

# M&G European Credit Investment Fund

## Monthly fund report



November 2022

*The value of investments will fluctuate, which will cause prices to fall and rise and investors may not get back the original amount they invested. There is no guarantee the objective will be achieved.*

The M&G European Credit Investment Fund ('The fund') aims to take advantage of opportunities primarily in investment grade corporate bonds denominated in euros. The fund may also invest in GBP, USD and CHF denominated debt, and use futures and swaps for efficient portfolio management. The fund utilises M&G's global research and fund management capabilities to identify fundamental value in corporate and asset backed bonds. The fund focuses on credit management; currency, interest rate and other macro-economic risks are closely controlled. The fund aims to outperform the benchmark ICE BofAML Euro Corporate Index.

### Key information

Fund manager	Gaurav Chatley
Fund launch date	12 April 2011
Fund type	Luxembourg SICAV (UCITS)
SFDR Classification	Article 6
Dealing and valuation dates	Daily (settlement t+2)
Annual Charge	0.18% of NAV (A/ F shares) 0.16% of NAV (B shares) 0.25%/0.21% of NAV (Q/Qi shares) 0.29%/0.25% of NAV (W/Wi shares)
Share class currencies	EUR, GBP (Hedged)
Minimum investment	€1 million* (A/F shares) €175 million* (B shares) €200 million* (Q/Qi shares) €500 million* (W/Wi shares)
Fund size	€3,382.96 million
Number of issues	592
Number of issuers	323
Modified duration** Spread duration	4.71 4.84
PV01 CR01 IE01	0.0480% 0.0480% 0.0000%
Average credit rating***	A-
Yield**	4.49%
99% 20 day value at risk	4.40%

### Performance target

The fund seeks to provide a total of the Benchmark plus 0.75% (gross of fees p.a.) over any five-year period.

### Risks associated with this fund

**Market risk:** The value of investments and the income from them will rise and fall. This will cause the sub-fund price, as well as any income paid by the sub-fund, to fall as well as rise. There is no guarantee the sub-fund will achieve its objective, and you may not get back the amount you originally invested.

**Credit Risk:** The value of the sub-fund may fall if the issuer of a fixed income security held is unable to pay income payments or repay its debt (known as a default).

**Interest Rate Risk:** When interest rates rise, the value of the sub-fund is likely to fall.

**Derivatives Risk:** The sub-fund may use derivatives to gain exposure to investments and this may cause greater changes in the sub-fund's price and increase the risk of loss.

**Counterparty Risk:** Some transactions the sub-fund makes, such as placing cash on deposit, require the use of other financial institutions. If one of these institutions defaults on their obligations or becomes insolvent, the sub-fund may incur a loss.

**Asset-Backed Securities Risk:** The assets backing mortgage and asset-backed securities may be repaid earlier than required, resulting in a lower return.

**Contingent Convertible Debt Securities Risk:** investing in contingent convertible debt securities may adversely impact the fund should specific trigger events occur and the fund may be at increased risk of capital loss.

Hedged share classes use currency hedging strategies to minimise currency exchange rate risk. There will be imperfections with any hedging strategy, and it cannot be guaranteed that the hedging objective will be achieved. The hedging strategy may substantially limit holders of the hedged share class from benefiting if the hedged share class currency fails against the reference currency.

Please note this is not an exhaustive list, you should ensure you understand the risk profile of the products or services you plan to purchase.

## Fund performance

Past performance is not a guide to future performance.

