M&G Global Macro Bond Fund

Annual Short Report April 2020
For the year ended 30 April 2020

M&G INVESTMENTS

M&G Global Macro Bond Fund

Fund information

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

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 Investing and Saving Alliance (formerly Tax Incentivised Savings Association)).

Important information

The investment objective, policy and approach were changed for M&G Global Macro Bond Fund on 23 March 2020.

The World Health Organisation declared the COVID-19 outbreak a pandemic on 11 March 2020.

Global financial markets have been reacting to the outbreak. All markets have incurred increased volatility and uncertainty since the onset of the pandemic.

The ACD has also noted the operational risks that are posed to the Company and its service providers due to global and local movement restrictions that have been enacted by various governments.

The COVID-19 pandemic is an unprecedented event and the eventual impact on the global economy and markets will largely depend on the scale and duration of the outbreak. The ACD will continue to monitor this situation.

Investment objective up to 22 March 2020

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

Investment objective from 23 March 2020

The fund aims to provide a higher total return (the combination of capital growth and income) net of the ongoing charge figure, than the average return of the IA Global Bond Sector over any five-year period.

Investment policy up to 22 March 2020

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 policy from 23 March 2020

At least 80% of the Fund is invested, directly or indirectly through derivatives, in debt securities and in asset-backed securities. These securities can be issued or guaranteed by governments and their agencies, public authorities, quasi-sovereigns, supranational bodies and companies from anywhere in the world, including emerging markets. These securities can be denominated in any currency.

Other investments may include other transferable securities, cash, and near cash, directly or via collective investment schemes (including funds managed by M&G). There are no credit quality restrictions on the debt securities held by the fund.

Derivatives may be used for investment purposes, efficient portfolio management and hedging.

M&G Global Macro Bond Fund

Fund information

Investment approach up to 22 March 2020

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.

Investment approach from 23 March 2020

The fund is globally diversified across a range of debt securities from a variety of sectors and geographies. The fund's investment approach is based on the principle that returns from bond markets are driven by a combination of macroeconomic, asset class, sector, geographic and stock-level factors. As different factors dominate returns at different stages of the economic cycle, the fund manager applies a highly flexible investment approach, changing the blend of duration, credit and currency exposures as well as the allocation to the various types of bonds in the portfolio to weight them appropriately.

Individual credit selection is carried out with the assistance of an in-house team of credit analysts to complement the fund manager's views.

Benchmark up to 22 March 2020

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.

Benchmark from 23 March 2020

Benchmark: IA Global Bond sector

The benchmark is a target which the fund seeks to outperform. The sector has been chosen as the fund's benchmark as the fund is a constituent of the sector. The benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction.

The fund is actively managed. The fund manager has complete freedom in choosing which investments to buy, hold and sell in the fund.

For unhedged share classes, the benchmark is shown in the share class currency.

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.

Risk profile (continued)

The following table shows the risk number associated with the fund and is based on Sterling Class 'A' shares.

Low risk ◄——► High risk

Typically lower rewards — Typically higher rewards

1	2	3	4	5	6	7

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.

M&G Global Macro Bond Fund

Investment review

As at 1 May 2020, for the six months ended 30 April 2020

Performance against objective

Between 1 November 2019 (the start of the review period) and 1 May 2020, while the performance of global bond markets was mixed, the M&G Global Macro Bond Fund recorded positive returns across the different share classes. Over five years, the fund has achieved its objective of providing a total return (the combination of capital growth and income), net of the ongoing charge figure, higher than the average return of the IA Global Bond Sector, which was 4.0% p.a. over this period.*

* 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 Interim Long Report and unaudited 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]	Six months 01.11.19 % [b]	Three years 02.05.17 % p.a.	Five years 01.05.15 % p.a.	Since launch % p.a.
Sterling [c]				
Class 'A'	+6.8	+4.4	+6.3	+5.6 [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

While investors' sentiment was broadly upbeat as the review period got under way, the coronavirus story dominated the performance of global financial markets as 2020 progressed. As the virus spread outside China, many markets recorded sharp declines in value. Governments responded with a variety of moves to try to contain the outbreak, which typically involved 'lockdowns' and other restrictive measures on consumer and business activities.

In turn, the economic implications of the pandemic are set to prompt a global recession, a prospect that contributed to steep falls in stockmarkets and areas of the corporate bond markets. (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.)

Towards the end of the review period, deteriorating economic data included rising unemployment levels and large falls in retail spending. However, there were signs that China's economy was beginning to move slowly back to normality, and some European governments began to modestly ease their lockdown restrictions. Also relevantly, governments and central banks around the world announced significant monetary and fiscal policies aimed at providing economic support. In some cases, these moves included interest rate cuts and new plans by central banks to buy government and corporate bonds with their own money.

