

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



Monthly Fund Review as at 31 May 2019

For investment professionals only

Highlights

- After a buoyant market for the first four months of the year, investor sentiment deteriorated sharply in May, with weakness across the majority of risk assets.
- The fund declined modestly over the month, with widening credit spreads weighing on returns.
- Following this month's market movements, we reduced interest rate duration while adding a small amount of credit spread duration.

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.

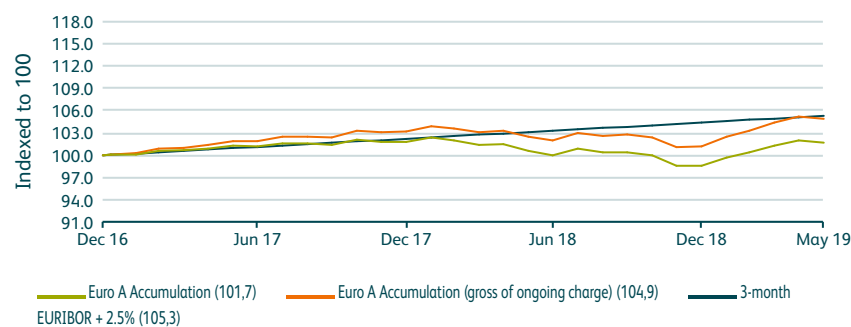
The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.

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%	-	-	-

Evolution of the NAV since launch



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	Since launch (%)
■ Euro A Accumulation	-0,4%	1,2%	3,1%	1,0%	-	-	-
■ Euro A Accumulation (gross of ongoing charge)	-0,2%	1,5%	3,7%	2,4%	-	-	-
■ 3-month EURIBOR + 2.5%	0,2%	0,6%	0,9%	2,1%	-	-	-

Past performance is not a guide to future performance.

Source: Morningstar, Inc and M&G, as at 31 May 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)	€ 54,33
Fund type	Luxembourg SICAV
Comparative index	3-month EURIBOR
Comparative sector	Morningstar Alternative-long/Short Debt sector
Number of issuers	200
Average credit rating	A-
Modified duration (years)	1,48
Average coupon	2,65
Spread duration (years)	3,4

Charges

Entry charge	1,25%
Ongoing charge	1,30%

Strategy allocation (%)

	Net
Asset-backed securities	12,0
Short-dated investment grade credit	21,1
Long-dated investment grade credit	8,8
High yield floating rate notes	1,8
Fixed coupon high yield credit	6,0
High conviction credit (single name or thematic)	44,8
Tactical credit hedge	-47,4
Inflation strategy	2,2
"Risk-free", duration, and currencies	50,6

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	2,1	-2,1	0,0	0,0
British pound	0,8	-0,3	0,0	0,5
US dollar	1,5	-0,5	0,0	1,0
Total	4,5	-3,0	0,0	1,5
Other	0,1	0,0	0,0	0,1

Credit rating breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
AAA	9,2	0,0	0,0	9,2
AA	6,0	0,0	0,0	6,0
A	9,6	-0,7	0,0	8,8
BBB	50,8	-35,6	2,5	17,7
BB	14,7	0,0	0,0	14,7
B	7,0	0,0	0,0	7,0
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	0,8	-12,4	1,0	-10,6
Cash	2,0	0,0	0,0	47,2

Country breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
US	25,7	-0,7	0,0	24,9
UK	22,1	0,0	1,8	23,9
Italy	6,8	0,0	0,2	7,0
France	6,6	0,0	0,0	6,6
Germany	5,8	0,0	0,0	5,8
Spain	4,4	0,0	0,2	4,6
Netherlands	4,2	0,0	0,0	4,2
Ireland	3,4	0,0	0,0	3,4
Switzerland	2,6	0,0	0,0	2,6
Belgium	1,7	0,0	0,4	2,1
Other	14,7	0,0	0,0	14,7
Investment Grade indices	0,0	-35,6	1,0	-34,6
High Yield indices	0,0	-12,4	0,0	-12,4
Cash	2,0	0,0	0,0	47,2

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

	Fund
Paragon Group	2,1
Lloyds Banking Group	2,0
BBVA	1,5
Anglo American Capital	1,4
Societe Generale	1,3
AT&T	1,2
Altria Group	1,2
Aroundtown	1,1
Glencore Finance Europe	1,0
Thames Water	1,0

Maturity breakdown (%)

	Physical
0 - 1 years	4,4
1 - 3 years	8,5
3 - 5 years	28,3
5 - 7 years	19,7
7 - 10 years	15,2
10 - 15 years	10,0
15+ years	11,9
Cash	2,0

Currency breakdown (%)

