



M&G Strategic Corporate Bond Fund

Interim Short Report February 2019

For the six months ended 28 February 2019

Fund information

The Authorised Corporate Director (ACD) of M&G Strategic Corporate Bond Fund presents its Interim Short Report which contains a review of the fund's investment activities and investment performance during the period. The ACD's Interim Long Report and unaudited Financial Statements for M&G Strategic Corporate Bond Fund, incorporating a Glossary of terms is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations on 0800 390 390.

ACD

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(Authorised and regulated by the Financial Conduct Authority. M&G Securities Limited is a member of the Investment Association and of the Tax Incentivised Savings Association.)

Investment objective

The fund aims to maximise total return (the combination of income and growth of capital).

Investment policy

The fund invests mainly in investment grade bonds. The fund may invest in derivatives in pursuit of the fund objective and for the purposes of efficient portfolio management. The fund may also invest in other assets including collective investment schemes, other transferable securities and other debt instruments (including corporate, high yield and government debt, convertible and preference stocks), cash, and near cash, deposits, warrants and money market instruments.

Investment approach

The fund's investment approach is largely 'top-down': the fund manager's economic outlook will determine key investment decisions such as the portfolio's duration, and how the fund's assets are invested proportionally by asset class and corporate sector.

The fund manager uses proprietary research, rather than external research. M&G's in-house team of credit analysts provides bottom-up analysis of the corporate bond markets, which complements the fund manager's top-down views.

Risk profile

The fund invests in fixed income securities, or bonds, issued by UK companies. It is primarily subject to the price volatility of the UK bond market as well as the performance of individual issuers. It is also influenced by developments in the broader global bond market. In addition, the fund is subject to fluctuations in currency exchange rates.

The fund's focus is on high-quality corporate bonds, securities that are normally traded with relative ease. Up to 20% of the fund may be invested in other fixed income investments, such as government bonds, which are typically highly liquid assets, or high yield corporate bonds, which are higher risk assets that could potentially experience a degree of illiquidity in times of market distress.

The fund's exposure to debt securities may be gained through the use of derivatives. In association with the use of derivatives, including those instruments not traded through an exchange, collateral is deposited, in order to mitigate the risk that a counterparty may default on its obligations or become insolvent.

Portfolio diversification is key in managing liquidity and default risks as well as reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

The following table shows the risk number associated with the fund and is based on Sterling Class 'A' shares.



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has not changed during this period.

As at 1 March 2019, for the six months ended 28 February 2019

Performance against objective

Between 3 September 2018 (the start of the review period) and 1 March 2019, the M&G Strategic Corporate Bond Fund delivered a small positive total return (the combination of income and growth of capital) in all of its share classes*.

The M&G Strategic Corporate Bond Fund invests predominantly in high-quality, sterling-denominated corporate bonds, with the aim of maximising total return (the combination of income and capital growth).

Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. The initial amount borrowed by the entity is usually repaid at the end of the loan's life. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'. Investment grade corporate bonds refer to debt securities issued by a company with a medium or high credit rating from a recognised credit rating agency. They are considered to be at lower risk of non-repayment than those issued by companies with lower credit ratings (known as high yield bonds). The performance of investment grade corporate bond markets can be influenced by the performance of government bonds.

* For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Fund performance' section of the Interim Long Report and unaudited Financial Statements for M&G Strategic Corporate Bond Fund.

To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period for Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares. Calculated on a price to price basis with income reinvested.

Long-term performance ^[a]				
	Six months 03.09.18 % ^[b]	Three years 01.03.16 % p.a.	Five years 03.03.14 % p.a.	Since launch % p.a.
Sterling ^[c]				
Class 'A'	+0.3	+4.0	+3.2	+5.8 ^[d]
Class 'I'	+0.5	+4.5	+3.7	+4.1 ^[e]

^[a] On 1 September 2009 the M&G Strategic Corporate Bond Fund de-merged from M&G Investment Funds (1) to become the M&G Strategic Corporate Bond Fund.

