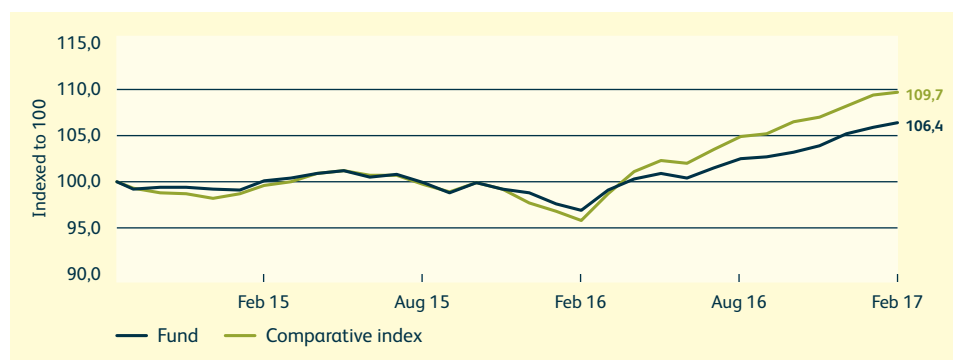


Euro Class A-H

Summary

- High yield bonds delivered further solid gains in February, with the fund producing a positive return.
- Given the strong inflows in recent months, coupled with the relatively limited size of the high yield floating rate note (FRN) market, we expect the fund's synthetic FRN exposure to increase going forward.
- The widening of the fund's scope will not affect its defensive characteristics and the fund manager will continue to focus on senior secured bonds.

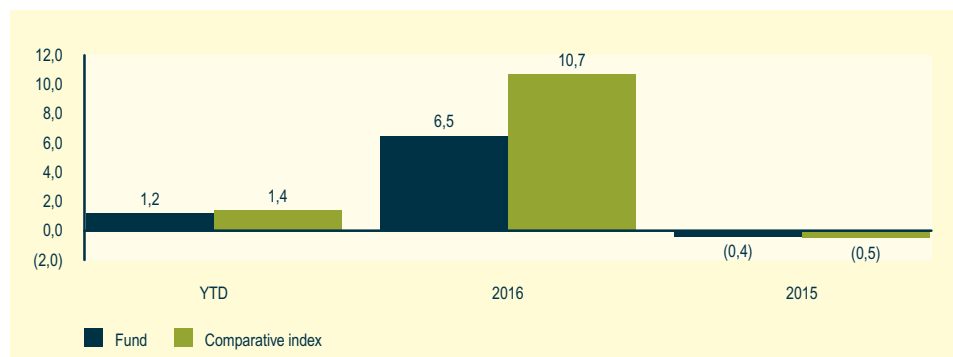
Performance since launch



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	+0,5	+2,4	+1,2	+9,8	N/A	N/A	+2,5	+2,5
Index	+0,2	+2,5	+1,4	+14,4	+3,8	N/A	+3,8	+3,8
Sector	+1,0	+3,6	+1,9	+13,7	+2,6	+5,1	+2,5	+2,5
Ranking	63/70	59/70	59/70	52/63	N/A	N/A	31/58	31/58
Quartile ranking	4	4	4	4	N/A	N/A	3	3

Annual performance (%)



Key information

Fund manager	James Tomlins
Fund manager tenure from	11 September 2014
Deputy fund manager	Stefan Isaacs
Launch date	11 September 2014
Launch of share class	11 September 2014
Fund size (millions)	€2.655,95
Fund type	OEIC, incorporated in the UK
Comparative index	BoA ML Global Floating Rate High Yield 3 % Constrained (EUR Hedged) Index
Comparative sector	Morningstar Global High Yield Bond - EUR Hedged sector
Number of issuers	105
Distribution yield (Acc)	2,84 %
Distribution yield (Inc)	4,25 %
Underlying yield (Acc)	2,84 %
Underlying yield (Inc)	2,84 %
Yield to expected maturity*	4,66 %
Modified duration (years)	0,2
Spread duration (years)	2,74
Average maturity (years)	3,03
Average coupon	3,01
Average credit rating	B+
Share type	Acc & Inc
Ongoing charge	1,43 %

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.

