

M&G European High Yield Investment Fund

Monthly fund report



November 2018

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 European High Yield Credit Investment Fund ('the fund') invests in a diversified portfolio of high yield bonds primarily denominated in Euros. The fund utilises M&G's global research and fixed income fund management capabilities to identify fundamental value in Euro corporate and asset backed bonds, and may allocate to non-Euro denominated debt (USD, GBP and CHF). The fund aims to outperform the ICE BofAML European Currency Developed Markets Non-Financial High Yield 2% Constrained Index. The fund focuses on credit management, while currency, interest rate, and other macroeconomic risks are closely controlled.

Key information

Fund manager	David Fancourt
Fund launch date	6 March 2013
Fund type	Luxembourg SICAV (UCITS)
Dealing and valuation dates	Daily (settlement t+2)
Total expense ratio	0.20%* of NAV**
Share class currencies	EUR, USD and GBP
Minimum investment	€1 million***
Fund size	€52.96 million
Number of issues	179
Number of issuers	135
Modified duration to worst Spread duration	3.79 4.12
PV01 CR01 IE01	0.0382% 0.0396% 0.0000%
Average credit rating****	BB
Yield*****	4.58%
99% 20 day value at risk	1.13%

Performance objective

The fund's principal objective is to return 1.5% gross of fees p.a. above its benchmark index over a cycle.

Risks associated with this fund

Credit risk: the possibility that a debtor will not meet their repayment obligations.

Liquidity risk: this exists when particular investments are difficult to purchase or sell.

Interest rate risk: this is the extent to which an asset or investment's value could be influenced by movements in variable interest rates.

Derivative risk: the use of derivatives for non-hedging purposes may expose the Fund to a higher degree of risk and may cause your investment to experience larger than average price fluctuations.

Currency risk: currency movements could have both a negative and positive impact upon the overall value of the investments owned by this fund.

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.

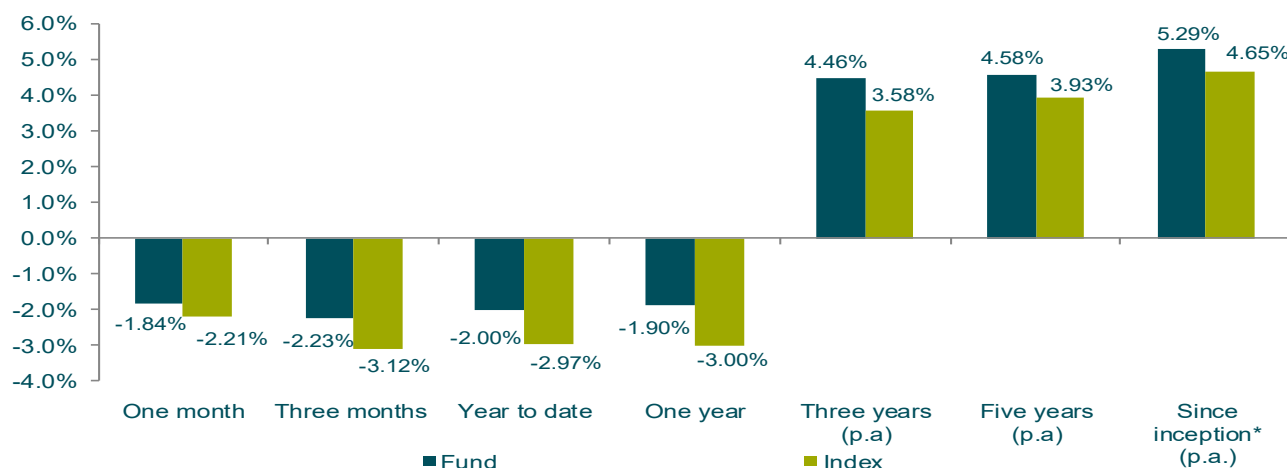
Please note this is not an exhaustive list, you should ensure you understand the risk profile of the products or services you plan to purchase.

Source: M&G as at 30 November 2018. *This TER is available until the fund reaches a specified size. Please contact M&G for further information. **Net asset value. ***Or sterling equivalent. ****Linear average credit rating. *****Yield is calculated to worst.

Fund performance

Past performance is not a guide to future performance.

M&G European High Yield Credit Investment Fund performance



Source: M&G as at 30 November 2018, gross returns of EUR A Share class. *Inception date 6 March 2013.

Total returns	One month	Three months	Year to date	One year	Three years (pa)	Five years (pa)	Since inception (p.a.)*
A share class € (gross)	-1.84%	-2.23%	-2.00%	-1.90%	4.46%	4.58%	5.29%
A share class € (net)	-1.85%	-2.28%	-2.37%	-2.31%	3.91%	3.88%	4.55%
Index**	-2.21%	-3.12%	-2.97%	-3.00%	3.58%	3.93%	4.65%

Yearly return (gross of fees)	2013	2014	2015	2016	2017
A share class €	-	5.23%	1.54%	11.25%	6.40%
Index**	-	5.04%	1.26%	9.94%	6.11%

The Total Expense Ratio for this fund is 0.20% p.a. This will affect the return investors will receive. Past performance is not a guide to future performance.

