

M&G Emerging Markets Bond Fund Sterling Class I – Accumulation shares



Monthly Fund Review as at 31 July 2019

For investment professionals only

Highlights

- As widely expected, the US Federal Reserve reduced interest rates at the end of July.
- Emerging bond markets generally delivered gains in the month.
- The fund remained globally diversified across hard and local currency government and corporate bonds.

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.

Investing in emerging markets involves a greater risk of loss due to greater political, tax, economic, foreign exchange, liquidity and regulatory risks, among other factors. There may be difficulties in buying, selling, safekeeping or valuing investments in such countries.

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.

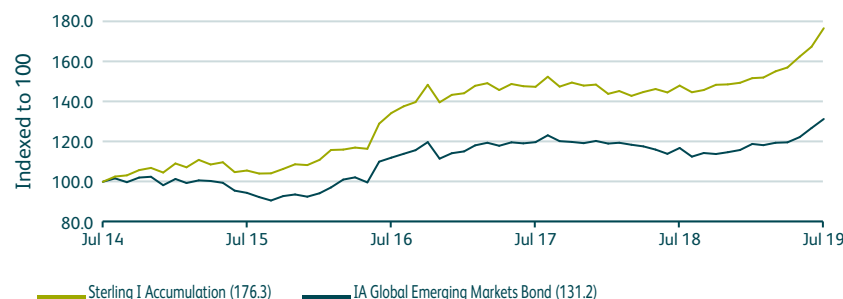
The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.

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	0.6%	3.5%	32.2%	3.6%	10.9%
■ IA Global Emerging Markets Bond	-3.7%	5.3%	23.3%	-5.8%	2.6%

Performance over 5 years



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	Since launch (%) p.a.
■ Sterling I Accumulation	5.5%	12.4%	18.2%	19.3%	9.5%	12.0%	-
■ IA Global Emerging Markets Bond	3.5%	9.7%	13.4%	12.3%	5.4%	5.6%	-

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.

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Key information

Fund manager	Claudia Calich
Fund manager tenure from	02 December 2013
Deputy fund manager	Charles De Quinsonas
ISIN	GB00B7GNKY53
Launch date of fund	15 October 1999
Launch of share class	19 April 2012
Fund size (millions)	£ 647.92
Fund type	OEIC, incorporated in the UK
Comparative sector	IA Global Emerging Markets Bond sector
Number of issuers	114
Distribution yield	5.75%
Underlying yield	5.75%
Average credit rating	BB
Modified duration (years)	5.84
Average coupon	6.49
Spread duration (years)	4.3
Payment dates	Feb, Aug
Ex-dividend dates	Jan, Jul

Charges

Entry charge	0.00%
Ongoing charge	0.79%

Things you should know

The fund allows for the extensive use of derivatives.

Fund ratings

Overall Morningstar rating	★★★★★
The Adviser Centre rating	Recommended
Defaqto Rating	5 Diamonds
Financial Express Crown Rating	
Fund Calibre Rating	Yes
RSM rating	Yes
Squaremile rating	A
Source of Morningstar ratings: Morningstar, as at 31 July 2019	
Source: Adviser Centre	
Source: Defaqto, as at 31 July 2019	
Source: Financial Express	
Source: Fund Calibre	
Source: RSM	
Source: Squaremile	

Ratings should not be taken as a recommendation.

Asset breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Government bonds - local currency	27.2	0.0	0.0	27.2
Government bonds - hard currency	41.2	0.0	0.0	41.2
Credit - local currency	5.0	0.0	0.0	5.0
Credit - hard currency	26.0	0.0	0.0	26.0
Cash	0.6	0.0	0.0	0.6

Credit rating breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
AAA	1.4	0.0	0.0	1.4
AA	4.1	0.0	0.0	4.1
A	4.2	0.0	0.0	4.2
BBB	17.0	0.0	0.0	17.0
BB	24.6	0.0	0.0	24.6
B	33.6	0.0	0.0	33.6
CCC	1.0	0.0	0.0	1.0
CC	0.0	0.0	0.0	0.0
C	0.0	0.0	0.0	0.0
D	0.4	0.0	0.0	0.4
No rating	13.2	0.0	0.0	13.2
Cash	0.6	0.0	0.0	0.6

