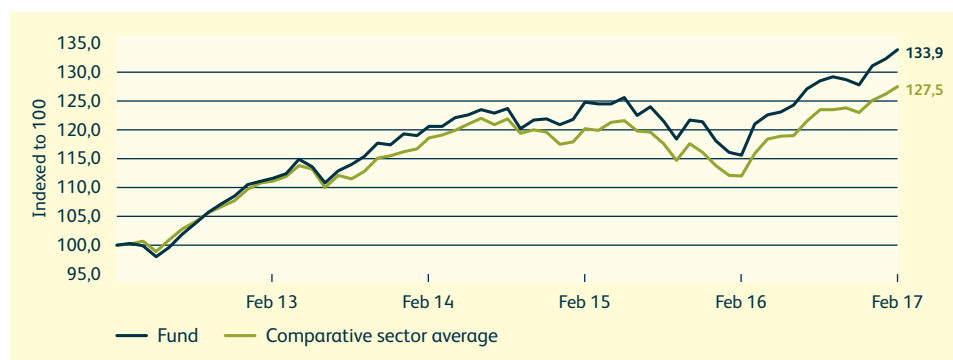


## Euro Class A-H

### Summary

- February was a positive month for credit markets as both investment grade and high yield bonds rose.
- US dollar-denominated high yield bonds tightened by more than 20 basis points over the month.
- The global high yield market has delivered positive returns since the beginning of the year.

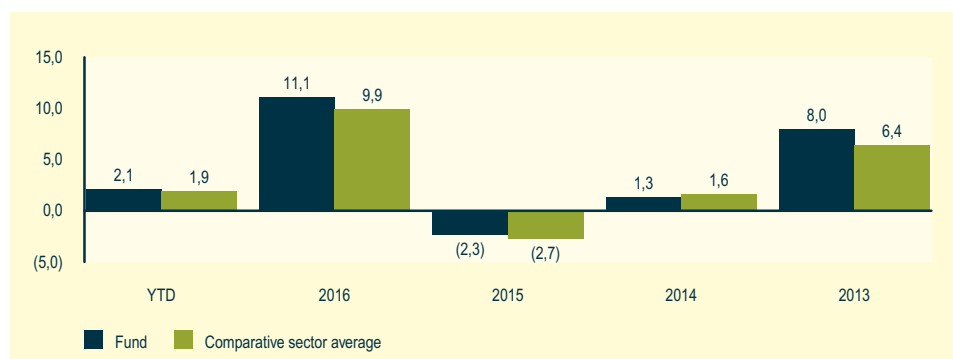
### Performance over 5 years



### Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	Since tenure (%) p.a.	Since inception (%) p.a.
Fund	+1,2	+4,8	+2,1	+15,9	+3,5	+6,0	+5,8	+5,8
Index	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sector	+1,0	+3,6	+1,9	+13,7	+2,6	+5,1	+5,5	+5,5
Ranking	24/70	8/70	30/70	25/63	13/53	9/35	11/28	11/28
Quartile ranking	2	1	2	2	1	1	2	2

### Annual performance (%)



Past performance is not a guide to future performance.

The value of investments and the income from them will fluctuate. This will cause the fund price to fall as well as rise. There is no guarantee the fund objective will be achieved and you may not get back the original amount you invested.

The fund allows for the extensive use of derivatives.

