

# M&G Total Return Credit Investment Fund

Monthly fund report



January 2024

*The value of investments will fluctuate, which will cause prices to fall and rise and investors may not get back the original amount they invested. There is no guarantee the objective will be achieved.*

The M&G Total Return Credit Investment Fund ('the fund') aims to maximise total return principally by exploiting long-term risk premia. The fund will aim to provide investors with attractive returns from capital and income from a diversified pool of debt and debt like assets. These will include, but are not limited to, debt instruments with a fixed, variable or floating rate coupon. The investment manager will identify opportunities at the market, sector, issuer or security level to enhance returns amongst fixed income asset classes, such as investment grade and high yield corporate bonds and on occasion, government bonds. Duration, yield curve and currency investment strategies may also be used. There is no geographic limitation to the investment universe. The fund aims to outperform the benchmark 1– Month EURIBOR.

## Key information

Fund manager	Richard Ryan
Fund launch date	4 March 2013
Fund type	Luxembourg SICAV (UCITS)
SFDR Classification	6
Dealing and valuation dates	Daily (settlement t+2)
Annual charge	0.45% of NAV* (A share class) 0.59% of NAV* (Q share class) 0.55% of NAV* (Qi share class)
Available share classes	EUR, USD and GBP
Minimum investment	€1,000,000**
Fund size	€3,369,868,399.73
Number of issues	536
Number of issuers	391
Modified duration**** Spread duration	0.00 3.11
PV01 CR01 IE01	0.0000% 0.0310% 0.0000%
Average credit rating***	A-
Running yield Yield to worst	4.20% 7.39% (GBP), 6.10% (EUR), 7.56% (USD)
99% 20 day value at risk	1.48%

Source: M&G as at 31 January 2024. \*Net asset value. \*\*or sterling equivalent. \*\*\*Linear weighted average credit rating. \*\*\*\*For GBP share classes.

## Performance target

The fund seeks a total return of one month SONIA / Euribor +3 to 5% gross of fees p.a. over a cycle.

## Risks associated with this fund

**Market risk:** The value of investments and the income from them will rise and fall. This will cause the sub-fund price, as well as any income paid by the sub-fund, to fall as well as rise. There is no guarantee the sub-fund will achieve its objective, and you may not get back the amount you originally invested.

**Credit Risk:** The value of the sub-fund may fall if the issuer of a fixed income security held is unable to pay income payments or repay its debt (known as a default).

**Interest Rate Risk:** When interest rates rise, the value of the sub-fund is likely to fall.

**Derivatives Risk:** The sub-fund may use derivatives to gain exposure to investments and this may cause greater changes in the sub-fund's price and increase the risk of loss.

**Counterparty Risk:** Some transactions the sub-fund makes, such as placing cash on deposit, require the use of other financial institutions. If one of these institutions defaults on their obligations or becomes insolvent, the sub-fund may incur a loss.

**Below Investment Grade Debt Securities Risk:** Such securities generally carry a greater risk of default and sensitivity to adverse economic events than higher rated debt securities.

**Asset-Backed Securities Risk:** The assets backing mortgage and asset backed securities may be repaid earlier than required, resulting in a lower return.

**Contingent Convertible Debt Securities Risk:** investing in contingent convertible debt securities may adversely impact the fund should specific trigger events occur and the fund may be at increased risk of capital loss.

