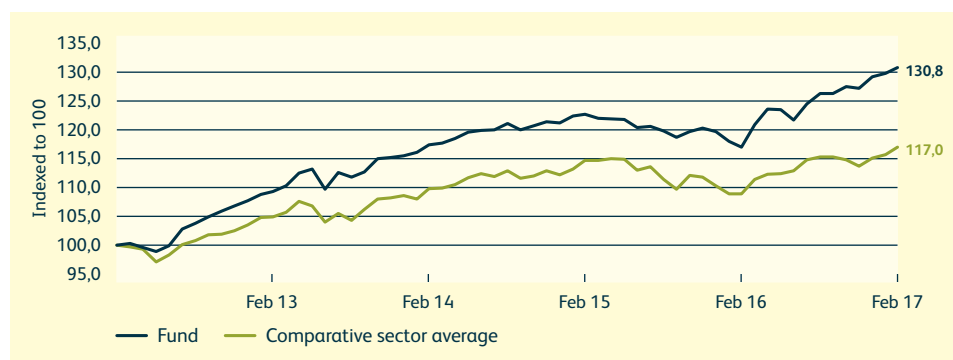


## USD Class A-H

### Summary

- Political risk weighed on core government bond markets in February, pushing yields lower, against a backdrop of encouraging global economic data releases. While the fund rose, it was constrained by its short duration.
- Fund manager Richard Woolnough partially de-risked the portfolio, after the sustained rally in credit of recent months. He reduced the fund's high yield exposure and increased its risk-free holdings.
- Duration was cut to 2.4 years from 2.7 years.

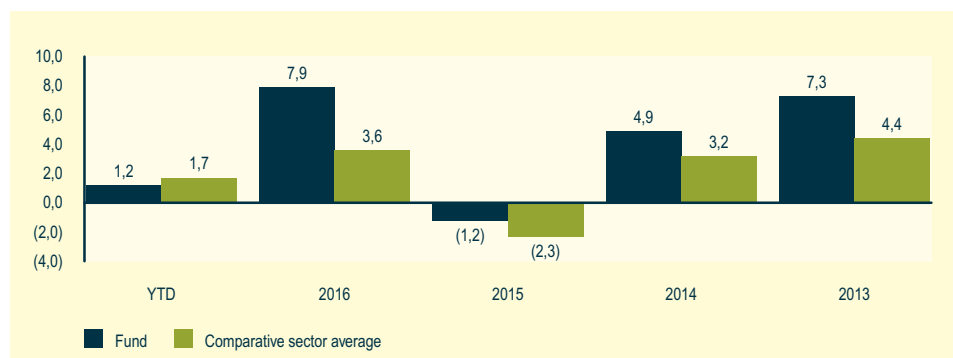
### Performance over 5 years



### 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	+0,8	+2,8	+1,2	+11,8	+3,7	+5,5	+6,2	+6,2
Index	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sector	+1,1	+2,9	+1,7	+7,3	+1,8	+2,6	+2,7	+2,7

### 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 past performance has been calculated using a different currency to your home currency. The returns shown here may increase or decrease as due to currency fluctuations when compared to past performance returns calculated using your home currency.

The fund allows for the extensive use of derivatives.

### Key information

Fund manager	Richard Woolnough
Fund manager tenure from	8 December 2006
Deputy fund manager	Stefan Isaacs
Launch date	8 December 2006
Launch of share class	1 October 2010
Fund size (millions)	\$21.105,78
Fund type	OEIC, incorporated in the UK
Comparative sector	Morningstar USD Cautious Allocation sector
Number of issuers	487
Distribution yield (Acc)	2.10 %
Distribution yield (Inc)	3.52 %
Underlying yield (Acc)	2.10 %
Underlying yield (Inc)	2.10 %
Yield to expected maturity*	2.82 %
Modified duration (years)	2,4
Spread duration (years)	6,06
Average maturity (years)	9,03
Average coupon	3,61
Volatility†	3,62 %
Average credit rating	BBB+
Share type	Acc & Inc
Ongoing charge	1,42 %

