

M&G Absolute Return Bond Fund Sterling Class I – Accumulation shares



Monthly Fund Review as at 30 September 2019

For investment professionals only

Highlights

- Fixed income markets were largely driven by central bank announcements, with both the Federal Reserve and the ECB implementing further rate cuts.
- The fund delivered a small positive return in the month, with our credit positions continuing to hold up well overall.
- We continued to gradually de-risk the fund from a credit perspective, this month reducing our Italian exposure following the recent rally in peripheral assets.

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.

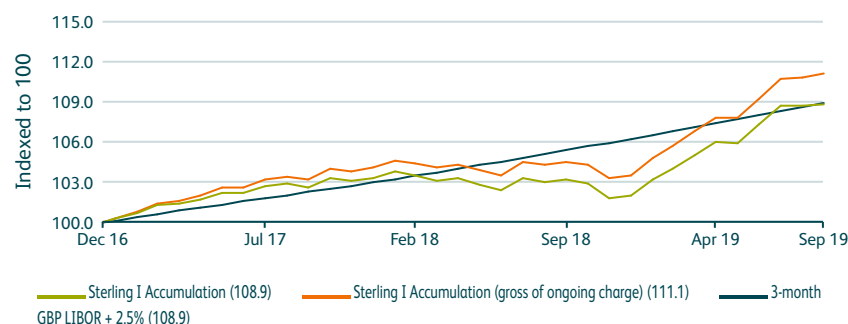
The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.

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
■ Sterling I Accumulation	-1.4%	3.0%	-	-	-
■ Sterling I Accumulation (gross of ongoing charge)	-0.6%	3.8%	-	-	-
■ 3-month GBP LIBOR + 2.5%	3.2%	2.8%	-	-	-

Performance since launch



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.
■ Sterling I Accumulation	0.2%	1.5%	6.8%	5.5%	-	-
■ Sterling I Accumulation (gross of ongoing charge)	0.2%	1.7%	7.3%	6.3%	-	-
■ 3-month GBP LIBOR + 2.5%	0.3%	0.8%	2.5%	3.4%	-	-

Past performance is not a guide to future performance.

Performance comparison: The fund is actively managed. The benchmark is a target which the fund seeks to achieve. The rate has been chosen as the fund's target benchmark as it is an achievable performance target given the fund's investment policy. The target benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction.

Source: Morningstar, Inc and M&G, as at 30 September 2019. Returns are calculated on a price to price basis with income reinvested. Benchmark returns stated in GBP terms.

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	13 December 2016
ISIN	GB00BD6FFN71
Launch date of fund	13 December 2016
Launch of share class	13 December 2016
Fund size (millions)	£ 48.86
Benchmark	3M GBP Libor + 2.5% p.a. (Gross)
Benchmark type	Target
Sector	IA Target Absolute Return Average
Number of issuers	204
Distribution yield	2.25%
Underlying yield	2.25%
Average credit rating	A-
Modified duration (years)	2.09
Average coupon	2.56
Spread duration (years)	3.3
Payment dates	May, Nov
Ex-dividend dates	Apr, Oct

Charges

Entry charge	0.00%
Ongoing charge	0.60%

Strategy allocation (%)

	Net
Asset-backed securities	14.9
Short-dated investment grade credit	18.5
Long-dated investment grade credit	14.3
High yield floating rate notes	0.7
Fixed coupon high yield credit	6.6
High conviction credit (single name or thematic)	36.3
Tactical credit hedge	-50.7
Inflation strategy	3.1
"Risk-free", duration, and currencies	56.3

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

Defaqto Rating	4 Diamonds
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Source: Defaqto, as at 30 September 2019

Ratings should not be taken as a recommendation.

Duration by currency and asset class

	Fund	Futures	Swaps	Net
Euro	1.9	-1.3	0.0	0.6
British pound	1.0	-0.4	0.0	0.6
US dollar	2.2	-1.4	0.0	0.8
Other	0.1	0.0	0.0	0.1
Total	5.3	-3.1	0.0	2.1

Credit rating breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
AAA	12.7	0.0	0.0	12.7
AA	10.5	0.0	0.0	10.5
A	14.9	-0.3	0.0	14.6
BBB	42.5	-50.6	3.4	-4.8
BB	11.8	0.0	0.0	11.8
B	3.8	-1.8	0.0	2.0
CCC	0.3	0.0	0.0	0.3
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	0.2	0.0	0.5	0.7
Cash	3.4	0.0	0.0	52.2

Country breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
US	32.6	-0.8	0.0	31.8
UK	25.5	0.0	0.7	26.2
France	5.7	0.0	0.0	5.7
Italy	3.8	0.0	0.2	4.0
Germany	4.0	0.0	0.0	4.0
Spain	2.9	0.0	0.0	2.9
Netherlands	1.7	0.0	0.0	1.7
Switzerland	1.7	0.0	0.0	1.7
Other	18.7	0.0	1.2	19.9
High Yield indices	0.0	-1.8	0.0	-1.8
Investment Grade indices	0.0	-50.1	1.7	-48.4
Cash	3.4	0.0	0.0	52.2
Other	0.2	0.0	0.0	0.2

Largest issuers (excl. government bonds and CDS indices, %)

	Fund
Oat Hill	1.3
AT&T	1.2
Wells Fargo & Company	1.1
BBVA	1.1
Aroundtown	1.1
Bpce	1.0
Teva Pharmaceutical Finance Netherlands II	1.0
Goldman Sachs	0.9
Avoca CLO XVII DAC Avoca_17x	0.9
Vodafone Group	0.9