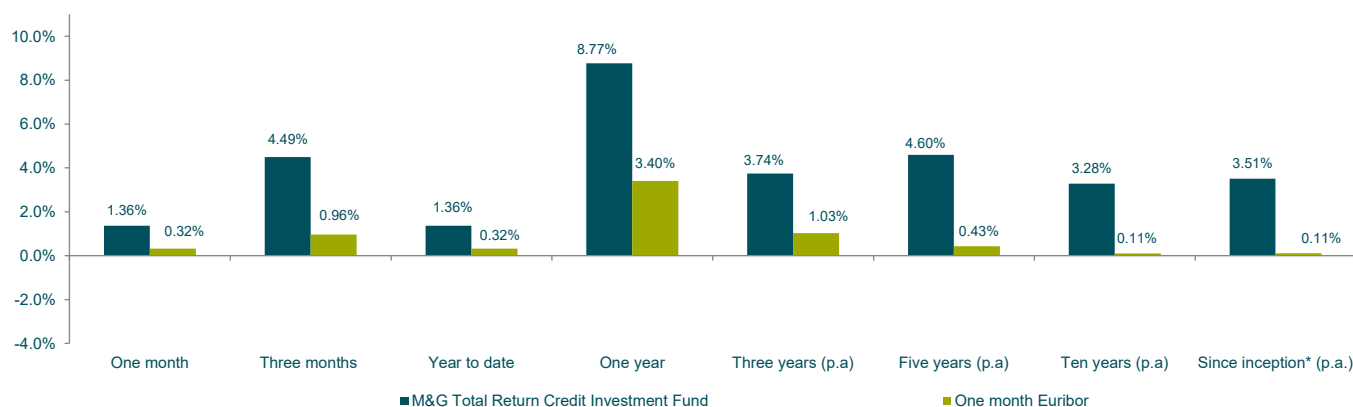
Hedged share classes use currency hedging strategies to minimise currency exchange rate risk. There will be imperfections with any hedging strategy, and it cannot be guaranteed that the hedging objective will be achieved. The hedging strategy may substantially limit holders of the hedged share class from benefiting if the hedged share class currency fails against the reference currency.

Please note this is not an exhaustive list, you should ensure you understand the risk profile of the products or services you plan to purchase.

## Fund performance

Past performance is not a guide to future performance.

### M&G Total Return Credit Investment Fund performance



Source: M&G as at 31 January 2024, gross returns of A € Acc Share class. \*Inception date 15 March 2013.

Total returns	One month	Three months	Year to date	One year	Three years (p.a)	Five Years (p.a)	Seven Years (p.a)	Ten Years (p.a)	Since Inception (p.a.)*
A share class € Acc (gross)	1.36%	4.49%	1.36%	8.77%	3.74%	4.60%	3.50%	3.28%	3.51%
A share class € Acc (net)	1.32%	4.38%	1.32%	8.28%	3.28%	4.13%	3.04%	2.82%	3.03%
One month Euribor**	0.32%	0.96%	0.32%	3.40%	1.03%	0.43%	0.20%	0.11%	0.11%
A share class £ Acc (gross)	1.46%	4.81%	1.46%	10.25%	4.96%	5.66%	4.53%	4.18%	4.22%
A share class £ Acc (net)	1.42%	4.70%	1.42%	9.76%	4.49%	5.19%	4.06%	3.71%	3.75%
One month Libor**	0.43%	1.28%	0.43%	4.76%	2.15%	1.46%	1.18%	0.96%	0.95%
A share class £ Inc (gross)	1.46%	4.82%	1.46%	10.27%	4.96%	5.65%	4.53%	-	4.32%
A share class £ Inc (net)	1.42%	4.71%	1.42%	9.78%	4.49%	5.18%	4.06%	-	3.85%
One month Libor**	0.43%	1.28%	0.43%	4.76%	2.15%	1.46%	1.18%	-	1.01%
B share class £ Acc (gross)	1.46%	4.82%	1.46%	10.26%	4.97%	-	-	-	5.62%
B share class £ Acc (net)	1.43%	4.71%	1.43%	9.82%	4.55%	-	-	-	5.20%
One Month Libor**	0.43%	1.28%	0.43%	4.76%	2.15%	-	-	-	1.87%
Q share class € Acc (gross)	1.36%	4.50%	1.36%	8.77%	3.75%	-	-	-	4.45%
Q share class € Acc (net)	1.32%	4.36%	1.32%	8.21%	3.19%	-	-	-	3.89%
One month Euribor**	0.32%	0.96%	0.32%	3.40%	1.03%	-	-	-	0.85%
Q share class € Inc (gross)	1.36%	4.50%	1.36%	8.77%	3.75%	-	-	-	4.45%
Q share class € Inc (net)	1.32%	4.36%	1.32%	8.20%	3.19%	-	-	-	3.89%
One month Euribor**	0.32%	0.96%	0.32%	3.40%	1.03%	-	-	-	0.85%
QI share class € Acc (gross)	1.36%	4.50%	1.36%	8.77%	3.74%	-	-	-	4.45%
QI share class € Acc (net)	1.32%	4.37%	1.32%	8.25%	3.23%	-	-	-	3.93%
One month Euribor**	0.32%	0.96%	0.32%	3.40%	1.03%	-	-	-	0.85%
QI share class € Inc (gross)	1.37%	4.50%	1.37%	8.76%	3.74%	-	-	-	4.45%
QI share class € Inc (net)	1.32%	4.37%	1.32%	8.24%	3.23%	-	-	-	3.93%
One month Euribor**	0.32%	0.96%	0.32%	3.40%	1.03%	-	-	-	0.85%
A share class \$ Acc (gross)	1.47%	4.90%	1.47%	10.78%	-	-	-	-	5.69%
A share class \$ Acc (net)	1.43%	4.78%	1.43%	10.28%	-	-	-	-	5.22%
One month SOFR**	0.44%	1.32%	0.44%	5.09%	-	-	-	-	3.01%

