M&G European Credit Investment Fund

Quarterly fund review as at 31 March 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.

Fund objective and description

The M&G European Credit Investment Fund ('The fund') aims to take advantage of opportunities primarily in investment grade corporate bonds denominated in Euros whilst meeting ESG criteria. The fund may also invest in GBP, USD and CHF denominated debt, and use futures and swaps for efficient portfolio management. The fund utilises M&G's global research and fund management capabilities to identify fundamental value in corporate and asset backed bonds. The fund focuses on credit management; currency, interest rate, and other macro-economic risks are closely controlled. The fund aims to outperform the ICE BofA Euro Corporate Index.

Key Information

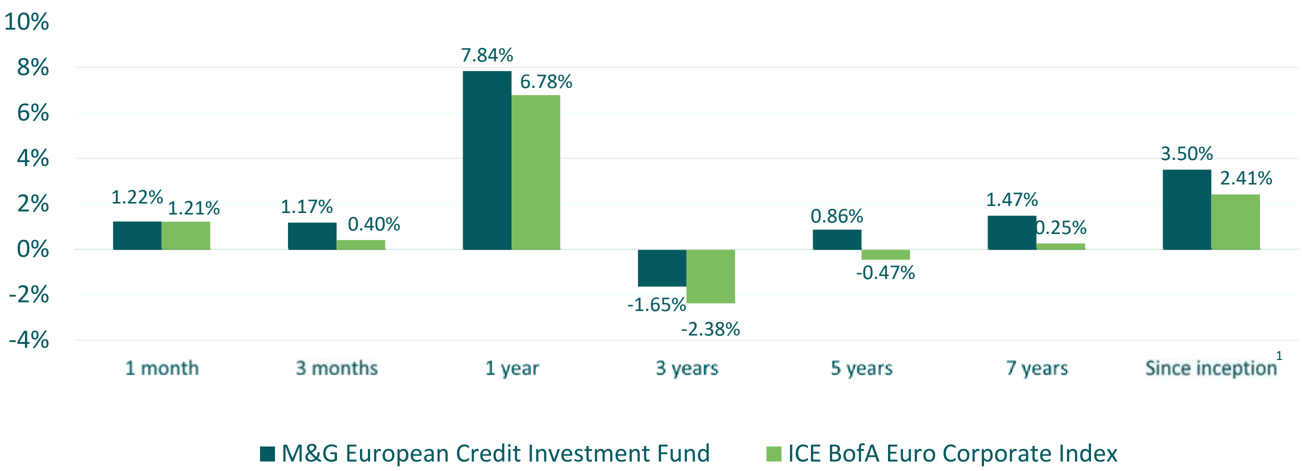
Fund manager	Gaurav Chatley
Fund launch date	12 April 2011
Fund type	Luxembourg SICAV (UCITS)
SFDR Classification	Article 8
Dealing and valuation dates	Daily (settlement t+2)
Available share classes	EUR, GBP, CHF, USD and JPY (Accumulation and Income)
Fund size	€5,088,594,297.69

Source: M&G as at 31 March 2024.

Investment objective

The fund seeks a total return (capital growth plus income) of the Benchmark plus 0.75% (gross of fees per annum), over any five-year period while applying ESG Criteria.

Fund performance



Source: M&G as at 31 March 2024.
Gross returns of E Euro (Accumulation) Share class.
[1] Inception date 12 April 2011. All returns greater than 1 year are annualised.

Past performance is not a guide to future performance. There is no guarantee the objective will be achieved.