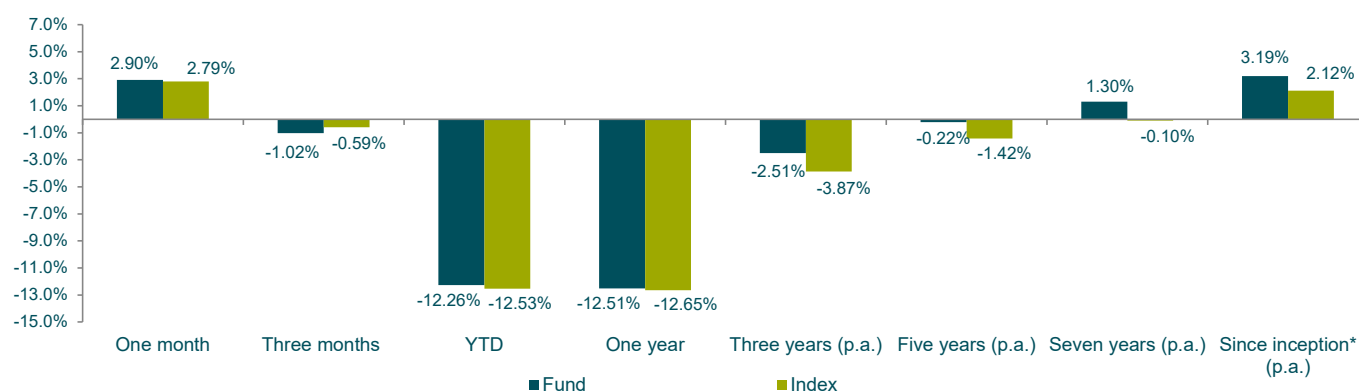
Total returns	One month	Three months	Year to date	One year	Three years (p.a.)	Five years (p.a.)	Seven years (p.a.)	Ten years (p.a.)	Since inception (p.a.)
E share class (Acc) € (gross) <sup>1</sup>	2.90%	-1.02%	-12.26%	-12.51%	-2.51%	-0.22%	1.30%	2.23%	3.19%
E share class (Acc) € (net) <sup>1</sup>	2.89%	-1.05%	-12.34%	-12.60%	-2.61%	-0.35%	1.07%	1.95%	2.88%
Index <sup>9</sup>	2.79%	-0.59%	-12.53%	-12.65%	-3.87%	-1.42%	-0.10%	1.09%	2.12%
E share class (Inc) € (gross) <sup>2</sup>	2.90%	-1.02%	-12.26%	-12.51%	-2.51%	-	-	-	-2.57%
E share class (Inc) € (net) <sup>2</sup>	2.89%	-1.05%	-12.34%	-12.60%	-2.61%	-	-	-	-2.67%
Index <sup>9</sup>	2.79%	-0.59%	-12.53%	-12.65%	-3.87%	-	-	-	-3.80%
E share class (Acc) £ (gross) <sup>3</sup>	3.00%	-0.68%	-11.30%	-11.50%	-1.76%	-	-	-	0.89%
E share class (Acc) £ (net) <sup>3</sup>	3.00%	-0.70%	-11.38%	-11.58%	-1.86%	-	-	-	0.79%
Index <sup>9</sup>	2.94%	-0.21%	-11.64%	-11.71%	-3.15%	-	-	-	-0.50%
F share class (Acc) € (gross) <sup>4</sup>	2.90%	-1.02%	-12.26%	-12.51%	-	-	-	-	-2.43%
F share class (Acc) € (net) <sup>4</sup>	2.89%	-1.07%	-12.41%	-12.67%	-	-	-	-	-2.60%
Index <sup>9</sup>	2.79%	-0.59%	-12.53%	-12.65%	-	-	-	-	-3.30%
Q share class (Acc) € (gross) <sup>5</sup>	2.90%	-1.02%	-12.26%	-12.51%	-	-	-	-	-5.74%
Q share class (Acc) € (net) <sup>5</sup>	2.88%	-1.08%	-12.46%	-12.73%	-	-	-	-	-5.98%
Index <sup>9</sup>	2.79%	-0.59%	-12.53%	-12.65%	-	-	-	-	-6.24%
Q share class (Dist) € (gross) <sup>5</sup>	2.90%	-1.02%	-12.27%	-12.51%	-	-	-	-	-5.74%
Q share class (Dist) € (net) <sup>5</sup>	2.88%	-1.08%	-12.46%	-12.73%	-	-	-	-	-5.98%
Index <sup>9</sup>	2.79%	-0.59%	-12.53%	-12.65%	-	-	-	-	-6.24%
QI share class (Acc) € (gross) <sup>5</sup>	2.90%	-1.02%	-12.26%	-12.51%	-	-	-	-	-5.74%