Source: M&G as at 31 January 2024. \*Please refer to the since inception dates in the Pricing table on page 3. \*\*Datastream, One month Euribor levels supplied by the European Banking Federation. One month Libor levels supplied by BBA Libor up to 30 June 2014 and ICE Benchmark Services thereafter until 31st October 2021. From 1st November 2021, SONIA levels are supplied by the Bank of England. SOFR levels are supplied by the Federal Reserve Bank of New York.

## Yearly return

Yearly return (gross of fees)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
A share class € Acc	1.45%	0.41%	5.92%	3.44%	-1.92%	5.74%	6.37%	2.55%	-0.91%	8.83%
A share class £ Acc	1.78%	1.03%	6.70%	4.23%	-0.88%	6.97%	6.83%	3.15%	0.58%	10.34%
A share class £ Inc	-	1.06%	6.72%	4.23%	-0.82%	6.95%	6.82%	3.33%	0.56%	10.37%
A share class \$ Acc	-	-	-	-	-	-	-	-	1.10%	10.94%
One Month Euribor*	0.13%	-0.07%	-0.34%	-0.37%	-0.37%	-0.40%	-0.50%	-0.56%	0.09%	3.24%
One Month Libor £ / SONIA*	0.49%	0.51%	0.41%	0.30%	0.60%	0.72%	0.21%	0.06%	1.40%	4.58%
One Month SOFR	-	-	-	-	-	-	-	-	1.63%	5.00%

The annual charge for this fund is 0.45% p.a. (A share class). This will affect the return investors will receive. Past performance is not a guide to future performance. \*Euribor levels supplied by European Banking Federation. GBP Libor levels supplied by BBA Libor up to 30 June 2014 and ICE Benchmark Services thereafter until 31st October 2021. From 1st November 2021, SONIA levels are supplied by the Bank of England.

Ex-post risk statistics**	Three years	Five years
Volatility (gross)	3.94%	4.70%
Volatility (net)	3.94%	4.70%
Sharpe ratio (gross)	0.69%	0.89%
Sharpe ratio (net)	0.57%	0.79%

\*\*Based on gross and net return of A € Acc share class.

## Pricing

Share class	Inception date	ISIN	Bloomberg code	Price per share	Fund NAV
EUR A Acc	15/03/2013	LU0895902640	ESMRCAE LX	€138.44	€62,297,282.08
GBP A Acc	18/10/2013	LU0895902996	ESMRCGH LX	£145.97	£887,865,777.35
GBP A Inc	21/11/2014	LU0895903028	EMGTDGH LX	£114.17	£472,832,980.27
GBP B Acc	21/08/2020	LU1942575207	ESMRBGH LX	£119.08	£709,717,519.53
EUR Q Acc	11/09/2020	LU2063237445	ESMGQAE LX	€113.80	€234,295.60
EUR Q Inc	11/09/2020	LU2063237528	ESMGQDE LX	€103.55	€10,354.74
EUR QI Acc	11/09/2020	LU2063237791	ESMQIAE LX	€113.95	€140,720,254.50
EUR QI Inc	11/09/2020	LU2063237874	ESMQIDE LX	€103.57	€10,357.38
USD A Acc	27/09/2021	LU1055595000	ESMGTGU LX	\$112.67	\$3,793,844.56

Source: M&G as at 31 January 2024.