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.

On 1 April 2016 the fund's comparative index changed from BoA ML Global Floating Rate High Yield (EUR Hedged) Index to BoA ML Global Floating Rate High Yield 3 % Constrained (EUR Hedged) Index, which is more representative of the fund's investment universe. Please note the index returns shown for all time periods are those of the BoA ML Global Floating Rate High Yield 3 % Constrained (EUR Hedged) Index.

The fund allows for the extensive use of derivatives.

Asset breakdown (%)

	Net
Corporate floating rate notes	54,0
Credit default indices	24,3
Fixed rate bonds + swaps	15,0
Cash	4,7
Credit default swaps	2,0

Credit rating breakdown (%)

	Physical	CDS short	CDS long	Net
AAA	11,3	0,0	0,0	0,0
AA	0,0	0,0	0,0	0,0
A	1,1	0,0	0,0	1,1
BBB	4,7	0,0	0,0	4,7
BB	20,4	0,0	0,0	20,4
B	39,5	0,0	26,5	66,1
CCC	3,3	-0,2	0,0	3,0
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	0,0	0,0	0,0	0,0
Cash	19,7	0,0	0,0	4,7

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
Healthcare	8,6	0,0	0,0	8,6
Consumer Cyclical	7,6	-0,1	0,7	8,1
Capital Goods	7,8	0,0	0,0	7,8
Financial Services	7,8	0,0	0,0	7,8
Services	6,0	0,0	1,4	7,3
Basic Industry	6,9	0,0	0,0	6,9
Banking	5,4	0,0	0,0	5,4
Telecommunications	5,2	0,0	0,0	5,2
Energy	4,5	-0,1	0,0	4,4
Media	3,8	0,0	0,0	3,8
Consumer Non-Cyclical	2,6	0,0	0,1	2,7
Automotive	1,1	0,0	0,0	1,1
Mortgage Backed	0,7	0,0	0,0	0,7
Asset Backed	0,5	0,0	0,0	0,5
Utility	0,3	0,0	0,0	0,3
Technology & Electronics	0,2	0,0	0,0	0,2
Insurance	0,1	0,0	0,0	0,1
Sovereign	11,3	0,0	0,0	0,0
Investment Grade indices	0,0	0,0	0,0	0,0
High yield indices	0,0	0,0	24,3	24,3
Cash	19,7	0,0	0,0	4,7

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	27,4	-0,1	21,3	37,2
UK	17,7	-0,1	4,9	22,5
France	7,5	0,0	0,0	7,5
Italy	7,4	0,0	0,0	7,4
Luxembourg	5,6	0,0	0,0	5,7
Ireland	3,1	0,0	0,0	3,1
New Zealand	3,0	0,0	0,0	3,0
Mexico	1,9	0,0	0,0	1,9
Germany	1,6	0,0	0,0	1,6
Netherlands	1,3	0,0	0,2	1,5
Other	3,8	0,0	0,1	3,9
Cash	19,7	0,0	0,0	4,7

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
US dollar	55,2	99,8
Euro	38,1	0,3
British pound	6,7	0,0
Singapore dollar	0,0	0,0
Swiss franc	0,1	-0,1

Hedged to relevant share class currency.

Maturity breakdown (%)

	Physical
0 - 1 years	38,0
1 - 3 years	20,7
3 - 5 years	9,7
5 - 7 years	6,6
7 - 10 years	1,6
10 - 15 years	0,5
15+ years	3,3
Cash	19,7

Duration breakdown by currency and asset class

	Physical	Futures	Swaps	Net
US dollar	0,4	0,0	-0,3	0,2
Euro	0,2	0,0	-0,2	0,0
British pound	0,0	0,0	0,0	0,0
Other	0,0	0,0	0,0	0,0
Total	0,6	0,0	-0,5	0,2

Largest issuers (excluding government bonds and CDS indices, %)