### Key information

Fund managers	Stefan Isaacs & James Tomlins
Fund manager tenure from	30 September 2010
Launch date	16 October 1998
Launch of share class	10 December 2010
Fund size (millions)	€1.374,36
Fund type	OEIC, incorporated in the UK
Comparative sector	Morningstar Global High Yield Bond - EUR Hedged sector
Number of issuers	209
Distribution yield (Acc)	3,79 %
Distribution yield (Inc)	5,21 %
Underlying yield (Acc)	3,79 %
Underlying yield (Inc)	3,79 %
Yield to expected maturity*	4,18 %
Modified duration (years)	3,2
Spread duration (years)	3,44
Average maturity (years)	4,05
Average coupon	5,52
Volatility†	5,72 %
Average credit rating	BB-
Share type	Acc & Inc
Ongoing charge	1,43 %

\*Source: Morningstar, three-year annualised volatility, as at 28 February 2017  
The distribution yield reflects the amounts that may be expected to be distributed over the next 12 months as a percentage of the share price, as at the date shown. It is based on a snapshot of the portfolio on that day. It does not include any preliminary charge and investors may be subject to tax on distributions. It is the fund's policy to offset certain charges against income for accumulation share classes and to offset certain charges against capital for income share classes. These charges include the annual management charge, administration fee and share class hedging fee (where applicable). As a result, yield figures for income and accumulation share classes may differ significantly. The underlying yield reflects the annualised income net of expenses of the fund (calculated in accordance with relevant accounting standards) as a percentage of the mid-market price of the fund as at the date shown. It is based on a snapshot of the portfolio on that day. It does not include any preliminary charge and investors may be subject to tax on distributions. For the fund's income share classes, the distribution yield is higher than the underlying yield only because a portion of the fund's expenses are charged to capital. This has the effect of increasing distribution(s) for the year and constraining the fund's capital performance to an equivalent extent.

\*The yield to expected maturity is calculated in the valuation currency of the fund and is gross of fund expenses (including hedging differences). A fund may hold callable bonds whose yields are calculated on the basis of expected maturity.

### Fund ratings

Overall Morningstar rating	★★★★
Morningstar Analyst rating	Bronze

Source of Morningstar ratings: Morningstar, as at 31 January 2017  
Ratings should not be taken as a recommendation.

Asset breakdown (%)

	Physical	CDS short	CDS long	Net
Government bonds	6,2	0,0	0,0	0,0
Investment grade corporate bonds	9,0	0,0	0,0	9,0
Fixed rate	8,8	0,0	0,0	8,8
Floating rate	0,2	0,0	0,0	0,2
Index linked	0,0	0,0	0,0	0,0
Credit default swap indices	0,0	0,0	0,0	0,0
High yield corporate bonds	81,9	0,0	6,3	88,2
Fixed rate	79,4	0,0	0,7	80,1
Floating rate	2,4	0,0	0,0	2,4
Index linked	0,0	0,0	0,0	0,0
Credit default swap indices	0,0	0,0	5,6	5,6
Securitised	0,3	0,0	0,0	0,3
Equities	0,4	0,0	0,0	0,4
Cash	2,2	0,0	0,0	2,1

CDS short: bought protection (short credit exposure); CDS long: sold protection (long credit exposure)  
The columns may not always add up when reading across as physical bond holdings and/or cash are sometimes used as collateral for CDS exposure.

Credit rating breakdown (%)

	Physical	CDS short	CDS long	Net
AAA	0,0	0,0	0,0	0,0
AA	6,2	0,0	0,0	0,0
A	0,5	0,0	0,0	0,5
BBB	8,5	0,0	0,0	8,5
BB	45,3	0,0	0,3	45,6
B	28,5	0,0	6,0	34,5
CCC	7,9	0,0	0,0	7,9
CC	0,0	0,0	0,0	0,0
C	0,0	0,0	0,0	0,0
D	0,0	0,0	0,0	0,0
No rating	0,9	0,0	0,0	0,9
Cash	2,2	0,0	0,0	2,1

CDS short: bought protection (short credit exposure); CDS long: sold protection (long credit exposure)  
The columns may not always add up when reading across as physical bond holdings and/or cash are sometimes used as collateral for CDS exposure.  
Where a security has not been rated by Standard & Poor's, Fitch or Moody's, we may use M&G's internal credit rating. Based on a comparison of all available ratings for each security, the most conservative rating (S&P, Fitch, Moody's or M&G's internal rating) is taken into consideration. The ratings so identified are then expressed or converted into M&G's ratings format to obtain uniform information for all securities in the portfolio.

