



M&G Global Macro Bond Fund

Annual Short Report October 2019
For the year ended 31 October 2019

Fund information

The Authorised Corporate Director (ACD) of M&G Global Macro Bond Fund presents its Annual Short Report which contains a review of the fund's investment activities and investment performance during the period. The ACD's Annual Long Report and audited Financial Statements for M&G Global Macro 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.

From June 2020, we will be publishing an annual value assessment delivered to investors in this fund, including an assessment of our charges and services, and how we compare to our competitors. This will be available at www.mandg.co.uk

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.)

Important information

On 8 April 2019 the M&G Global Macro Bond Fund launched Sterling Class 'PP' Accumulation shares.

As per the shareholder letter issued 17 June 2019, we have made changes to the way we charge for M&G funds based in the UK, starting on Thursday 1 August 2019. The annual charge should be simpler to understand and be easier to compare to other fund charges. We have combined all the charges that make up the current Ongoing Charge Figure (OCF) into a single annual charge. Only exceptional items such as unforeseen legal and tax expenses, also known as extraordinary expenses, will be excluded from the annual charge. To find out the new annual charge and the OCF on the KIID for the share class(es) you are invested in, visit our website www.mandg.co.uk

On 5 August 2019 the M&G Global Macro Bond Fund launched Sterling Class 'PP' Income shares.

Investment objective

The fund's objective is to maximise long term total return (the combination of income and growth of capital).

Investment policy

The fund invests mainly in debt instruments on a global basis which include, but are not limited to, variable rate securities, fixed interest securities, sovereign debt and corporate debt. The fund's exposure to debt instruments may be gained through the use of derivatives. The fund may also invest in other assets including collective investment schemes, money market instruments, cash and near cash, deposits, other transferable securities and derivatives.

Investment approach

The M&G Global Macro Bond Fund is a flexible global bond fund. Its investment approach is driven primarily by the fund manager's views on macroeconomic factors such as economic growth, interest rates and inflation. This assessment determines the asset classes in which he believes the fund should invest in order to achieve its objective. It also influences the portfolio's mix of interest rate risk, credit risk and currency exposure, as well as the subsequent holdings. These factors drive the fund's long-term performance. With the active management of the fund's currency exposures being one of these drivers, its returns will include a higher degree of currency risk than domestic fixed income funds.

Benchmark

Benchmark: IA Global Bonds sector.

The fund is actively managed. The benchmark is a comparator against which the fund's performance can be measured. The sector has been chosen as the fund's comparator benchmark as the fund is a constituent of the sector. The comparator benchmark does not constrain the fund's portfolio construction.

Risk profile

The fund is a flexible bond fund which invests in a range of fixed income securities from anywhere in the world and in any currency. The fund is therefore subject to the price volatility of global bond markets and fluctuations in currency exchange rates.

There are no restrictions on the amount of government bonds, investment grade bonds or high yield bonds that can be held within the portfolio. While government and investment grade bonds are generally highly liquid assets that are normally traded with relative ease, high yield corporate bonds are higher risk assets that could potentially experience a degree of illiquidity in times of market distress.

The fund's exposure to fixed income 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.

Please note that the risk management policies are set out in full in the financial statements and notes section of the Annual Long Report and audited Financial Statements for M&G Global Macro Bond Fund.

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 November 2019, for the year ended 31 October 2019

Performance against objective

Between 1 November 2018 (the start of the review period) and 1 November 2019, the performance of global bond markets was generally positive. This helped the M&G Global Macro Bond Fund to record positive returns across the different share classes. Over five years or since launch of the share class (if less than five years old) the fund has achieved its objective of maximising long-term total return.*

* 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 Annual Long Report and audited Financial Statements for M&G Global Macro 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. Calculated on a price to price basis with income reinvested.

| Long-term performance ^[a] | | | | |
|--------------------------------------|---|--------------------------------------|-------------------------------------|---------------------------|
| | One year 01.11.18 % ^[b] | Three years 01.11.16 % p.a. | Five years 03.11.14 % p.a. | Since launch % p.a. |
| Sterling ^[c] Class 'A' | +8.0 | +0.5 | +5.7 | +5.4 ^[d] |

^[a] On 1 May 2009 the M&G Global Macro Bond Fund de-merged from M&G Investment Funds (4) to become the M&G Global Macro Bond Fund.

