

M&G (Lux) Absolute Return Bond Fund Euro Class A – Accumulation shares



Monthly Fund Review as at 31 July 2019

For investment professionals only

Highlights

- Fixed income markets continued their solid run in July, supported by the prospect of further stimulus measures from the world's central banks.
- The fund delivered a solid return in the month, with performance mainly driven by the further tightening in credit spreads.
- With credit markets continuing their recent strong run, we further reduced the fund's overall level of credit risk.

The 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.

An 'absolute return' fund may not move in line with market trends or fully benefit from a positive market environment.

The fund may use derivatives to profit from an expected rise or fall in the value of an asset. Should the asset's value vary in an unexpected way, the fund will incur a loss. The fund's use of derivatives may be extensive and exceed the value of its assets (leverage). This has the effect of magnifying the size of losses and gains, resulting in greater fluctuations in the value of the fund.

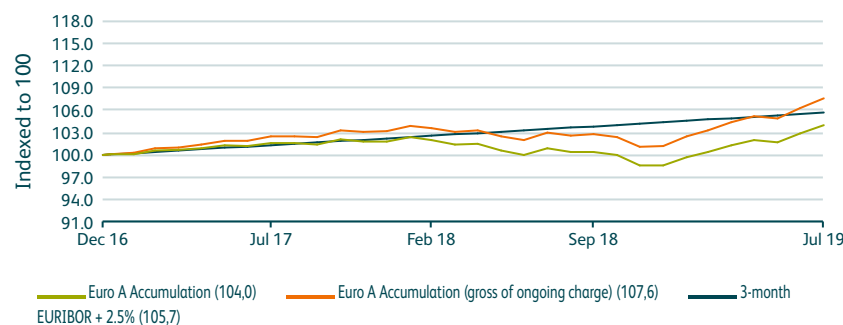
The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.

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)

	2018	2017	2016	2015	2014
■ Euro A Accumulation	-3,2%	1,8%	-	-	-
■ Euro A Accumulation (gross of ongoing charge)	-2,0%	3,1%	-	-	-
■ 3-month EURIBOR + 2.5%	2,1%	2,2%	-	-	-

Performance since launch



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)	Since launch (%)
■ Euro A Accumulation	1,1%	1,9%	5,5%	3,1%	-	-	-
■ Euro A Accumulation (gross of ongoing charge)	1,2%	2,2%	6,3%	4,4%	-	-	-
■ 3-month EURIBOR + 2.5%	0,2%	0,6%	1,3%	2,2%	-	-	-

Past performance is not a guide to future performance.

Source: Morningstar, Inc and M&G, as at 31 July 2019. Returns are calculated on a price to price basis with income reinvested.

The past performance shown here is both gross returns (before the Ongoing Charge Figure is taken) in line with the objective of the fund and net returns (after the Ongoing Charge Figure has been taken) to illustrate how charges affected the performance. Investors should note that the net return is what they would receive and is therefore the more relevant figure.

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Key information

Fund manager	Jim Leaviss, Wolfgang Bauer
Fund manager tenure from	21 December 2016
ISIN	LU1531596028
Launch date of fund	21 December 2016
Launch of share class	21 December 2016
Fund size (millions)	€ 52,73
Fund type	Luxembourg SICAV
Comparative index	3-month EURIBOR
Comparative sector	Morningstar Alternative-long/Short Debt sector
Number of issuers	202
Underlying yield	1,70%
Average credit rating	A
Modified duration (years)	1,22
Average coupon	2,50
Spread duration (years)	3,1

Charges

Entry charge	1,25%
Ongoing charge	1,28%

Strategy allocation (%)

	Net
Asset-backed securities	15,5
Short-dated investment grade credit	20,6
Long-dated investment grade credit	11,4
High yield floating rate notes	1,2
Fixed coupon high yield credit	6,7
High conviction credit (single name or thematic)	39,1
Tactical credit hedge	-57,1
Inflation strategy	2,5
"Risk-free", duration, and currencies	60,2

Things you should know

The fund may invest more than 35% in securities issued by any one or more of the governments listed in the fund prospectus. Such exposure may be combined with the use of derivatives in pursuit of the fund objective. It is currently envisaged that the fund's exposure to such securities may exceed 35% in the governments of Germany, Japan, UK, USA although these may vary subject only to those listed in the prospectus.