\*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 **★★★★★**  
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
<b>Government bonds</b>	<b>23,5</b>	<b>0,0</b>	<b>0,9</b>	<b>24,3</b>
<b>Investment grade corporate bonds</b>	<b>46,3</b>	<b>-0,3</b>	<b>2,0</b>	<b>48,0</b>
Fixed rate	45,0	-0,3	0,0	44,7
Floating rate	1,2	0,0	0,0	1,2
Index linked	0,1	0,0	0,0	0,1
Credit default swap indices	0,0	0,0	2,0	2,0
<b>High yield corporate bonds</b>	<b>17,7</b>	<b>0,0</b>	<b>3,3</b>	<b>21,0</b>
Fixed rate	17,4	0,0	0,0	17,4
Floating rate	0,3	0,0	0,0	0,3
Index linked	0,0	0,0	0,0	0,0
Credit default swap indices	0,0	0,0	3,2	3,2
<b>Securitised</b>	<b>6,7</b>	<b>0,0</b>	<b>0,0</b>	<b>6,7</b>
<b>Equities</b>	<b>3,9</b>	<b>0,0</b>	<b>0,0</b>	<b>3,9</b>
<b>Cash</b>	<b>1,9</b>	<b>0,0</b>	<b>0,0</b>	<b>1,9</b>

CDS short: bought protection (short credit exposure); CDS long: sold protection (long credit exposure)

## Credit rating breakdown (%)

	Physical	CDS short	CDS long	Net
AAA	21,1	0,0	0,0	21,1
AA	7,7	0,0	0,0	7,7
A	7,1	-0,1	0,5	7,5
BBB	39,2	-0,2	2,4	41,4
BB	13,9	-0,1	0,0	13,8
B	4,7	0,0	3,2	7,9
CCC	0,5	0,0	0,0	0,5
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	3,9	0,0	0,0	3,9
<b>Cash</b>	<b>1,9</b>	<b>0,0</b>	<b>0,0</b>	<b>1,9</b>

CDS short: bought protection (short credit exposure); CDS long: sold protection (long credit exposure)

Unrated may include equities.

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.

## Country breakdown (%)

	Physical	CDS short	CDS long	Net
US	32,0	0,0	2,1	34,1
UK	21,9	-0,1	3,1	24,9
Germany	22,5	-0,2	0,0	22,4
France	8,6	-0,1	0,0	8,5
Italy	2,5	0,0	1,0	3,5
Netherlands	1,5	0,0	0,0	1,5
Mexico	1,5	0,0	0,0	1,5
Switzerland	1,4	0,0	0,0	1,4
Spain	1,1	0,0	0,0	1,1
Japan	0,9	0,0	0,0	0,9
Other	4,1	0,0	0,0	4,1
<b>Cash</b>	<b>1,9</b>	<b>0,0</b>	<b>0,0</b>	<b>1,9</b>

CDS short: bought protection (short credit exposure); CDS long: sold protection (long credit exposure)

## Industry breakdown (%)

	Physical	CDS short	CDS long	Net
Sovereign	21,9	0,0	0,0	21,9
Banking	15,7	0,0	0,0	15,8
Telecommunications	14,5	0,0	0,0	14,6
Media	5,2	0,0	0,0	5,2
Insurance	4,7	0,0	0,0	4,7
Technology & Electronics	3,9	0,0	0,0	3,9
Quasi & Foreign Government	1,9	0,0	0,9	2,8
Mortgage Backed	2,7	0,0	0,0	2,7
Healthcare	2,6	0,0	0,0	2,6
Utility	2,7	-0,2	0,0	2,5
Asset Backed	2,3	0,0	0,0	2,4
Basic Industry	2,1	0,0	0,0	2,1
Consumer Non-Cyclical	2,0	0,0	0,0	2,0
Energy	1,9	0,0	0,0	1,9
Commercial Mortgage Backed	1,7	0,0	0,0	1,7
Consumer Cyclical	1,6	-0,1	0,0	1,6
Capital Goods	1,3	0,0	0,0	1,3
Automotive	1,3	0,0	0,0	1,3
Financial Services	1,2	0,0	0,0	1,2
Services	1,1	0,0	0,0	1,1
Real Estate	1,0	0,0	0,0	1,0
Finance & Investment	0,7	0,0	0,0	0,7
Investment grade indices	0,0	0,0	2,0	2,0
High yield indices	0,0	0,0	3,2	3,2
Other	3,9	0,0	0,0	3,9
<b>Cash</b>	<b>1,9</b>	<b>0,0</b>	<b>0,0</b>	<b>1,9</b>

CDS short: bought protection (short credit exposure); CDS long: sold protection (long credit exposure)

## Currency breakdown (%)

	Pre-hedge	Post-hedge
British pound	30,0	99,2
US dollar	34,2	0,4
Mexican peso	0,2	0,2
Euro	34,3	0,2
Swiss franc	0,6	0,0
Australian dollar	0,0	0,0
Singapore dollar	0,0	0,0
Japanese yen	0,7	0,0

Hedged to relevant share class currency.

