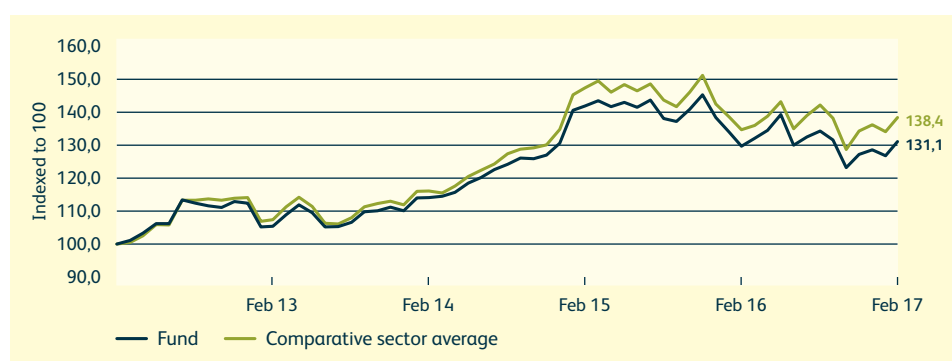


## Euro Class A

### Summary

- Political risk weighed on core government bond markets in February, pushing yields lower, against a backdrop of encouraging global economic data releases. The fund gained over the month.
- Fund manager Richard Woolnough partially de-risked the portfolio, after a sustained credit rally. He slightly reduced the fund's high yield exposure, and increased its risk-free holdings.
- Duration was held at around 1.3 years short of the iBoxx £ Corporates Index.

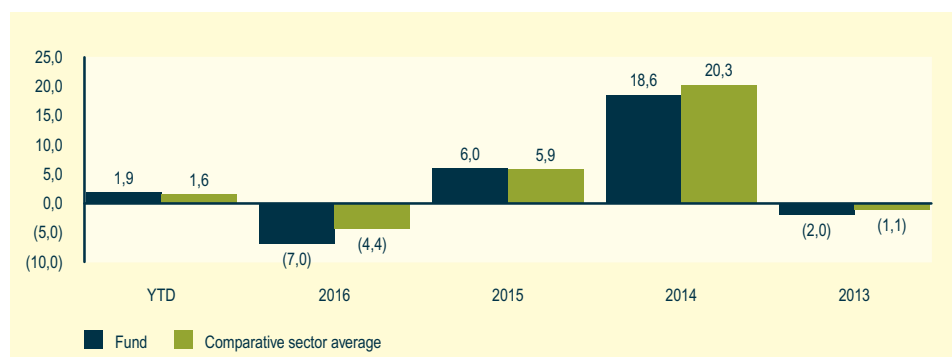
### Performance over 5 years



### 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	+3,4	+3,0	+1,9	+1,0	+4,7	+5,6	+4,8	+7,1
Index	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sector	+3,2	+3,1	+1,6	+2,7	+6,0	+6,9	+3,9	+6,2
Ranking	5/18	11/18	4/18	15/18	16/18	15/16	3/9	1/2
Quartile ranking	1	3	1	4	4	4	1	1

### Annual performance (%)



### Key information

Fund manager	Richard Woolnough
Fund manager tenure from	27 February 2004
Deputy fund manager	Ben Lord
Launch date	15 April 1994
Launch of share class	29 November 2002
Fund size (millions)	€5.012,10
Fund type	OEIC, incorporated in the UK
Comparative sector	Morningstar GBP Corporate Bond sector
Number of issuers	298
Distribution yield (Acc)	2,44 %
Underlying yield (Acc)	2,44 %
Yield to expected maturity*	2,49 %
Modified duration (years)	7,1
Spread duration (years)	7,52
Average maturity (years)	12,14
Average coupon	4,99
Volatility†	10,20 %
Average credit rating	A-
Share type	Accumulation
Ongoing charge	1,40 %

\*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. 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.

†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	Silver

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

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.

Asset breakdown (%)

	Physical	CDS short	CDS long	Net
Government bonds	5,3	0,0	0,0	5,2
Investment grade corporate bonds	70,1	-0,4	0,4	70,2
Fixed rate	67,3	-0,4	0,0	67,0
Floating rate	2,0	0,0	0,0	2,0
Index linked	0,8	0,0	0,0	0,8
Credit default swap indices	0,0	0,0	0,4	0,4
High yield corporate bonds	4,3	0,0	0,0	4,3
Fixed rate	4,3	0,0	0,0	4,3
Floating rate	0,0	0,0	0,0	0,0
Index linked	0,0	0,0	0,0	0,0
Credit default swap indices	0,0	0,0	0,0	0,0
Securitised	18,1	0,0	0,0	18,1
Cash	2,2	0,0	0,0	2,2

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	8,5	0,0	0,0	8,5
AA	13,3	0,0	0,0	13,3
A	18,2	-0,1	0,0	18,1
BBB	51,8	-0,2	0,4	51,9
BB	5,5	0,0	0,0	5,5
B	0,5	0,0	0,0	0,5
CCC	0,0	0,0	0,0	0,0
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	0,1	0,0	0,0	0,1
Cash	2,2	0,0	0,0	2,2

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.