Industry breakdown (%)

	Physical	CDS short	CDS long	Net
Banking	15,8	0,0	0,0	15,8
Media	11,8	0,0	0,0	11,8
Healthcare	10,0	0,0	0,0	10,0
Energy	9,5	0,0	0,0	9,5
Telecommunications	8,3	0,0	0,5	8,8
Basic Industry	7,1	0,0	0,0	7,1
Capital Goods	6,5	0,0	0,0	6,5
Services	6,1	0,0	0,2	6,3
Consumer Cyclical	4,5	0,0	0,0	4,5
Automotive	3,6	0,0	0,0	3,6
Financial Services	2,4	0,0	0,0	2,4
Consumer Non-Cyclical	2,1	0,0	0,0	2,1
Technology & Electronics	1,4	0,0	0,0	1,4
Utility	1,2	0,0	0,0	1,2
Insurance	0,6	0,0	0,0	0,6
Commercial Mortgage Backed	0,3	0,0	0,0	0,3
Sovereign	6,2	0,0	0,0	0,0
Investment Grade indices	0,0	0,0	0,0	0,0
High yield indices	0,0	0,0	5,6	5,6
Other	0,4	0,0	0,0	0,4
Cash	2,2	0,0	0,0	2,1

CDS short: bought protection (short credit exposure); CDS long: sold protection (long credit exposure)  
The columns may not always add up when reading across as physical bond holdings and/or cash are sometimes used as collateral for CDS exposure.

Country breakdown (%)

	Physical	CDS short	CDS long	Net
US	45,1	0,0	4,9	50,0
UK	17,8	0,0	0,9	12,4
Germany	4,4	0,0	0,0	4,4
Luxembourg	4,3	0,0	0,0	4,3
Italy	3,7	0,0	0,3	4,0
Netherlands	3,0	0,0	0,2	3,2
Spain	3,0	0,0	0,0	3,0
France	2,8	0,0	0,0	2,8
Switzerland	2,2	0,0	0,0	2,2
Ireland	2,2	0,0	0,0	2,2
Other	9,4	0,0	0,0	9,4
Cash	2,2	0,0	0,0	2,1

CDS short: bought protection (short credit exposure); CDS long: sold protection (long credit exposure)  
The columns may not always add up when reading across as physical bond holdings and/or cash are sometimes used as collateral for CDS exposure.

Currency breakdown (%)

	Pre-hedge	Post-hedge
British pound	16,3	98,9
US dollar	56,1	0,9
Euro	27,6	0,2
Swiss franc	0,0	0,0

Maturity breakdown (%)

	Physical
0 - 1 years	10,9
1 - 3 years	26,3
3 - 5 years	23,7
5 - 7 years	23,1
7 - 10 years	10,6
10 - 15 years	0,3
15+ years	2,9
Cash	2,2

Duration breakdown by currency and asset class

	Physical	Futures	Swaps	Net
US dollar	2,0	0,0	0,0	2,1
Euro	0,8	0,0	0,0	0,7
British pound	0,5	0,0	0,0	0,5
Total	3,3	0,0	0,0	3,2

Largest issuers (%)

	Fund
UK	6,2
Unity Media	1,9
CSC	1,7
Charter	1,7
HCA	1,7
Tenet Healthcare	1,4
T-Mobile	1,3
Quintiles IMS	1,2
William Hill	1,2
Bank of America	1,2

Performance review

While strengthening macroeconomic data was a key theme in global bond markets in February, much attention was also focused on rising political risk. The latter was particularly the case in Europe, where concerns included the uncertain outcomes of upcoming elections in France and Germany. In the US, meanwhile, investors began to question the lack of clarity from the new administration regarding its tax cutting and fiscal spending plans. Against this mixed backdrop, core government bond yields edged lower. Credit markets generally delivered positive returns, while the US dollar rallied after its weakness during the previous month.