QI share class (Acc) € (net) <sup>5</sup>	2.88%	-1.07%	-12.43%	-12.69%	-	-	-	-	-5.94%
Index <sup>9</sup>	2.79%	-0.59%	-12.53%	-12.65%	-	-	-	-	-6.24%
QI share class (Dist) € (gross) <sup>5</sup>	2.90%	-1.02%	-12.26%	-12.51%	-	-	-	-	-5.74%
QI share class (Dist) € (net) <sup>5</sup>	2.88%	-1.07%	-12.43%	-12.69%	-	-	-	-	-5.94%
Index <sup>9</sup>	2.79%	-0.59%	-12.53%	-12.65%	-	-	-	-	-6.24%
A share class (Acc) € (gross) <sup>6</sup>	2.90%	-1.02%	-12.26%	-12.51%	-	-	-	-	-7.14%
A share class (Acc) € (net) <sup>6</sup>	2.89%	-1.07%	-12.41%	-12.67%	-	-	-	-	-7.30%
Index <sup>9</sup>	2.79%	-0.59%	-12.53%	-12.65%	-	-	-	-	-7.38%
B share class (Dist) € (gross) <sup>7</sup>	2.90%	-1.02%	-12.26%	-12.51%	-	-	-	-	-10.12%
B share class (Dist) € (net) <sup>7</sup>	2.89%	-1.06%	-12.39%	-12.65%	-	-	-	-	-10.27%
Index <sup>9</sup>	2.79%	-0.59%	-12.53%	-12.65%	-	-	-	-	-10.38%
W share class (Acc) € (gross) <sup>8</sup>	2.90%	-1.03%	-12.27%	-12.52%	-	-	-	-	-11.00%
W share class (Acc) € (net) <sup>8</sup>	2.88%	-1.10%	-12.50%	-12.77%	-	-	-	-	-11.26%
Index <sup>9</sup>	2.79%	-0.59%	-12.53%	-12.65%	-	-	-	-	-11.36%
W share class (Dist) € (gross) <sup>8</sup>	2.90%	-1.02%	-12.34%	-12.58%	-	-	-	-	-11.06%
W share class (Dist) € (net) <sup>8</sup>	2.88%	-1.09%	-12.57%	-12.84%	-	-	-	-	-11.32%
Index <sup>9</sup>	2.79%	-0.59%	-12.53%	-12.65%	-	-	-	-	-11.36%
WI share class (Acc) € (gross) <sup>8</sup>	2.90%	-1.02%	-12.27%	-12.51%	-	-	-	-	-11.00%
WI share class (Acc) € (net) <sup>8</sup>	2.88%	-1.08%	-12.47%	-12.73%	-	-	-	-	-11.22%
Index <sup>9</sup>	2.79%	-0.59%	-12.53%	-12.65%	-	-	-	-	-11.36%
WI share class (Dist) € (gross) <sup>8</sup>	2.90%	-0.46%	-11.77%	-12.01%	-	-	-	-	-10.57%
WI share class (Dist) € (net) <sup>8</sup>	2.88%	-0.52%	-11.97%	-12.23%	-	-	-	-	-10.79%
Index <sup>9</sup>	2.79%	-0.59%	-12.53%	-12.65%	-	-	-	-	-11.36%