^[b] Absolute basis.

^[c] Price to price with income reinvested.

^[d] 15 October 1999, the end of the initial offer period of the predecessor unit trust.

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

Several key themes continued to influence investors' sentiment in global financial markets during the 12-month review period. These included signs that economic growth was slowing, while international trade tensions, particularly between the US and China, also remained a concern.

In the important US market, the trend of the Federal Reserve (Fed) was to raise interest rates gradually in the few years up to 2018 as the economy strengthened. In contrast, going into 2019, the Fed signalled that it may not increase interest rates further for now, largely in response to more moderate economic forecasts. This outlook also contributed to decisions by the Bank of England and European Central Bank (ECB) to keep interest rates at low levels.

As widely expected, the US Federal Reserve (Fed) reduced interest rates three times between July and October, each time by 0.25 percentage points. The ECB, also as expected, confirmed a reduction in interest rates in September together with a variety of other measures to try to counter weaker economic performance in the region.

In the UK, uncertainty persisted regarding the timing and terms of Brexit. Going into 2019, while a withdrawal deal was agreed between Prime Minister Theresa May's government and the European Union (EU), the agreement failed to win consent in the UK parliament. Subsequently, under new Prime Minister Boris Johnson, some progress was made towards approving a deal, but an effective timeframe remained undecided. The way forward on Brexit was still unclear towards the end of the review period, as a general election was scheduled for early December and a departure deadline from the EU of 31 October 2019 was missed.

Mainstream government bonds, helped by their perceived 'safe-haven' status among investors in times of uncertainty, found support in this environment. (Bonds are loans in the form of a security, usually issued by a government – government bonds – or company – corporate bonds – which normally pay a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.)

The performance of government bonds is also influenced by expected, or actual, changes in interest rates by central banks. Rising interest rates can reduce the returns of government bonds, while falling rates tend to be helpful. Consequently, the backdrop of lower interest rates in key regions such as the US and Europe supported the upside in government bond prices.

In the fund, we maintained a sizeable allocation to government bonds throughout the period. Within this positioning, we held the fund's largest exposure to US government bonds, which contributed positively to its overall performance. However, the fund's relative performance was hampered as we favoured holding shorter dated government bonds, which underperformed their longer dated counterparts in the period.

In the corporate bond markets, we maintained a cautious stance towards the fund's exposure. This largely reflected our view of weakening economic growth, an outlook that can dampen sentiment towards corporate bonds. Our allocation was mainly held in bonds from companies with high credit ratings. In contrast, we avoided exposure to corporate bonds with low credit ratings, which can offer higher rates of return for taking on higher degrees of risk. However, the fund's relatively small allocation to corporate bonds held back its performance to an extent, as these assets performed well during the review period.

The fund's flexible investment approach also allows us to invest in the emerging market bonds. We maintained an allocation to this area, given our opinion that attractive value could be found in these markets on a selective basis. Our choice was mainly to hold emerging market bonds denominated in 'hard' currencies such as the US dollar or euro, rather than those denominated in local emerging currencies. After a period of underperformance in 2018, these assets delivered gains as 2019 progressed, which contributed positively to the fund's returns.

Investment activities

We kept a preference to hold a sizeable allocation to the US market within the fund's allocation to government bonds throughout the period. Among other developed markets, we added exposure to UK government bonds, but avoided the German market as we felt it lacked relative value. This largely resulted from the ECB's policy of holding interest rates at negative levels, which contributed to government bond yields in the eurozone also falling into negative territory.

In contrast, we continued to think appealing opportunities could be found among emerging market government bonds. Our activity in this area during the first half of the period included buying euro-denominated bonds from the government of Egypt. However, we also sold some holdings where we felt the outlook turned less favourable. We reduced the fund's position in US dollar-denominated government bonds in Argentina, and sold lira-denominated bonds in Turkey.

Despite these sales, from a long-term perspective we continued to favour holding an allocation to emerging markets based on factors such as the potential to earn higher returns for taking on additional risk. In our assessment, the investment case for this area is supported by the solid creditworthiness that many emerging market bond issuers can exhibit. In the final month of the review period, we reintroduced some corporate exposure in emerging markets by purchasing bonds from Chinese property developer CIFI Holdings, which we felt were attractively priced.

