

For investment professionals only

Flexible bond investing: how we harness the advantages that active management offers

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November 2019



Important notice for M&G (Lux) Optimal Income Fund

On 8 March 2019 the non-sterling share classes of the M&G Optimal Income Fund, a UK-authorized OEIC which launched on 8 December 2006, merged into the M&G (Lux) Optimal Income Fund, a Luxembourg-authorized SICAV, which launched on 5 September 2018. The SICAV is run by the same fund manager, applying the same investment strategy as the OEIC. .

This presentation is designed to market the SICAV and not the OEIC which may not be available in your jurisdiction

M&G (Lux) Optimal Income Fund

The main risks that could affect performance are set out below:

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.

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.

High yield bonds usually carry greater risk that the bond issuers may not be able to pay interest or return the capital.

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.

The fund is exposed to different currencies. Derivatives are used to minimise, but may not always eliminate, the impact of movements in currency exchange rates.

Investing in bonds from China, denominated in Renminbi and traded on the China Interbank Bond Market, may be subject to greater clearing, settlement and counterparty risk. These factors could cause the fund to incur a loss.

In exceptional circumstances where assets cannot be fairly valued, or have to be sold at a large discount to raise cash, we may temporarily suspend the fund in the best interest of all investors.

The fund could lose money if a counterparty with which it does business becomes unwilling or unable to repay money owed to the fund. Further details of the risks that apply to the fund can be found in the fund's Prospectus. Wherever a reference or indication of past performance is shown, please note, past performance is not a guide to future performance.

It is also important to note that

The Fund allows for the extensive use of derivatives

Agenda

Index construction vs the real world

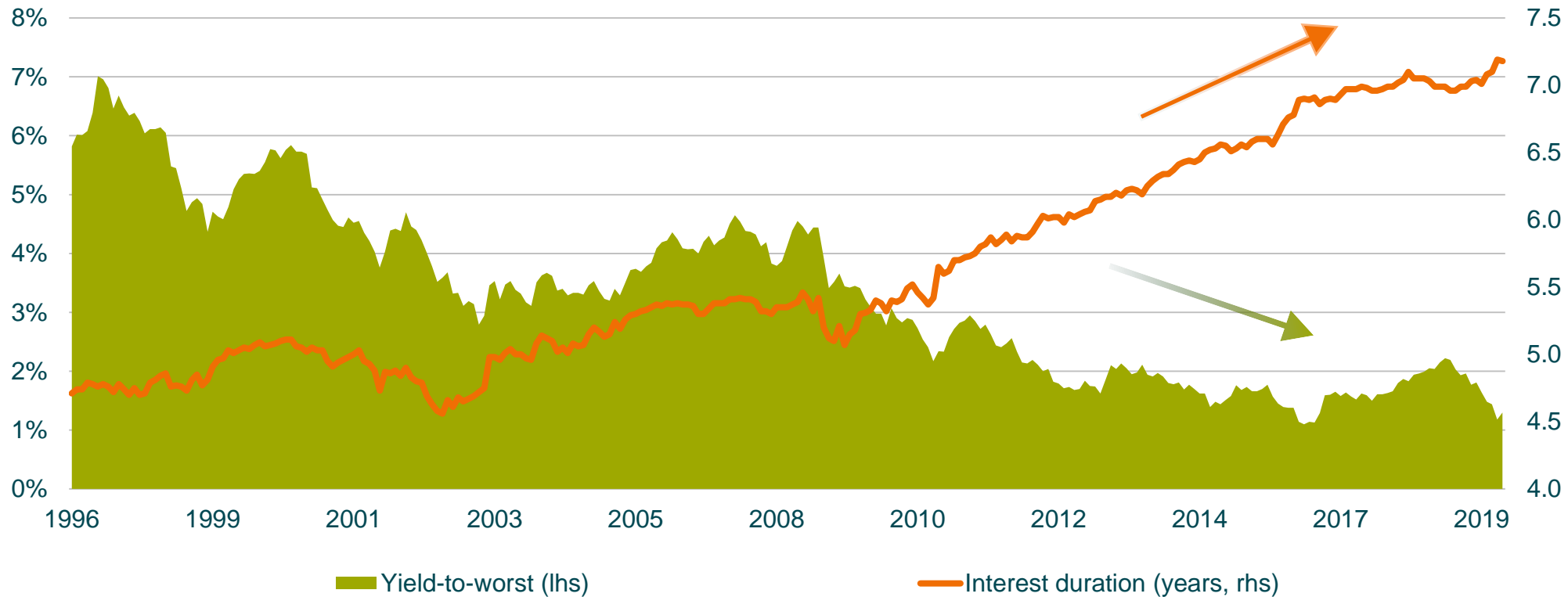
Index composition vs investment opportunities

No-views index vs active thinking

Low yield, low return world

Low return world advocates for more active approach

Barclays Global Aggregate Corporate Index yield-to-worst and interest rate duration