Source: M&G as at 30 November 2022. 1EUR E Accumulation share class inception 12 April 2011. 2EUR E Income share class inception 16 August 2019. 3GBP E Accumulation share class inception 28 November 2018. 4EUR F Accumulation share class inception 07 May 2020. 5 EUR Q QI Distribution and Accumulation share class inception 03 November 2020. 6 EUR A Accumulation share class inception 25 February 2021. 7 EUR B Distribution share class inception 22 July 2021. 8EUR W WI Distribution and Accumulation share class inception 27 September 2021. 9Index is the ICE BofA Euro Corporate Index (hedged GBP for GBP share class). Other share classes available for non-institutional/wholesale clients.

## Fund performance

Past performance is not a guide to future performance.

### M&G European Credit Investment Fund performance



Source: M&G as at 30 November 2022, gross returns of EUR E Accumulating Share class. \*Inception date 12 April 2011.

Yearly return (gross of fees)	2013	2014	2015	2016	2017	2018	2019	2020	2021
E share class (Acc) €	3.95%	8.11%	-0.85%	7.76%	3.75%	-0.53%	7.55%	6.29%	-0.61%
Index	2.39%	8.25%	-0.43%	4.75%	2.42%	-1.14%	6.25%	2.65%	-1.02%

Index is the ICE BofA Euro Corporate Index. The annual charge for the E share classes for this fund is 0.10% p.a. This will affect the return investors will receive. Past performance is not a guide to future performance.

Ex-Post Risk statistics	Three year	Five year	Seven year
Volatility (gross)	7.45%	6.01%	5.43%
Volatility (net)	7.45%	6.01%	5.42%
Information ratio (gross)	1.37	1.48	1.16
Information ratio (net)	1.27	1.31	0.97

Based on gross and net returns of Euro E Acc share class.

## Pricing

Share class	Inception date	ISIN	Bloomberg code	Price per share	Fund NAV	Annual charge
EUR E (Acc)	12 April 2011	LU0617482376	ESMECAE LX	€139.11	€1,052,110,851.00	*
EUR E (Inc)	16 August 2019	LU0617481303	ESMEEDE LX	€89.14	€116,459,976.97	*
GBP E (Acc)	28 November 2018	LU1877940137	ESMGEGH LX	£103.18	£57,674,771.06	*
EUR F (Acc)	07 May 2020	LU2101367030	EUECIAE LX	€93.46	€462,244,173.72	0.18%
EUR Q (Acc)	03 November 2020	LU2188668169	EECIQAE LX	€88.01	€136,636,840.95	0.25%
EUR Q (Dist)	03 November 2020	LU2188668243	EECIQDE LX	€87.08	€39,916,905.00	0.25%
EUR QI (Acc)	03 November 2020	LU2188668326	EUECIQA LX	€88.08	€1,031,998,659.99	0.21%
EUR QI (Dist)	03 November 2020	LU2188668599	EUECIQD LX	€87.09	€4,726,973.38	0.21%
EUR A (Acc)	25 February 2021	LU2255705829	ESMGEEA LX0	€87.50	€257,519,856.01	0.18%
EUR B (Dist)	22 July 2021	LU2355145918	ESECIBE LX	€85.61	€171,237,604.35	0.16%

Source: M&G as at 30 November 2022. \*Early Bird E share classes are now closed to new investors.

## Positioning

Key characteristics	Fund	Index
Number of issues	592	4031
Number of issuers	323	797
Modified duration	4.71	4.72
Spread duration	4.84	4.89
Average credit rating	A-	A-
WAL to worst	5.71	5.33
Yield to worst	4.49%	3.86%
Yield to Maturity	4.26%	3.83%
Coupon	1.79%	1.65%

Source: M&G as at 30 November 2022.

