For Investment Professionals only

M&G INSTITUTIONAL

M&G Total Return Credit Investment Fund

Quarterly fund report

M&G INVESTMENTS

December 2020

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.

Key information

Fund manager	Richard Ryan
Fund launch date	4 March 2013
Fund type	Luxembourg SICAV (UCITS)
Dealing and valuation dates	Daily (settlement t+2)
Total expense ratio	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	€2,160,118,227.67
Number of issues	515
Number of issuers	395
Modified duration** **Spread duration**	-0.09 3.80
PV01 **CR01** **IE01**	-0.001% 0.038% 0.000%
Average credit rating* **	A-
Running yield **Yield******	2.57% 1.60%
99% 20 day value at risk	2.37

Source: M&G as at 31 December 2020. *Net asset value. **or sterling equivalent. ***Linear average credit rating. **** Calculated to worst.

Performance objective

The fund seeks a total return of one month Libor / Euribor +3 to 5% gross of fees p.a. 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 sub-fund.

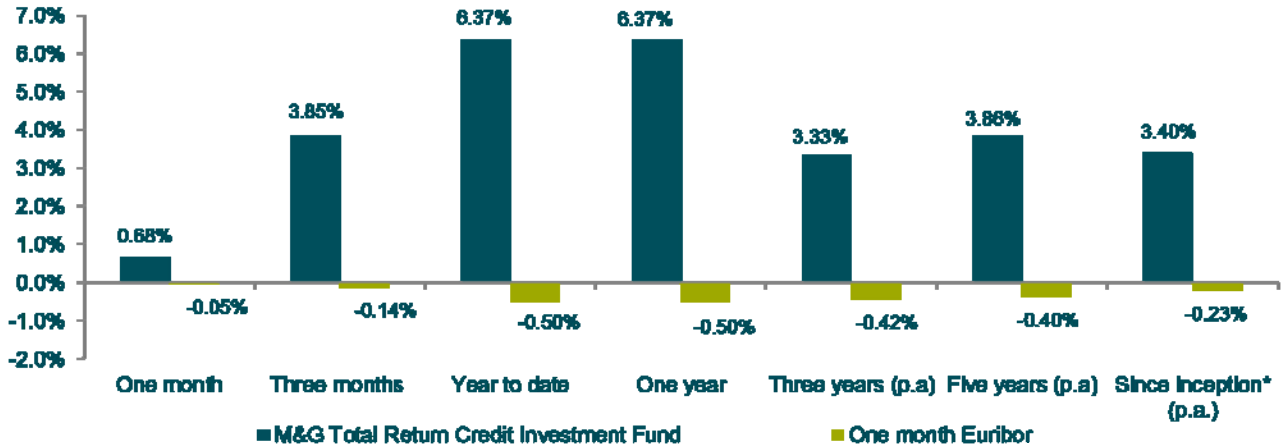
Hedged share classes use currency hedging strategies to minimise currency exchange rate risk. There will be imperfections with any hedging strategy, and it cannot be guaranteed that the hedging objective will be achieved. The hedging strategy may substantially limit holders of the hedged share class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

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 December 2020, gross returns of EUR A 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)	Since inception (p.a.)*
A share class € Acc (gross)	0.68%	3.85%	6.37%	6.37%	3.33%	3.86%	3.01%	3.40%
A share class € Acc (net)	0.64%	3.73%	5.90%	5.90%	2.86%	3.40%	2.55%	2.92%
One month Euribor**	-0.05%	-0.14%	-0.50%	-0.50%	-0.42%	-0.40%	-0.27%	-0.23%
A share class £ Acc (gross)	0.66%	3.93%	6.83%	6.83%	4.24%	4.72%	3.76%	3.89%
A share class £ Acc (net)	0.63%	3.81%	6.35%	6.35%	3.77%	4.26%	3.30%	3.42%
One month Libor**	0.00%	0.01%	0.20%	0.20%	0.51%	0.44%	0.46%	0.46%
A share class £ Inc (gross)	0.66%	3.92%	6.82%	6.82%	4.25%	4.74%	0.00%	3.99%
A share class £ Inc (net)	0.63%	3.81%	6.34%	6.34%	3.79%	4.27%	0.00%	3.52%
One month Libor**	0.00%	0.01%	0.20%	0.20%	0.51%	0.44%	0.00%	0.45%
B share class £ Acc (gross)	0.67%	3.93%	0.00%	0.00%	0.00%	0.00%	0.00%	3.94%
B share class £ Acc (net)	0.63%	3.83%	0.00%	0.00%	0.00%	0.00%	0.00%	3.79%
One Month Libor**	0.00%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.07%
Q share class Acc (gross)	0.59%	3.73%	0.00%	0.00%	0.00%	0.00%	0.00%	3.33%
Q share class Acc (net)	0.56%	3.63%	0.00%	0.00%	0.00%	0.00%	0.00%	3.20%
One month Euribor**	-0.05%	-0.14%	0.00%	0.00%	0.00%	0.00%	0.00%	-0.17%