Turning to the fund's currency positioning, while we favoured a sizeable exposure to the US dollar, we reduced this allocation as the period progressed. This reflected our opinion that some valuation metrics for the currency indicated that it was relatively expensive after a period of performing well. The Japanese yen was among our other chosen mainstream currency exposures. In our view, the yen offered attractive relative value and provided helpful diversification for the fund. We also increased the fund's sterling allocation later in the review period as we felt the prospect of an agreed Brexit deal was more likely, which could in turn lead to a strengthening of sterling.

Outlook

Important factors in the outlook for global bonds continue to include slower economic growth, and renewed activity by central banks to try to counter this weaker trend. Among other themes, while some optimism appeared towards the end of the review period that US/China trade relations were easing, a settlement of their dispute was yet to be made.

Against this backdrop, our preferred fund positioning remained defensive, which largely reflected our assessment of the softer economic prospects. We continued to express this view via a relatively small exposure to corporate bonds, given that sentiment towards these assets can be adversely affected amid such an outlook. We maintained a larger allocation to government markets, with the fund's biggest position in US government bonds.

We also continue to hold a constructive view of emerging market bonds, despite some concerns around issues such as international trade tensions. We believe other factors should remain supportive for the long-term outlook for these assets. These include emerging economies' sizeable portion of global gross domestic product (GDP), as well as higher economic growth rates and lower debt levels in many emerging countries relative to developed markets. The current very low interest rate environment should also help sentiment towards emerging markets, which provide an appealing pick-up in yields.

For the fund's currency positioning, we still favour diverse exposures among developed markets, mainly in the US dollar, Japanese yen, euro, and sterling, with smaller allocations to emerging currencies on a selective basis. Overall, our approach remains to position the fund where we see the best relative value among the prevailing economic conditions, and avoid areas where we view the outlook as unfavourable.

Jim Leaviss

Fund manager

An employee of M&G FA Limited (formerly 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 31 October | % of fund | |
|--|-----------|--------|
| | 2019 | 2018 |
| FIXED INCOME | | |
| Debt securities | | |
| 'AAA' credit rated bonds | 12.58 | 16.22 |
| 'AA' credit rated bonds | 45.53 | 38.07 |
| 'A' credit rated bonds | 9.83 | 11.89 |
| 'BBB' credit rated bonds | 19.21 | 21.51 |
| 'BB' credit rated bonds | 6.10 | 6.82 |
| 'B' credit rated bonds | 1.88 | 4.05 |
| 'CCC' credit rated bonds | 0.08 | 0.00 |
| Bonds with no credit rating | 1.45 | 1.06 |
| Debt derivatives | | |
| Credit default swaps | (0.46) | (0.44) |
| Interest rate swaps | 0.15 | 0.00 |
| Interest rate futures | 0.22 | 0.02 |
| CURRENCY | | |
| Forward currency contracts | 0.25 | (0.31) |
| CASH EQUIVALENTS | | |
| 'AAA' rated money market funds ^[a] | 0.59 | 0.00 |
| SHARE CLASS HEDGING | | |
| Forward currency contracts for share class hedging | 0.09 | 0.00 |

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

Financial highlights

Fund performance

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.

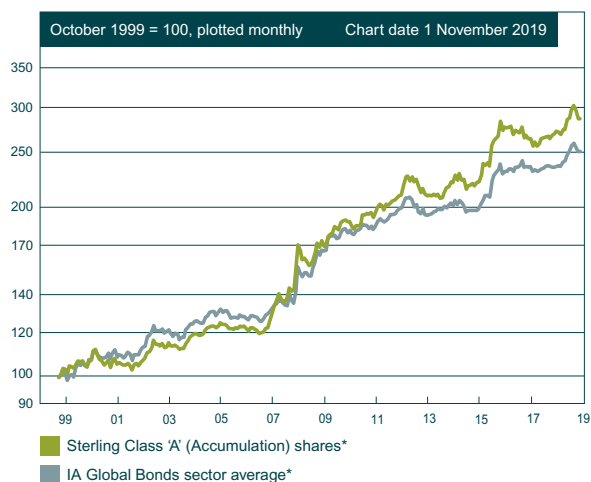
The following chart and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. For more information on the different share classes in this fund please refer to the Prospectus for M&G Global Macro 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.

