

30 June 2023

View from the Desk

M&G (Lux) Optimal Income Fund

Fund manager – Richard Woolnough



This document is intended for use with existing clients. Some of the data shown below is preliminary and subject to change. All portfolio data and performance attribution are based on internal databases and are unaudited. Please see the Monthly Fund Review for final verified data. Past performance is not a guarantee of future performance.

Highlights

Fixed income markets, with a few exceptions such as EM debt, stuttered in June as central banks again used rate hikes to try and depress inflation. Overall, fund return was broadly flat but lagged the wider market. Yields on core government bonds rose and so fund duration detracted – underperforming UK gilts the main source of weak performance here. As in previous months, fund credit exposure – especially investment grade – was of benefit to return. Holding fewer riskier bonds (eg, CCC rated) was detrimental as risk appetite picked up, however. Within credit, we see lots of dislocation so have ratcheted up our relative value trades recently.

Performance %

JUNE 2023	EUR	USD
	-0.4%	-0.1%
	-0.5%	0.7%
	Fund	Fund
	BM*	BM*

Calendar-year performance

	2023 YTD	YTD	2022	2021	2020	2019
Fund (EUR)	2.4	2.4	-12.3	1.2	1.4	6.8
BM* (EUR)	2.4	2.4	-14.1	-0.9	5.0	7.8
Fund (USD)	3.7	3.7	-10.2	2.0	3.1	9.9
BM* (USD)	3.7	3.7	-12.0	0.0	6.5	11.0
	2018	2017	2016	2015	2014	2013
Fund (EUR)	-4.0	4.3	7.0	-1.6	4.7	7.2
BM* (EUR)	n/a	n/a	n/a	n/a	n/a	n/a
Fund (USD)	-1.2	6.5	7.9	-1.2	4.9	7.3
BM* (USD)	n/a	n/a	n/a	n/a	n/a	n/a

YTD = year to most recent quarter.

*Benchmark: 1/3 Bloomberg Global Aggregate Corporate Index EUR Hedged, 1/3 Bloomberg Global High Yield Index EUR Hedged, 1/3 Bloomberg Global Treasury Index EUR Hedged.

The benchmark is a comparator used solely to measure the fund's performance and reflects the scope of the fund's investment policy but does not constrain portfolio construction. The fund is actively managed. The fund's holdings may deviate significantly from the benchmark's constituents. The benchmark is not an ESG benchmark and is not consistent with the ESG Criteria.

The composite index was introduced as the fund's benchmark on 7 September 2018. Fund performance prior to 7 September 2018 is that of the equivalent UK-authorized OEIC, which merged into this fund on 8 March 2019. Tax rates and charges may differ.

Source: Morningstar, Inc., as at 30 June 2023, Euro Class A Acc shares and USD Class A-Hedged shares, price-to-price, income reinvested. Not all share classes are registered for sale in all countries. Details in Prospectus.

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.

Fund size and duration

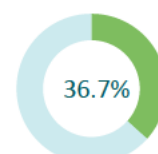
	30 June 2023	31 May 2023
Fund size	€9.06bn US\$9.83bn	€9.20bn US\$9.82bn
Duration	5.9 yrs	6.0 yrs
Spread duration	6.1 yrs	6.3 yrs
Yield to worst* (EUR/USD)	N/A	5.16%/7.00%

*Calculated gross of fees. The yield is calculated as the worst possible outcome by using various call dates.

Asset allocation

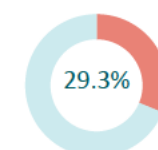
Investment grade credit

Maintained an overweight position with a tilt towards UK sterling corporate bonds. We think these are relatively cheap and supported by strong technical factors eg, supply falling.



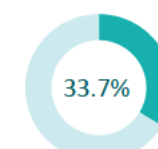
High yield credit

We kept our exposure close to neutral, although in terms of risk we tend to be slightly underweight due to our limited exposure to CCC and single B rated bonds.



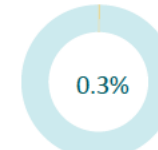
Government bonds (and cash)

We moved some of our Italian BTP exposure longer as the curve steepened. On the other hand, we reduced exposure to Spain on the back of relatively good performance.