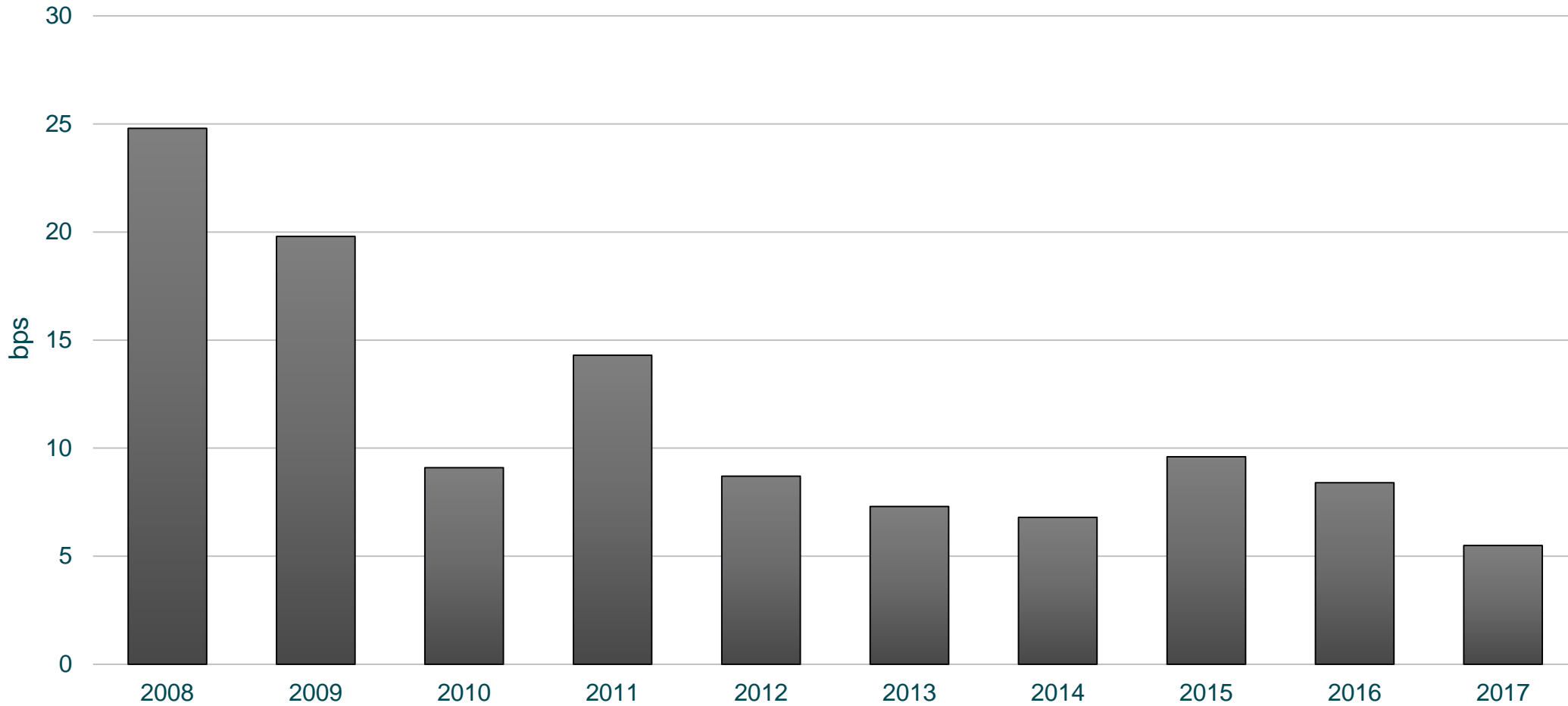


In today's environment, we believe a highly flexible approach to fixed income investing is required



New issue premium over time

Median new issue premium over time



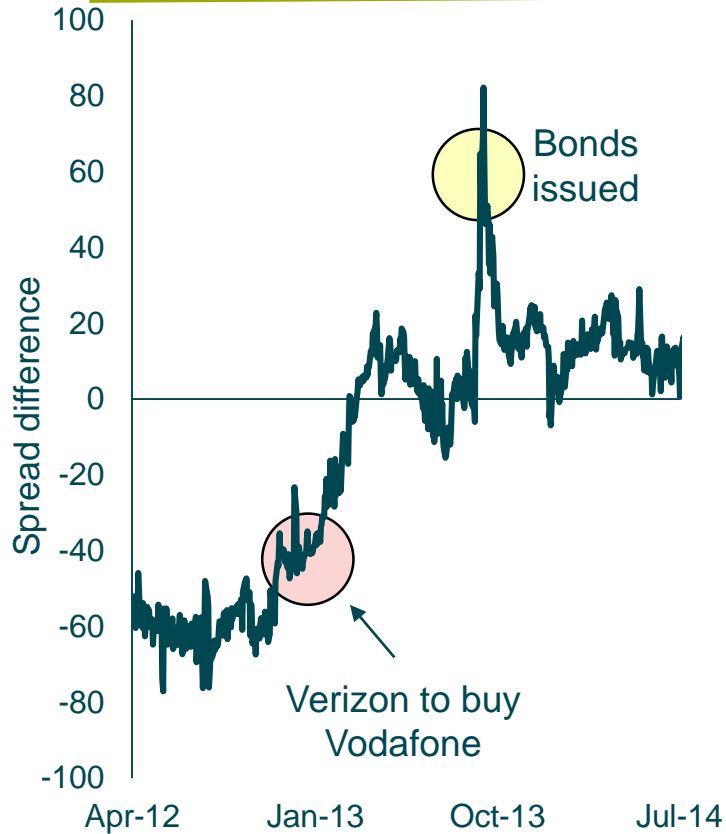
Source: Barclays POINT, Bloomberg, LOIM estimates.

Website: https://www.lombardodier.com/files/live/sites/loportail/files/news/AM_news/2018/May/20180529/White_Paper_New_Issuance_Premium_29May18.pdf