Fund performance (%)

Total returns	1 month	3 months	Year to date	1 year	3 years	5 years	7 years	10 years	Since inception[1]
Class A Euro (Accumulation) (Gross)	1.23	1.17	1.17	7.83	-1.65	-	-	-	-1.58
Class A Euro (Accumulation) (Net)	1.21	1.12	1.12	7.63	-1.82	-	-	-	-1.76
Benchmark[2]	1.21	0.40	0.40	6.76	-2.38	-	-	-	-2.24
Class A Euro (Income) (Gross)	1.23	1.17	1.17	7.83	-	-	-	-	-2.20
Class A Euro (Income) (Net)	1.21	1.12	1.12	7.63	-	-	-	-	-2.38
Benchmark[2]	1.21	0.40	0.40	6.76	-	-	-	-	-3.01
Class B Euro (Income) (Gross)	1.23	1.17	1.17	7.83	-	-	-	-	-2.34
Class B Euro (Income) (Net)	1.21	1.13	1.13	7.65	-	-	-	-	-2.50
Benchmark[2]	1.21	0.40	0.40	6.76	-	-	-	-	-3.07
Class E Euro (Accumulation) (Gross)	1.22	1.17	1.17	7.84	-1.65	0.86	1.47	2.31	3.50
Class E Euro (Accumulation) (Net)	1.22	1.14	1.14	7.74	-1.75	0.76	1.31	2.07	3.21
Benchmark[2]	1.21	0.40	0.40	6.78	-2.38	-0.47	0.25	1.19	2.41
Class E Euro (Income) (Gross)	1.22	1.17	1.17	7.83	-1.65	-	-	-	-0.10
Class E Euro (Income) (Net)	1.22	1.14	1.14	7.72	-1.75	-	-	-	-0.20
Benchmark[2]	1.21	0.40	0.40	6.76	-2.38	-	-	-	-1.34
Class E Sterling (Accumulation) (Gross)	1.32	1.46	1.46	9.23	-0.55	1.85	-	-	2.55
Class E Sterling (Accumulation) (Net)	1.31	1.44	1.44	9.12	-0.65	1.75	-	-	2.45
Benchmark[2]	1.32	0.72	0.72	8.24	-1.27	0.53	-	-	1.20
Class F Euro (Accumulation) (Gross)	1.23	1.17	1.17	7.83	-1.65	-	-	-	0.46
Class F Euro (Accumulation) (Net)	1.21	1.12	1.12	7.63	-1.82	-	-	-	0.28
Benchmark[2]	1.21	0.40	0.40	6.76	-2.38	-	-	-	-0.54
Class P Euro (Accumulation) (Gross)	1.23	1.17	1.17	7.83	-	-	-	-	4.52
Class P Euro (Accumulation) (Net)	1.19	1.05	1.05	7.30	-	-	-	-	4.01
Benchmark[2]	1.21	0.40	0.40	6.76	-	-	-	-	4.16
Class P Euro (Income) (Gross)	1.23	1.17	1.17	7.83	-	-	-	-	4.52
Class P Euro (Income) (Net)	1.19	1.05	1.05	7.30	-	-	-	-	4.01
Benchmark[2]	1.21	0.40	0.40	6.76	-	-	-	-	4.16
Class Q Euro (Accumulation) (Gross)	1.23	1.17	1.17	7.83	-1.65	-	-	-	-1.21
Class Q Euro (Accumulation) (Net)	1.20	1.11	1.11	7.56	-1.89	-	-	-	-1.46
Benchmark[2]	1.21	0.40	0.40	6.76	-2.38	-	-	-	-2.00

Past performance is not a guide to future performance. There is no guarantee the objective will be achieved.