Yearly return (gross of fees)	2014	2015	2016	2017	2018	2019	2020
A share class € Acc	1.45%	0.41%	5.91%	3.44%	-1.92%	5.73%	6.37%
A share class £ Acc	1.78%	1.02%	6.70%	4.23%	-0.88%	6.97%	6.83%
A share class £ Inc	-	1.06%	6.72%	4.23%	-0.82%	6.95%	6.82%
One Month Euribor**	0.13%	-0.07%	-0.34%	-0.37%	-0.37%	-0.40%	-0.50%
One Month Libor**	0.47%	0.50%	0.40%	0.29%	0.60%	0.72%	0.20%

Risk Statistics***	Three year	Five year
Volatility****	4.89%	4.39%
Sharpe Ratio	0.76	0.97

Source: M&G as at 31 December 2020. *A € Acc share class inception 15 March 2013, A £ Acc share class Inception 18 October 2013, A £ Inc share class inception 21 November 2014, B £ Acc share class inception 21 August 2020, Q € Acc share class inception 11 September 2020. **Euribor levels supplied by European Banking Federation. Libor levels supplied by BBA Libor up to 30 June 2014 and ICE Benchmark Services thereafter. ***Based on gross 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	€ 125.22	€236,692,725.90
GBP A Acc	18/10/2013	LU0895902996	ESMRCGH LX	£127.41	£1,017,693,781.00
GBP A Inc	21/11/2014	LU0895903028	EMGTDGH LX	£109.70	£82,144,684.91
GBP B Acc	21/08/2020	LU1942575207	ESMRBGH LX	£103.79	£410,528,893.60
EUR Q Acc	11/09/2020	LU2063237445	ESMGQAE LX	€ 103.20	€4,737,368.02
EUR Q Inc	11/09/2020	LU2063237528	ESMGQDE LX	€ 103.20	€10,308.32
EUR QI Acc	11/09/2020	LU2063237791	ESMQIAE LX	€ 103.22	€10,321.76
EUR QI Inc	11/09/2020	LU2063237874	ESMQIDE LX	€ 103.22	€10,309.32

Performance attribution

Position	One month (bps)	Three month (bps)
Asset allocation – corporate bonds	**69**	**398**
Industrial	44	260
Financial	18	105
Credit Default Swaps	0	6
Utility	0	4
Securitised	7	23
Covered	0	0
Sovereign, Quasi & Government	**0**	**0**
Cash	**-1**	**-2**
Yield curve, duration and FX hedging	**-2**	**0**
Residual	**7**	**3**
Total	**73**	**399**

Source: M&G as 31 December 2020. 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	2.31
Sovereign	4.49
Securitised	15.41
Covered	4.68
Financials	18.82
Industrials	39.66
Utilities	1.47
Net cash and derivatives	13.16
Total	**100.00**

**CE BofAML Level 2 Industry sectors
Source: M&G as at 31 December 2020

Rating*	%
AAA	19.83
AA	2.35
A	5.01
BBB	30.63
BB and below	29.02
Net cash and derivatives	13.16
Total	**100.00**

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

Currency of assets*	%
GBP	28.70
EUR	60.32
USD	10.29
Net derivatives	0.69
Total	**100.00**

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

Top five corporate issues / issuers

By issue	%
GKNLN 4.625 12-May-2032	0.50
DELL 8.1 15-Jul-2036	0.50
RY 0.6336 03-Oct-2024	0.48
RACLN 4.87 06-May-2026	0.46
AABOND 4.875 31-Jul-2024	0.44

By issuer	%
ING Bank	0.83
HSBC Holdings Plc	0.63
AT&T Inc	0.62
Aa Bond Co Ltd	0.60
Iliad Sa	0.59

Source: M&G as at 31 December 2020

Quarterly market commentary

The fourth quarter was another positive one for risk assets as both equity and credit markets moved higher. Government bond markets continued to be relatively subdued, with yield levels remaining extremely low by historic standards. The global backdrop continues to be COVID-19-related, with a new surge of cases across the UK, Europe and the US, exacerbated by the emergence of a new, more transmissible strain. Across Europe, and most recently in the UK, lockdowns and restrictions have been re-introduced that will increasingly constrain economic activity and growth. Set against that has been the approval and subsequent roll-out of vaccination programmes in many countries, that appear to offer hope that later in the year, a return to conditions more closely resembling previous normality may be possible.