New issue premium examples



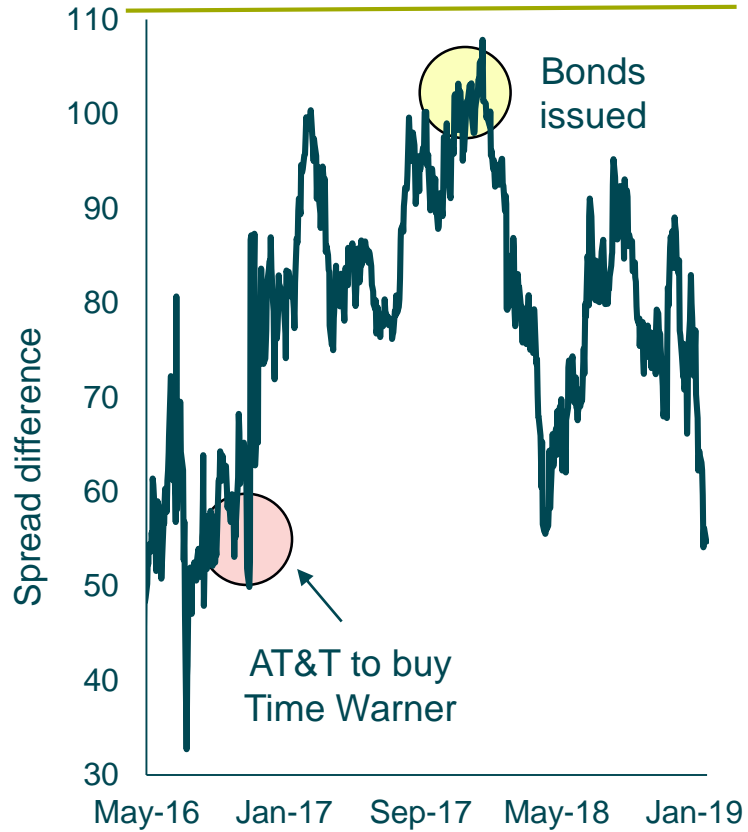
Verizon



— VZ 4.75 2041 vs long dated USD IG



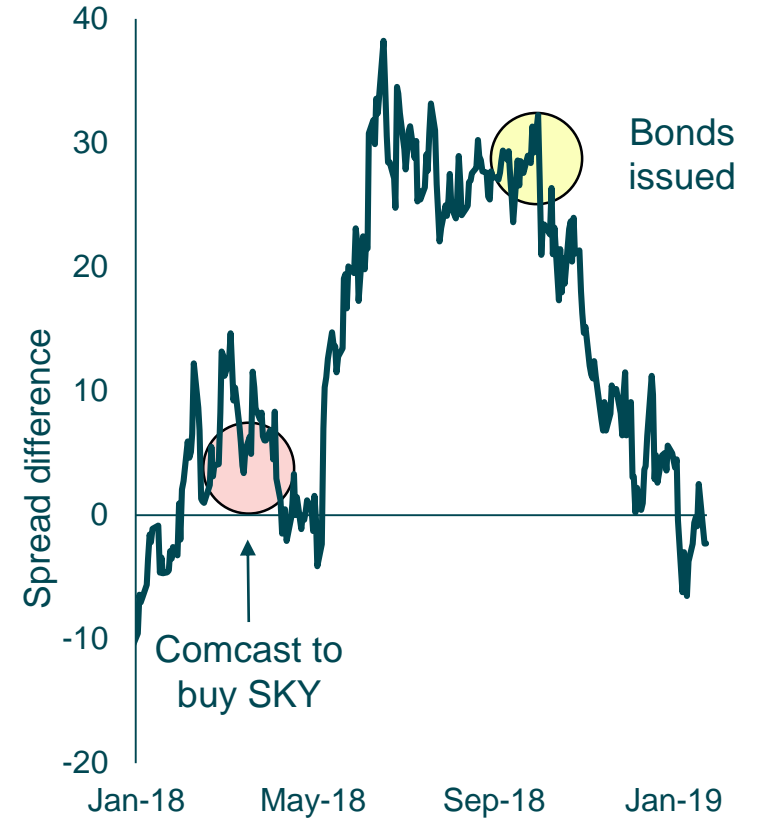
AT&T



— AT&T 5.35 2040 - long dated USD IG



COMCAST Comcast



— CMCSA 6.4 2040 vs long dated USD IG



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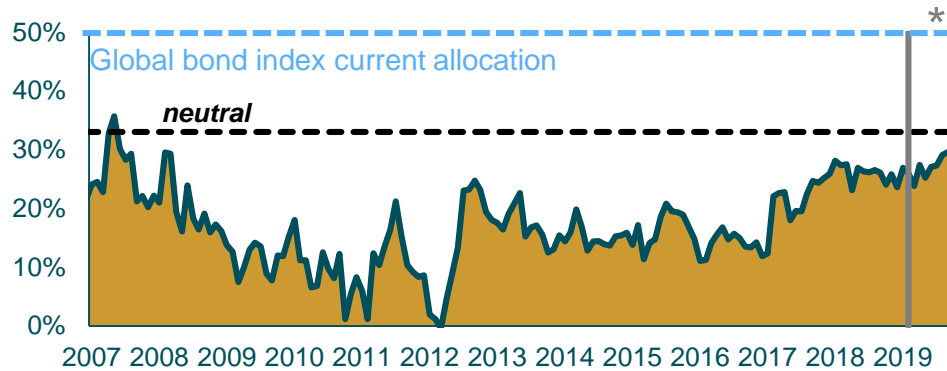
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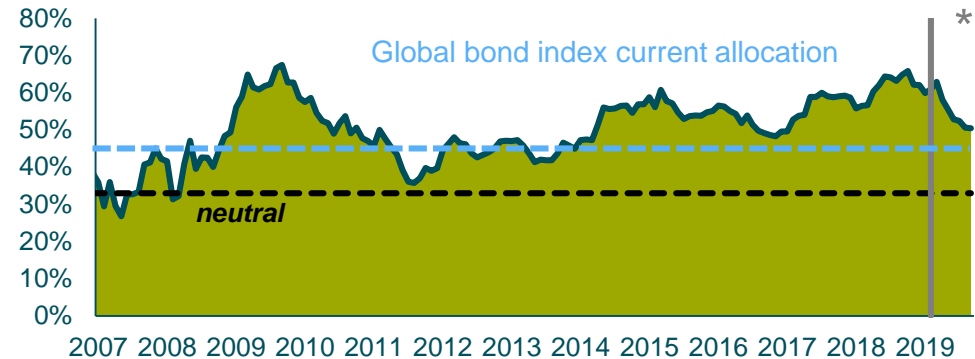
Asset allocation over time