Country breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Mexico	5.4	0.0	0.0	5.4
Brazil	4.9	0.0	0.0	4.9
Russia	4.3	0.0	0.0	4.3
US	3.6	0.0	0.0	3.6
Ukraine	3.4	0.0	0.0	3.4
Egypt	3.3	0.0	0.0	3.3
India	2.8	0.0	0.0	2.8
Turkey	2.7	0.0	0.0	2.7
Chile	2.5	0.0	0.0	2.5
Peru	2.5	0.0	0.0	2.5
Other	63.9	0.0	0.0	63.9
Cash	0.6	0.0	0.0	0.6

Largest issuers (%)

	Fund
US	3.1
Mexico	3.0
Egypt	2.8
Brazil	2.5
Ukraine	2.5
Russia	2.4
Dominican Republic	2.1
Nigeria	2.1
Turkey	2.0
Bonos de la Tesoreria de la Republica en pesos	1.9

Maturity breakdown (%)

	Physical
0 - 1 years	3.6
1 - 3 years	8.2
3 - 5 years	21.2
5 - 7 years	24.4
7 - 10 years	19.2
10 - 15 years	4.7
15+ years	18.0
Cash	0.6

Currency breakdown (%)

	Pre-hedge	Post-hedge
US dollar	58.0	68.1
Indonesian rupiah	2.6	2.6
Mexican peso	2.5	2.5
Brazilian real	2.5	2.5
Russian ruble	2.5	2.4
Chilean peso	1.9	1.8
Peruvian nuevo sol	1.6	1.6
Colombian peso	1.6	1.6
Indian rupee	1.5	1.5
Other	25.2	15.3

Industry breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Foreign Sovereign	37.1	0.0	0.0	37.1
Sovereign	31.3	0.0	0.0	31.3
Energy	5.4	0.0	0.0	5.4
Basic industry	3.7	0.0	0.0	3.7
Transportation	2.7	0.0	0.0	2.7
Banking	2.6	0.0	0.0	2.6
Agency	2.5	0.0	0.0	2.5
Financial services	1.9	0.0	0.0	1.9
Real Estate	1.9	0.0	0.0	1.9
Consumer goods	1.8	0.0	0.0	1.8
Local-Authority	1.8	0.0	0.0	1.8
Healthcare	1.6	0.0	0.0	1.6
Supranational	1.4	0.0	0.0	1.4
Utility	1.2	0.0	0.0	1.2
Services	1.1	0.0	0.0	1.1
Telecommunications	0.6	0.0	0.0	0.6
Capital goods	0.6	0.0	0.0	0.6
Leisure	0.2	0.0	0.0	0.2
Investment Grade indices	0.0	0.0	0.0	0.0
High Yield indices	0.0	0.0	0.0	0.0
Cash	0.6	0.0	0.0	0.6

Commentary

Emerging market debt generally produced gains in July, although performance was more modest than in the previous month's rally. Among key themes, the US Federal Reserve (Fed) confirmed a 0.25 percentage point reduction in interest rates the end of the period, its first policy cut since 2008. While the move was widely expected, uncertainty prevailed in markets about the outlook for further policy changes, with the reduction labelled a 'mid-cycle adjustment' by Fed Chairman Jerome Powell.

Much attention also remained focused on international trade tensions, particularly between the US and China, although July was a relatively quiet month for further developments on the issue. However, there were heightened concerns among investors as August began when President Trump indicated additional tariffs would soon be introduced, and China allowed its currency to devalue markedly.

In the emerging bond markets, hard currency government bonds registered the best returns. The JP Morgan Emerging Markets Bond (EMBI) Global Diversified Index, which tracks hard currency sovereign debt, returned 1.2%. For local currency sovereigns, the JP Morgan GBI-EM Global Diversified Index gained 0.9% in July. This result was matched by the JP Morgan Corporate EMBI (CEMBI) Broad Diversified Index, which measures hard currency corporate issues. All returns are stated in US dollar terms.