In the US, after much uncertainty, incumbent President Trump lost his bid for re-election to former Vice President Joe Biden. Despite attempts by Republicans to overturn the result in the courts, the Democrats look set to enter the White House later in January. The period also saw the UK and European Union (EU) eventually agree the terms of a post-Brexit trade deal, reaching an agreement that is hoped will form the basis for a workable, and fruitful relationship between the two parties going forward. In Europe, the European Central Bank (ECB) continued its support for the European economy, announcing a €500 billion extension to its Pandemic Emergency Purchase Programme (PEPP), to €1,850 billion, to last until at least March 2022. While the ECB, and other central banks have been buying bonds, governments have been issuing debt with many now running significant budget deficits as a result of commitment to large-scale economic support packages. None of the major central banks have made moves to change official interest rates, with a number continuing to maintain negative rates.

Economic data is still mixed. Activity has been recovering in some sectors and regions, while remaining lacklustre elsewhere, Unemployment rates are higher than they were a year ago, and production is generally weaker. Inflation remains low and is close to or below zero in many places.

Credit markets performed strongly in the last quarter of 2020, bolstered by vaccine optimism, the removal of uncertainty over the US presidency and the continuing central bank support. Returns for the year as a whole moved into positive territory, in both investment grade and high yield markets. Though credit spreads in high yield remain above those of a year ago, investment grade markets have broadly returned to the levels that prevailed at the start of 2020, despite the substantially different economic climate.

Quarterly positioning

At the start of the fourth quarter, the manager focused on lowering overall credit risk. This was achieved by reducing the fund's exposure to bonds issued by Unione Di Banche Italiane and Dufry One, following their strong performance. In the secondary markets, the manager purchased bonds issued by Stagecoach, Intercontinental Hotels and Whitbread, which all offered attractive relative value versus other opportunities in the market. The manager also remained active in the primary markets, purchasing bonds issued by Heathrow and Eni which were attractively priced relative to their underlying fundamental credit risks. In addition, the manager engaged in a number of relative value trades, for example switching existing holdings of Firemenich International into their longer dated bonds for additional yield.

In November, as markets rallied on the back of positive news regarding a Covid-19 vaccine, the manager continued to reduce credit risk within the fund. Exposure to companies such as Virgin Media, Carrefour and Pernod-Ricard was reduced. Longer dated USD debt of companies such as Disney and McDonalds was also sold. In terms of purchases, the manager identified interesting opportunities in hybrid debt issued by KPN and Unibail, as well as Thames Water and Intercontinental Hotels.

December saw the manager take profits on names such as Altice France, Virgin Media and Fiat Chrysler, following their strong performance. In secondary markets, the manager purchased bonds issued by Veritas, Co-Operative Group and Mohawk Capital which appeared attractive on a relative value basis compared to other assets of similar credit quality. In addition, the manager remained active in the primary markets, purchasing bonds issued by Occidental Petroleum and Casino Guichard which came to market at attractive levels. Over the quarter, the spread duration of the fund was reduced by 0.8 years, from 4.6 years to 3.8 years.

Quarterly performance

The Sterling A Inc share class posted gross performance of 3.92%, outperforming 1-month Libor by +3.92% for the quarter.

The fund continued to benefit from a strong rally in credit markets during the quarter. Industrials and financials were the key contributors to the strong performance in Q4, with only cash being a marginal drag on returns. This is a consequence of the manager wishing to retain dry powder to take advantage of any further market weakness. At security level, the key contributors were Groupe Ecore, General Electric , General Motors, GKN, Grupo Antolin Irausa and Ford.

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-

Past performance is not a guide to future performance.

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.

Environmental, Social and Governance

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

BASF

M&G and other CA 100+ members met with the investor relations and corporate sustainability teams from BASF with the objective to encourage BASF to agree to a net zero target by 2050 for scope 3 and a reduction in scope 1 and 2 emissions by 2030.