M&G (Lux) Optimal Income Fund

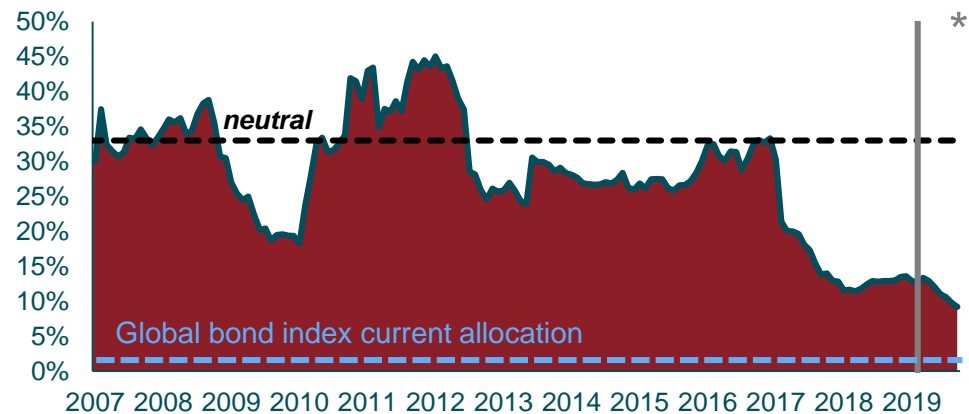
Govt bonds (and cash)



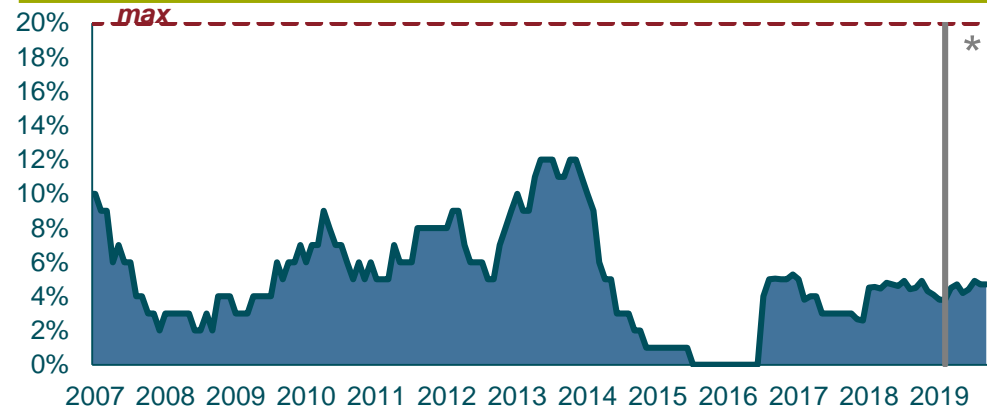
IG corporate



HY corporate



Equity



On 8 March 2019, the non-sterling assets of the M&G Optimal Income Fund, a UK-authorized OEIC, merged in the M&G (Lux) Optimal Income Fund, a Luxembourg authorised SICAV, which launched on 5 September 2018. *Data prior to the 8 March 2019 refers to the OEIC.

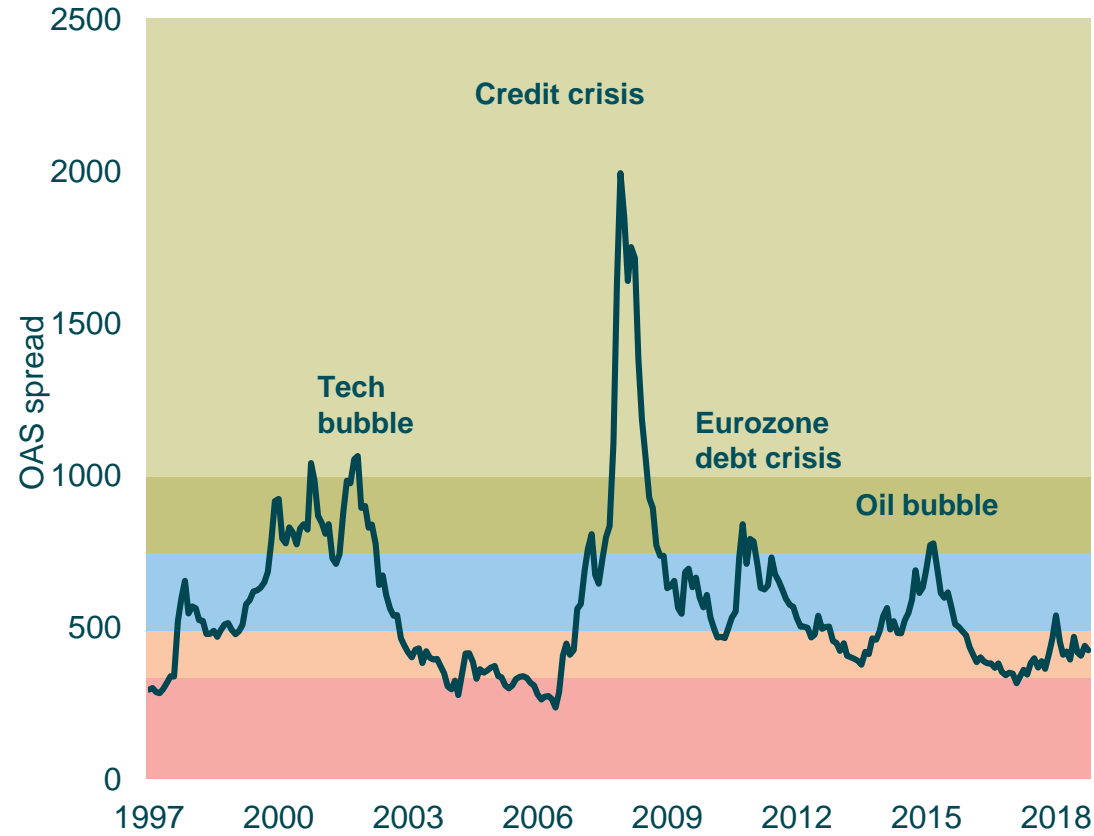
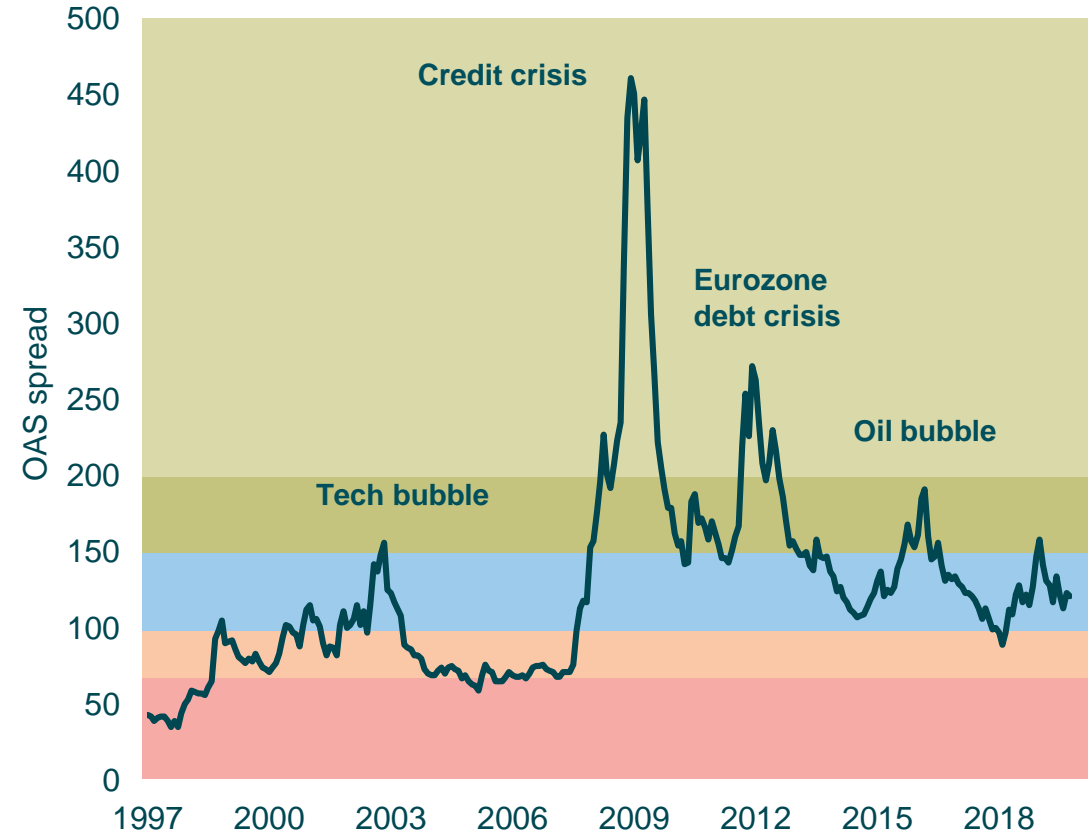


