M&G Emerging Markets Bond Fund
Sterling Class I – Accumulation shares

M&G Investments

Quarterly Fund Review as at 31 March 2024

Fund manager(s) – Claudia Calich, Charles de Quinsonas

For investment professionals only

Highlights

- Hard currency emerging market (EM) debt registered positive returns in the first quarter
- We continue to selectively de-risk, by selling high yield (HY) names in both government and corporate bonds
- Despite geopolitical uncertainty, we believe there is cause for optimism on EM debt

The main risks associated with this fund

For any past performance shown, please note that past performance is not a guide to future performance.

The value and income from the fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.

Investing in emerging markets involves a greater risk of loss as there may be difficulties in buying, selling, safekeeping or valuing investments in such countries.

Investments in bonds are affected by interest rates, inflation and credit ratings. It is possible that bond issuers will not pay interest or return the capital. All of these events can reduce the value of bonds held by the fund.

The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.

The fund may use derivatives to profit from an expected rise or fall in the value of an asset. Should the asset's value vary in an unexpected way, the fund will incur a loss. The fund's use of derivatives may be extensive and exceed the value of its assets (leverage). This has the effect of magnifying the size of losses and gains, resulting in greater fluctuations in the value of the fund.

Further risk factors that apply to the fund can be found in the fund's Prospectus.

Things you should know

The fund allows for the extensive use of derivatives.

Fund performance

	3 months	YTD	1 year	3 years p.a.	5 years p.a.
Sterling I Accumulation	2.2%	2.2%	10.1%	3.9%	3.3%
Benchmark	1.7%	1.7%	6.2%	2.0%	1.8%
Sector	1.2%	1.2%	8.7%	0.6%	1.5%
Quartile ranking	2	2	2	1	1

Single year performance (5 years)

	2023	2022	2021	2020	2019
Sterling I Accumulation	7.9%	-2.2%	-1.3%	2.3%	12.1%
Benchmark	4.7%	-3.0%	-2.4%	1.9%	9.5%
Sector	8.5%	-8.0%	-3.7%	3.5%	10.2%
Quartile ranking	3	1	1	3	1

Past performance is not a guide to future performance.

Benchmark= 1/3 JPM EMBI Global Diversified Index, 1/3 JPM CEMBI Broad Diversified Index, 1/3 JPM GBI-EM Global Diversified Index

Sector= IA Global Emerging Markets Bond – Blended sector

The benchmark is a target which the fund seeks to outperform. The composite index has been chosen as the fund's benchmark as it best reflects the scope of the fund's investment policy. The benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction.

The fund is actively managed. The fund manager has complete freedom in choosing which assets to buy, hold and sell in the fund. The fund's holdings may deviate significantly from the benchmark's constituents.

Source: Morningstar, Inc and M&G, as at 31 March 2024. Returns are calculated on a price to price basis with income reinvested. Benchmark returns stated in GBP terms.

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Asset breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Government bonds - local currency	35.7	0.0	0.0	35.7
Government bonds - hard currency	36.3	0.0	0.0	36.3
Credit - local currency	2.9	0.0	0.0	2.9
Credit - hard currency	24.1	0.0	0.0	24.1
Other	**0.0**	**0.0**	**0.0**	**0.0**
Cash	**1.0**	**0.0**	**0.0**	**1.0**

Credit rating breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
AAA	3.8	0.0	0.0	3.8
AA	1.1	0.0	0.0	1.1
A	5.5	0.0	0.0	5.5
BBB	26.9	0.0	0.0	26.9
BB	33.2	0.0	0.0	33.2
B	15.1	0.0	0.0	15.1
CCC	6.1	0.0	0.0	6.1
CC	2.2	0.0	0.0	2.2
C	0.3	0.0	0.0	0.3
D	1.1	0.0	0.0	1.1
No rating	2.3	0.0	0.0	2.3
Cash	2.5	0.0	0.0	2.5

Country breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Mexico	6.1	0.0	0.0	6.1
Brazil	5.5	0.0	0.0	5.5
Indonesia	4.4	0.0	0.0	4.4
Colombia	4.1	0.0	0.0	4.1
South Africa	3.5	0.0	0.0	3.5
Malaysia	3.4	0.0	0.0	3.4
Romania	3.0	0.0	0.0	3.0
Poland	3.0	0.0	0.0	3.0
Other	66.1	0.0	0.0	66.1
Cash	1.0	0.0	0.0	1.0

Largest issuers (%)

	Fund
Mexico	3.8
Indonesia	3.5
Malaysia	3.4
Brazil	3.0
Romania	2.8
Poland	2.8
South Africa	2.7
Colombia	2.7
Dominican Republic	2.3
Uruguay Government	2.2

Maturity breakdown (%)

	Physical
0 - 1 years	6.3
1 - 3 years	9.7
3 - 5 years	18.3
5 - 7 years	9.7
7 - 10 years	22.8
10 - 15 years	12.1
15+ years	19.9
Cash	1.0
Other	0.3

Currency breakdown (%)

	Fund
US dollar	57.0
Brazilian real	4.0
Mexican peso	3.8
Indonesian rupiah	3.5
Malaysian ringgit	3.4
Colombian peso	2.5
South African rand	2.4
Peruvian sol	2.2
Peso Uruguayo	2.2
Other	19.1