## Performance attribution

Position	One month (bps)
<b>Asset allocation – corporate bonds</b>	<b>112</b>
Industrial	71
Financial	32
Utility	0
Securitised	9
Credit Default Swaps	0
Covered	0
<b>Sovereign, Quasi &amp; Government</b>	<b>0</b>
<b>Cash</b>	<b>2</b>
<b>Yield curve, duration and FX hedging</b>	<b>-1</b>
<b>Residual</b>	<b>-9</b>
<b>Total</b>	<b>104</b>

Source: M&G, Blackrock Aladdin <sup>TM</sup>, as 31 January 2024. Attribution based on the relative performance return of the Euro denominated A share class gross of fees. Attribution is calculated arithmetically and may not map directly to geometrically calculated performance.

## Positioning

Asset class*	%
Quasi and foreign government	0.35
Sovereign	3.42
Securitised	7.75
Covered	0.43
Financials	28.42
Industrials	32.19
Utilities	3.36
Net cash and derivatives	24.08
<b>Total</b>	<b>100.00</b>

Rating*	%
AAA	7.69
AA	2.51
A	5.50
BBB	30.29
BB and below	29.93
Net cash and derivatives	24.08
<b>Total</b>	<b>100.00</b>

\*Average of S&P, Moodys and Fitch or M&G internal rating

Currency of assets*	%
GBP	13.46
EUR	76.29
USD	10.33
Net derivatives	-0.08
<b>Total</b>	<b>100.00</b>

\*Unhedged currency of assets in portfolio, all non-EUR investments are fully currency hedged

Key characteristics*	
WAL to worst	4.81
Coupon	4.19
Yield to maturity (EUR)	5.94
Yield to maturity (GBP)	7.23
Yield to maturity (USD)	7.40

\*Source: M&G as at 31 January 2024.

\*ICE BofAML Level 2 Industry sectors  
Source: M&G as at 31 January 2024

## Top five corporate issues / issuers

By issue	%
CASTSS 3.125 31-Dec-2079	0.43
VTRS 1.908 23-Jun-2032	0.42
SABSM 6 16-Aug-2033	0.41
NWG 1.043 14-Sep-2032	0.41
HESLAN 4.5 15-Sep-2032	0.37

Source: M&G as at 31 January 2024

By issuer	%
Blackstone	0.52
UniCredit	0.50
AIB Group	0.47
RBI Bank	0.45
Banco Sabadell	0.44

Finally, a few relative value transactions were executed, switching out of shorter dated bonds issued by Crelan into slightly longer dated primary market equivalents as well as switching from USD tier 2 bonds into GBP non-preferred senior bonds issued by Société Générale.

## Investment process

The M&G Total Return Credit Investment Fund ('the fund') seeks to add value through a fundamentally driven, "bottom up", value-based approach to credit investing, which we believe results in lower volatility and higher returns. The fund removes all interest rate risk, and derives its returns principally from capturing credit risk premia, investing only where we have a strong conviction that the price at which we can transact more than compensates for the risk being taken.

This is based on the belief that securities can become mispriced and over or undervalued as a consequence of a variety of issuer/sector factors, or wider events including social or political unrest and episodes of market greed or panic. M&G has these may include stocks where a change in market price does not reflect underlying credit fundamentals, or where a change in the fundamentals has yet to be reflected in the price. It may also include bonds that other investors are unsure about, or unable to analyse and value. The breadth of the universe that the fund is able to allocate to, and the depth of individual opportunities within each credit asset class, regularly provides the Fund Manager with significant numbers of investment opportunities to enable a high level of portfolio diversification. Critically, we do not invest based on forecasts of the level and direction of interest rates, inflation, growth and other variables, which we believe do not represent a reliable or repeatable source of outperformance. Therefore we remove all of the underlying interest rate risks of the bonds held in the fund, and fully hedge all currency exposure. A team of over 100 fundamental credit analysts, covering public and private debt markets, who analyse, monitor and independently rate issuers in the investible universe. This analytical resource enables the Fund Manager to identify and select sufficient numbers of cheap bonds to generate consistent returns.

## Benchmark: 1-Month EURIBOR

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, subject to the investment restrictions set out in

## Investment commentary

The market has been debating the timing of the Fed's first interest rate cut for months. Investors are still expecting rate cuts fairly soon, however Powell's remarks following January's meeting led to markets dialling back on the likelihood that a cut will go ahead in March – the market implied probability fell to one-in-three. Generally, sovereign bonds across the US, Europe and UK lost ground as investors dialled back the prospect of rate cuts. Geopolitical concerns have also persisted into 2024, particularly as strikes from Houthis rebels on commercial shipping in the Red Sea led to significant supply-chain disruption. This saw oil prices rising again in January following three monthly declines, with Brent Crude up +6.1% to \$81.7/bbl.