The fund allows for the extensive use of derivatives.

Fund ratings

Ratings should not be taken as a recommendation.

Duration by currency and asset class

	Fund	Futures	Swaps	Net
Euro	2,0	-2,0	0,0	0,0
British pound	0,7	-0,3	0,0	0,4
US dollar	2,0	-1,3	0,0	0,7
Other	0,1	0,0	0,0	0,1
Total	4,8	-3,5	0,0	1,2

Credit rating breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
AAA	11,6	0,0	0,0	11,6
AA	6,4	0,0	0,0	6,4
A	13,0	-0,8	0,0	12,2
BBB	46,7	-43,2	2,4	5,9
BB	12,5	0,0	0,0	12,5
B	6,7	0,0	0,0	6,7
CCC	0,0	0,0	0,0	0,0
CC	0,0	0,0	0,0	0,0
C	0,0	0,0	0,0	0,0
D	0,0	0,0	0,0	0,0
No rating	0,0	-14,5	1,1	-13,5
Cash	3,0	0,0	0,0	58,0

Country breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
US	27,0	-0,8	0,0	26,2
UK	22,3	0,0	1,8	24,1
Germany	6,3	0,0	0,0	6,3
Italy	5,7	0,0	0,2	6,0
France	4,6	0,0	0,0	4,6
Netherlands	3,7	0,0	0,0	3,7
Ireland	3,6	0,0	0,0	3,6
Spain	3,5	0,0	0,0	3,5
Belgium	1,6	0,0	0,4	2,0
Switzerland	1,9	0,0	0,0	1,9
Other	16,7	0,0	0,0	16,7
Investment Grade indices	0,0	-43,2	1,0	-42,2
High Yield indices	0,0	-14,5	0,0	-14,5
Cash	3,0	0,0	0,0	58,0

Largest issuers (excluding government bonds and CDS indices, %)

	Fund
Paragon Group	2,1
Anglo American Capital	1,4
AT&T	1,3
Lloyds Banking Group	1,2
Vodafone Group	1,2
Aroundtown	1,2
BBVA	1,2
Glencore Finance Europe	1,1
Thames Water	1,0
Energy Transfer	1,0

Maturity breakdown (%)

	Physical
0 - 1 years	5,3
1 - 3 years	7,2
3 - 5 years	26,6
5 - 7 years	17,7
7 - 10 years	14,7
10 - 15 years	10,8
15+ years	14,6
Cash	3,0

Currency breakdown (%)

	Pre-hedge	Post-hedge
Euro	50,5	93,9
Japanese yen	0,0	2,5
US dollar	30,9	1,5
Russian ruble	0,5	0,5
Swiss franc	0,0	0,5
Uruguay peso	0,4	0,4
Indonesian rupiah	0,3	0,3
Mexican peso	0,3	0,3
Colombian peso	0,1	0,1
British pound	17,1	0,1

Industry breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Banking	15,1	0,0	0,0	15,1
Mortgage backed	9,8	0,0	0,0	9,8
Telecommunications	7,7	0,0	0,0	7,7
Asset backed	7,6	0,0	0,0	7,6
Insurance	6,6	0,0	0,0	6,6
Basic industry	5,4	0,0	0,7	6,1
Sovereign	5,5	0,0	0,0	5,5
Automotive	4,9	0,0	0,0	4,9
Foreign Sovereign	4,2	0,0	0,2	4,5
Real Estate	4,4	0,0	0,0	4,4
Consumer goods	3,9	0,0	0,4	4,2
Healthcare	4,6	-0,8	0,0	3,9
Energy	3,2	0,0	0,0	3,2
Media	2,1	0,0	0,0	2,1
Capital goods	2,0	0,0	0,0	2,0
Utility	2,0	0,0	0,0	2,0
Transportation	1,7	0,0	0,0	1,7
Covered Bonds	1,4	0,0	0,0	1,4
Retail	1,2	0,0	0,0	1,2
Services	1,1	0,0	0,0	1,1
Financial services	1,0	0,0	0,0	1,0
Technology & electronics	0,4	0,0	0,0	0,4
Supranational	0,3	0,0	0,0	0,3
Local-Authority	0,1	0,0	0,0	0,1
Investment Grade indices	0,0	-43,2	1,0	-42,2
High Yield indices	0,0	-14,5	0,0	-14,5
Other	0,7	0,0	1,1	1,8
Cash	3,0	0,0	0,0	58,0

Commentary

Fixed income markets continued their solid run in July, supported by the prospect of further stimulus measures from the world's central banks. European government bond yields continued to decline as the European Central Bank gave strong hints that further easing was on its way to tackle persistently below target inflation and sluggish growth.