Total returns	1 month	3 months	Year to date	1 year	3 years	5 years	7 years	10 years	Since inception[1]
Class Q Euro (Income) (Gross)	1.23	1.17	1.17	7.83	-1.65	-	-	-	-1.21
Class Q Euro (Income) (Net)	1.20	1.11	1.11	7.56	-1.89	-	-	-	-1.46
Benchmark[2]	1.21	0.40	0.40	6.76	-2.38	-	-	-	-2.00
Class QI Euro (Accumulation) (Gross)	1.23	1.17	1.17	7.83	-1.65	-	-	-	-1.21
Class QI Euro (Accumulation) (Net)	1.21	1.12	1.12	7.60	-1.85	-	-	-	-1.42
Benchmark[2]	1.21	0.40	0.40	6.76	-2.38	-	-	-	-2.00
Class QI Euro (Income) (Gross)	1.23	1.17	1.17	7.83	-1.65	-	-	-	-1.21
Class QI Euro (Income) (Net)	1.21	1.12	1.12	7.60	-1.85	-	-	-	-1.41
Benchmark[2]	1.21	0.40	0.40	6.76	-2.38	-	-	-	-2.00
Class W Euro (Accumulation) (Gross)	1.23	1.17	1.17	7.83	-	-	-	-	-2.20
Class W Euro (Accumulation) (Net)	1.20	1.10	1.10	7.52	-	-	-	-	-2.48
Benchmark[2]	1.21	0.40	0.40	6.76	-	-	-	-	-3.01
Class W Euro (Income) (Gross)	1.22	0.34	0.34	6.95	-	-	-	-	-2.25
Class W Euro (Income) (Net)	1.20	0.27	0.27	6.64	-	-	-	-	-2.54
Benchmark[2]	1.21	0.40	0.40	6.76	-	-	-	-	-3.01
Class WI Euro (Accumulation) (Gross)	1.23	1.17	1.17	7.83	-	-	-	-	-2.20
Class WI Euro (Accumulation) (Net)	1.20	1.11	1.11	7.56	-	-	-	-	-2.44
Benchmark[2]	1.21	0.40	0.40	6.76	-	-	-	-	-3.01
Class WI Euro (Income) (Gross)	1.23	1.17	1.17	7.83	-	-	-	-	-2.20
Class WI Euro (Income) (Net)	1.20	1.11	1.11	7.56	-	-	-	-	-2.44
Benchmark[2]	1.21	0.40	0.40	6.76	-	-	-	-	-3.01

Source: M&G as at 31 March 2024. All returns greater than 1 year are annualised.
[1] Please refer to the since inception dates in the pricing table.
[2] Benchmark: ICE of BofA Euro Corporate Index (currency hedged where applicable).

Single year performance (%)

Yearly return (gross of fees)	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class E Euro (Accumulation)	8.95	-13.67	-0.61	6.29	7.55	-0.53	3.75	7.76	-0.85	8.11
Benchmark[1]	8.02	-13.94	-1.02	2.65	6.25	-1.14	2.42	4.75	-0.43	8.25

Source: M&G as at 31 March 2024.
[1] Benchmark is the ICE BofA Euro Corporate Index. (currency hedged where applicable).

Performance attribution

Position	Basis points
Asset Allocation	**-1**
Sector selection	**4**

Positive:

- Overweight Banking
- Overweight Real Estate
- Overweight Covered Bonds

Negative:

- Underweight Telecommunications

Stock selection	**71**

Positive:

- Overweight CPI Property Group
- Overweight Heimstaden Bostad Treasury
- Overweight Aroundtown

Negative:

- Underweight Healthcare

Yield curve and duration	**5**
Other Factors	**0**
Residual*	**-2**
Total	**77**

Source: M&G, Blackrock Aladdin ™, M&G as at 31 March 2024.
Attribution based on the absolute performance return of the E Euro share class gross of fees. Attribution is calculated arithmetically and may not map directly to geometrically calculated performance. *Residual differences may arise between custodian pricing and internal performance attribution system due to currency rates and securities pricing particularly during times of increased market volatility.

Fund Analytics

Key characteristics	Fund	Benchmark
Number of issues	609	4246
Number of issuers	312	817
Average credit rating[1]	A	A-
Running yield	2.89	2.37
Yield to worst	4.18%	3.67%
Yield to maturity	3.98%	3.76%
Coupon	2.80%	2.26%
Spread duration (years)	4.66	4.68
Modified duration to worst	4.52	4.52
WAL to worst (years)	5.58	5.13
PV01	0.0460%	–
CR01	0.0470%	–
IE01	0.0000%	–
99% 20 day value at risk	2.84%	–

Source: M&G as at 31 March 2024.
[1] Linear average credit rating.