In the UK, the Bank of England was among central banks to reduce interest rates, bringing its base rate down to 0.1% from 0.75% in two moves during March. The US Federal Reserve, a key central bank from a global perspective, also confirmed interest rate reductions.

Amid the turbulence in financial markets during February and March 2020, the performance of mainstream government bonds held up relatively well. This was helped by their perceived safe-haven status in times of market stress and uncertainty. Lower interest rates can also be supportive to the performance of government bonds. While bond prices declined in many areas of the corporate markets in these months, corporate bonds recorded some upside in performance during April.

M&G Global Macro Bond Fund

Investment review

Investment performance

Throughout the review period, we maintained a globally diversified bond fund. Within the fund's overall positioning, we held a sizeable allocation to government bonds, with its largest exposure held in US government securities. These assets performed relatively well, a factor that contributed to the fund's delivery of positive returns across its different share classes.

In the corporate bond markets, we maintained a cautious stance towards the fund's exposure in the early months of the period. 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.

The fund's relatively small allocation to corporate bonds going into 2020 helped to reduce the adverse effect on its performance when corporate bond markets declined sharply in February and March. We began to consider that attractive long-term buying opportunities could be found in the area after the significant falls in corporate bond prices. In turn, we sought to increase exposure to the area towards the end of the period.

The fund's flexible investment approach also allows us to invest in emerging market bonds. We maintained a moderate allocation to this area, given our opinion that attractive value could be found in these markets on a selective basis. While these assets contributed positively to the fund's returns in the early months of the review period, this was countered by their declines later as emerging markets underperformed amid the COVID-19 developments. Among other factors, we increased the fund's exposure to the US dollar within its overall currency positioning. This was helpful to the performance of the fund's unhedged sterling share classes as the US dollar increased in value against sterling.

Investment activities

We held a cautious view on the economic outlook going into the review period, largely based on weaker economic growth forecasts. In the fund, we expressed this view via defensive overall positioning that included a large allocation to government bonds, which are typically considered safer assets against such an outlook. In contrast, we held a relatively small exposure to corporate bonds.

While we broadly maintained this positioning as the coronavirus theme emerged in the first quarter of 2020, we took some profits from the fund's government bond allocation later in the review period. This was mainly from holdings in US government bonds after they performed well. Elsewhere, following the big declines in corporate bond prices amid the coronavirus concerns, we closely monitored the corporate markets for potential investment opportunities. In our view, valuations in some areas were low enough to start offering attractive buying levels on a long-term perspective.

Consequently, the fund's activity in March included adding corporate bond exposure through a variety of companies with relatively high credit ratings. These included financial groups NY Life, MetLife, JP Morgan, and BBVA, as well as global technology company Apple. We also bought newly issued bonds from creditworthy companies that we felt were attractively priced, including from Coca Cola, Nestle, Pepsi, Exxon, Bank of America, and Sanofi.

In emerging market bonds, while we felt the full impact of the coronavirus story could still lie ahead for some emerging nations, we added some exposure on a very selective basis. In our view, valuation levels in some emerging markets were appealing for taking on some additional risk. In this area, the fund's activity included adding government bonds in South Africa and Ukraine. Within the fund's currency positioning, we maintained a diversity of exposures in mainstream markets, including allocations to the US dollar, Japanese yen, euro, and sterling. We also held smaller exposures to a diversity of emerging market currencies that we felt offered value to the fund.

Outlook

While much uncertainty remains regarding the full implications of the COVID-19 pandemic, we remain committed to our disciplined investment approach to determine the fund's positioning. This is mainly based on our assessment of macroeconomic factors such as economic growth, interest rates and inflation. From this analysis, we decide the fund's overall positioning and individual holdings to reflect where we believe the best relative value can be found in the global bond markets.

Outlook

Despite the economic effects of the pandemic, which include the prospect of a global recession, mainstream government bonds performed relatively well in the first four months of 2020. This outcome was helped by their perceived safe-haven status in periods of market uncertainty. We maintained a sizeable allocation to these assets as the review period ended, while we recently increased the fund's exposure to corporate bonds after their prices declined significantly amid the global impact of the virus. In our view, this led to appealing long-term buying opportunities in some areas of the corporate markets, partly as we believe the creditworthiness of various corporate bond issuers can withstand the challenges of the COVID-19 outbreak.

