

# M&G (Lux) Emerging Markets Bond Fund Euro Class A – Accumulation shares



Quarterly Fund Review as at 31 December 2020

Fund manager(s) – Claudia Calich  
For investment professionals only

## Highlights

- The end of the year was a good period for risky assets globally, mainly thanks to encouraging news around COVID-19 vaccines.
- Within emerging market fixed income, local currency sovereign bonds outperformed hard currency sovereign and corporate bonds in the quarter.
- A weaker US dollar, the ongoing global vaccine rollout and investors' hunt for yield are all factors that should support investment returns in the asset class going forward, in our view.

## 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 as 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.

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.

Further risk factors that apply to the fund can be found in the fund's Key Investor Information Document (KIID).

## Things you should know

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 performance

	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.
■ Euro A Accumulation	4,0%	-4,1%	-4,1%	3,3%	4,5%
■ 1/3 JPM EMBI Global Diversified, 1/3 JPM CEMBI Broad Diversified, 1/3 JPM GBI-EM Global Diversified	2,2%	-3,6%	-3,6%	4,1%	4,5%
■ Sector	2,6%	-2,7%	-2,7%	2,9%	3,6%
■ Quartile ranking	1	3	3	2	2

## Single year performance (5 years)

	2020	2019	2018	2017	2016
■ Euro A Accumulation	-4,1%	17,7%	-2,4%	-0,5%	13,7%
■ 1/3 JPM EMBI Global Diversified, 1/3 JPM CEMBI Broad Diversified, 1/3 JPM GBI-EM Global Diversified	-3,6%	16,0%	0,8%	-2,4%	13,3%
■ Sector	-2,8%	14,1%	-1,4%	-2,4%	12,7%
■ Quartile ranking	3	1	3	2	2

Past performance is not a guide to future performance.

Benchmark= 1/3 JPM EMBI Global Diversified Index 1/3 JPM CEMBI Broad Diversified Index 1/3 JPM GBI-EM Global Diversified Index

Sector= Morningstar Global Emerging Markets Bond sector

The benchmark is a comparator against which the fund's performance can be measured. The composite index has been chosen as the fund's benchmark as it 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 investments to buy, hold and sell in the fund. The fund's holdings may deviate significantly from the benchmark's constituents.

Fund performance prior to 21 September 2018 is that of the EUR Class A Accumulation of the M&G Emerging Markets Bond Fund (a UK-authorized OEIC), which merged into this fund on 7 December 2018. Tax rates and charges may differ.

Benchmark performance is shown from the start of manager's tenure of the OEIC, which was 2 December 2013.

Source: Morningstar, Inc and M&G, as at 31 December 2020. Returns are calculated on a price to price basis with income reinvested. Benchmark returns stated in EUR terms.

Performance © 2021 Morningstar Inc., All Rights Reserved. The information contained within: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

## Asset breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Government bonds - local currency	29,9	0,0	0,0	29,9
Government bonds - hard currency	39,9	0,0	0,0	39,9
Credit - local currency	2,5	0,0	0,0	2,5
Credit - hard currency	25,8	0,0	0,0	25,8
<b>Other</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>
<b>Cash</b>	<b>1,9</b>	<b>0,0</b>	<b>0,0</b>	<b>1,9</b>

## Credit rating breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
AAA	3,9	0,0	0,0	3,9
AA	1,1	0,0	0,0	1,1
A	1,8	0,0	0,0	1,8
BBB	24,3	0,0	0,0	24,3
BB	28,4	0,0	0,0	28,4
B	29,5	0,0	0,0	29,5
CCC	4,0	0,0	0,0	4,0
CC	0,8	0,0	0,0	0,8
C	0,4	0,0	0,0	0,4
D	0,5	0,0	0,0	0,5
No rating	3,3	0,0	0,0	3,3
Cash	1,9	0,0	0,0	1,9

## Country breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Mexico	6,8	0,0	0,0	6,8
Russia	5,0	0,0	0,0	5,0
Brazil	4,0	0,0	0,0	4,0
South Africa	3,7	0,0	0,0	3,7
Singapore	3,4	0,0	0,0	3,4
Indonesia	3,3	0,0	0,0	3,3
China	3,1	0,0	0,0	3,1
Ukraine	2,6	0,0	0,0	2,6
Other	66,1	0,0	0,0	66,1
Cash	1,9	0,0	0,0	1,9

## Largest issuers (%)

	Fund
Mexico	4,1
Russia	3,1
Singapore	3,1
South Africa	3,0
Indonesia	2,6
Egypt	2,5
Brazil	2,4
Dominican Republic	2,4
Turkey	2,0
Peru	1,9

## Maturity breakdown (%)

	Physical
0 - 1 years	5,3
1 - 3 years	12,2
3 - 5 years	13,9
5 - 7 years	15,5
7 - 10 years	14,5
10 - 15 years	10,2
15+ years	26,5
Cash	1,9

## Currency breakdown (%)

	Pre-hedge	Post-hedge
US dollar	58,9	65,1
Mexican peso	3,5	3,5
Russian ruble	3,1	3,1
Singapore dollar	3,1	3,1
Peruvian nuevo sol	1,9	2,8
Indonesian rupiah	2,6	2,6
Brazilian real	2,4	2,4
South African rand	2,3	2,3
Malaysian ringgit	1,7	1,7
Other	20,6	13,5

