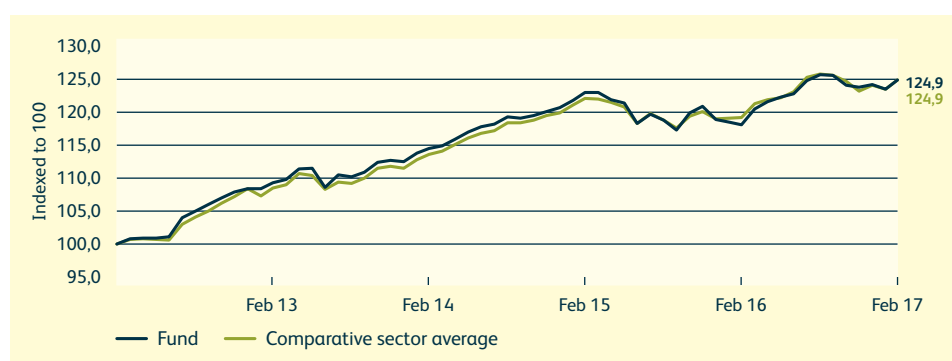


## Euro Class A

### Summary

- The fund generated a positive return in euro and US dollar terms but was flat in sterling as mainstream government bond yields fell in February and European corporate credit rebounded.
- Selected low-yielding bonds in the fund were sold down, while positions in Total and AXA were increased.
- Fund Manager Stefan Isaacs further shortened interest rate duration by closing bund futures positions, but maintained slightly long credit spread duration.

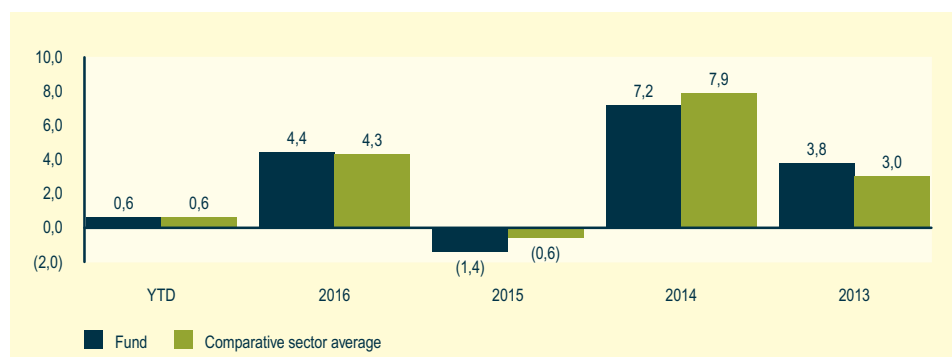
### Performance over 5 years



### 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	+0,9	+0,6	+5,8	+2,9	+4,6	+4,6	+4,1
Index	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sector	+1,1	+1,3	+0,6	+4,7	+3,3	+4,6	+4,1	+4,0
Ranking	40/97	82/96	33/97	16/94	60/88	37/76	11/46	13/30
Quartile ranking	2	4	2	1	3	2	1	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 manager	Stefan Isaacs
Fund manager tenure from	30 March 2007
Deputy fund manager	Wolfgang Bauer
Launch date	13 January 2003
Launch of share class	13 January 2003
Fund size (millions)	€2.152,38
Fund type	OEIC, incorporated in the UK
Comparative sector	Morningstar EUR Corporate Bond sector
Number of issuers	213
Distribution yield (Acc)	1.21 %
Distribution yield (Inc)	2.36 %
Underlying yield (Acc)	1.21 %
Underlying yield (Inc)	1.21 %
Yield to expected maturity*	1,17 %
Modified duration (years)	4,4
Spread duration (years)	5,91
Average maturity (years)	6,88
Average coupon	3,01
Volatility†	3,44 %
Average credit rating	A-
Share type	Acc & Inc
Ongoing charge	1,15 %

\*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	8,4	0,0	0,0	6,2
Investment grade corporate bonds	78,3	-2,4	4,1	80,1
Fixed rate	76,5	-0,5	1,6	77,7
Floating rate	1,9	0,0	0,0	1,9
Index linked	0,0	0,0	0,0	0,0
Credit default swap indices	0,0	-1,9	2,5	0,6
High yield corporate bonds	7,3	0,0	0,0	7,3
Fixed rate	7,1	0,0	0,0	7,1
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
Securitised	5,6	0,0	0,5	6,1
Cash	0,4	0,0	0,0	0,4

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	13,2	0,0	0,0	11,0
AA	7,7	0,0	0,0	7,7
A	26,2	-0,9	3,1	28,4
BBB	45,2	-1,5	1,5	45,3
BB	6,7	0,0	0,0	6,7
B	0,6	0,0	0,0	0,6
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	0,0	0,0	0,0	0,0
Cash	0,4	0,0	0,0	0,4