Ex-Post Risk statistics (%)

Ex-post risk statistics	3 years	5 years	7 years
Volatility (gross)[1]	6.44	6.40	5.51
Volatility (net)[1]	6.44	6.40	5.51
Sharpe ratio (gross)	0.99	1.51	1.60
Sharpe ratio (net)	0.86	1.40	1.38

Source: M&G as at 31 March 2024.
Based on gross and net returns of Euro E Accumulation share class. [1] Ex-post volatility.

Positioning

Sector breakdown[1]	Fund %	Benchmark %	Relative %
Covered	5.73	0.01	5.72
Financial	41.41	38.25	3.16
Industrial	30.80	51.33	-20.53
Utility	11.43	10.41	1.02
Securitized	0.48	0.00	0.48
Quasi & Foreign Government	0.00	0.00	0.00
Sovereign	8.73	0.00	8.73
Net cash and derivatives	1.42	0.00	1.42
Total	**100**	**100**	**0**

Source: M&G as at 31 March 2024.
[1] ICE BofA level 2 industry sectors.

Credit rating breakdown[1]	Fund %	Benchmark %	Relative %
AAA	13.24	0.26	12.98
AA	8.17	7.36	0.81
A	32.08	41.17	-9.09
BBB	42.33	50.43	-8.10
BB and below	2.76	0.78	1.98
Net cash and derivatives	1.42	0.00	1.42
Total	**100**	**100**	**0**

Source: M&G as at 31 March 2024.
[1] Average of S&P, Moodys and Fitch or M&G internal rating.

Top five corporates overweights by issuer[1]	Fund %	Benchmark %	Relative %
Caisse de refinancement de l'Habitat	0.61	0.00	0.61
Aroundtown	0.65	0.13	0.52
Arion Banki	0.53	0.02	0.50
Heimstaden Bostad	0.61	0.12	0.49
Thames Water	0.48	0.00	0.48

Source: M&G as at 31 March 2024.
[1] Excludes sovereign and quasi government instruments.

Top five corporates underweights by issuer[1]	Fund %	Benchmark %	Relative %
HSBC	0.04	0.59	-0.55
Orange	0.21	0.75	-0.54
Telefonica	0.00	0.52	-0.52
Unibail-Rodamco-Westfield	0.06	0.54	-0.48
Mercedes-Benz	0.32	0.79	-0.47

Source: M&G as at 31 March 2024.
[1] Excludes sovereign and quasi government instruments.

Currency of assets before hedging[1]	Fund %	Benchmark %	Relative %
EUR	99.80	100.00	-0.20
GBP	0.16	0.00	0.16
USD	0.04	0.00	0.04
Net derivatives	0.00	0.00	0.00
Total	**100**	**100**	**0**

Source: M&G as at 31 March 2024.
[1] Unhedged currency of assets in fund, all non-EUR investments are fully currency hedged.