## Industry breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Foreign Sovereign	38,6	0,0	0,0	38,6
Sovereign	31,2	0,0	0,0	31,2
Energy	4,9	0,0	0,0	4,9
Banking	3,6	0,0	0,0	3,6
Real Estate	2,5	0,0	0,0	2,5
Financial services	2,3	0,0	0,0	2,3
Basic industry	2,0	0,0	0,0	2,0
Agency	2,0	0,0	0,0	2,0
Telecommunications	1,7	0,0	0,0	1,7
Transportation	1,7	0,0	0,0	1,7
Utility	1,3	0,0	0,0	1,3
Consumer goods	1,0	0,0	0,0	1,0
Healthcare	0,9	0,0	0,0	0,9
Supranational	0,9	0,0	0,0	0,9
Local-Authority	0,7	0,0	0,0	0,7
Media	0,7	0,0	0,0	0,7
Retail	0,5	0,0	0,0	0,5
Technology & electronics	0,5	0,0	0,0	0,5
Capital goods	0,4	0,0	0,0	0,4
Services	0,3	0,0	0,0	0,3
Government Guaranteed	0,3	0,0	0,0	0,3
Leisure	0,0	0,0	0,0	0,0
Automotive	0,0	0,0	0,0	0,0
Insurance	0,0	0,0	0,0	0,0
Other	0,0	0,0	0,0	0,0
Cash	1,9	0,0	0,0	1,9

## Duration by currency and asset class (years)

	Fund	Futures	Swaps	Net
Euro	0,5	0,0	0,0	0,5
British pound	0,1	0,0	0,0	0,1
US dollar	4,0	0,0	0,0	4,0
Other	1,9	0,0	0,0	1,9
<b>Total</b>	<b>6,5</b>	<b>0,0</b>	<b>0,0</b>	<b>6,5</b>

## Commentary

---

The fourth quarter kicked off disappointingly for investors, as declining global risk sentiment took hold due to a resurgence in COVID-19 cases across the US and Europe, leading some major European nations back into national lockdowns. In the US, stalling stimulus negotiations and election uncertainty added to the uneasy investor sentiment. However, the mood in financial markets changed abruptly at the start of November as several successful COVID-19 vaccine trials were announced and news of a market-friendly US election result began to emerge. The positive investor sentiment continued into December and contributed to an outperformance from risky assets over the quarter, including returns from emerging market fixed income.

The fund registered strong positive performance in the quarter and it outperformed its benchmark. The US dollar continued to depreciate against most major currencies, which detracted from the returns of the fund's unhedged euro share classes, given the fund's sizeable exposure to the US dollar.

Emerging market fixed income spreads continued to tighten during the quarter and are now not away from where they started the year, reflecting the extent of the monetary and fiscal support underpinning global markets. The fund's above-benchmark weight in high yield bond issuers was a significant contributor to outperformance, as was our growing allocation to local currency issuers. These 'risk-on' segments of the market appreciated strongly on the vaccine news, gaining back some of the underperformance from earlier in the year and comfortably outperforming investment grade issuers.

## Portfolio Activity

The fund's overall asset allocation and currency positioning remained broadly stable. In terms of fund activity, we continued to monitor the new bond issues markets for potential opportunities to add holdings. In October, we participated in news issues from The Bahamas, Chinese online shopping platform Meituan, Chinese technology firm Lenovo and National Bank of Uzbekistan. In local markets, we increased exposure to the Serbian Dinar and the Egyptian Pound.

Throughout November and December, we increased our local currency bond exposure and moved to an above-benchmark weight, which rewarded fund performance. We added to positions in the local currency sovereign bonds of Uzbekistan (an off-benchmark position) and Kazakhstan. We moved to above-benchmark weight in Oman on valuation grounds and took advantage of some price weakening to add to Bolivian government bonds. We exited our position in Ethiopia given the ongoing civil war there. We also selectively reduced some corporate issuers on valuation grounds, including Chile Metro (investment grade), Puma Energy (high yield), and Delhi Airport due to concerns around fundamentals.

We are likely to keep selectively increasing exposure to higher-yielding local currency issuers if investment grade bond valuations in the hard currency segment continue to tighten. We remain fully invested, holding a small balance in cash and AAA rated risk-free bonds.

## Outlook

Emerging market currencies remain broadly undervalued in our view, in an environment where we could see continued pressure on the US dollar. The hunt for yield in this low interest rates environment should also support investments in emerging market debt, where we think yields remain relatively attractive. Despite a resurgence in the virus lately, the vaccine rollout around the world should kick-start an economic recovery that is likely to be supportive for the asset class, particularly for countries with strong links to commodities and tourism. Global monetary policy is expected to remain very accommodative in the near term and should also be a significant supportive factor.

Clearly the threat of further waves of the virus and national lockdowns still hangs over many parts of the world, including many emerging markets. The crisis will have undoubtedly have left many scars on emerging market economies too. In an environment where bond valuations have normalised a lot since the depths of the crisis, the thorough analysis of fundamentals, as well as issuer selectivity and portfolio diversification will all remain crucial in order to navigate risks effectively.

## 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

**On 7 December 2018 the non-sterling assets of the M&G Emerging Markets Bond Fund, a UK-authorised OEIC which launched on 15 October 1999, merged into the M&G (Lux) Emerging Markets Bond Fund, a Luxembourg-authorised SICAV, which launched on 17 September 2018. The SICAV is run by the same fund manager, applying the same investment strategy, as the UK-authorised OEIC.**

The M&G (Lux) Emerging Markets 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.

**For Investment Professionals only. Not for onward distribution. No other persons should rely on any information contained within.**

This information is not an offer or solicitation of an offer for the purchase of investment shares in one of the Funds referred to herein. Purchases of a Fund should be based on the current Prospectus. The Instrument of Incorporation, Prospectus, Key Investor Information Document, annual or interim Investment Report and Financial Statements, are available free of charge from the Luxembourg paying agent: Société Générale Bank & Trust SA, Centre operational 28-32, place de la Gare L-1616 Luxembourg.

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

This financial promotion is issued by M&G International Investments S.A. Registered Office: 16, Boulevard Royal, L-2449, Luxembourg.