

M&G Global Floating Rate High Yield Fund Sterling Class I-H – Accumulation shares

Quarterly Fund Review as at 30 September 2020



Fund manager(s) – James Tomlins
For investment professionals only

Highlights

- The third quarter of 2020 was another positive period for risk assets, with further gains across the majority of global equity and credit markets.
- The fund delivered a positive return in the quarter, although relative performance was held back by its defensive sector positioning as more cyclical and distressed credits typically outperformed.
- We currently see attractive value in high yield floating rate notes (FRNs), with these assets having lagged the recent recovery in conventional high yield markets.

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.

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.

High yield bonds usually carry greater risk that the bond issuers may not be able to pay interest or return the capital.

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 hedging process seeks to minimise, but cannot eliminate, the effect of movements in exchange rates on the performance of the hedged share class. Hedging also limits the ability to gain from favourable movements in exchange rates.

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.

Fund performance

	3 months	YTD	1 year	3 years p.a.	5 years p.a.
■ Sterling I-H Accumulation	2.8%	-7.3%	-5.5%	-0.9%	1.6%
■ Benchmark	2.9%	-4.3%	-3.3%	1.0%	3.6%
■ Sector	3.3%	-2.6%	-0.5%	1.7%	4.2%
Quartile ranking	3	4	4	4	4

Single year performance (5 years)

	2019	2018	2017	2016	2015
■ Sterling I-H Accumulation	7.0%	-1.5%	3.1%	7.3%	0.3%
■ Benchmark	8.1%	-0.2%	3.6%	12.1%	-0.2%
■ Sector	11.4%	-3.6%	6.1%	10.1%	-0.9%
Quartile ranking	4	1	4	4	2

Past performance is not a guide to future performance.

Benchmark= ICE BofAML Global Floating Rate High Yield Index (3% Constrained) GBP Hedged

Sector= IA Sterling High Yield sector

Benchmark: Past performance shown to 31 March 2016 is the ICE BofAML Global Floating Rate high Yield (GBP Hedged) Index. Past performance shown from 01 April 2016 is the ICE BofAML Global Floating Rate High Yield 3% Constrained (GBP Hedged) Index.

Currency breakdown - Hedged to relevant share class currency.

Performance comparison: The fund is actively managed. The benchmark is a comparator against which the fund's performance can be measured. The index has been chosen as the fund's comparator benchmark as it best reflects the scope of the fund's investment policy. The comparator benchmark does not constrain the fund's portfolio construction.

Source: Morningstar, Inc and M&G, as at 30 September 2020. Returns are calculated on a price to price basis with income reinvested.

Benchmark returns stated in GBP terms.

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Asset breakdown (%)

	Net
Corporate floating rate notes	76.5
Fixed rate bonds + Swaps	2.7
Credit default swaps	0.0
Credit default indices	17.4
Other	0.0
Cash	3.4

Credit rating breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
AAA	0.0	0.0	0.0	0.0
AA	17.6	0.0	0.0	0.4
A	0.3	0.0	0.0	0.3
BBB	1.8	0.0	0.0	1.8
BB	13.1	0.0	0.0	13.1
B	53.3	0.0	17.4	70.7
CCC	8.9	0.0	0.0	8.9
CC	1.4	0.0	0.0	1.4
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	3.7	0.0	0.0	3.4

Country breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
US	23.3	0.0	0.0	6.2
Italy	17.9	0.0	0.0	17.9
UK	13.3	0.0	0.0	13.3
Luxembourg	10.7	0.0	0.0	10.7
France	9.0	0.0	0.0	9.0
Netherlands	8.1	0.0	0.0	8.1
Germany	4.5	0.0	0.0	4.5
Spain	3.5	0.0	0.0	3.5
Other	6.0	0.0	0.0	6.0
High Yield indices	0.0	0.0	17.4	17.4
Cash	3.7	0.0	0.0	3.4

Largest issuers (excl. government bonds and CDS indices, %)

	Fund
Arrow Global Finance	3.9
Fire BC	3.5
Lincoln Finance	3.3
Garfunkelux	3.0
Picard	2.6
Q Park Holding I	2.4
Evoca	2.3
Trivium Packaging Finance	2.2
Novem Group GmbH	2.1
Bormioli Pharma Bidco	2.0

Maturity breakdown (%)

	Physical
0 - 1 years	6.5
1 - 3 years	34.5
3 - 5 years	36.1
5 - 7 years	15.3
7 - 10 years	0.0
10 - 15 years	0.4
15+ years	3.6
Cash	3.7

Currency breakdown (%)