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	23,9	0,0	0,0	23,9
Insurance	7,0	0,0	0,0	7,0
Healthcare	6,9	0,0	0,0	6,9
Utility	6,7	0,0	0,0	6,7
Telecommunications	6,2	0,0	0,2	6,4
Sovereign	8,4	0,0	0,0	6,2
Energy	4,5	0,0	0,7	5,2
Consumer Non-Cyclical	4,8	0,0	0,0	4,8
Financial Services	4,5	0,0	0,0	4,5
Services	3,6	0,0	0,0	3,6
Capital Goods	3,5	0,0	0,0	3,5
Mortgage Backed	3,4	0,0	0,0	3,4
Basic Industry	3,1	0,0	0,2	3,3
Real Estate	3,2	0,0	0,0	3,2
Asset Backed	2,2	0,0	0,5	2,7
Technology & Electronics	2,6	0,0	0,0	2,6
Consumer Cyclical	1,5	0,0	0,0	1,5
Finance & Investment	1,3	0,0	0,0	1,3
Media	1,2	0,0	0,0	1,2
Automotive	1,2	-0,5	0,5	1,2
Investment grade indices	0,0	-1,9	2,5	0,6
High Yield indices	0,0	0,0	0,0	0,0
Cash	0,4	0,0	0,0	0,4

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	28,3	0,0	0,2	28,6
UK	11,9	-1,0	2,9	13,8
France	12,9	0,0	0,0	12,9
Germany	14,6	-0,5	0,5	12,4
Switzerland	6,6	0,0	0,0	6,6
Spain	4,8	0,0	0,7	5,6
Netherlands	4,7	0,0	0,0	4,7
Italy	4,2	0,0	0,0	4,2
Ireland	3,1	0,0	0,0	3,1
Belgium	1,5	0,0	0,0	1,5
Other	7,0	-0,9	0,2	6,3
Cash	0,4	0,0	0,0	0,4

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
Euro	91,0	99,8
US dollar	3,7	0,3
Swiss franc	0,0	0,0
British pound	5,3	-0,1

Maturity breakdown (%)

	Physical
0 - 1 years	1,8
1 - 3 years	12,9
3 - 5 years	26,6
5 - 7 years	16,2
7 - 10 years	21,7
10 - 15 years	9,5
15+ years	10,9
Cash	0,4

Duration breakdown by currency and asset class

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

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

	Fund
Johnson & Johnson	2,5
Intesa Sanpaolo	1,9
Berkshire Hathaway	1,8
Channel Link Enterprises Finance	1,7
UBS	1,6
Citigroup	1,5
Goldman Sachs	1,5
Morgan Stanley	1,5
JP Morgan	1,4
Wells Fargo	1,3

Performance review

Investor sentiment was helped in February as global economic data continued to improve. In particular, gross domestic product (GDP) growth and inflation reached multi-year highs in a number of major economies. However, political uncertainty showed no signs of abating. Headlines about ‘Trumpenomics’ and the upcoming French and Dutch presidential elections continued to dominate newsflow. At the same time, commentary about the US Federal Reserve’s meeting in March spurred speculations about the likelihood of a rise in interest rates.

Against this backdrop, mainstream government bonds edged down during the month. In turn, this helped corporate bonds deliver positive returns, despite a dispersion of spread movements across different credit markets. At an index level, credit spreads widened by 4 basis points in Europe, narrowed by 7 basis points in the US and were broadly unchanged in the UK. Elsewhere in credit, high yield markets

continued to outperform their investment grade counterparts as spreads tightened further, narrowing by 23 bps at the global high yield index level.

The spike in returns on global corporate bonds supported fund performance in February. Among particularly helpful considerations was the fund's significant exposure to the financial sector as the majority of banking and insurance names in the portfolio continued to perform well. However, the euro weakened against the British pound during the month, which resulted in a flat performance for the sterling share class.

## Key changes

Stefan took advantage of the recent weakness in French assets and added to the position in multinational insurance firm AXA. By the same token, the fund's holding in a hybrid bond issued by energy giant Total was increased as it continues to offer an attractive yield versus the company's senior secured bonds.

Elsewhere, Stefan de-risked the portfolio and sold down selected low-conviction positions. In his view, the European Central Bank's bond-purchasing programme has overly benefited the valuations of some corporate bonds. As such, Stefan closed positions that are currently offering very low and unattractive levels of yield, including issues from Coca-Cola Europe and healthcare product provider Johnson & Johnson.

In terms of the fund's key positioning themes, overall fund (interest rate) duration was reduced from 4.75 years to 4.43 years by closing some of the fund's German government bond futures positions. Given the continued strength in German economic data, Stefan thought it prudent to reduce the position as short-term yields fell well below zero. The fund's interest rate duration continues to be shorter than that of a comparable index, which was 5.19 years at the end of February.

The fund's duration position is derived almost entirely from euro assets as non-euro exposures are duration-hedged via futures. In contrast to the short interest rate duration, the fund retained slightly longer credit spread duration at 5.91 years.

At the close of the month, the fund's net allocation to investment grade credit was around 80 %, while approximately 6 % was allocated to government bonds and 7 % in high yield bonds.

## Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A Inc	GB00B959HG95	MGECEBAE LN	1,00 %	1,15 %	€1.000	€75
Euro A Acc	GB0032178856	MGECEBEA LN	1,00 %	1,15 %	€1.000	€75
Euro C Acc	GB0032179045	MGECEBEC LN	0,50 %	0,66 %	€500.000	€50.000
Euro C Inc	GB00BK6MBH38	MGECECEI LN	0,50 %	0,66 %	€ 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.

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