Investment Grade (IG) supply continued to beat expectations (and records) in January, as borrowers took advantage of rallying yields to refinance at lower rates. Strong demand continued as investors were eager to buy bonds with elevated yields before central banks start cutting base rates, leading spreads to continue to perform well in the month. Rates were volatile, driven by changing market expectations on the path of interest rates. The EUR IG and GBP IG indices tightened by 7bps and 4 bps respectively, however rising government bond yields resulted in EUR IG delivering slightly positive total returns of 0.09% and GBP IG delivering a negative return of -0.99%.

The European High Yield market started the year positively as spreads continued to grind tighter, ending January 12bps tighter than at the end of 2023. This resulted in Euro HY delivering total returns of 0.83%.

The Fund saw a continuation of several themes implemented by the investment team in prior months. The Fund de-risked into market strength, and opportunities were added on an idiosyncratic basis given spread dispersion across sectors.

We remained active in the primary market, increasing our exposure to selective financial bonds issued by Commerzbank, Iccrea Banca and New York Life which came to market at attractive levels.

In the secondary market, we marginally increased exposure to financial and covered bonds issued by Deutsche Pfandbriefbank, Rothesay Life and Credit Agricole. All purchases offered attractive compensation for risk relative to underlying credit fundamentals.

The manager reduced exposure to various industrial bonds including those issued by Elinor, Sappi, Eurofins Scientific and Sibelco which had performed well.

the fund's prospectus, and there are no restrictions on the extent to which the fund's performance may deviate from the one of the benchmark.

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

## Fund Manager

Richard Ryan joined M&G in 2002 and has managed the multi-asset credit strategies since their inception in 2007. Richard has 24 years of experience managing institutional corporate bond funds. Richard is also able to draw on the strengths of M&G's specialist portfolio management and analyst teams within the Fixed Income business. Richard graduated from Southampton University with a degree in Economics.

## Note on swing pricing effect

The fund operates partial swing pricing whereby the fund swings when net flows on any dealing day are above the predetermined threshold. The NAV per Share may be adjusted upwards or downwards to reflect the costs attributable to the net inflows and outflows respectively. If net flows do not exceed the pre-determined threshold then the fund is mid priced. The swing factor is determined monthly using the bid mid spread of assets in the fund on a given day.

## Taxonomy Summary

Pursuant to EU Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment, and amending SFDR (the "Taxonomy Regulation"), the Manager is required to disclose alignment with the Taxonomy Regulation. As at the date of this report, this Fund is not subject to Article 8 or to Article 9 of the SFDR. As such, the investments underlying this Fund do not take into account the EU criteria for environmentally sustainable economic activities.

## Key risk guidelines

Key risk guidelines	Maximum
Interest rate risk (duration)	+ / - 3 years
Max sub-investment grade	50%
Single issuer: AAA to AA-	+ 5%
Single issuer: A+ to BBB-	+ 3%
Single issuer: below BBB-	+ 2%

Source: M&G as at 31 January 2024

## Contact

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### Austria

**Werner Kolitsch**  
+49 69 133 867 27  
werner.kolitsch@mandg.com

### France

**Florent Delorme**  
+33 (0) 1 71 70 30 88  
florent.delorme@mandg.fr

### Italy

**Costanza Morea**  
+39 02 3206 5577  
costanza.morea@mandg.com

### Netherlands

**Stefan Cornelissen**  
+31 (0)20 799 7680  
stefan.cornelissen@mandg.co.uk

### Switzerland

**Patrick Abgottspoon**  
+41 (0)43 443 8206  
patrick.abgottspoon@mandg.com

### Benelux

**Stacey Notteboom**  
+324 7739 1317  
Stacey.notteboom@mandg.com

### Germany

**Ingo Matthey**  
+49 69 133 867 16  
ingo.matthey@mandg.com

### Nordics

**Robert Heaney**  
+46 (0)7 0266 4424  
robert.heaney@mandg.co.uk

### Spain

**Alicia García**  
+34 91 561 5253  
alicia.garcia@mandg.com

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[www.mandg.com/institutions](http://www.mandg.com/institutions)  
[institutional.investors@mandg.co.uk](mailto:institutional.investors@mandg.co.uk)

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