	Pre-hedge	Post-hedge
US dollar	27.0	99.4
Euro	69.0	0.5
British pound	3.6	0.0
Swedish krona	0.4	0.0
Canadian dollar	0.0	0.0

Industry breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Sovereign	17.1	0.0	0.0	0.0
Financial services	15.8	0.0	0.0	15.8
Retail	7.9	0.0	0.0	7.9
Capital goods	7.3	0.0	0.0	7.3
Services	7.1	0.0	0.0	7.1
Automotive	6.8	0.0	0.0	6.8
Basic industry	6.4	0.0	0.0	6.4
Healthcare	5.8	0.0	0.0	5.8
Leisure	3.9	0.0	0.0	3.9
Transportation	3.2	0.0	0.0	3.2
Energy	3.2	0.0	0.0	3.2
Media	2.7	0.0	0.0	2.7
Technology & electronics	1.9	0.0	0.0	1.9
Banking	1.9	0.0	0.0	1.9
Consumer goods	1.7	0.0	0.0	1.7
Telecommunications	1.5	0.0	0.0	1.5
Insurance	1.3	0.0	0.0	1.3
Mortgage backed	0.4	0.0	0.0	0.4
Asset backed	0.4	0.0	0.0	0.4
Pfd-Banking	0.1	0.0	0.0	0.1
Real Estate	0.0	0.0	0.0	0.0
High Yield indices	0.0	0.0	17.4	17.4
Other	0.0	0.0	0.0	0.0
Cash	3.7	0.0	0.0	3.4

Duration by currency and asset class (years)

	Fund	Futures	Swaps	Net
Euro	1.8	0.0	0.0	1.8
British pound	0.0	0.0	0.0	0.0
US dollar	0.1	0.0	0.0	0.1
Other	0.0	0.0	0.0	0.0
Total	1.9	0.0	0.0	1.9

Market and fund performance

The third quarter of 2020 was another positive period for risk assets, with further gains across the majority of global equity and credit markets. Despite a resurgence in COVID-19 cases in the US and Europe in the latter part of the period, sentiment remained optimistic overall thanks to supportive central bank stimulus measures, robust corporate earnings and a resilient uptick in global economic activity. However, September saw some renewed weakness amid concerns over a rise in virus case numbers, along with political uncertainty surrounding Brexit and the upcoming US presidential election.

Against this backdrop, fixed income markets recorded steady returns in the period. Within credit, US and European high yield slightly outperformed investment grade, mirroring the robust demand for riskier areas of fixed income. The performance of government bonds was generally flat as investors rotated out of UK gilts, US Treasuries and German bunds for either credit or European peripheral markets. Italian government bonds (BTPs) and Spanish government bonds had solid quarters, boosted by progress on the European Recovery Fund.

The fund delivered a positive return in the quarter, although relative performance was held back by its defensive sector positioning as more cyclical and distressed credits typically outperformed. The fund's CDX North American high yield index positions also weighed on relative returns towards the end of the quarter as credit derivatives underperformed physical high yield bonds. This was partly offset by the fund's overweight US exposure and long spread duration positioning versus the benchmark.

Portfolio positioning

In terms of activity, we took the opportunity to trim a number of positions into stronger bids, including transport company Promontoria, Italian chemical company Fire BC and debt recovery firm Garfunkelux. We also took advantage of a price dip to purchase an issue from Occidental Petroleum. Elsewhere, we rolled our entire CDS index position into the on-the-run index. This position allows us to maintain a relatively long spread duration versus the benchmark and should allow us to capture more of any further tightening in high yield spreads.

In the primary market, we took part in a bond refinancing by Italian game business Gamenet, reducing our overall position in this name as part of this process. We also participated in the new issue from pub operator Stonegate, whose bonds benefit from solid asset backing through its freehold property portfolio.

Outlook

We currently see better relative value in the high yield FRNs compared to fixed rate high yield. High yield FRNs have lagged the recent recovery in high yield markets, which we believe this is due to a number of technical factors, such as weak demand from collateralised debt obligations (CDOs). We think this has created a compelling opportunity and we have therefore been shifting the fund back towards physical high yield FRNs. On this basis, we have unwound the last of our asset swap positions and are in the process of selling down the fund's remaining fixed rate high yield bonds.

The fund remains defensively positioned overall, with a preference for senior-secured issues from less cyclical parts of the market, such as cable operators and consumer-packaging companies. We continue to hold minimal exposure to the areas most directly affected by the crisis, such as leisure, travel and retail businesses. We are also keeping a modest allocation to cash and government bonds.

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 1 April 2016, the fund's benchmark changed.

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Currency breakdown - Hedged to relevant share class currency.

The M&G Global Floating Rate High Yield Fund is a sub-fund of M&G Investment Funds (7).

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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