Investment Grade vs High Yield

What past experience tells us about corporate bond spreads

Global Investment Grade

Global High yield



Extreme value
Attractive value
Decent value
Fair value
Expensive



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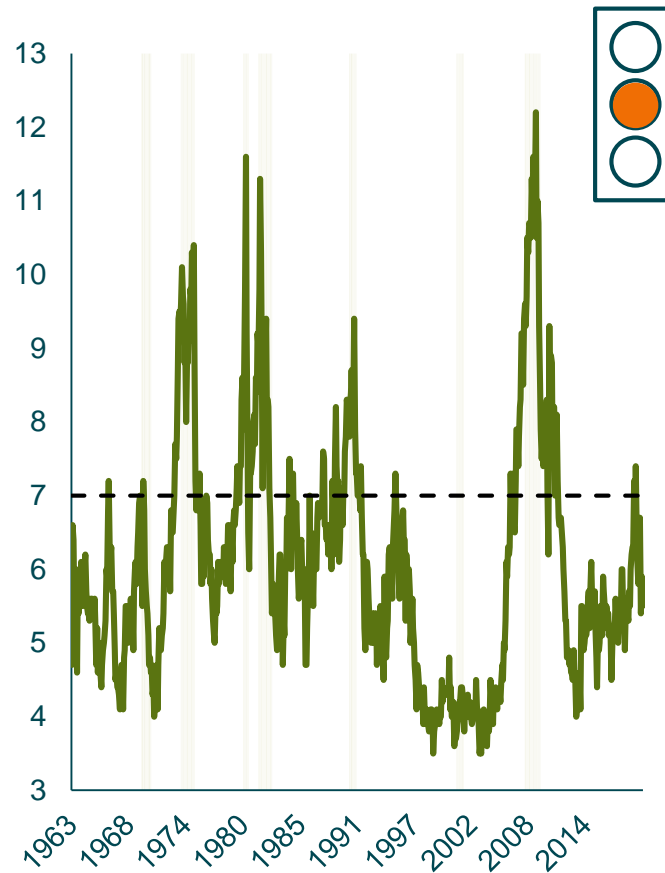
Recession dashboard: some key indicators

