

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

Monthly Fund Review as at 31 January 2021

For investment professionals only

Highlights

- It was a mixed start to the year for risk assets, against signs of recurring volatility and unpredictability in the markets.
- European investment grade credit fell slightly, driven by rising government bond yields.
- We have added high quality covered bonds and sold some bonds where valuations are back up to early 2020 levels.
- Investment flows into the asset class remain solid and central banks maintain their support through quantitative easing programmes.

Annual performance (%)



Performance over 5 years



Fund performance

| | 1 month (%) | 3 months (%) | YTD (%) | 1 year (%) | 3 years (%) p.a. | 5 years (%) p.a. |
|---|-------------|--------------|---------|------------|---------------------|---------------------|
| Euro A Accumulation | -0.3% | 1.1% | -0.3% | 0.7% | 1.4% | 2.4% |
| ICE BofA Merrill Lynch Euro Corporate Index | -0.1% | 1.0% | -0.1% | 1.4% | 2.6% | 2.8% |
| Sector | -0.1% | 1.3% | -0.1% | 1.2% | 1.8% | 2.4% |

Past performance is not a guide to future performance. The benchmark is a comparator against which the fund's performance can be measured. The 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 9 November 2018 is that of the EUR Class A Accumulation of the M&G European Corporate 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 30 March 2007.

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) | Stefan Isaacs |
| Fund manager tenure from | 30 March 2007 |
| Deputy fund manager(s) | Wolfgang Bauer |
| ISIN | LU1670629549 |
| Launch date of fund | 09 November 2018 |
| Launch of share class | 09 November 2018 |
| Fund size (millions) | € 679.63 |
| Fund type | SICAV |
| Benchmark | ICE BofA Merrill Lynch Euro Corporate Index |
| Sector | Morningstar EUR Corporate Bond sector |
| Number of issuers | 171 |
| Average credit rating | A- |
| Modified duration (years) | 5.21 |
| VaR | 2.43% |
| Average coupon | 1.96 |
| Spread duration (years) | 5.0 |

Manager tenure includes the period when managing an equivalent UK-authorized OEIC. Please see 'Important information' at the end of this document for further details.

Charges

| | |
|----------------------|-------|
| Maximum entry charge | 3.25% |
| Ongoing charge | 1.21% |

Things you should know

The fund allows for the extensive use of derivatives.

Fund ratings

| | |
|---|---------|
| Morningstar Analyst rating | Neutral |
| Overall Morningstar rating | ★★★ |
| Source of Morningstar ratings: Morningstar, as at 31 January 2021 | |

Ratings should not be taken as a recommendation.

Asset breakdown (%)

| | Physical | Short (via CDS) | Long (via CDS) | Net |
|---|-------------|--------------------|-------------------|-------------|
| Government bonds | 5.1 | 0.0 | 0.0 | 5.1 |
| Investment grade corporate bonds | 85.7 | 0.0 | 0.0 | 85.7 |
| Fixed rate | 72.1 | 0.0 | 0.0 | 72.1 |
| Floating rate | 13.7 | 0.0 | 0.0 | 13.7 |
| Index linked | 0.0 | 0.0 | 0.0 | 0.0 |
| Credit default swap indices | 0.0 | 0.0 | 0.0 | 0.0 |
| High yield corporate bonds | 7.6 | 0.0 | 0.0 | 7.6 |
| Fixed rate | 3.5 | 0.0 | 0.0 | 3.5 |
| Floating rate | 4.1 | 0.0 | 0.0 | 4.1 |
| Index linked | 0.0 | 0.0 | 0.0 | 0.0 |
| Credit default swap indices | 0.0 | 0.0 | 0.0 | 0.0 |
| Securitised | 1.0 | 0.0 | 0.0 | 1.0 |
| Equities | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash | 0.5 | 0.0 | 0.0 | 0.5 |

Credit rating breakdown (%)

| | Physical | Short (via CDS) | Long (via CDS) | Net |
|-----------|----------|--------------------|-------------------|------|
| AAA | 7.5 | 0.0 | 0.0 | 7.5 |
| AA | 7.1 | 0.0 | 0.0 | 7.1 |
| A | 22.7 | 0.0 | 0.0 | 22.7 |
| BBB | 54.6 | 0.0 | 0.0 | 54.6 |
| BB | 6.8 | 0.0 | 0.0 | 6.8 |
| B | 0.8 | 0.0 | 0.0 | 0.8 |
| 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 | 0.5 | 0.0 | 0.0 | 0.5 |