Risk statistics***	Three year	Five year
Volatility****	4.67	4.53
Information ratio	1.11	0.77

Source: M&G as at 30 November 2018. *EUR A share class inception 6 March 2013. **Effective 1 January 2017, the benchmark was changed to ICE BofAML European Currency Developed Markets Non-Financial High Yield 2% Constrained Index from the ICE BofAML European Currency HY ex Financials 2% Constrained Index. ***Based on gross returns of EUR A share class. ****Ex-post volatility.

Positioning

Key characteristics	Fund	Index
Number of issues	179	478
Number of issuers	135	277
Modified duration to worst	3.79	3.93
Spread duration	4.12	4.07
Average credit rating	BB	BB-
Yield	4.58%	4.66%

Source: M&G as at 30 November 2018

Pricing

Share class	Inception date	ISIN	Bloomberg code	Price per share	Fund NAV
EUR A	6 March 2013	LU0895903457	ESMEHAE LX	€129.08	€52,961,653.08

Source: M&G as at 30 November 2018

Positioning

Asset class*	Fund (%)	Index (%)	Relative (%)
Securitised	1.19	0.00	1.19
Financials	2.52	0.00	2.52
Industrials	84.00	95.88	-11.88
Utilities	1.63	4.12	-2.49
Sovereign	7.72	0.00	7.72
Net cash and derivatives	2.94	0.00	2.94
Total	100.00	100.00	0.00

*ICE BofAML level 2 industry sectors

Rating*	Fund (%)	Index (%)	Relative (%)
BBB and above	9.29	0.00	9.29
BB	50.39	64.89	-14.50
B	31.39	29.50	1.89
CCC	5.47	5.24	0.23
CC and below	0.52	0.37	0.15
Net cash and derivatives	2.94	0.00	2.94
Total	100.00	100.00	0.00

Source: M&G as at 30 November 2018. *Average of S&P, Moodys and Fitch or M&G internal rating

Currency of assets*	Fund (%)	Index (%)	Relative (%)
GBP	14.09	12.46	1.63
EUR	86.12	87.54	-1.42
USD	0.01	0.00	0.01
Other	0.00	0.00	0.00
Net derivatives	-0.22	0.00	-0.22
Total	100.00	100.00	0.00

Source: M&G as at 30 November 2018. *Unhedged currency of assets in portfolio, all non-EUR investments are fully currency hedged. Benchmark holdings are hedged to EUR.

Top five corporates overweights and underweights by issuer

Overweights	Fund (%)	Index (%)	Relative (%)
Volkswagen	1.13	0.00	1.13
Altice Luxembourg	2.30	1.18	1.12
Ziggo	2.31	1.21	1.10
Wind Tre	2.41	1.34	1.07
Virgin Media	3.05	2.00	1.05

Source: M&G as at 30 November 2018

Underweights	Fund (%)	Index (%)	Relative (%)
Fiat Chrysler	0.00	1.74	-1.74
Netflix	0.00	1.03	-1.03
Smurfit Kappa	0.00	1.02	-1.02
Thyssenkrupp	0.49	1.51	-1.02
K&S	0.00	1.01	-1.01

Investment commentary

October's volatility continued into November, with themes such as Brexit, trade wars and Italian politics continuing to spook markets. Theresa May and the European Union agreed a draft Withdrawal Agreement, however many ministers have opposed the deal believing 'no deal' would be better than the deal agreed. This has led to several cabinet resignations and rumours around no confidence votes increasing before the parliamentary vote on December 11th. In the US, the midterm elections saw the Democrats gain control of the House and the Republicans keeping power of the Senate, which was much anticipated by markets. In Europe, news continued to focus around Italy and the negotiations around Fiscal targets. Against this backdrop, all major credit indices posted another month of negative excess returns in addition to increasing firm specific credit events increasing volatility and keeping investors on edge. In European high yield markets, all sectors underperformed with the worst performing sectors being consumer goods and services.

In November, the manager took advantage of the market volatility and added selectively to names which looked attractive. The manager subsequently bought bonds issued by GKN (which was a new entrant to the index), Bombardier, Altice, Telecom Italia, Darling and Thomas Cook.

In addition, the new issue market offered good value with the manager purchasing bonds issued by Solvay, International Design Group, Verisure, and also the investment grade bond issued by Volkswagen. These were funded by cash, Bunds and reducing exposure to expensive bonds such as Equinix, Ardagh and Ceva. The manager also switched the existing Ziggo, Unity and Enterprise Inns bonds into the slightly longer dated equivalents for a pick up in yield.

Note on swing pricing effect

The Fund operates partial swing pricing whereby the Fund swings when net flows on any dealing day are above a pre-determined 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.

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