As expected, the Federal Reserve cut interest rates for the first time since 2008, citing muted inflation and ongoing trade tensions. However, Treasury yields increased slightly in the month as Fed chairman Jerome Powell specified that the cut constituted a mid-cycle adjustment to policy, and not the beginning of a prolonged rate cutting cycle.

In the UK, Boris Johnson's appointment as Prime Minister triggered further weakness in sterling as markets priced in the increased probability of a no-deal Brexit. However, gilts performed strongly, with 10-year yields declining from 0.8% to 0.6% in the month.

The fund delivered a solid return in July, with performance mainly driven by the further tightening in credit spreads.

Key changes

With credit markets continuing their recent strong run, we further reduced the fund's overall level of credit risk. We continued to rotate out of higher-beta credits such as long-dated financials, into more defensive instruments such as short-dated asset backed securities (ABS). We also increased our "buy protection" CDS index positions, to help protect the portfolio against any future sell-off in credit markets.

Duration was broadly unchanged overall, although we scaled back our US dollar duration as we believe US Treasury yields are pricing in a quite an aggressive series of interest rate cuts, which appears to be somewhat at odds with the relatively positive economic situation in the US.

In currencies, we made no active changes. We maintained our 'barbell' approach, consisting on the one hand of defensive 'safe-haven' positions – such as the Japanese yen, Swiss franc and US dollar – and on the other hand, smaller opportunistic positions, such as the Russian ruble and the Colombian peso.

Fund codes and charges

Share class	ISIN	Bloomberg	Currency	Launch date of fund	Ongoing charge	Distribution yield	Underlying yield	Minimum initial investment	Minimum top up investment
Euro A Acc	LU1531596028	MGARAEA LX	EUR	21/12/2016	1,28%	-	1,70%	€1.000	€75
Euro A Inc	LU1531596291	MGARAEI LX	EUR	21/12/2016	1,28%	2,96%	1,70%	€1.000	€75
Euro B Acc	LU1805383210	MGARBED LX	EUR	08/05/2018	1,60%	2,96%	1,38%	€1.000	€75
Euro B Inc	LU1805383640	MGARBEA LX	EUR	08/05/2018	1,59%	-	1,39%	€1.000	€75
Euro C Acc	LU1531596374	MGARCEA LX	EUR	21/12/2016	0,68%	-	2,30%	€500.000	€50.000
Euro C Inc	LU1531596457	MGARCEI LX	EUR	21/12/2016	0,68%	2,96%	2,30%	€500.000	€50.000
Euro CI Acc	LU1531596531	MGACIEA LX	EUR	21/12/2016	0,64%	-	2,34%	€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 do not include portfolio transaction costs. They are based on expenses for the period ending 31 March 2019. Any ongoing charge figure with * indicates an estimate. The fund's annual report for each financial year will include details of the exact charges.

Please note that not all of the share classes listed above might be available in your country.

Please see the Important Information for Investors document and the relevant Key Investor Information Document for more information on the risks associated with this fund and which share classes are available for which product and which investor type.

Important information

Cash may be held on deposit and/or in the Northern Trust Cash Funds, a range of collective investment schemes.

It is policy to offset certain charges against income for accumulation share classes and to offset certain charges against capital for income share classes. These charges include the annual management charge, administration fee and share class hedging fee (where applicable). As a result, yield figures for income and accumulation share classes may differ significantly.

For income share classes, the distribution yield is higher than the underlying yield only because a portion of the fund's expenses are charged to capital. This has the effect of increasing distribution(s) for the year and constraining the fund's capital performance to an equivalent extent.

The M&G (Lux) Absolute Return Bond Fund is a sub-fund of M&G (Lux) Investment Funds 1.

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.

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Before subscribing investors should read the Prospectus, which includes a description of the investment risks relating to these funds.

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