Fund level performance

| Fund net asset value | | | |
|----------------------------|----------------|----------------|----------------|
| as at 31 October | 2019 \$'000 | 2018 \$'000 | 2017 \$'000 |
| Fund net asset value (NAV) | 1,449,679 | 1,138,569 | 2,335,573 |

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.



Source: Morningstar, Inc. and M&G

To give an indication of how the fund has performed during the period the table below shows the performance of Sterling Class 'A' (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 15 October 1999.

| for the year to 31 October Change in NAV per share | 2019 UK p | 2018 UK p | 2017 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 129.25 | 129.16 | 136.70 |
| Return before operating charges and after direct portfolio transaction costs | 10.79 | 1.90 | (5.60) |
| Operating charges | (1.88) | (1.81) | (1.87) |
| Return after operating charges | 8.91 | 0.09 | (7.47) |
| Distributions | (2.65) | (2.15) | (1.28) |
| Retained distributions | 2.65 | 2.15 | 1.21 |
| Closing NAV | 138.16 | 129.25 | 129.16 |

| 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 ^[c] | 1.38 | 1.42 | 1.41 |
| Return after operating charges | +6.89 | +0.07 | -5.46 |
| Distribution yield | 1.66 | 1.99 | 0.74 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |

| Other information | | | |
|--|------------|------------|------------|
| Closing NAV (\$'000) | 31,218 | 28,217 | 39,031 |
| Closing NAV percentage of total fund NAV (%) | 2.15 | 2.48 | 1.67 |
| Number of shares | 17,434,913 | 17,091,540 | 22,860,213 |
| Highest share price (UK p) | 147.52 | 131.60 | 136.95 |
| Lowest share price (UK p) | 126.53 | 121.68 | 127.24 |

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

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

^[c] Following the change in charging structure, you may see variances between the comparative and current year figures.

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:

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.

For every £1 billion of a fund's net asset value, a discount of 0.02% will be applied to that fund's annual charge (up to a maximum of 0.12%).

- **Extraordinary legal and tax expenses:** Costs that specifically relate to legal or tax claims that are both exceptional and unforeseeable. Such expenses are uncommon, and would not be expected in most years. Although they result in a short-term cost to the fund, generally they can deliver longer term benefits for investors.
- **Investment management:** Charge paid to M&G for investment management of the fund. From 1 August 2019 this charge forms part of the annual charge.
- **Administration:** Charge paid for administration services in addition to investment management – any surplus from this charge will be retained by M&G. From 1 August 2019 this charge is rolled into the annual charge.
- **Share class hedging:** Charge paid to M&G for currency hedging services to minimise exchange rate risk for the share class. From 1 August 2019 this charge is rolled into the annual charge.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit. From 1 August 2019 these charges will be paid by M&G and rolled into the annual charge.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated. From 1 August 2019 charges from underlying funds (excluding Investment Trust Companies and Real Estate Investment Trusts) will be rebated.

These 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.

Once the annual charge has been operational for twelve months, operating charges will be in line with the ongoing charges shown in the Key Investor Information Document, other than where there have been extraordinary legal or tax expenses, or 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.

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.

Financial highlights

Operating charges and portfolio transaction costs

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 wholly in fixed interest securities, no direct portfolio transaction costs are applicable. 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 31 October | 2019 | 2018 | 2017 | Average ^[a] |
|--------------------------------------|------|------|------|------------------------|
| Indirect portfolio transaction costs | % | % | % | % |
| Average portfolio dealing spread | 0.22 | 0.26 | 0.21 | 0.23 |

^[a] Average of first three columns.

Contact



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- * For security purposes and to improve the quality of our service, we may record and monitor telephone calls. Please have your M&G client reference to hand.
- ** Please remember to quote your name and M&G client reference and sign any written communication to M&G.
- † Please note that information contained within an email cannot be guaranteed as secure. We advise that you do not include any sensitive information when corresponding with M&G in this way.

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