Equities

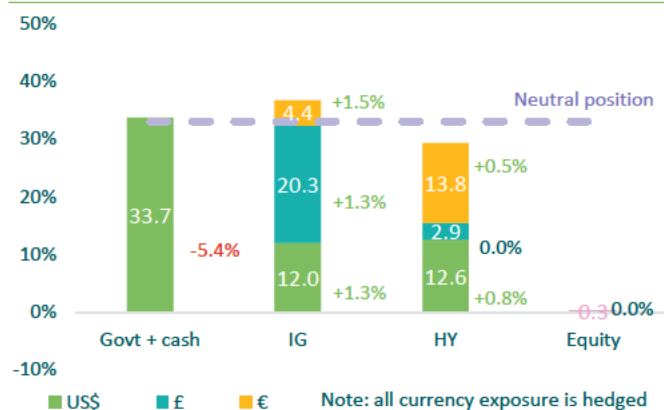
No changes in the month and exposure has been steady for a while. We continue to favour the valuation signal offered by a company's debt rather than its equity.



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.

UCITS HAVE NO GUARANTEED RETURN, AND PAST PERFORMANCE IS NOT A GUIDE TO FUTURE PERFORMANCE.

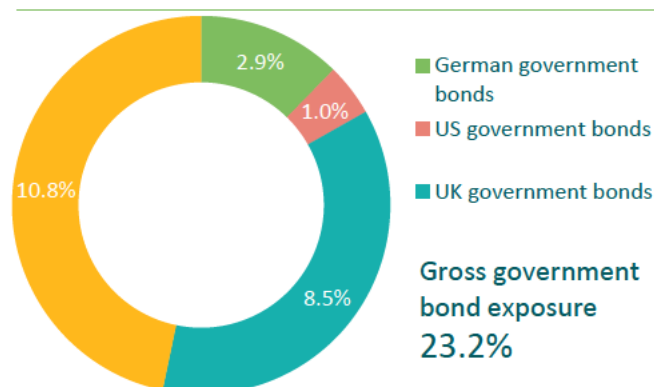
Asset allocation



Numbers in green or red next to the bars denote changes from previous month. Govt includes cash.

The fund is exposed to different currencies. Derivatives are used to minimise, but may not always eliminate, the impact of movements in currency exchange rates.

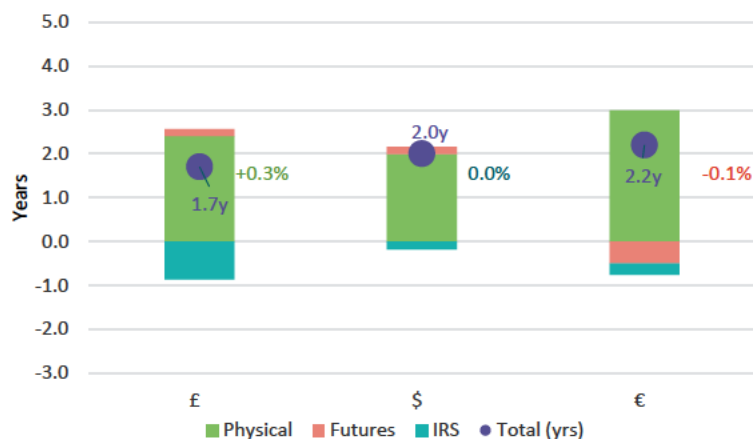
Government bond allocation



Net government bond exposure was 23.2%

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.

Duration contribution



Numbers in green or red next to the bars denote changes from previous month.

- We moved some exposure out of euro assets and into both US dollar assets and UK sterling assets (we continue to think UK gilts look attractive).
- Duration derived: 2.0yrs USD; 1.7 yrs GBP; 2.2 yrs EUR

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.

Other important information

The fund allows for the extensive use of derivatives.

For an explanation of technical terms, please refer to the glossary via the link <https://www.mandg.com/dam/global/shared/en/documents/glossary-master-en.pdf>

Further risks associated with the fund can be found in the fund's Prospectus.

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