No sign of an imminent recession in the world's largest economy

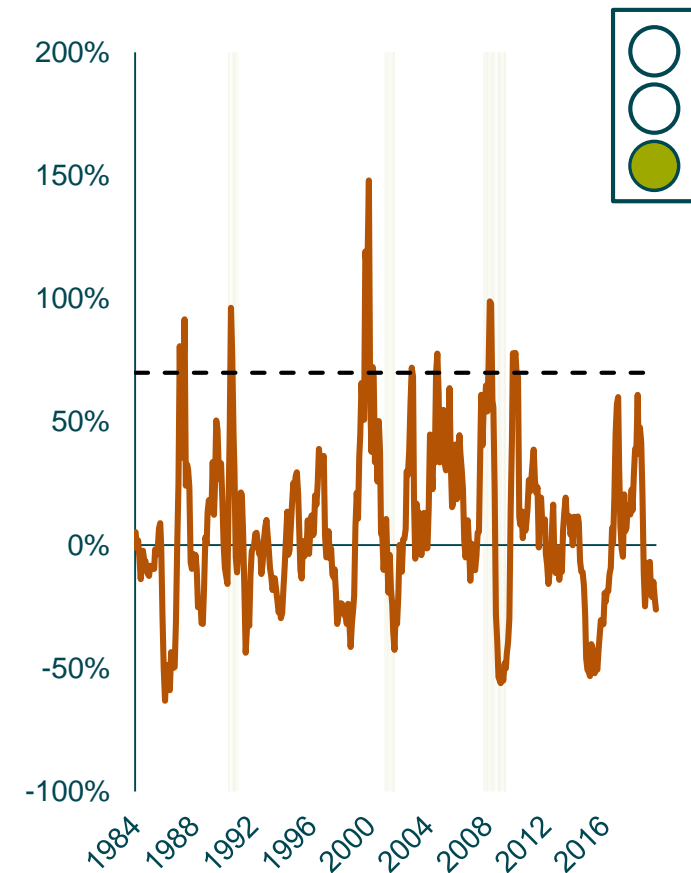
US Treasury yield curve



US housing inventory (months)

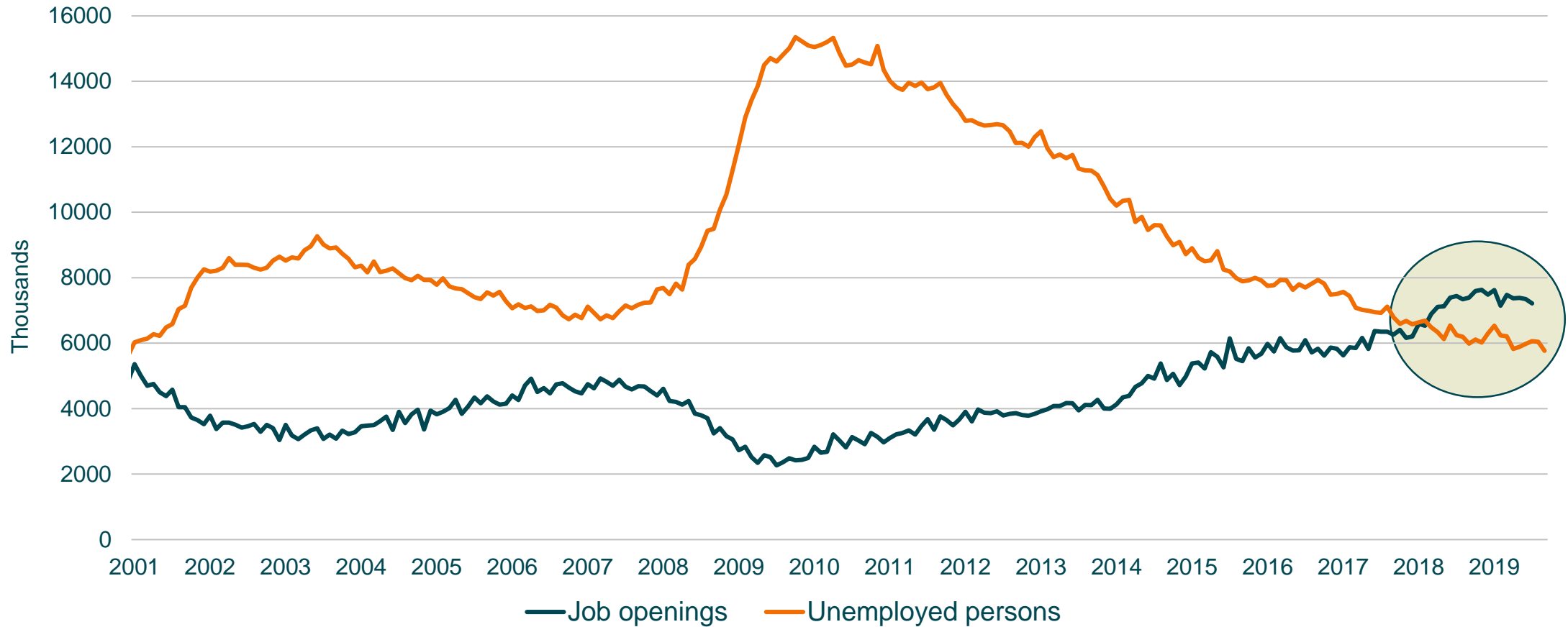


Oil price (yoy change)