Pricing

Share class	Inception date	ISIN	Bloomberg code	Price per share	Fund NAV	TER (p.a)	Dividend rate[1]
EUR A (Acc)	25-Feb-21	LU2255705829	ESMGEAA LX	€94.67	€751,825,039.34	0.18%	–
EUR A (Inc)	27-Sep-21	LU2255706041	ESMGEAD LX	€90.23	€63,605,278.34	0.18%	–
EUR B (Inc)	22-Jul-21	LU2355145918	ESECIBE LX	€89.41	€485,426,990.40	0.16%	–
EUR E (Acc)	12-Apr-11	LU0617482376	ESMECAE LX	€150.66	€1,256,132,578.93	*	–
EUR E (Inc)	16-Aug-19	LU0617481303	ESMEEDE LX	€93.10	€53,831,718.22	*	–
GBP E (Acc)	28-Nov-18	LU1877940137	ESMGEHG LX	£113.77	£74,630,075.62	*	–
EUR F (Acc)	07-May-20	LU2101367030	EUECIAE LX	€101.11	€563,436,604.65	0.18%	–
EUR P (Acc)	21-Jun-22	LU2482630162	MGSJTPA LX	€107.80	€74,188,294.28	0.49%	–
EUR P (Inc)	21-Jun-22	LU2482630246	ESMRCPD LX	€104.20	€958,702.97	0.49%	–
EUR Q (Acc)	03-Nov-20	LU2188668169	EECIQAE LX	€95.13	€119,836,810.82	0.25%	–
EUR Q (Inc)	03-Nov-20	LU2188668243	EECIQDE LX	€90.94	€53,487,336.71	0.25%	–
EUR QI (Acc)	03-Nov-20	LU2188668326	EUECIQA LX	€95.26	€1,314,793,177.05	0.21%	–
EUR QI (Inc)	03-Nov-20	LU2188668599	EUECIQD LX	€90.96	€21,128,199.31	0.21%	–
EUR W (Acc)	27-Sep-21	LU2377004903	EUECIWE LX	€93.89	€75,527,599.13	0.29%	–
EUR W (Inc)	27-Sep-21	LU2377005033	EUECICD LX	€90.20	€9,092.14	0.29%	–
EUR WI (Acc)	27-Sep-21	LU2377005207	EUECIWA LX	€93.98	€82,062,328.64	0.25%	–
EUR WI (Inc)	27-Sep-21	LU2377005389	EUECICW LX	€90.21	€5,239,048.57	0.25%	–

Source: M&G as at 31 March 2024.
[1] The dividend rate is a preliminary rate and is subject to change.

Market commentary

During the first quarter, higher US inflation prints and more hawkish comments from the Fed combined with the positive growth data (US economy was shown to have grown at +3.4% in Q4 23), have provided a major boost to the S&P 500 (+10.6%), saw HY credit spreads tightening, and oil prices rising (Brent crude +13.6% on the quarter to $87.48/bbl). Eurozone and UK inflation continued their downward trajectory, albeit wider reinflationary concerns saw the market price out between 70-100bps of interest rate cuts in 2024. The market is now pricing June '24 as the most likely timing for a first cut in the US, Europe and UK.

US Treasuries (-1.0%), German Bunds (-1.4%), and UK Gilts (-1.7%) were all seen to struggle over the quarter as inflation remained persistent, and central banks pushed out the timing of rate cuts versus the start of the year. Despite the weaker period overall, March did see a more positive backdrop for sovereign bonds.

Separately, March also saw two significant milestones: (i) the Bank of Japan ending their negative interest rate policy, and (ii) the Swiss National Bank being the first G10 currency to cut rates this cycle, with a 25bp cut in their policy rate to 1.50%.

Q1 saw Investment Grade (IG) new issuance at record levels and strong positive market sentiment drove credit spreads tighter across markets. Spreads on EUR, GBP and US IG corporates ended the quarter 113bps (-23bps), 114 (-20bps) and 94bps (-10bps) respectively, with high beta names, cyclicals and financials being the outperformers. However, given the scaling back of rate cut expectations government bond yields moved higher, leading to more muted total returns during the quarter with EUR, GBP and US IG corporates delivering +0.4%, +0.2% and -0.1% respectively (local ccy). All in yields remain historically high, offering a positive real yield for investors (EUR 3.6%, GBP 5.2%, USD 5.4%)

High Yield (HY) credit fared similarly. Spread tightening (-38bps) helped the European HY credit market deliver gains of +1.7% over the quarter, with the shorter dated nature of the index negating the impact of higher rates. Most sectors delivered solid performance in March. Q1 was the busiest quarter for HY issuance in over 2 years, however, the pace moderated during March and is expected to continue along this trajectory going forward.