Within the high yield segment, those assets most sensitive to President Trump's proposed policies continued to perform solidly, despite uncertainty about what to expect from the new administration. As a result, US high yield spreads have tightened another 26 basis points (bps) over the past month, which leaves investors with a credit risk compensation of approximately 374bps. With that, we are only 40bps away from the post financial crisis lows when investors demanded credit spreads of 335bps.

Credit spreads in European high yield have been flat over the month, balancing the rising political risk and encouraging economic data. Returns in Europe have been supported by a rally in bund yields, resulting in a total return of 1.1 % for European high yield in February; US high yield, on the other hand, returned 1.6 %.

Being short duration, in addition to having a more cautious stance on credit, held back fund performance in a rallying market. However, sector positioning was supportive and single name selection proved positive.

## Key changes

There was a marginal change in relative duration positioning. The fund holds a small underweight position of 0.13 years in spread duration terms, which is 3.44 years in absolute terms.

US companies continue to make up the bulk of high yield risk in the fund, but the fund managers continue to have a more balanced view in terms of geographical exposure. As of late, they have increased euro-denominated credit (also from US issuers) to around 29 % of net asset value.

Given that lower rated bonds had a strong run last year, the fund managers are adjusting the portfolio to increase exposure to slightly higher rated credit. The fund's exposure to single B rated names is now at around 35 % (versus 46 % a year ago). The fund managers continue to increase the fund's allocation to BB names, which is now at 45.6 %. The fund's allocation to BB names was slightly below 35 % a year ago.

The fund managers retained the fund's long-term underweight positions in both the energy sector and basic industry, given their view that commodities look fully priced. Both the healthcare and cable businesses, on the other hand, offer attractive risk premia, and represent areas the managers feel are well compensated for the underlying risks.

It was quite an active month in terms of single-name switches and primary new issuance. The main theme saw the fund managers switch from US-dollar denominated bonds into euro bonds, given spread levels of US dollar-denominated credit and cross-currency pick-up. Euro-denominated bonds from Telenet, Unity and Crown were also added to the portfolio. In addition, the fund managers bought a euro hybrid from Total, rated A-, which was attractively priced relative to the iTraxx crossover index which trades below 300bps.

New deals included a floating rate note from eyeglass designer Marcolin, aluminium producer Constellium, Silgan, which produces rigid packaging, QuintilesIMS, a US technology services business, and Ardagh Packaging.

## Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A-H Acc	GB00B60QYQ37	MGHYEAH LN	1,25 %	1,43 %	€1.000	€75
Euro A-H Inc	GB00B3LTM884	MGHYAEH LN	1,25 %	1,43 %	€1.000	€75
Euro B-H Inc	GB00BYQRBW12	MGHYEBI LN	1,75 %	1,93 %	€ 1.000	€ 75
Euro B-H Acc	GB00B90LG300	MGHYEBH LN	1,75 %	1,93 %	€1.000	€75
Euro C-H Inc	GB00BK6MBD99	MGHYCHI LN	0,65 %	0,83 %	€ 500.000	€ 50.000
Euro C-H Acc	GB00B59GSR62	MGHYECH LN	0,65 %	0,83 %	€500.000	€50.000

The ongoing charge figures disclosed above include direct costs to the fund, such as the annual management charge (AMC), administration charge and custodian charge, but does not include portfolio transaction costs (including research costs). They are based on expenses for the period ending 30 November 2016.

Please note that not all of the share classes listed above might be available in your country.

## Important information

Cash may be held on deposit and/or in the Northern Trust Cash Funds, a range of collective investment schemes.

Source of performance data: Morningstar, Inc., as at 28 February 2017, Euro Class A-H shares, gross income reinvested, price to price basis. Past performance is not a guide to future performance. All other statistics from M&G internal sources, as at 28 February 2017 unless indicated otherwise.

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