	Fund
Reynolds	3,4
Tenet Healthcare	3,4
Wind Acquisition Finance	2,6
Synlab Bondco	2,6
Arrow Global Finance	2,3
Matterhorn Telecom	2,1
Guala Closures	2,0
Iglo Foods Bondco	2,0
Picard	2,0
Ardagh Group	1,7

Performance review

High yield bonds delivered further solid gains in February, with credit spreads in the US now not far away from their post-financial crisis lows. The fund delivered a positive return over the month, with credit selection and its underweight exposure to the energy sector helping to drive relative performance. The fund has also benefited from its increased allocation to synthetic FRNs, which were able to participate more fully in the continuing tightening in spreads, in contrast to parts of the physical FRN market which have become quite call-constrained.

The fund has attracted considerable inflows in recent months, with the prospect of further US rate rises helping to fuel strong investor demand for floating rate bonds. The fund's market capitalisation had reached around US\$2.8 billion as at the end of February. However, the amount of physical FRNs available in the market is limited, with an investable universe of around US\$40 billion, according to our estimates. As result of the increased size of the fund, coupled with the relatively small size of the high yield FRN market, we anticipate that the fund's synthetic FRN exposure is likely to increase going forward.

It is important to emphasise that the increased use of synthetics is not expected to affect the fund's defensive characteristics, the underlying liquidity of its holdings or the fund manager's ability to add value through individual bond selection. The majority of the increased synthetic FRN exposure will consist of conventional high yield bonds paying a fixed rate of income and with a senior secured status. These physical bonds are then paired with interest rate swaps in order to exchange the fixed-rate interest payments for floating-rate interest payments.

The market for conventional secured high yield bonds is much larger than the physical high yield FRN market, providing the fund manager access to a considerably wider breadth of individual assets in which to invest. Importantly, the fund manager will continue to focus on senior secured bonds.

Key changes

In terms of February's trading activity, the fund manager took the opportunity to top up a number of existing positions, including FRNs issued by frozen food producer Iglo Foods and packaging company Ardagh Group. Within the primary market, the fund participated in a new issue from Italian eyewear maker Marcolin.

The allocation to fixed rate high yield bonds was also increased, including senior secured issues from mobile operators Matterhorn and Wind; these positions were combined with interest rate swaps in the manner described above.

The fund remains defensively positioned, focusing on securing a steady income stream along with an element of downside protection. The fund manager continues to favour non-cyclical businesses backed by high-quality assets, such as cable operators and global packaging companies, while remaining underweight more volatile parts of the market, such as energy companies and European banks.

In the current low yield environment, the fund manager thinks high yield FRNs continue to offer a stable and relatively attractive income stream. Despite recent market strength, he does not consider valuations to be overly stretched and believes that the current economic backdrop should offer support for the asset class. In a rising yield environment, the fund manager believes a high yield FRN strategy remains a compelling proposition at this point in the economic cycle.

Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A-H Inc	GB00BMP3SG99	MGFEAHI LN	1,25 %	1,42 %	€1.000	€75
Euro A-H Acc	GB00BMP3SF82	MGFEAHA LN	1,25 %	1,43 %	€1.000	€75
Euro B-H Inc	GB00BYQRBV05	MGFRBHI LN	1,75 %	1,91 % *	€ 1.000	€ 75
Euro B-H Acc	GB00BYQRB82	MGFRBHA LN	1,75 %	1,92 % *	€ 1.000	€ 75
Euro C-H Acc	GB00BMP3SH07	MGFECHA LN	0,65 %	0,83 %	€500.000	€50.000
Euro C-H Inc	GB00BMP3SJ21	MGFECHI 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 31 July 2016.

* The ongoing charge figure shown here is an estimate. The Fund's annual report for each financial year will include details of the exact charges made.

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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The Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários, the "CMVM") has received a passporting notification under Directive 2009/65/EC of the European Parliament and of the Council and the Commission Regulation (EU) 584/2010 enabling the fund to be distributed to the public in Portugal. M&G International Limited is duly passported into Portugal to provide certain investment services in such jurisdiction on a cross-border basis and is registered for such purposes with the CMVM and is therefore authorised to conduct the marketing (comercialização) of funds in Portugal.

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