Quarterly positioning

During the first quarter, the fund selectively reduced exposure to bonds which had performed well, rotating into higher quality assets and covered bonds during the market rally. Overall, the DxS ratio (Fund/Benchmark) marginally decreased from 1.28 to 1.27 during the period, and thematically, the fund remains overweight areas of the market which appear attractive, such as real estate and financials (particularly European banks), albeit we are now reducing some of our exposure in selective financial names and REIT hybrids, as they now appear expensive.

In terms of sales, in the financial sector we reduced exposure to senior bonds issued by ABN Amro, Barclays and Mizuho during the quarter. Exposure to certain industrial names was also reduced, including bonds issued by Air Products and Chemicals, BASF and Heidelberg Materials in the basic industry sector, and real estate hybrids from Akelius, Castellum and Unibail, to name a few.

The fund remained active in the primary market, adding exposure to certain automotive names, such as Autoliv, BMW and Mercedes. We also purchased senior banking bonds issued by Nordea Bank, Commerzbank and BNP Paribas. Additionally, given the attractive relative value of covered bonds during the quarter, we increased our exposure to covered bonds issued by ING Bank, Iccrea Banca and TSB Bank.

In the secondary market, we added exposure to real estate hybrids from CPI Property, and senior bonds issued by Prologis and Vonovia. Similarly, in the utility sector, we purchased bonds issued by Enel (hybrids), Engie and RWE, and in the banking sector we picked up Tier 2 bonds issued by Triodos Bank.

The fund also carried out a number of relative value switches during the quarter, including moving from shorter to longer dated bonds in Medtronic, a healthcare company.

Performance

The Fund outperformed the benchmark by 77 basis points in Q1 2024. The portfolio benefitted from being overweight in the real estate, banking and covered bond sectors relative to the benchmark, however being underweight the telecommunications, consumer goods and healthcare sectors was a detractor to performance. In terms of individual positions, overweight exposure to CPI Property, Heimstaden Bostad and AroundTown were positive contributors to performance, whilst an underweight position in Axa, was a drag on returns. As yield curve, duration and currency exposures are fully hedged to benchmark levels, there was no material impact on performance from these factors.

Outlook

Credit markets have performed strongly in recent months, with spreads approaching historically tight levels. There is always the spectre of an unforeseen event – financial or geopolitical – which could spark future bond market volatility or even a sharp turn in monetary policy. There are a significant number of elections coming up across the globe in 2024 and this may be the first time that many company executives have faced a period of high financing costs. We believe that a patient and highly selective approach to fixed income investment is the best strategy to take advantage of opportunities in today's market.

Environmental, Social and Governance

As a member of the Institutional Investors Group on Climate Change, and as founding signatories of Climate Action 100+, M&G recognises the importance of providing transparent reporting to investors on climate change related metrics such as carbon emissions. From a fixed income perspective, we believe that the Weighted Average Carbon Intensity measure is the most appropriate measure of carbon emissions for bond funds. We have provided more information on the metric and our data sources in the following paragraphs.

Currently at M&G we use MSCI as our main third party data provider for greenhouse gas emissions data. Given the size of our investment universe, we find MSCI's coverage to be the broadest of the current providers. MSCI collect data once per year from most recent corporate sources, including: Annual Reports, Corporate Social Responsibility Reports and websites. In addition, MSCI's ESG Research uses the carbon emissions data reported through CDP (formerly the Carbon Disclosure Project) or government databases (when reported data is not available through direct corporate disclosure). As with any mass data collection, there are methodology limitations; this also applies to MSCI. We do endeavour to check their data and are currently building proprietary tools which will ultimately use a variety of data sources to gather and map our carbon emissions.