As a diversified global bond fund, we will also continue to manage the fund's currency exposures as we seek to add value to its performance. At the end of the review period, we continued to favour the fund's main currency exposures held among developed markets, with modest allocations to selected emerging market currencies. Overall, our approach remains to invest the fund where we have a favourable view across the full range of government and corporate bond markets in both developed and emerging market regions, while avoiding areas whose outlook we do not like.

Jim Leaviss
Fund manager

An employee of M&G FA 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.

M&G Global Macro Bond Fund

Investment review

Classification of investments

The table below shows the percentage holding per sector.

	% of fund	
as at	30.04.20	31.10.19
FIXED INCOME		
Debt securities		
'AAA' credit rated bonds	14.65	12.58
'AA' credit rated bonds	50.62	45.53
'A' credit rated bonds	14.54	9.83
'BBB' credit rated bonds	12.80	19.21
'BB' credit rated bonds	3.50	6.10
'B' credit rated bonds	0.94	1.88
'CCC' credit rated bonds	0.21	0.08
'CC' credit rated bonds	0.04	0.00
Bonds with no credit rating	1.19	1.45
Debt derivatives		
Credit default swaps	(1.38)	(0.46)
Interest rate swaps	0.32	0.15
Interest rate futures	(0.22)	0.22
CURRENCY		
Forward currency contracts	(0.09)	0.25
CASH EQUIVALENTS		
'AAA' rated money market funds [a]	1.01	0.59
SHARE CLASS HEDGING		
Forward currency contracts for share class hedging	0.04	0.09

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

Portfolio transactions

for the six months to 30 April	2020 $'000	2019 $'000
Total purchases	796,429	522,184
Total sales	609,781	516,404

Purchases and sales exclude the cost and proceeds of 'AAA' rated money market funds.

M&G Global Macro Bond Fund

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.

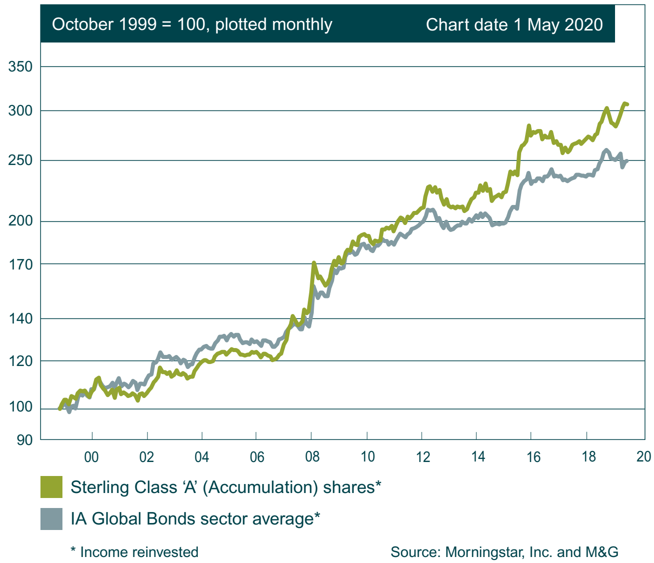
The following chart and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be 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	30.04.20 $'000	31.10.19 $'000	31.10.18 $'000
Fund net asset value (NAV)	1,625,838	1,449,679	1,138,569

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.



To give an indication of how the fund has performed during the period the table on the following page 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.

M&G Global Macro Bond Fund

Financial Highlights

Sterling Class 'A' Accumulation share performance The share class was launched on 15 October 1999.	Six months to 30.04.20	Year to 31.10.19	Year to 31.10.18
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	138.16	129.25	129.16
Return before operating charges and after direct portfolio transaction costs	10.84	10.79	1.90
Operating charges	(0.90)	(1.88)	(1.81)
Return after operating charges	9.94	8.91	0.09
Distributions	(0.85)	(2.65)	(2.15)
Retained distributions	0.85	2.65	2.15
Closing NAV	148.10	138.16	129.25
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]	1.28	1.38	1.42
Return after operating charges	+7.19	+6.89	+0.07
Distribution yield	2.04	1.66	1.99
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	30,612	31,218	28,217
Closing NAV percentage of total fund NAV (%)	1.88	2.15	2.48
Number of shares	16,523,148	17,434,913	17,091,540
Highest share price (UK p)	151.92	147.52	131.60
Lowest share price (UK p)	132.30	126.53	121.68

[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.

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. 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. 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. 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. 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. 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. Charges from underlying funds (excluding Investment Trust Companies and Real Estate Investment Trusts) will be rebated.

Operating charges

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.

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	30.04.20	31.10.19	31.10.18	Average [a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.41	0.22	0.26	0.30

[a] Average of first three columns.

Contact

Customer Relations*

0800 390 390

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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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