Maturity breakdown (%)

	Physical
0 - 1 years	7.3
1 - 3 years	12.4
3 - 5 years	21.1
5 - 7 years	17.1
7 - 10 years	20.4
10 - 15 years	5.7
15+ years	12.7
Cash	3.4

Currency breakdown (%)

	Pre-hedge	Post-hedge
British pound	41.0	97.5
Japanese yen	0.0	2.5
US dollar	34.4	1.5
Mexican peso	0.4	0.4
Australian dollar	0.4	0.4
Russian ruble	0.4	0.4
Swiss franc	0.0	0.4
Indonesian rupiah	0.2	0.2
Colombian peso	0.1	0.1
Other	23.0	-3.5

Industry breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Banking	16.5	0.0	0.0	16.5
Mortgage backed	9.8	0.0	0.0	9.8
Sovereign	7.6	0.0	0.0	7.6
Asset backed	7.5	0.0	0.0	7.5
Insurance	6.2	0.0	0.0	6.2
Basic industry	5.8	0.0	1.0	6.8
Real Estate	5.7	0.0	0.0	5.7
Telecommunications	5.2	0.0	0.0	5.2
Healthcare	4.3	-0.8	0.0	3.6
Automotive	3.9	0.0	0.0	3.9
Foreign Sovereign	3.5	0.0	0.2	3.8
Energy	3.4	0.0	0.0	3.4
Consumer goods	3.2	0.0	0.4	3.5
Transportation	2.5	0.0	0.0	2.5
Capital goods	2.3	0.0	0.0	2.3
Media	2.1	0.0	0.0	2.1
Retail	2.0	0.0	0.0	2.0
Financial services	1.1	0.0	0.0	1.1
Utility	1.1	0.0	0.0	1.1
Services	0.9	0.0	0.0	0.9
Covered Bonds	0.7	0.0	0.0	0.7
Supranational	0.2	0.0	0.0	0.2
Technology & electronics	0.2	0.0	0.0	0.2
Pfd-Banking	0.1	0.0	0.0	0.1
Local-Authority	0.1	0.0	0.0	0.1
Investment Grade indices	0.0	-50.1	1.7	-48.4
Other	0.4	0.0	0.5	0.9
High Yield indices	0.0	-1.8	0.0	-1.8
Cash	3.4	0.0	0.0	52.2

Commentary

Fixed income markets were largely driven by central bank announcements in September, with both the Federal Reserve and the European Central Bank (ECB) confirming a range of stimulus measures to help boost flagging global growth. Nevertheless, core government bonds generally had a weak month, indicating that expectations for further monetary loosening had been set extremely high. Gilts, which continued to benefit from safe haven flows amid ongoing Brexit uncertainty, were the notable exception.

Within investment grade credit, spreads were mostly little changed. Despite heavy new issuance and ongoing macro uncertainty, the prospect of an extended period of ultra-accommodative central bank policy is helping to drive spreads ever tighter. Returns in high yield markets were somewhat mixed, with positive returns in US and emerging markets high yield debt contrasting with modest declines in European high yield. The fund delivered a small positive return in the month. Holding some duration meant the fund experienced a slight headwind from this month's rise in government bond yields, although our credit positions continued to hold up well overall.

Key changes

With core government bond yields rising sharply in the first half of September, we took the opportunity to add back a small amount of interest rate risk. As in previous months, we maintain a slight preference for US over European duration, as we see greater upside potential in US debt. We continued to gradually de-risk the fund from a credit perspective, looking for opportunities to switch into more defensive credits. A key trade this month was the reduction in our Italian credit exposure following the recent rally in peripheral assets. We sold three-year Italian government bonds, as well as covered bonds issued by Intesa Sanpaolo and Banca Monte dei Paschi di Siena. Elsewhere, we scaled back a number of our UK bank holdings, which had reacted very favourably to the ECB's latest policy announcements. Opportunistically, we purchased some UK residential mortgage backed securities (RMBS) following recent price weakness. In currencies, 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 emerging market positions.

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
Sterling A Acc	GB00BD6FFQ03	MGARAAG LN	GBP	13/12/2016	0.80%*	2.05%	2.05%	£500	£100
Sterling A Inc	GB00BD6FFR10	MGARAIG LN	GBP	13/12/2016	0.80%*	2.85%	2.05%	£500	£100
Sterling I Acc	GB00BD6FFN71	MGARIAG LN	GBP	13/12/2016	0.60%*	2.25%	2.25%	£500,000	£10,000
Sterling I Inc	GB00BD6FFP95	MGARIIG LN	GBP	13/12/2016	0.60%*	2.85%	2.25%	£500,000	£10,000
Sterling L Acc	GB00BD6FFS27	MGARBLG LN	GBP	13/12/2016	0.50%*	2.35%	2.35%	£20,000,000	£50,000
Sterling L Inc	GB00BD6FFT34	MGARLIG LN	GBP	13/12/2016	0.50%*	2.85%	2.35%	£20,000,000	£50,000

Any ongoing charge figure with * indicates an estimate. The ongoing charge figure may vary from year to year and excludes portfolio transaction costs. The charges are mostly, if not exclusively, the Annual Charge which may be discounted depending on the size of the fund. For further details, please see the fund's Key Investor Information Document (KIID). The fund's annual report for each financial year will include details on the exact charges made.

Please go to www.mandg.co.uk/literature to view the Costs and charges illustration which contains information on the costs and charges applicable to your chosen fund and share class.

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 Absolute Return Bond Fund is a sub-fund of M&G Investment Funds (10).

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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