The weighted average carbon intensity is the carbon footprint metric used in fixed income mandates to measure carbon emissions. To calculate the carbon emissions of the fund, we have used the MSCI weighted average carbon intensity (fund weight x (carbon emissions/$million sales), rather than just simply the carbon emissions. This is because when weighting regular carbon emissions, MSCI calculates it based on an ownership principle (ie it assumes your holding is equity, using equity market capitalisation as the denominator). Fixed income investors are lenders to companies, not owners of companies. We are therefore better able to obtain the carbon footprint of a fixed income mandate by looking at the fund's weighted average carbon intensity, measured by C02 emissions (in tons) per $ million sales, which doesn't apply the ownership principle used by MSCI.

We will report this metric on a quarterly basis so that investors may monitor the long term trend of carbon emissions within their bond funds. For benchmarked funds, we will provide the metric for both the fund and benchmark. For non-benchmarked funds, we will provide the metric for the fund and, where appropriate, a comparable market index.

Carbon emissions	WACI	% Coverage
European Credit Investment Fund	83.17	86.88
ICE BofA Euro Corporate Index	105.61	97.74

ESG Engagement Examples

M&G incorporates the evaluation of ESG factors into its investment process. Recent engagements include the following:

Tesco

M&G met with Tesco to encourage the British multinational food retailer to enhance disclosure around the key drivers for nature loss, to take positive actions towards regenerative agriculture practices and to publicly disclose the actions they are taking to reduce the risk of modern slavery in their supply chain. The company confirmed they are focusing on their agricultural footprint, in particular water health, pollinators and soil health.

Tesco provided an update on the work being done in the River Wye region, where they are working closely with local industry and suppliers to help increase the standard of farming in the region to prevent pollutants getting into the river and on pollutant removing technologies. In terms of regenerative agriculture practices, the company confirmed they are conducting a trial of low carbon fertilizers. The company is currently working with 5 five suppliers, covering 1,300 hectares, in an effort to reduce emissions by 50%. The initial trials suggest that the low-carbon fertilizer is just as effective as standard fertilizer and as such they are looking to expand coverage ten-fold to 13,000 hectares over 2024. We will continue to monitor developments.

Johnson Controls

We M&G met with US efficiency specialist Johnson Controls to discuss our two primary social objectives. In light of a cyberattack carried out on Johnson Controls last year, we wanted to ensure that systems, controls and procedures were in place to limit damage in the case of future attacks. Whilst also ensuring that the company was no longer exposed to 'forever chemicals' PFAS, and that it published a publish statement explaining that this was the case. We also asked the company to provide greater clarity on the impactful advantages that its products and services provide over competitors.

In terms of cyber security, the company verified that the attack had not affected cloud services, but was very disruptive, resulting in some top line headwinds and delay

in publishing its Q4 results. However, while the attack was identified, isolated and fixed, and demonstrated that its business continuity plans worked, it also provided a fresh look at risk mitigation, which the company subsequently found ways to strengthen. Johnson Controls also had many conversations with customers, which the company believes strengthened relationships, as it was seen to be on the front foot, looking after those customers. It has also hired a new chief information officer and chief technology officer, which will allow it to further strengthen its approach to cyber security.

In terms of PFAS, the company is currently the subject of a class action relating to PFAS contamination (which it could not specifically discuss for legal reasons), resulting from a single product, whose chemical composition had been mandated by the US government, which was a specialised foam for fighting extreme fires (i.e. in a ship's engine room). The company confirmed that it was now selling a compliant version of the foam, and that none of its remaining products contain PFAS. We asked the company to publish a statement saying as such, but it was hesitant to do so given it believed that existing disclosures already contain this information, albeit not as a standalone statement.

Finally, in relation to impact measurement, the company took away our request for consideration. We will follow up with the company in due course.

Oxford Biomedica

M&G had a call with the Chair of the remuneration committee for Oxford Biomedica, the UK CDMO, to discuss its newly proposed remuneration policy, which the company is consulting on. Historically the company has had a long menu of unquantifiable objectives. We suggested they focus on a small number of targets in the annual bonus, and for these to be 70%+ financial-based. We also suggested they remove a US listing from the list of exceptional circumstances where they can increase executive awards, and instead reconsult if this were to happen. We also asked them to consider a cap on NED fees paid in shares to the extent it ever were to impinge on independence, and requested further details on the need to increase dilution limits. We will continue to monitor the situation.