The fund remained globally diversified across emerging market hard and local currency government and corporate bonds. Through this positioning, the fund recorded a positive return, an outcome that was helped as each of these sub-asset classes recorded gains. For the fund's unhedged sterling share classes, the marked appreciation of the US dollar against the British pound provided some further upside to returns as we maintained a sizeable exposure to the US currency.

Key changes

Given the solid year-to-date performance of emerging debt markets, our portfolio adjustments in July included reducing risk in the fund on a selective basis. This activity included lowering some of the fund's euro-denominated sovereign holdings whose spreads were trading tighter than their US dollar-denominated counterparts. Within this theme, positions were lowered in Egypt, Senegal and Serbia. Elsewhere, we exited a euro-denominated sovereign position in Cyprus.

In the US dollar-denominated sovereign space, our activity included reducing an allocation to Oman to an underweight level after the bonds rallied well. Among purchases, we added newly issued government bonds in El Salvador as we believe the outlook for the country appears to be stabilising. In contrast, however, we trimmed the fund's sovereign holding in Tajikistan as we consider its fundamentals have weakened.

In the corporate bond markets, we added a holding in Naftogaz, the Ukrainian state-owned oil and gas group. The position increased the fund's existing exposure to Ukraine, a country whose risk/reward profile we have favoured for some time. We also bought bonds from global cosmetics group Oriflame, which is headquartered in Europe but generates significant revenues in emerging countries.

At the end of July, we maintained the fund's largest allocation to the emerging market sub-asset classes in hard currency government debt. We also kept sizeable and diverse exposures to local currency sovereigns and hard currency corporate bonds. The fund's remaining smaller positions were in local currency corporate bonds and cash.

Duration by currency and asset class

	Fund	Futures	Swaps	Net
Euro	0.6	0.0	0.0	0.6
British pound	0.1	0.0	0.0	0.1
US dollar	3.7	0.0	0.0	3.7
Total	5.8	0.0	0.0	5.8
Other	1.4	0.0	0.0	1.4

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	GB0031958738	MGEMBAA LN	GBP	01/10/2002	1.44%	5.10%	5.10%	£500	£100
Sterling A Inc	GB0031958621	MGEMBAI LN	GBP	01/10/2002	1.44%	6.50%	5.10%	£500	£100
Sterling I Acc	GB00B7GNKY53	MGEMSI LN	GBP	19/04/2012	0.79%	5.75%	5.75%	£500,000	£10,000
Sterling I Inc	GB00B4TL2D89	MGEMSI LN	GBP	19/04/2012	0.79%	6.49%	5.75%	£500,000	£10,000
Sterling I-H Acc	GB00BZ0YDS58	MGEMSIH LN	GBP	24/07/2015	0.80%	5.92%	5.92%	£500,000	£10,000
Sterling I-H Inc	GB00BZ0YDT65	MGEMIHI LN	GBP	24/07/2015	0.80%	6.71%	5.92%	£500,000	£10,000
Sterling R Acc	GB00B777RC30	MGEBSRA LN	GBP	03/08/2012	1.19%	5.35%	5.35%	£500	£100
Sterling R Inc	GB00B74C4S61	MGEBSRI LN	GBP	03/08/2012	1.19%	6.49%	5.35%	£500	£100
Sterling X Acc	GB0031286312	MGSEMBA LN	GBP	15/10/1999	1.44%	5.10%	5.10%	£500	£100
Sterling X Inc	GB0031286205	MGSEMBI LN	GBP	15/10/1999	1.44%	6.50%	5.10%	£500	£100

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 December 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 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 Emerging Markets Bond Fund is a sub-fund of M&G Investment Funds (3).

Sector: Morningstar category averages represent the average return of funds within their category over time. The category averages are created by using the average daily total return index series, or TRI, as well as monthly, quarterly, and annual averages of return and non-return data. Morningstar applies a fractional weighting methodology whereby, on the last day of each month, the funds are equally weighted and the share classes within each fund are equally weighted. Fractional weighting ensures that funds with multiple share classes do not dominate and skew the returns of the average, thus presenting the peer group performance in a fair and consistent manner.

The Morningstar Overall Rating based on the fund's Sterling Class I shares. Copyright © 2019 Morningstar UK Limited. All Rights Reserved. Ratings should not be taken as recommendation.

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