Asset class*	Fund	Index	Relative
Financial	40.03%	37.46%	2.57%
Industrial	37.73%	52.68%	-14.95%
Utility	10.60%	9.84%	0.76%
Securitized	0.36%	0.00%	0.36%
Quasi & Foreign Government	0.00%	0.02%	-0.02%
Sovereign	10.67%	0.00%	10.67%
Net cash and derivatives	0.61%	0.00%	0.61%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>

\*ICE BofA level 2 industry sectors. Source: M&G as at 30 November 2022

Rating*	Fund	Index	Relative
AAA	10.96%	0.32%	10.64%
AA	5.30%	5.63%	-0.33%
A	31.14%	41.05%	-9.91%
BBB	48.60%	52.54%	-3.94%
BB and below	3.39%	0.46%	2.93%
Net Cash and Derivatives	0.61%	0.00%	0.61%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>

\*Average of S&P, Moodys and Fitch or M&G internal rating

Currency of assets*	Fund	Index	Relative
EUR	99.77%	100.00%	-0.23%
GBP	0.23%	0.00%	0.23%
USD	0.00%	0.00%	0.00%
Net derivatives	0.00%	0.00%	0.00%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>

\*Unhedged currency of assets in portfolio, all non-EUR investments are fully currency hedged.

## Top five corporates overweights and underweights by issuer

Overweights	Fund	Index	Relative	Underweights	Fund	Index	Relative
Arion Banki	0.49%	0.03%	0.46%	Banco Santander	0.00%	0.74%	-0.74%
New York Life Global Funding	0.44%	0.05%	0.39%	AT&T Inc	0.00%	0.60%	-0.60%
Metropolitan Life Global Funding I	0.49%	0.09%	0.40%	Siemens Financieringsmaatschap pij N.V.	0.03%	0.62%	-0.59%
Esercizi Aeroportuali Sea Spa	0.39%	0.00%	0.39%	Anheuser Busch Inbev Sa (Pre-Reincorporation)	0.08%	0.67%	-0.59%
Islandsbanki	0.37%	0.01%	0.36%	Mercedes-Benz International Finance	0.27%	0.85%	-0.58%

Source: M&G as at 30 November 2022.

## Investment commentary

November was a very strong month for bond markets with broad based gains in both sovereigns and credit. The more positive tone was driven by a number of factors, including early signs of an easing of inflationary pressures in the US and Eurozone, an easing Covid-driven restrictions in China and a weakening US Dollar. Of these, the slight fall in inflation data in the US had the largest impact, and risk assets such as equities and high yield saw strong performance as a result.

Eurozone annual inflation fell to 10%, dropping from last month's all time high whilst the German 10 year bund yield fell from 2.1% to 1.9%. Autumn was not as cold as predicted which also reduced energy demand. All sectors rallied across investment grade and high yield from a total return perspective. The Eurozone economies continue to slow, with forward looking indicators still indicative of rising risks of recession.

In the US, the annual CPI inflation rate fell from 8.2% to 7.7% significantly lower than market expectations. Jerome Powell, chair of the Federal Reserve, stated that "the time for moderating the pace of rate increases may come as soon as the December meeting." Investors now expect a slower pace of rate hiking going forward.

In the UK, gilts continued their rally as the market turbulence stemming from the mini-budget in late September continued to unwind. Markets reacted calmly to the government's Autumn Statement as well, which included £55bn of fiscal tightening as the government sought to reassure investors about their fiscal credibility. Employment data still remains strong and with it, rising labour costs are likely to keep the pressure on the Bank of England to continue to raise rates.

Looking ahead, global growth continues to slow, and while there are some modest signs that inflationary pressures may be abating in the US and EU, the probability of a recession, particularly in Europe, continues to rise. However, credit market spreads still imply recession and very high default rates, but selected areas of markets are compensating investors for risk. While there may be further volatility ahead, we believe that these are attractive levels to be building credit risk exposure.

During November, the manager focused on adding risk as credit valuations remained attractive, notably through purchasing senior bonds in the industrial, utility and financial sectors. In the primary market, we identified bonds which offered attractive new issue premia, including ABN AMRO, Crédit Mutuel Arkéa, Bouygues and HSBC. In the secondary market, specifically the utilities sector, there were purchases of senior green bonds issued by A2A, EDF, Enxys Group, Suez and TenneT, which appeared attractive given the fundamental risks and strong ESG characteristics. Within the financial sector, there were various purchases of senior and subordinated banking bonds, increasing exposure to names such as Barclays, Commerzbank, Deutsche Bank and Nationwide, which offered sufficient compensation for the underlying credit risk. Additionally, the manager reduced exposure to bonds which had performed well, including Apple, Cellnex and Origin Energy, in order to pursue other opportunities. There were also a number of relative value transactions, switching from shorter to longer dated Autostrade per l'Italia bonds, and from GBP to EUR denominated bonds issued by Credit Suisse, where spread widening led to the yield pick-up appearing more attractive.

