUR Hedged) Index. From 1 April 2016 it is the ICE BofAML Global Floating Rate High Yield 3% Constrained (EUR Hedged) Index.

US Dollar A	1 year %	3 years % pa	5 years % pa	Since launch %
M&G (Lux) Global Floating Rate High Yield Fund	3.5	4.8	N/A	3.2
Comparative index	4.9	7.1	4.5	4.6

Source: Morningstar Inc., as at 31 March 2019, USD A class shares, income reinvested, price-to-price basis.

Fund performance prior to 21 September 2018 is that of the USD A class shares of the M&G Global Floating Rate High Yield Fund, a UK-authorized OEIC, which merged into this fund on 7 December 2018. Tax rates and charges may differ. 'Since launch' refers to the launch date of the M&G Global Floating Rate High Yield Fund's USD A class share, which was 11 September 2014.

Comparative index prior to 31 March 2016 is the ICE BofAML Global Floating Rate High Yield (USD Hedged) Index. From 1 April 2016 it is the ICE BofAML Global Floating Rate High Yield 3% Constrained (USD Hedged) Index.

**Past performance is not a guide to future performance.**

**For Investment Professionals, Institutional Investors, Accredited Investors and Professional Investors only. Not for onward distribution. No other persons should rely on any information contained within. Distribution of this document in or from Switzerland is not permissible with the exception of the distribution to Qualified Investors according to the Swiss Collective Investment Schemes Act, the Swiss Collective Investment Schemes Ordinance and the respective Circular issued by the Swiss supervisory authority (“Qualified Investors”). Supplied for the use by the initial recipient (provided it is a Qualified Investor) only.** In Spain the M&G Investment Funds are registered for public distribution under Art. 15 of Act 35/2003 on Collective Investment Schemes as follows: M&G (Lux) Investment Funds 1 reg. no 1551. The collective investment schemes referred to in this document (the “Schemes”) are open-ended investment companies with variable capital, incorporated in England and Wales in respect of M&G Investment Funds and in Luxembourg in respect of M&G (Lux) Investment Funds. In the Netherlands, all funds referred to are UCITS and registered with the Dutch regulator, the AFM. For Hong Kong only: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer of any funds mentioned in it. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. Shares, units or other interests in the funds mentioned in this document may only be offered or sold in Hong Kong to persons who are “professional investors” as defined in the Securities and Futures Ordinance (“Ordinance”) and any rules made under the Ordinance – or in circumstances which are permitted under the Companies (Winding Up and Miscellaneous Provisions) Ordinance. In addition, distribution of this document in Hong Kong is restricted. It may not be issued or possessed for the purposes of issue, whether in Hong Kong or elsewhere, and shares, units or other interests in the funds mentioned may not be disposed of to any person unless such person is a “professional investor” as defined in the Ordinance and any rules made under the Ordinance or as otherwise may be permitted under Hong Kong law. For Singapore only: **This advertisement has not been reviewed by the Monetary Authority of Singapore.** The Funds referred to in this document are each a restricted scheme under the Sixth Schedule to the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations of Singapore and are not authorised by the Monetary Authority of Singapore (MAS) and are not registered for retail public distribution in Singapore. M&G Investments (Singapore) Pte. Ltd. (Co. Reg. No. 201131425R) may distribute information/research produced by its respective foreign affiliates within the M&G Group of companies pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the information/research is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, M&G Investments (Singapore) Pte. Ltd. accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact M&G Investments (Singapore) Pte. Ltd. at (65) 64365315 for matters arising from, or in connection with the information distributed. This information/research is intended for general circulation. It does not take into account the specific investment objectives, financial situation or particular needs of any particular person. You should take into account your specific investment objectives, financial situation or particular needs before making a commitment to invest, including seeking advice from an independent financial adviser regarding the suitability of the investment, under a separate engagement, as you deem fit. No representation or warranty is given as to the accuracy or completeness of this information. Consequently, any person acting on it does so entirely at their own risk. In addition to the disclaimer above, the information does not contain a record of our investment product prices, or an offer of, or solicitation for, a transaction in any investment product. Any views and opinions expressed may be changed without an update. All investment products detailed in this presentation may only be invested by “Accredited Investors” or “Institutional Investors” as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”) and in accordance with the conditions of, any other applicable provision of the SFA and its subsidiary legislations. M&G Investments (Hong Kong) Limited and M&G International Investments S.A. and the Funds referred to in this document may not be authorised, recognised or regulated by the local regulator in your jurisdiction. This information is not an offer or solicitation of an offer for the purchase or sale of investment shares in one of the Funds referred to herein. Purchases of a Fund should be based on the current Prospectus. The Instrument of Incorporation Prospectus, Key Investor Information Document, the, annual or interim Investment Report and Financial Statements, are available free of charge, in paper form, from one of the following: the Luxembourg paying agent: Société Générale Bank & Trust SA, Centre operational 28-32, place de la Gare L-1616 Luxembourg; the Danish paying agent: Nordea Bank Danmark A/S Issuer Services, Securities Services, Hermes Hus, Helgeshøj Allé 33, Postbox 850, DK-0900, Copenhagen C, Denmark; Allfunds Bank, Calle Estafeta, No 6 Complejo Plaza de la Fuente, La Moraleja, 28109, Alcobendas, Madrid, Spain; M&G International Investments S.A. or its French branch; from the French centralising agent of the Fund: RBC Investors Services Bank France; or from the Swedish paying agent: Nordea Bank AB (publ), Smålandsgatan 17, 105 71 Stockholm, Sweden. For Switzerland, please refer to M&G International Investments Switzerland AG, Talstrasse 66, 8001 Zurich. For Italy, they can also be obtained on the website: [www.mandgitalia.it](http://www.mandgitalia.it). For Ireland, they are available in English language and can also be obtained from the Irish facilities agent, Société Générale SA, Dublin Branch, 3rd Floor IFSC House – The IFSC Dublin 1, Ireland. **Before subscribing investors should read the Prospectus**, which includes a description of the investment risks relating to these funds. The information contained herein is not a substitute for independent investment advice. In Hong Kong, this financial promotion is issued by M&G Investments (Hong Kong) Limited, Office: Unit 1002, LHT Tower, 31 Queen’s Road Central, Hong Kong; and, elsewhere, by M&G International Investments S.A. Registered Office: 16, Boulevard Royal, L-2449, Luxembourg. The Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários, the “CMVM”) has received a passporting notification under Directive 2009/65/EC of the European Parliament and of the Council and the Commission Regulation (EU) 584/2010 enabling the fund to be distributed to the public in Portugal.