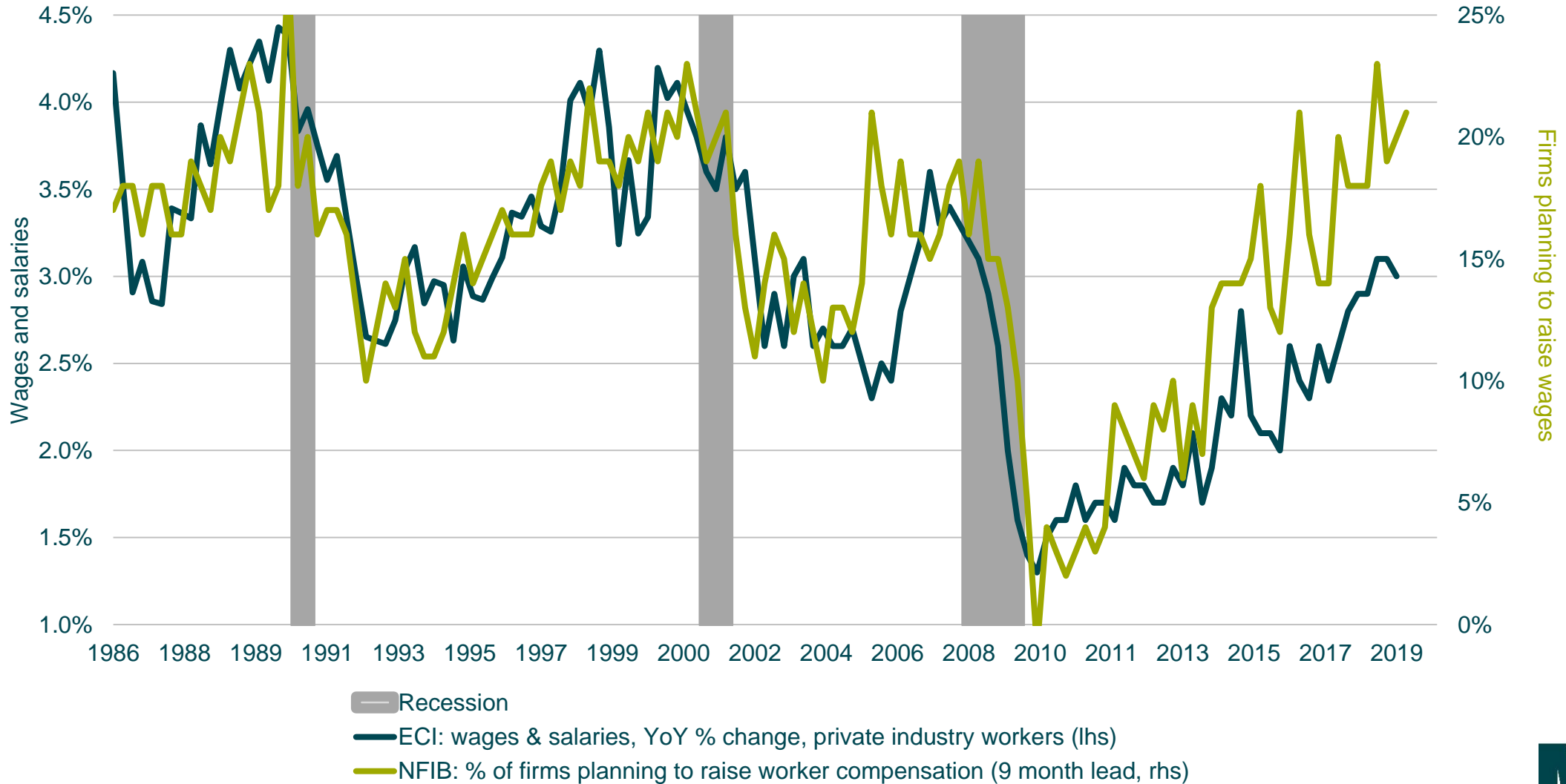
More job openings than unemployed persons

The US labour market is the strongest it has ever been



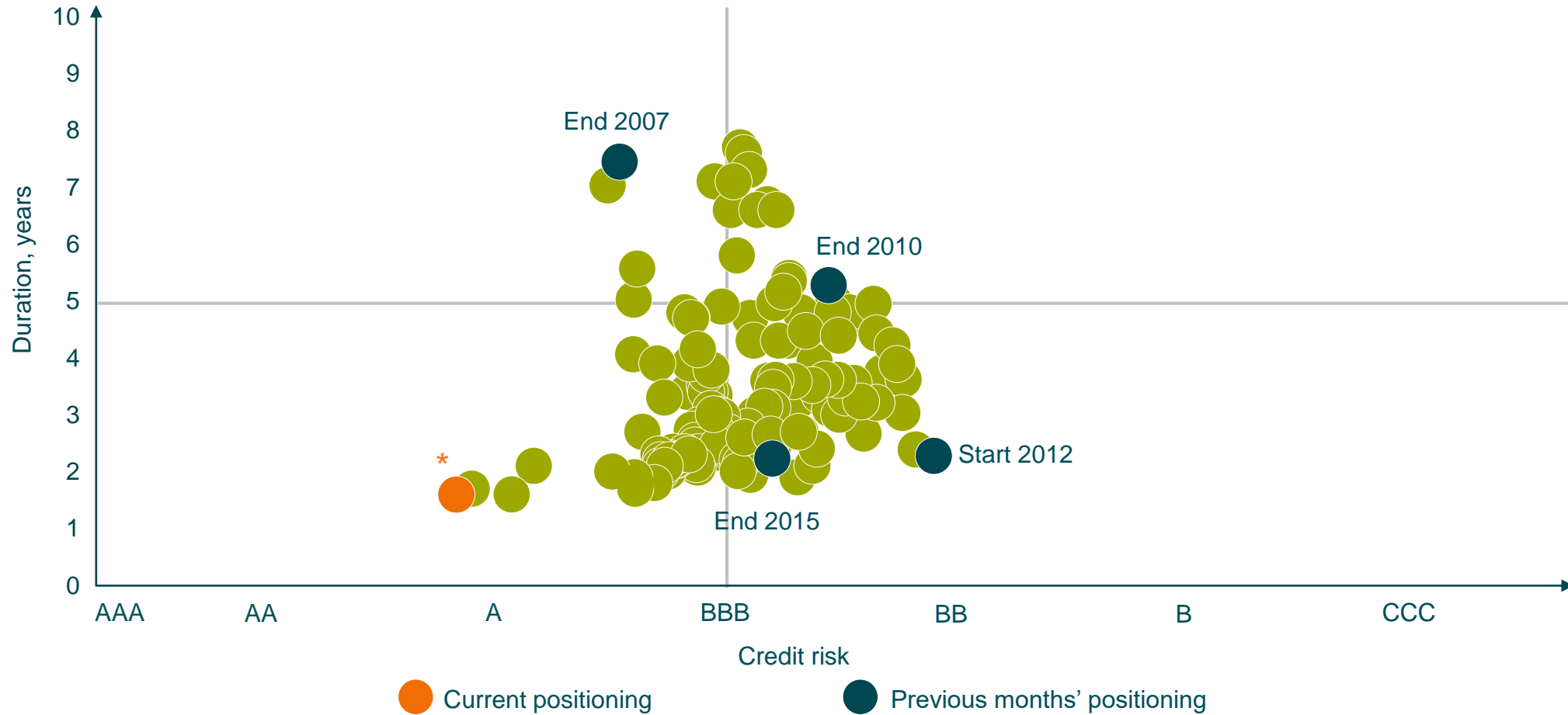
No signs of imminent recession in the US

Higher wages to be expected going forward



Duration vs credit risk

M&G (Lux) Optimal Income Fund



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Note: Equity is considered with a CCC rating
Source: M&G from 31 December 2006 to 30 September 2019



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In the Netherlands, all funds referred to, are UCITS and registered with the Dutch regulator, the AFM.