BASF has previously committed to flat Scope 1 and 3 emissions until 2030 implying a reduction in intensity of 30% assuming volume growth in production but no net zero scope 3 ambition. The purpose of the meeting was to discuss the bottle necks to further scope 1 and 2 emission reductions and persuade the company to disclose new reduction targets and a net zero ambition. The company explained that all the easy efficiencies in emissions had already been achieved and from here any future gains would require capital expenditure rather than operating expenditure. Using hydrogen is one option to create heat which could save up to 10% of emissions and buying electricity from renewable sources of power would reduce emissions by a further 7%. However, net zero is not currently achievable and the company is reluctant to commit to a target for which it cannot see a pathway to achieving.

Our message to the company is that it needs to be more ambitious in its thinking for emission reductions, otherwise there may be consequences for the Board.

ABInBev

M&G met with the Investor Relations and Sustainability teams at ABInbev. The aim was for the company to set Scope 1-3 medium term reduction targets, post 2025; and set a Net Zero target for 2050 or sooner.

The main challenges to ABInbev to reducing emissions are the heat required in the brewing process (currently using up two thirds of energy requirements) and the packaging which represents 40% of scope 3 emissions. Increased use of returnable glass bottles and recycling plastic would significant reduce emissions. The company is clearly aware of its challenges and is working on the solutions. We await their next ESG report to be published in February to see if any new targets are published, then we will decide whether to re-engage with the company.

Rio Tinto

M&G wanted to test whether the 15% reduction target set by Rio Tinto for 2030 for scope 1 & 2 is stretching enough and encourage the company to set a Net Zero target for 2050 for scope 3. As newly appointed co-leads to Rio representing Climate Action 100+ members, M&G attended a meeting with the chairman following up on Rio's response to the CA100+'s 2020 benchmarking letter sent to all CA100+ 161 focus companies.

Rio reiterated that it has a pathway to Net Zero by 2050 for Scope 1&2 emissions and that it has a 15% emission reduction target for Scope 1&2 by 2030 which combined with its 46% reduction since 2008, aligns with CA 100+'s ask of a 45% reduction by 2030 using 2018 as a baseline. Rio warned that further reductions will be harder in the short term and will be require new technologies. Scope 3 emissions reduction will be a goal rather than a target and Rio promises to work with its aluminium and steel partners to reduce emissions. On lobbying, Rio recognises there is some misalignment with one of its trade associations and more work needs to be done. M&G needs to monitor the work Rio is doing with its steel partners to reduce emissions.

Glencore

Glencore announced a Net Zero 50 target for scope 1-3 emissions and a 40% reduction by 2035 by putting the coal division into run-off at the same time as promoting the head of the coal division to become the new CEO. M&G met with the Chairman and the objective of the meeting was to equate the two actions which seemed to be contradictory and could be perceived as undermining its own climate ambitions and discuss the bottlenecks for the emission reductions.

We learned from the meeting that the new CEO has wide experience within the business having operated in a number of different geographies and was instrumental in designing the coal run-off strategy, so it was seen as important that the new CEO owned the new coal strategy. In terms of emission reductions, coal will be the main contributor as production is reduced. Other methods will be to electrify mining equipment and transport, using carbon capture where it is economic and may need carbon offsets for the last 10-20m tonnes of emissions.

Find It, Fix It, Prevent It – Marston's & TUI

M&G is part of Find It, Fix It Prevent It an initiative set up to combat modern slavery within UK companies and their supply chains, initially focusing on high risk sectors such as travel and hospitality. We led the engagement with Marston's PLC and provided support on the engagement with TUI. Over the quarter, they also held their first feedback meeting where results of the other engagements were shared among investors.

Marston's use a consultancy company called Sancroft in an advisory function who were heavily involved in the Modern Slavery Legislation in the UK. Given the set-up of their direct pubs they believe it is unlikely the problem could be occurring without being picked up during site visits. They acknowledge the supplier chain is the higher risk area and carry out regular audits. Their supplier due diligence and testing has protected the business from this risk.

Overall TUI seemed well aware of the high risks of their industry to modern slavery with audit systems in place. Much of this was outsourced to TravelLife, who apparently do a lot of the audits and certifications in the tourism sector. They covered a large majority of their directly run hotels, but a significantly smaller number of third party hotels were certified though they are working towards this.

Weighted Average Carbon Intensity

M&G Total Return Credit Investment Fund: 112.93

ICE BofA Euro Corporates Index: 160.22

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