## Taxonomy Summary

Pursuant to EU Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment, and amending SFDR (the "Taxonomy Regulation"), the Manager is required to disclose alignment with the Taxonomy Regulation. As at the date of this report, this fund is not subject to Article 8 or to Article 9 of the SFDR. As such, the investments underlying this fund do not take into account the EU criteria for environmentally sustainable economic activities.

## Note on swing pricing effect

The fund operates partial swing pricing whereby the fund swings when net flows on any dealing day are above a pre-determined threshold. The NAV per Share may be adjusted upwards or downwards to reflect the costs attributable to the net inflows and outflows respectively. If net flows do not exceed the pre-determined threshold then the fund is mid-priced.

The swing factor is determined monthly using the bid-mid spread of assets in the fund on a given day.

## Note on relationship discount

From 2019, M&G is pleased to announce the introduction of a relationship discount for those clients invested in multiple strategies who meet certain criteria. We will be contacting clients directly where they may benefit from this initiative and, if you are interested in discussing this further.

## Investment process

At the core of our investment process is our proprietary analysis of the fundamental creditworthiness of issuers, driven by our very well resourced and highly experienced credit research team. Our career analysts are industry sector specialists, and cover both high yield and investment grade issuers. This breadth of coverage gives us unique insights into idiosyncratic company characteristics and global sector dynamics which, in turn, allow us to form an independent and timely view of credit quality and rating migration. The fund manager then compares our fundamental credit assessment with the relative market valuations to identify mispriced and under / over-valued securities. After the manager has established the investment thesis, the risk / reward of the opportunity and optimal bond issue / currency / maturity / instrument to implement the idea, our trading desk's dedicated credit and asset backed dealers are responsible for trade execution. The independent risk management team monitors and regularly reviews the portfolio's risk positions with the fund manager. Our investment process and highly diversified approach to portfolio construction aim to deliver consistent returns above the fund's benchmark.

## Benchmark: ICE BofAML Euro Corporate Index

The benchmark is a target which the fund seeks to achieve. The rate has been chosen as the fund's benchmark as it is an achievable performance target and 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 investment manager has complete freedom in choosing which assets to buy, hold and sell in the fund, subject to the investment restrictions set out in the fund's prospectus, and there are no restrictions on the extent to which the fund's performance may deviate from the one of the benchmark.

For unhedged and currency hedged share classes, the benchmark is shown in the share class currency.

## Fund manager

Gaurav Chatley joined M&G Investments in 2005 as an assistant fund manager in the fixed income team. He became a Credit Fund Manager, managing a range of institutional corporate bond funds, in 2006.

Prior to joining M&G, Gaurav worked for London and Capital Asset Management as an investment analyst, with responsibility for the analysis of quantitative investment strategies.

Gaurav graduated from the London School of Economics with a MSc. in Finance and Economics and holds a degree in Mathematics and Scientific Computing from the Indian Institute of Technology. He is a CFA charterholder.

## Key risk guidelines

Key risk guidelines	Maximum
All individual AAA issuers (with the exception of sovereign / supranational / government guaranteed issuers)	Index + 5%
All individual AA and A issuers	Index + 3%
All individual BBB issuers	Index +2%
Aggregate exposure to issuers downgraded to below BBB-	15%
Aggregate purchases of issuers below BBB-	10%
Aggregate exposure to asset backed securities	20%
Duration limit	Benchmark +/- 1 year

Source: M&G as at 30 November 2022



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