

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

Monthly Fund Review as at 31 January 2021

For investment professionals only

Highlights

- It was a relatively subdued month for fixed income markets, with returns held back by rising government bond yields and steepening yield curves.
- Credit proved more resilient, with investment grade spreads fairly flat, while high yield spreads saw a modest tightening.
- We selectively participated in a number of new corporate bond issues, while trimming some of the fund's higher beta names in order to reduce overall credit risk.

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.

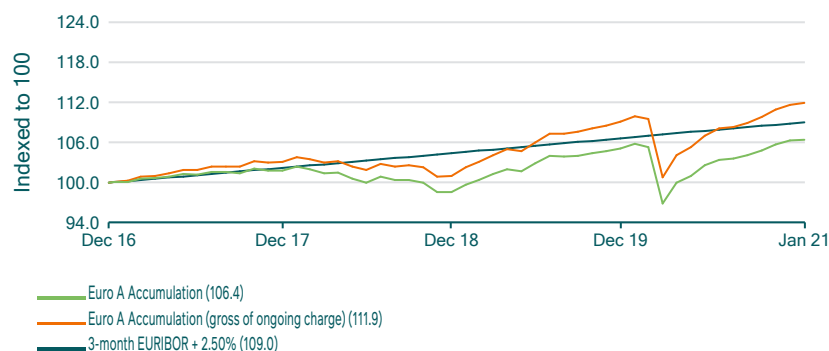
The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.

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)

	2020	2019	2018	2017	2016
Euro A Accumulation	1.1%	6.7%	-3.2%	1.8%	-
Euro A Accumulation (gross of ongoing charge)	2.3%	8.0%	-2.0%	3.0%	-
3-month EURIBOR + 2.50%	2.1%	2.1%	2.1%	2.2%	-

Performance since launch



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
					p.a.	p.a.
Euro A Accumulation	0.1%	1.5%	0.1%	0.6%	1.3%	-
Euro A Accumulation (gross of ongoing charge)	0.2%	1.8%	0.2%	1.8%	2.5%	-
3-month EURIBOR + 2.50%	0.2%	0.5%	0.2%	2.1%	2.1%	-

Past performance is not a guide to future performance.

The benchmark is a target which the fund seeks to achieve. The rate has been chosen as the fund's benchmark as it is an achievable performance target and best reflects the scope of the fund's investment policy. 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 investment manager has complete freedom in choosing which assets to buy, hold and sell in the fund.

Fund 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.

Source: Morningstar, Inc and M&G, as at 31 January 2021. Returns are calculated on a price to price basis with income reinvested. Benchmark returns stated in EUR terms.

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Key information

Fund manager(s)	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)	€ 39.92
Fund type	SICAV
Benchmark	3-month EURIBOR + 2.5%
Number of issuers	145
Underlying yield	0.48%
Average credit rating	A-
Modified duration (years)	1.62
Average coupon	1.34
Spread duration (years)	0.5

Charges

Maximum entry charge	1.25%
Ongoing charge	1.21%

Strategy allocation (%)

	Net
Asset-backed securities	14.5
Short-dated investment grade credit	27.9
Long-dated investment grade credit	9.8
High yield floating rate notes	0.7
Fixed coupon high yield credit	2.1
High conviction credit (single name or thematic)	32.4
Tactical credit hedge	-76.6
Inflation strategy	3.8
"Risk-free", duration, and currencies	85.6

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.

Performance is stated in the share class currency, which may differ from your domestic currency. As a result, the return may rise or fall due to currency movements.

Fund ratings

Ratings should not be taken as a recommendation.

Duration by currency and asset class (years)

	Fund	Futures	Swaps	Net
Euro	2.2	-1.7	-0.3	0.2
British pound	0.8	-0.3	0.0	0.5
US dollar	1.1	-0.7	-0.3	0.2
Other	0.8	0.0	0.0	0.8
Total	4.9	-2.7	-0.6	1.6

Credit rating breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
AAA	16.7	0.0	0.0	16.7
AA	9.1	0.0	0.0	9.1
A	19.0	-0.4	0.0	18.5
BBB	36.8	-74.7	3.2	-34.7
BB	10.2	0.0	0.0	10.2
B	2.9	0.0	0.0	2.9
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	0.0	0.0	0.0	0.0
Cash	5.2	0.0	0.0	77.1