Country breakdown (%)

| | Physical | Short (via CDS) | Long (via CDS) | Net |
|-------------|----------|--------------------|-------------------|------|
| US | 20.9 | 0.0 | 0.0 | 20.9 |
| France | 17.8 | 0.0 | 0.0 | 17.8 |
| Germany | 14.9 | 0.0 | 0.0 | 14.9 |
| UK | 14.4 | 0.0 | 0.0 | 14.4 |
| Switzerland | 5.5 | 0.0 | 0.0 | 5.5 |
| Spain | 4.9 | 0.0 | 0.0 | 4.9 |
| Netherlands | 3.6 | 0.0 | 0.0 | 3.6 |
| Italy | 3.0 | 0.0 | 0.0 | 3.0 |
| Other | 14.4 | 0.0 | 0.0 | 14.4 |
| Cash | 0.5 | 0.0 | 0.0 | 0.5 |

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

| | Fund |
|------------------------------------|------|
| BNP Paribas | 2.4 |
| JP Morgan | 1.9 |
| BP Capital Markets | 1.7 |
| Vodafone Group | 1.6 |
| HSBC | 1.5 |
| Engie | 1.5 |
| Wells Fargo & Company | 1.3 |
| Intesa Sanpaolo | 1.3 |
| Credit Agricole SA (London Branch) | 1.3 |
| Societe Generale | 1.1 |

Maturity breakdown (%)

| | Physical |
|---------------|----------|
| 0 - 1 years | 8.4 |
| 1 - 3 years | 16.0 |
| 3 - 5 years | 23.3 |
| 5 - 7 years | 32.2 |
| 7 - 10 years | 11.1 |
| 10 - 15 years | 5.2 |
| 15+ years | 3.3 |
| Cash | 0.5 |

Currency breakdown (%)

| | Pre-hedge | Post-hedge |
|---------------|-----------|------------|
| Euro | 96.0 | 100.0 |
| British pound | 2.2 | 0.0 |
| US dollar | 1.7 | 0.0 |
| Swiss franc | 0.0 | 0.0 |

Industry breakdown (%)

| | Physical | Short (via CDS) | Long (via CDS) | Net |
|--------------------------|----------|--------------------|-------------------|------|
| Banking | 21.6 | 0.0 | 0.0 | 21.6 |
| Telecommunications | 7.7 | 0.0 | 0.0 | 7.7 |
| Financial services | 7.3 | 0.0 | 0.0 | 7.3 |
| Automotive | 6.2 | 0.0 | 0.0 | 6.2 |
| Real Estate | 6.1 | 0.0 | 0.0 | 6.1 |
| Insurance | 5.9 | 0.0 | 0.0 | 5.9 |
| Healthcare | 5.3 | 0.0 | 0.0 | 5.3 |
| Utility | 5.3 | 0.0 | 0.0 | 5.3 |
| Sovereign | 5.1 | 0.0 | 0.0 | 5.1 |
| Energy | 4.5 | 0.0 | 0.0 | 4.5 |
| Consumer goods | 4.2 | 0.0 | 0.0 | 4.2 |
| Capital goods | 4.1 | 0.0 | 0.0 | 4.1 |
| Technology & electronics | 3.4 | 0.0 | 0.0 | 3.4 |
| Asset backed | 2.6 | 0.0 | 0.0 | 2.6 |
| Retail | 2.1 | 0.0 | 0.0 | 2.1 |
| Covered Bonds | 2.1 | 0.0 | 0.0 | 2.1 |
| Basic industry | 1.6 | 0.0 | 0.0 | 1.6 |
| Media | 1.4 | 0.0 | 0.0 | 1.4 |
| Transportation | 1.1 | 0.0 | 0.0 | 1.1 |
| Services | 1.1 | 0.0 | 0.0 | 1.1 |
| Agency | 0.4 | 0.0 | 0.0 | 0.4 |
| Prd-Banking | 0.2 | 0.0 | 0.0 | 0.2 |
| Local-Authority | 0.2 | 0.0 | 0.0 | 0.2 |
| Leisure | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash | 0.5 | 0.0 | 0.0 | 0.5 |

Duration by currency and asset class (years)

| | Fund | Futures | Swaps | Net |
|---------------|------|---------|-------|-----|
| Euro | 4.8 | 0.3 | 0.0 | 5.2 |
| British pound | 0.1 | -0.1 | 0.0 | 0.0 |
| US dollar | 0.1 | -0.1 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 5.0 | 0.2 | 0.0 | 5.2 |

Commentary

It was a mixed start to 2021 for investment markets, with some signs of volatility starting to emerge, resulting in a modest swing in asset prices. Commodities, including oil and silver, did well, the former largely because of announced cuts to output by Saudi Arabia in the coming months. Developed equities generally stuttered, although specific companies saw sharp spikes in their stock market values because of social media-influenced buying by retail investors.