^[b] Absolute basis.

^[c] Price to price with income reinvested.

^[d] 20 February 2004, the launch date of the merging fund.

^[e] 3 August 2012, the launch date of the share class.

Please note past performance is not a guide to future performance and the value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and you may not get back the original amount you invested.

Investment performance

Volatility returned to financial markets in 2018, as a result of a range of factors that included higher interest rates and inflation, political uncertainty and global trade tensions.

The US Federal Reserve (Fed) raised interest rates in September and December, making it a total of nine times US rates have risen since the great financial crisis about a decade ago. In the UK, much uncertainty remained about the eventual terms of the country's Brexit deal with the European Union (EU). This contributed to times of adverse sentiment towards UK bonds. Investors in Europe became concerned in the latter stages of 2018 about Italian proposals to increase the country's budget deficit. The plans, which met with opposition from the EU, were drafted after an anti-establishment party gained a strong presence in Italy's new coalition government.

Sentiment towards corporate bonds – and international stockmarkets – was increasingly affected by concerns of a trade war developing between the US and China. In addition, during the latter months of 2018, global economic growth forecasts began to moderate, which contributed to some weaker confidence in the outlook for corporate bonds and emerging markets.

Sentiment then changed once again in early 2019, as investors took comfort from statements from the Fed that it would moderate its interest rate rising strategy. This resulted in a strong start to the year for corporate bonds – and helped take corporate bond returns for the six-month period just back into positive territory.

The fund's performance was driven by its sizeable exposure to investment grade corporate bonds and to asset-backed securities (bonds whose income payments are derived from a specified group of underlying pooled assets). The fund's allocation (close to 25% at the end of the reporting period) to US dollar-denominated corporate bonds was beneficial, as these generally performed better than their sterling equivalents over the six months.

Investment activities

One of the key drivers of a bond fund's performance is its ability to adjust the portfolio's sensitivity to changes in interest rates, known as 'duration'. Being shorter duration means that a fund is relatively less sensitive to changes in interest rates than longer-duration funds. During the course of the reporting period, we held the fund's duration close to its maximum permitted short position versus a comparable index, the iBoxx £ Corporate Index.

We once again found opportunities in relative value trades – for example, taking advantage of the difference in pricing between bonds from the same company issued in different currencies or having different maturities – during the review period. In October, for example, we switched some US dollar-denominated positions into equivalent sterling ones, primarily in the telecoms sector.

After a significant sell-off in corporate bond markets towards the end of 2018 caused prices to fall, we have been happy to add some credit risk back into the portfolio. In December we sold some good quality names that had performed well, for example Goldman Sachs and Apple, in order to buy into selected good value credits such as Sky and WPP Group. We took part in a number of new issues in early 2019 that were priced with an attractive new issue premium, including a longer dated US dollar-denominated bond from Inbev.

We continue to think that UK government bonds (also known as gilts) look expensive, and so we have little exposure to these assets.

Outlook

Financial markets have been focused in recent months on the risk of recession in the US, but the reality is that there is no imminent sign of this happening, and the real economy remains healthy.

In our view, monetary policy pursued by the core central banks over the past decade has worked, and the world has normalised. Unemployment levels in many developed economies have fallen significantly and inflation stands above 2%. The only piece of the jigsaw not to have yet returned to 'normal' are interest rates, although rates in the US are not too far off.

While the UK is at a different stage in the cycle to the US from a monetary policy perspective due to Brexit, the two are in a similar place from an economic standpoint.

Our main concern at present is less about an imminent US recession. Rather, we worry that if the financial system is truly different since the great financial crisis – as many have argued – when central banks do eventually need to put on the brakes, they may need to put them on harder than before. At the same time, we remain vigilant about any further escalation in global trade tensions, and watch Brexit developments carefully.

Regardless of how these situations develop, what we do as fund managers does not change. We look at where we are in the interest rate cycle and the economic cycle, and we look at where we can find the most attractive opportunities for the fund from different sectors and individual issuers at any given stage.