Country breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
UK	21.2	0.0	1.2	22.4
US	18.3	-1.0	0.0	17.3
Germany	6.5	0.0	0.0	6.5
France	5.9	0.0	0.0	5.9
Luxembourg	4.4	0.0	0.0	4.4
Eurozone	3.3	0.0	0.0	3.3
Mexico	3.0	0.0	0.0	3.0
Japan	2.8	0.0	0.0	2.8
Other	29.4	0.0	1.9	31.4
Investment Grade indices	0.0	-74.1	0.0	-74.1
Cash	5.2	0.0	0.0	77.1

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

	Fund
Exxon Mobil	1.9
BBVA	1.8
Cppib Capital	1.5
Lagardere S.c.a.	1.5
Economic Master Issuer	1.4
RBS	1.4
New York Life Global Funding	1.3
Logicor Financing Sarl	1.3
Harvest CLO VIII LTD Harvt_8x	1.3
Sky Aviation Leasing Sjets_17-1	1.2

Maturity breakdown (%)

	Physical
0 - 1 years	6.0
1 - 3 years	17.5
3 - 5 years	22.4
5 - 7 years	19.3
7 - 10 years	18.7
10 - 15 years	3.9
15+ years	6.9
Cash	5.2

Currency breakdown (%)

	Pre-hedge	Post-hedge
Euro	52.1	86.4
Japanese yen	2.3	3.9
US dollar	19.6	2.5
Australian dollar	1.9	1.9
Norwegian kroner	1.1	1.1
Indonesian rupiah	0.0	1.0
Malaysian ringgit	1.6	1.0
Colombian peso	0.1	0.5
Russian ruble	0.2	0.5
Other	21.0	1.1

Industry breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Banking	14.6	-1.0	1.4	15.1
Sovereign	11.1	0.0	0.0	11.1
Mortgage backed	9.2	0.0	0.0	9.2
Asset backed	7.5	0.0	0.0	7.5
Energy	7.4	0.0	0.0	7.4
Real Estate	5.5	0.0	0.0	5.5
Insurance	5.0	0.0	0.0	5.0
Foreign Sovereign	4.8	0.0	0.0	4.8
Healthcare	3.3	0.0	0.0	3.3
Media	3.3	0.0	0.0	3.3
Financial services	2.8	0.0	1.8	4.6
Automotive	2.6	0.0	0.0	2.6
Telecommunications	2.4	0.0	0.0	2.4
Capital goods	2.2	0.0	0.0	2.2
Transportation	2.2	0.0	0.0	2.2
Consumer goods	1.9	0.0	0.0	1.9
Utility	1.8	0.0	0.0	1.8
Agency	1.5	0.0	0.0	1.5
Technology & electronics	1.4	0.0	0.0	1.4
Supranational	1.3	0.0	0.0	1.3
Covered Bonds	1.0	0.0	0.0	1.0
Basic industry	0.9	0.0	0.0	0.9
Services	0.7	0.0	0.0	0.7
Retail	0.3	0.0	0.0	0.3
Local-Authority	0.1	0.0	0.0	0.1
Investment Grade indices	0.0	-74.1	0.0	-74.1
Cash	5.2	0.0	0.0	77.1

Commentary

It was a relatively subdued month for fixed income markets, with returns held back by rising government bond yields and steepening yield curves. A key driver for these moves was the outcome of the Georgia runoff elections in the US, which gave the Democrats control of the Senate and raised the prospect of increased fiscal stimulus.

US Treasuries returned -1.1% in the month as 10-year yields climbed above 1% for the first time since March 2020. Other core government bond markets sold off in sympathy, with bunds (-0.4%) and gilts (-1.7%) both losing ground. Credit proved more resilient, with investment grade spreads fairly flat, while high yield spreads saw a modest tightening. It was also a good month for oil prices, which were boosted by the announcement of output cuts from Saudi Arabia.

In currencies, the key outperformers were the US dollar and sterling, with the latter likely benefiting from reduced uncertainty following the recently announced Brexit deal, as well as the fast pace of the vaccination rollout in the UK. Emerging markets currencies generally struggled, especially in Latin America with the Brazilian Real (-4.9%), Argentine Peso (-3.4%) and Mexican peso (-3.4%) all weakening against the US dollar. The Japanese yen was another notable underperformer, weakening by 1.3% versus the US dollar.