Industry breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Sovereign	37.6	0.0	0.0	37.6
Foreign Sovereign	34.4	0.0	0.0	34.4
Energy	6.1	0.0	0.0	6.1
Banking	3.8	0.0	0.0	3.8
Supranational	2.3	0.0	0.0	2.3
Basic industry	1.8	0.0	0.0	1.8
Utility	1.6	0.0	0.0	1.6
Agency	1.2	0.0	0.0	1.2
Financial services	1.2	0.0	0.0	1.2
Telecommunications	1.2	0.0	0.0	1.2
Government Guaranteed	1.1	0.0	0.0	1.1
Technology & electronics	0.9	0.0	0.0	0.9
Healthcare	0.9	0.0	0.0	0.9
Real Estate	0.8	0.0	0.0	0.8
Consumer goods	0.8	0.0	0.0	0.8
Capital goods	0.5	0.0	0.0	0.5
Local-Authority	0.5	0.0	0.0	0.5
Media	0.5	0.0	0.0	0.5
Insurance	0.5	0.0	0.0	0.5
Leisure	0.4	0.0	0.0	0.4
Transportation	0.4	0.0	0.0	0.4
Retail	0.3	0.0	0.0	0.3
Automotive	0.1	0.0	0.0	0.1
Cash	1.0	0.0	0.0	1.0

Duration by currency and asset class (years)

	Fund	Futures	Swaps	Net
Euro	0.5	0.0	0.0	0.5
British pound	0.0	0.0	0.0	0.0
US dollar	3.2	0.0	0.0	3.2
Other	2.1	0.0	0.0	2.1
Total	5.8	0.0	0.0	5.8

Commentary

EM debt weakened in January after experiencing a powerful year-end rally in 2023 as investors lowered their expectations of an imminent US interest rate cut. Nevertheless, the hard currency segment recovered amid a broad risk-on environment and delivered positive returns over the quarter. The high yield (HY) segment outperformed investment grade as there was a significant tightening of credit spreads in the former.

In contrast, the local currency market underperformed throughout the period against the headwind of a strengthening US dollar.

Performance, portfolio activity and positioning

Our above-benchmark positioning in local currency bonds weighed on performance in January and March. In addition, our lack of exposure (initially and later underweight) to Chinese currency bonds also proved unhelpful as these staged a recovery in the first quarter.

In contrast, relative performance was aided by our above-benchmark exposure to HY names in March, but the fund's underweight in some of the top performers such as Ecuador, Bolivia and Pakistan proved unhelpful earlier in the period.

In February, we purchased new government bonds from Paraguay, Benin, Turkey and Panama. We also added new corporate issues including Peru's largest bank Banco de Crédito, Japanese travel agency HIS and state-owned petroleum company QatarEnergy. Later, we added Turkish renewable energy firm Aydem and Hungarian state-owned utility MVM in the secondary market.

In local currency bonds, we increased our holdings in Malaysia following positive fundamental trends. In March, we purchased Egyptian sovereigns after a sharp devaluation in the currency and a 600-basis point interest rate hike by its central bank.

We de-risked during the quarter by selling HY names that appeared overvalued to us, given the recent positive movements in credit spreads. In government bonds, we reduced exposure to Morocco, Albania, and the Dominican Republic, while closing a position in Russia (although we still hold sanctioned entities which we are unable to offload).

We trimmed exposure to telecommunication companies in Paraguay and some banks such as Abu Dhabi Commercial Bank and Mexican lender Banorte. Other names included Greenko, Ecopetrol, Asea and Eco Copper.

In currencies, we reduced our exposure to the euro but moved from an underweight to an overweight position in the Chilean peso.

Outlook

Despite some uncertainty over geopolitical risk, we feel the broader picture is still favourable for EMs in 2024. Economies have been resilient, first adapting to high inflation post-COVID, and then to higher interest rates.

With the Federal Reserve widely expected to cut interest rates in 2024, we believe there is cause for optimism on EM debt, provided the US dollar does not strengthen any further and risk aversion remains subdued.

While the double-digit returns we saw in 2023 may not be replicated again, EM debt still offers compelling opportunities, in our view, especially for investors facing reinvestment risk from short-dated bonds.

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Approach to responsible investment

	Yes	No	N/A
ESG integration	✓		
Additional ESG specifications		✓	
Exclusions	✓		
Cluster munitions & anti personnel landmines	✓		
Other exclusions or restrictions		✓	
Voting			✓
Engagement	✓		

Please see glossary for further explanation of these terms.

ESG Standard Glossary

Additional ESG specifications: In the context of M&G, these are funds managed with an explicit ESG objective, outcome or in accordance with specific ESG criteria, and will have a number of minimum exclusions in place.

Engagement: Interaction with company management on various financial and non-financial, including ESG, issues. Engagement allows investors to better understand how a company is undertaking its operations and how it is interacting with its stakeholders, as well as advising on and influencing company behaviour and disclosures where appropriate.

ESG integration: Describes the explicit and systematic inclusion of Environmental, Social and Governance factors in investment analysis and investment decisions. It underpins a responsible investment approach, and allows investors to better manage risk and generate sustainable, long-term returns.

Exclusions: The exclusion or restriction of investments based on the sector in which they operate, the products or services they provide or for other specific criteria, i.e. they are deemed to be in breach of the United Nations Global Compact principles on human rights, labour the environment and anti-corruption.

Voting: As the partial owners of a company, shareholders have the right to vote on resolutions put forward at a company's annual general meeting. These resolutions include the re-election of directors, executive remuneration and business strategy, among others, and may include resolutions put forward by shareholders.

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Important information

With effect from November 2023, we are reporting using our internal accounting book of record (ABOR) moving away from the investment book of record (IBOR) used for reporting up to October 2023.

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

The M&G Emerging Markets Bond Fund is a sub-fund of M&G Investment Funds (3).

The value of investments will fluctuate, which will cause fund prices to fall as well as rise and investors may not get back the original amount invested. **For financial advisers only. Not for onward distribution. No other persons should rely on any information contained within.**

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