	Pre-hedge	Post-hedge
Euro	56,8	93,4
Japanese yen	0,0	3,5
US dollar	24,3	1,3
Russian ruble	0,5	0,5
Swiss franc	0,0	0,4
Uruguay peso	0,3	0,3
Mexican peso	0,2	0,2
Indonesian rupiah	0,2	0,2
Colombian peso	0,1	0,1
British pound	17,4	0,0

Industry breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Banking	19,7	0,0	0,0	19,7
Insurance	8,2	0,0	0,0	8,2
Telecommunications	7,7	0,0	0,2	7,8
Mortgage backed	7,6	0,0	0,0	7,6
Asset backed	6,6	0,0	0,0	6,6
Sovereign	6,1	0,0	0,0	6,1
Basic industry	5,1	0,0	0,7	5,9
Automotive	5,0	0,0	0,0	5,0
Real Estate	4,7	0,0	0,0	4,7
Healthcare	5,1	-0,7	0,0	4,4
Consumer goods	3,4	0,0	0,4	3,8
Foreign Sovereign	2,7	0,0	0,2	2,9
Utility	2,9	0,0	0,0	2,9
Energy	2,9	0,0	0,0	2,9
Capital goods	1,9	0,0	0,0	1,9
Media	1,7	0,0	0,0	1,7
Services	1,4	0,0	0,0	1,4
Retail	1,3	0,0	0,0	1,3
Transportation	1,2	0,0	0,0	1,2
Financial services	1,0	0,0	0,0	1,0
Covered Bonds	1,0	0,0	0,0	1,0
Technology & electronics	0,6	0,0	0,0	0,6
Supranational	0,2	0,0	0,0	0,2
Local-Authority	0,1	0,0	0,0	0,1
Investment Grade indices	0,0	-35,6	1,0	-34,6
High Yield indices	0,0	-12,4	0,0	-12,4
Other	0,0	0,0	1,0	1,0
Cash	2,0	0,0	0,0	47,2

Commentary

After a buoyant start to the year, investor sentiment deteriorated sharply in May, with weakness across the majority of risk assets. The change in tone was largely driven by the resurfacing of trade tensions between the US and China, along with wider concerns over slowing global growth. Political uncertainty in the UK and across the eurozone following inconclusive European elections contributed further to the more cautious mood.

Core government bonds were the main beneficiaries of the renewed risk aversion, with solid returns across US Treasuries, bunds and gilts. Yields on 10-year Treasuries declined to 2.1% from 2.5% over the month, while 10-year bund yields fell to -0.2% from 0.0%, their lowest level on record.

However, it was a disappointing month for credit, with spreads widening across both investment grade and high yield markets. From a regional perspective, European credit generally underperformed US credit, in large part due to renewed political tensions in Italy and the UK. Despite a challenging market backdrop, the fund experienced only a modest decline over the month. While widening credit spreads had a negative impact, this was partly mitigated by our earlier de-risking measures, having reduced credit risk and added duration over the previous couple of months.

Key changes

Following the month's sell-off in credit, we added back a small amount of spread duration. This was mainly achieved through the purchase of several new corporate bond issues, both in the investment grade and high yield bond space. However, in our view, the move in spreads has not yet been sufficient to justify a more significant increase in credit risk, and we remain cautiously positioned overall.

We were, however, more active in terms of our duration positioning, meaningfully reducing interest rate risk following the aggressive repricing of core government bond yields. Our interest rate exposure now largely consists of US duration, with only minimal European duration.

In currencies, we added small long positions in the Indonesian rupiah and Mexican peso. Otherwise, we maintain 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 Colombian peso.

Fund codes and charges

Share class	ISIN	Bloomberg	Currency	Launch date of fund	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A Acc	LU1531596028	MGARAEA LX	EUR	21/12/2016	1,30%	€1.000	€75
Euro A Inc	LU1531596291	MGARAEI LX	EUR	21/12/2016	1,27%	€1.000	€75
Euro B Acc	LU1805383210	MGARBED LX	EUR	08/05/2018	1,57%	€1.000	€75
Euro B Inc	LU1805383640	MGARBEA LX	EUR	08/05/2018	1,57%	€1.000	€75
Euro C Acc	LU1531596374	MGARCEA LX	EUR	21/12/2016	0,70%	€500.000	€50.000
Euro C Inc	LU1531596457	MGARCEI LX	EUR	21/12/2016	0,70%	€500.000	€50.000
Euro CI Acc	LU1531596531	MGACIEA LX	EUR	21/12/2016	0,65%	€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 30 September 2018. 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.

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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The Instrument of Incorporation, Prospectus, Key Investor Information Document, annual or interim Investment Report and Financial Statements of the fund, are available free of charge from M&G International Investments S.A., or its French branch, 6 rue Lamennais, Paris 75008, registered on the Trade Register of Paris, No. 499 832 400 or from the French centralising agent of the Fund: RBC Investors Services Bank France.

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