With credit markets fairly rangebound during the month, fund returns were relatively flat in January.

Key changes

It was a busy month for the primary market, and we purchased a number of new corporate bond issues, although we remain selective in this area given current pricing. Elsewhere, we continued to trim some of the fund's higher beta names in order to reduce overall credit risk. On the macro side, we added Norwegian government bonds, as well as US and German inflation-linked government bonds as part of a potential reflation trade. We also reduced some euro duration, while trimming our exposure to long-dated French government bonds. In its place we added some US dollar duration. Within currencies we reduced our Malaysian ringgit position.

Fund codes and charges

Share class	ISIN	Bloomberg	Currency	Share class launch date	Ongoing charge	Distribution yield	Underlying yield	Minimum initial investment	Minimum top up investment
Euro A Acc	LU1531596028	MGARAEA LX	EUR	21/12/2016	1.21%*	-	0.48%	€1,000	€75
Euro A Inc	LU1531596291	MGARAEI LX	EUR	21/12/2016	1.21%*	1.69%	0.48%	€1,000	€75
Euro B Acc	LU1805383210	MGARBED LX	EUR	08/05/2018	1.51%*	1.69%	0.18%	€1,000	€75
Euro B Inc	LU1805383640	MGARBEA LX	EUR	08/05/2018	1.51%*	-	0.18%	€1,000	€75
Euro C Acc	LU1531596374	MGARCEA LX	EUR	21/12/2016	0.61%*	-	1.08%	€500,000	€50,000
Euro C Inc	LU1531596457	MGARCEI LX	EUR	21/12/2016	0.61%*	1.69%	1.08%	€500,000	€50,000
Euro CI Acc	LU1531596531	MGACIEA LX	EUR	21/12/2016	0.57%*	-	1.12%	€500,000	€50,000

The above ongoing charge figure is an estimate of the charges because of a change to the charging structure with effect from 1st October 2020.

The ongoing charge figure may vary from year to year and excludes portfolio transaction costs. The audit fees and custody transaction charges are borne by M&G until the fund size increases to above 200 million euros. The fund's annual report for each financial year will include details on the exact charges made. 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.

ESG Integrated funds



Funds that integrate financially material ESG data into the risk management and decision-making process, as well as our company-wide exclusions (cluster munitions and anti-personnel mines). Some strategies may have some additional ESG exclusions.

Approach to responsible investment

	Yes	No	N/A
ESG integration	✓		
Additional ESG specifications		✓	
Exclusions	✓		
Cluster munitions & anti personnel landmines	✓		
Other exclusions or restrictions		✓	
Voting			✓
Engagement	✓		

Please see glossary for further explanation of these terms.

ESG Standard Glossary

Additional ESG specifications: In the context of M&G, these are funds managed with an explicit ESG objective, outcome or in accordance with specific ESG criteria, and will have a number of minimum exclusions in place.

Engagement: Interaction with company management on various financial and non-financial, including ESG, issues. Engagement allows investors to better understand how a company is undertaking its operations and how it is interacting with its stakeholders, as well as advising on and influencing company behaviour and disclosures where appropriate.

ESG integration: Describes the explicit and systematic inclusion of Environmental, Social and Governance factors in investment analysis and investment decisions. It underpins a responsible investment approach, and allows investors to

better manage risk and generate sustainable, long-term returns.

Exclusions: The exclusion or restriction of investments based on the sector in which they operate, the products or services they provide or for other specific criteria, i.e. they are deemed to be in breach of the United Nations Global Compact principles on human rights, labour the environment and anti-corruption.

Voting: As the partial owners of a company, shareholders have the right to vote on resolutions put forward at a company's annual general meeting. These resolutions include the re-election of directors, executive remuneration and business strategy, among others, and may include resolutions put forward by shareholders.

Important information

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, are available in English, free of charge, in paper form from the Irish facilities agent: Société Générale SA, Dublin Branch, 3rd Floor IFSC House - The IFSC Dublin 1, Ireland.

Before subscribing investors should read the prospectus, which includes a description of the investment risks relating to these funds.

The information contained herein is not a substitute for independent investment advice.

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