Investment process

At the core of our investment process is our proprietary analysis of the fundamental creditworthiness of issuers, driven by our very well resourced and highly experienced credit research team. Our career analysts are industry sector specialists, and cover both high yield and investment grade issuers. This breadth of coverage gives us unique insights into idiosyncratic company characteristics and global sector dynamics which, in turn, allow us to form an independent and timely view of credit quality and rating migration. The fund manager then compares our fundamental credit assessment with the relative market valuations to identify mispriced and under / over-valued securities. After the manager has established the investment thesis, the risk / reward of the opportunity and optimal bond issue / currency / maturity / instrument to implement the idea, our trading desk’s dedicated credit and asset backed dealers are responsible for trade execution. The independent risk management team monitors and regularly reviews the fund’s risk positions with the fund manager. Our investment process and highly diversified approach to fund construction aim to deliver consistent returns above the fund’s benchmark.

Benchmark

ICE BofAML European Currency Developed Markets High Yield Index ex Financials 2% Constrained (EUR-Hedged).

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 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.

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.

Fund manager

Gaurav Chatley joined M&G Investments in 2005 as an assistant fund manager in the fixed income team. He became a Credit Fund Manager, managing a range of institutional corporate bond funds, in 2006.

Prior to joining M&G, Gaurav worked for London and Capital Asset Management as an investment analyst, with responsibility for the analysis of quantitative investment strategies.

Gaurav graduated from the London School of Economics with a MSc. in Finance and Economics and holds a degree in Mathematics and Scientific Computing from the Indian Institute of Technology. He is a CFA charterholder.

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 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 midpriced. The swing factor is determined monthly using the bidmid spread of assets in the fund on a given day.

Note on performance target

The expected outperformance target for HYIF changed effective from 1st January 2020.

The M&G European High Yield Credit Investment Fund (the Fund) currently seeks to outperform the ICE BofA European Currency Developed Markets Non-Financial High Yield 2% Constrained Index. When the Fund was launched in March 2013 we believed that, based on historical volatility data, seeking to outperform the benchmark by +1.5% per annum, gross of fees, over the investment cycle was the right target at that time. However our view is that a revision of this outperformance target is appropriate given current market conditions.

In current markets, we believe that a +1.0% per annum target over the investment cycle (gross of fees; currently 20 basis points TER) is more appropriate for the Fund going forward. The formal objective of the Fund stated in the Prospectus remains unchanged; it will continue to be “The Sub-Fund aims to provide a higher total return (the combination of income and capital growth and net of fees) than that of the Benchmark over any five-year period.”. In addition, the investment approach, style and level of risk taken in the Fund will not be impacted by this adjustment.

Key risk guidelines

Key risk guidelines	Maximum %
All individual AAA issuers (with the exception of sovereign / supranational / government guaranteed issuers)	Benchmark + 5
All individual AA and A issuers	Benchmark + 3
All individual BBB issuers	Benchmark +2
Aggregate exposure to issuers downgraded to below BBB-	15
Aggregate purchases of issuers below BBB-	10
Aggregate exposure to asset backed securities	20
Duration limit	Benchmark +/- 1 year

Source: M&G, as at 31 March 2024.

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.

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.

Contact

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

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

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

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

Italy
Costanza Morea
+39 02 3206 5577
Jaclyn.lim@mandg.com

Nordics
Robert Heaney
+46 (0)7 0266 4424
robert.heaney@mandg.com

Netherlands
Stefan Cornelissen
+31 (0)20 799 7680
stefan.cornelissen@mandg.com

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

Switzerland
Patrick Abgottspon
+41 (0)43 443 8206
patrick.abgottspon@mandg.com

www.mandg.com/institutions
institutional.investors@ mandg.co.uk