Richard Woolnough

Fund manager

An employee of M&G Limited which is an associate of M&G Securities Limited.

Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

Classification of investments

The table below shows the percentage holding per sector.

as at	% of fund	
	28.02.19	31.08.18
FIXED INCOME		
Debt securities		
'AAA' credit rated bonds	1.85	5.53
'AA' credit rated bonds	3.26	4.65
'A' credit rated bonds	17.25	15.35
'BBB' credit rated bonds	56.93	56.73
'BB' credit rated bonds	5.53	5.74
'B' credit rated bonds	0.01	0.00
Bonds with no credit rating	7.36	5.42
Debt derivatives		
Credit default swaps	0.00	0.00
Interest rate swaps	0.00	0.00
Interest rate futures	0.12	0.04
CURRENCY		
Forward currency contracts	1.05	(0.10)
CASH EQUIVALENTS		
'AAA' rated money market funds ^[a]	5.15	4.64

[a] Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.

Portfolio transactions

for the six months to 28 February	2019	2018
Portfolio transactions	£'000	£'000
Total purchases	317,860	354,933
Total sales	571,381	516,829

Purchases and sales exclude the cost and proceeds of 'AAA' rated money market funds.

Please note past performance is not a guide to future performance and the value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and you may not get back the original amount you invested.

The following chart and tables show the performance for two of the fund's share classes – Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

We show performance for these two share classes because:

- The performance of the Sterling Class 'A' (Accumulation) share is what most individuals investing directly with M&G have received. It has the highest ongoing charge of all the sterling share classes. Performance is shown after deduction of this charge. All UK investors in the fund therefore received this performance or better.
- The performance of the Sterling Class 'I' (Accumulation) share is the most appropriate to compare with the average performance of the fund's comparative sector. It is the share class used by the Investment Association in the calculation of the comparative sector's average performance. This share class is available for direct investment with M&G subject to minimum investment criteria, or via third parties who may charge additional fees. The performance shown takes the deduction of the ongoing charge for this share class into account but it does not take account of charges applied by any other party through which you may have invested.

The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G M&G Strategic Corporate Bond Fund, which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations. For the specific performance tables of all share classes, please refer to the Interim Long Report and unaudited Financial Statements for M&G Strategic Corporate Bond Fund, which is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations.

Fund level performance

Fund net asset value

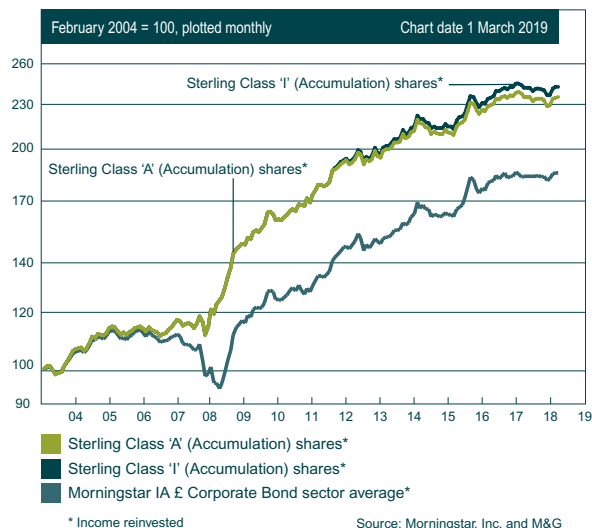
as at	28.02.19 £'000	31.08.18 £'000	31.08.17 £'000
Fund net asset value (NAV)	2,712,392	2,993,538	3,518,319

Financial highlights

Fund performance

Performance since launch

To give an indication of how the fund has performed since launch, the chart below shows total return of Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

To give an indication of how the fund has performed during the period the tables below show the performance of Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

All 'Performance and charges' percentages represent an annual rate except for the 'Return after operating charges' which is calculated as a percentage of the opening net asset value per share (NAV). 'Dilution adjustments' are only in respect of direct portfolio transaction costs.