## Maturity breakdown (%)

	Physical
0 - 1 years	11,2
1 - 3 years	16,0
3 - 5 years	9,0
5 - 7 years	10,0
7 - 10 years	18,1
10 - 15 years	8,9
15+ years	24,8
<b>Cash</b>	<b>1,9</b>

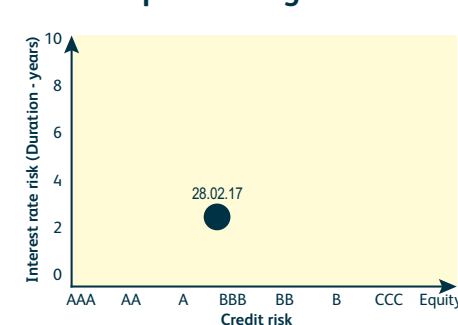
## Duration breakdown by currency and asset class

	Physical	Futures	Swaps	Net
US dollar	3,1	0,0	-1,2	1,9
British pound	1,9	-0,9	-1,5	-0,5
Euro	0,9	0,0	0,0	0,9
Other	0,1	-0,1	0,0	0,0
<b>Total</b>	<b>5,9</b>	<b>-0,9</b>	<b>-2,7</b>	<b>2,4</b>

## Largest issuers (excluding government bonds, %)

	Fund
Verizon Communications	4,1
AT&T	3,7
Microsoft	3,3
Lloyds Banking Group	2,3
Bank of America	2,2
Morgan Stanley	1,5
JP Morgan	1,5
HSBC	1,4
Orange	1,2
Unity Media	1,1

## Portfolio positioning



## Performance review

There were two dominant themes in February: strong macro data releases across both developed and emerging markets, and the ongoing impact of political risk on markets, especially in Europe where the outcome of upcoming Dutch and French elections remains uncertain.

The latter was largely behind a drop in government bond yields over the month, with the yield on 10-year bunds, gilts and Treasuries falling some 26 basis points (bps), 29bps and 8bps, respectively.

In credit markets, spreads continued to tighten on US investment grade corporates. Sterling spreads were generally flat and those on euro-denominated corporates widened in response to election uncertainty. In the high yield sphere, US spreads tightened significantly, while those on European issues were generally flat. Returns were generally positive across investment grade and high yield markets.

At the end of the month, President Trump's inaugural address to Congress was deemed by markets to be more measured than many had expected but light on detail.

Markets are nonetheless increasingly pricing in the chance of a further US Federal Reserve (Fed) hike in March, following various hawkish comments from a number of key Fed members over the month.

The fund rose, although its short duration dragged on returns.

## Key changes

Following the sustained rally in credit in recent months, Richard took steps to de-risk the portfolio in February. This was mainly achieved through a significant reduction in the portfolio's high yield exposure, by closing some long positions in CDS indices – high yield has continued to rally and Richard is now finding it less attractive than investment grade credit.

This reduction in high yield has in turn increased the portfolio's 'risk-free' weighting to nearly 20 %, its highest level since around the EU referendum in June 2016.

As core bond yields declined, Richard reduced fund duration to 2.4 years from 2.7 years and took sterling duration back into negative territory. This is because he believes the UK economy is much farther along the cycle than is being priced in by bond markets. Euro-derived duration rose slightly, as Richard has been adding some euro-denominated risk to the fund. At the end of February, duration was split: GBP - 0.45 years, USD 1.92 years, EUR 0.86 years.

Within investment grade, Richard maintains a preference for US dollar credit. He also continues to see good value in financials, and took advantage of recent volatility to purchase issues in the European financial space, particularly from French banks and insurers that look attractively valued due to concerns over upcoming French elections, including Société Générale, BNP Paribas and AXA.

The portfolio's equity exposure ended February slightly lower after Richard closed positions in Apple and IBM, and reduced holdings in a number of stocks that have performed particularly well in recent months.

## Fund codes and charges

Share class	ISIN	Distribution	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
USD A-H Acc	GB00B4WS3X34	Semi-Annually	1,25 %	1,42 %	\$1.000	\$75
USD A-H Inc	GB00BK6MCN62	Semi-Annually	1,25 %	1,43 %	\$1.000	\$75
USD A-H M Inc	GB00BSKRTM18	Monthly	1,25 %	1,43 %	\$1.000	\$75
USD C-H Acc	GB00B50N1C28	Semi-Annually	0,75 %	0,92 %	\$500.000	\$50.000
USD C-H Inc	GB00BK6MCP86	Semi-Annually	0,75 %	0,92 %	\$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 September 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, USD 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.

The Morningstar Overall Rating based on the fund's USD Class A-H shares. Copyright © 2017 Morningstar UK Limited. All Rights Reserved. Ratings should not be taken as recommendation.

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