Country breakdown (%)

	Physical	CDS short	CDS long	Net
UK	55,1	-0,2	0,4	55,3
US	22,3	0,0	0,0	22,3
France	7,1	-0,1	0,0	6,9
Germany	2,5	0,0	0,0	2,5
Italy	2,3	0,0	0,0	2,3
Supranational	2,2	0,0	0,0	2,2
Spain	1,7	0,0	0,0	1,7
Netherlands	1,4	0,0	0,0	1,4
Belgium	1,1	0,0	0,0	1,1
Switzerland	0,5	0,0	0,0	0,5
Other	1,6	0,0	0,0	1,6
Cash	2,2	0,0	0,0	2,2

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.

Industry breakdown (%)

	Physical	CDS short	CDS long	Net
Banking	12,3	0,0	0,0	12,3
Telecommunications	12,1	0,0	0,0	12,1
Asset Backed	9,5	0,0	0,0	9,5
Utility	8,7	-0,1	0,0	8,6
Insurance	6,4	0,0	0,0	6,4
Quasi & Foreign Government	5,2	0,0	0,0	5,2
Real Estate	5,1	0,0	0,0	5,1
Commercial Mortgage Backed	4,6	0,0	0,0	4,6
Consumer Non-Cyclical	4,5	-0,2	0,0	4,3
Technology & Electronics	4,0	0,0	0,0	4,0
Mortgage Backed	3,9	0,0	0,0	3,9
Sovereign	3,7	0,0	0,0	3,6
Services	3,1	0,0	0,0	3,1
Consumer Cyclical	2,7	0,0	0,0	2,7
Finance & Investment	2,6	0,0	0,0	2,6
Financial Services	2,3	0,0	0,0	2,3
Media	2,1	0,0	0,0	2,1
Energy	1,7	0,0	0,0	1,7
Basic Industry	0,9	0,0	0,0	0,9
Healthcare	0,9	0,0	0,0	0,9
Automotive	0,8	0,0	0,0	0,8
Capital Goods	0,6	0,0	0,0	0,6
Collateralized Mortgage Obligation	0,1	0,0	0,0	0,1
Investment grade indices	0,0	0,0	0,4	0,4
High Yield indices	0,0	0,0	0,0	0,0
Cash	2,2	0,0	0,0	2,2

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	85,4	99,6
Euro	1,1	0,2
US dollar	13,5	0,2
Swiss franc	0,0	0,0

Maturity breakdown (%)

	Physical
0 - 1 years	2,0
1 - 3 years	7,2
3 - 5 years	12,7
5 - 7 years	12,2
7 - 10 years	22,6
10 - 15 years	17,5
15+ years	23,6
Cash	2,2

Duration breakdown by currency and asset class

	Physical	Futures	Swaps	Net
British pound	6,0	0,1	0,0	6,0
US dollar	1,6	-0,5	-0,3	0,9
Euro	0,2	0,0	0,0	0,2
Total	7,8	-0,4	-0,3	7,1

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

	Fund
Microsoft	2,8
AT&T	2,8
Lloyds Banking Group	2,8
Verizon Communications	2,6
European Investment Bank	2,2
Bank of America	2,1
Aviva	1,8
HSBC	1,8
Imperial Brands Finance	1,8
BAA	1,7

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.

In the UK, year-on-year headline inflation hit 1.8 %, slightly lower than expected (mainly due to a smaller than anticipated rise in transport prices), but nonetheless the highest level since June 2014. Core inflation was flat at 1.6 %, although is expected to rise further in the coming months driven by food and energy prices and the impact of sterling depreciation. The Bank of England revised its GDP forecast for 2017 up to 2 %, (from 1.4 % in November and 0.8 % in August) and reduced its view on the natural rate of unemployment from 5 % to 4.5 % (it currently stands at around 4.8 %).

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 over the month, although its short duration detracted.

## Key changes

The fund remains around 1.3 years short of the iBoxx £ Corporates Index at 7.1 years. Duration contributions are 6.0, 0.9 and 0.2 years in sterling, US dollar and euro denominations, respectively.

Richard took certain steps to moderate risk within the fund in February, slightly increasing its risk-free allocation and reducing its high yield exposure.

He further added to the portfolio's financials exposure over the month, through names including HSBC, Munich Re, Société Générale, JPMorgan and BNP Paribas. Richard has chosen to hold a lot of this exposure further down the capital structure in the Lower Tier 2 and subordinated debt space. He continues to believe that financials will benefit from the 'reflation trade', and a steepening yield curve.

Elsewhere, in non-financials, he added to positions in British American Tobacco and Land Securities over the month.

Richard also has small positions in other governments, accounting for around 1.5 % of the fund, mainly Italy, Spain and Mexico.

## Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A Acc	GB0032137860	MGCPBAA LN	1,25 %	1,40 %	€1.000	€75
Euro C Acc	GB0032137977	MGCPBCA LN	0,50 %	0,65 %	€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 December 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 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 Euro Class A shares. Copyright © 2017 Morningstar UK Limited. All Rights Reserved. Ratings should not be taken as recommendation.

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