Sterling Class 'A' Accumulation share performance

The share class was launched on 20 February 2004.

	Six months to 28.02.19 UK p	Year to 31.08.18 UK p	Year to 31.08.17 UK p
Change in NAV per share			
Opening NAV	116.14	117.09	114.64
Return before operating charges and after direct portfolio transaction costs	0.95	0.41	3.92
Operating charges	(0.67)	(1.36)	(1.32)
Return after operating charges	0.28	(0.95)	2.60
Distributions	(1.48)	(2.79)	(2.89)
Retained distributions	1.48	2.79	2.74
Closing NAV	116.42	116.14	117.09
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.16	1.16	1.16
Return after operating charges	+0.24	-0.81	+2.27
Distribution yield	2.73	2.50	2.31
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	780,946	863,290	1,078,937
Closing NAV percentage of total fund NAV (%)	28.79	28.84	30.67
Number of shares	670,775,076	743,347,947	921,487,919
Highest share price (UK p)	117.36	119.06	117.28
Lowest share price (UK p)	113.22	115.14	110.15

Financial highlights

Fund performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.19 UK p	Year to 31.08.18 UK p	Year to 31.08.17 UK p
Change in NAV per share			
Opening NAV	1,292.17	1,296.26	1,263.12
Return before operating charges and after direct portfolio transaction costs	10.68	4.51	43.37
Operating charges	(4.25)	(8.60)	(8.30)
Return after operating charges	6.43	(4.09)	35.07
Distributions	(19.59)	(37.46)	(38.17)
Retained distributions	19.59	37.46	36.24
Closing NAV	1,298.60	1,292.17	1,296.26
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.03	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.03	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.66	0.66	0.66
Return after operating charges	+0.50	-0.32	+2.78
Distribution yield	3.23	3.01	2.81
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	980,996	1,116,634	1,092,958
Closing NAV percentage of total fund NAV (%)	36.17	37.29	31.06
Number of shares	75,542,326	86,415,276	84,316,483
Highest share price (UK p)	1,308.93	1,320.24	1,298.32
Lowest share price (UK p)	1,261.45	1,280.08	1,214.80

^[a] In respect of direct portfolio transaction costs.

^[b] As a percentage of average net asset value.

Financial highlights

Operating charges and portfolio transaction costs

We explain below the payments made to meet the ongoing costs of investing and managing the fund, comprising operating charges and portfolio transaction costs.

Operating charges

Operating charges include payments made to M&G and to providers independent of M&G:

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depository, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

Operating charges do not include portfolio transaction costs or any entry and exit charges (also known as initial and redemption charges). The charging structures of share classes may differ, and therefore the operating charges may differ.

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

For this fund there is no difference between operating charges and ongoing charges figures, unless disclosed under the specific share class performance table.

Financial highlights

Operating charges and portfolio transaction costs

Portfolio transaction costs

Portfolio transaction costs are incurred by funds when buying and selling investments. These costs vary depending on the types of investment, their market capitalisation, country of exchange and method of execution. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission and taxes.
- **Indirect portfolio transaction costs:** 'Dealing spread' – the difference between the buying and selling prices of the fund's investments; some types of investment, such as fixed interest securities, have no direct transaction costs and only the dealing spread is paid.

Investments are bought or sold by a fund when changes are made to the investment portfolio and in response to net flows of money into or out of the fund from investors buying and selling shares in the fund.

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. As the fund invests mainly in fixed interest securities, the direct transaction costs paid on other investments are too small to be reflected in the table below. To give an indication of the indirect portfolio dealing costs the table below shows the average portfolio dealing spread.

Further information on this process is in the Prospectus, which is available free of charge on request either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Portfolio transaction costs

as at	28.02.19	31.08.18	31.08.17	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.83	0.80	0.73	0.79

^[a] Average of first three columns.

Contact



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** Please remember to quote your name and M&G client reference and sign any written communication to M&G. Failure to provide this may affect your ability to transact with us.

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