Turning to fixed income, returns from major government bond markets fell as yields rose (and prices fell) on US Treasuries, UK gilts, and German bonds. Some investors lost 3% on long-dated US Treasuries (maturing in 15 years or above) on expectations that a significantly larger fiscal stimulus - as the Democrats now control the Senate - could lead to higher inflation. Economists estimate that the US is likely to see \$900bn in fiscal stimulus passed in the next few months, which would boost GDP growth by about 1.5% this year and 0.5% in 2022. Investment grade corporate bonds, particularly US names, suffered as a result of their duration component, but credit spreads were fairly flat in the month. High yield bonds benefited from a risk-on sentiment in the first half of January, before concerns about the vaccine rollout started to cool appetite.

After a weak 2020, the US dollar performed better during the month, as the US interest curve steepened. Sterling was also a strong performer against both the US dollar and euro, arguably benefiting from the Brexit deal agreed at Christmas and the UK's current pace of vaccinations. Emerging markets saw a softer start to the year, mainly as a result of the US interest rate curve steepening and US dollar strength.

Despite healthy investor appetite and central bank liquidity continuing to underpin the asset class, European credit eased in the month, although it did better than both US and UK corporate bond markets. Within European credit, returns from BBB rated bonds were flat, while higher rated bonds lost money. There was a fair bit of dispersion in terms of sectors too, as real estate, retail, and media performed relatively well, while insurance and energy bonds sold off.

Most of the fund's underperformance came from rising long-dated yields on core government bonds, as this had an impact on the fund's long-dated credits issued in both euros and US dollars. Bonds that underperformed included long-dated debt issued by Engie, Microsoft, and General Electric.

Relative to the benchmark, the fund was slightly underweight in terms of interest rate risk, with duration at 5.2 years. In terms of spread duration, which shows the portfolio's sensitivity to credit risk, this continues to drift shorter within a general de-risking theme. As a result of being more cautious on credit risk, the fund ended the month with a spread duration of around 5.0 years, so underweight by 0.4 years compared to the benchmark.

Key changes

It was a busy period for new issues, although pricing continued to be on the high side from our perspective as value investors. We added National Grid, CBRE - a real estate services company -- and covered bonds issued by the Royal Bank of Canada. Off the back of some great work by our analysts, we also picked up bonds issued by Iqvia, a US healthcare company, Repsol, and LafargeHolcim. We sold bonds that have performed well of late, including Wells Fargo, BP, Shell, and Johnson Controls.

Overall we continue to steadily de-risk the portfolio in light of valuations remaining high by historical standards.

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 | LU1670629549 | MGECEAA LX | EUR | 09/11/2018 | 1.21%* | - | 0.12% | €1,000 | €75 |
| Euro A Inc | LU1670629622 | MGECEAD LX | EUR | 09/11/2018 | 1.21%* | 1.34% | 0.12% | €1,000 | €75 |
| Euro C Acc | LU1670629895 | MGECECA LX | EUR | 09/11/2018 | 0.71%* | - | 0.62% | €500,000 | €50,000 |
| Euro C Inc | LU1670629978 | MGECECD LX | EUR | 09/11/2018 | 0.71%* | 1.34% | 0.62% | €500,000 | €50,000 |
| Euro CI Acc | LU1797809503 | MGCECIA LX | EUR | 19/11/2018 | 0.67%* | - | 0.66% | €500,000 | €50,000 |
| Euro CI Inc | LU1945295621 | MGCECID LX | EUR | 22/02/2019 | 0.67%* | 1.34% | 0.66% | €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

On 9 November 2018, the non-sterling assets of the M&G European Corporate Bond Fund, a UK-authorized OEIC, merged into the M&G (Lux) European Corporate Bond Fund, a Luxembourg-authorized SICAV, which launched on 9 November 2018. The SICAV is run by the same fund manager, applying the same investment strategy, as the UK-authorized OEIC.

The M&G (Lux) Euro Corporate Bond Fund is a sub-fund of M&G (Lux) Investment Funds 1.

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