This information is not an offer or solicitation of an offer for the purchase of investment shares in one of the Funds referred to herein. Purchases of a Fund should be based on the current Prospectus. The Instrument of Incorporation, Prospectus, Key Investor Information Document, annual or interim Investment Report and Financial Statements, are available free of charge, in paper form, from M&G International Investments S.A. or one of the following - M&G International Investments S.A., German branch, mainBuilding, Taunusanlage 19, 60325 Frankfurt am Main; the Austrian paying agent: Société Générale Vienna Branch, Zweigniederlassung Wien Prinz Eugen-Strasse, 8-10/5/Top 11 A-1040 Wien, Austria; the Luxembourg paying agent Société Générale Bank & Trust SA, Centre operational 28-32, place de la Gare L-1616 Luxembourg; the Danish paying agent: Nordea Bank Danmark A/S Issuer Services, Securities Services, Hermes Hus, Helgeshøj Allé 33, Postbox 850, DK-0900, Copenhagen C, Denmark; Allfunds Bank, Calle Estafeta, No 6 Complejo Plaza de la Fuente, La Moraleja, 28109, Alcobendas, Madrid, Spain; M&G International Investments S.A. French branch; from the French centralising agent of the Fund: RBC Investors Services Bank France; or from the Swedish paying agent: Nordea Bank AB (publ), Smålandsgatan 17, 105 71 Stockholm, Sweden. For Switzerland, please refer to M&G International Investments Switzerland AG, Talstrasse 66, 8001 Zurich or Société Générale, Paris, Zurich Branch, Talacker 50, P.O. Box 5070, 8021 Zurich, which acts as the Swiss representative of the Schemes (the "Swiss Representative") and acts as their Swiss paying agent.

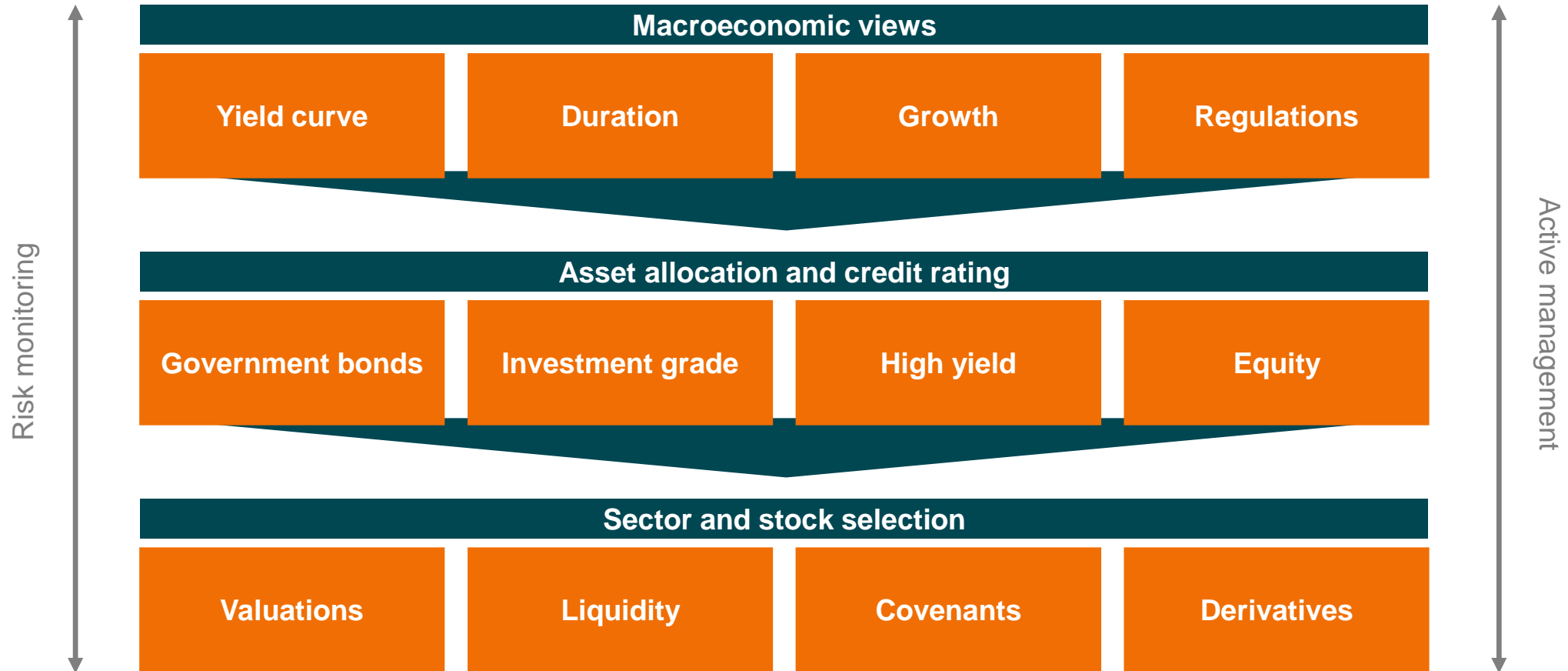
For Italy, they can also be obtained on the website: www.mandgitalia.it. For Ireland, they are available in English language and can also be obtained from the Irish facilities agent, Société Générale SA, Dublin Branch, 3rd Floor IFSC House – The IFSC Dublin 1, Ireland. For Germany and Austria, copies of the Instrument of incorporation, annual or interim Investment Report, Financial Statements and Prospectus are available in English and the Prospectus and Key Investor Information Document/s are available in German.

Before subscribing investors should read the Prospectus, which includes a description of the investment risks relating to these funds.

The information contained herein is not a substitute for independent investment advice.

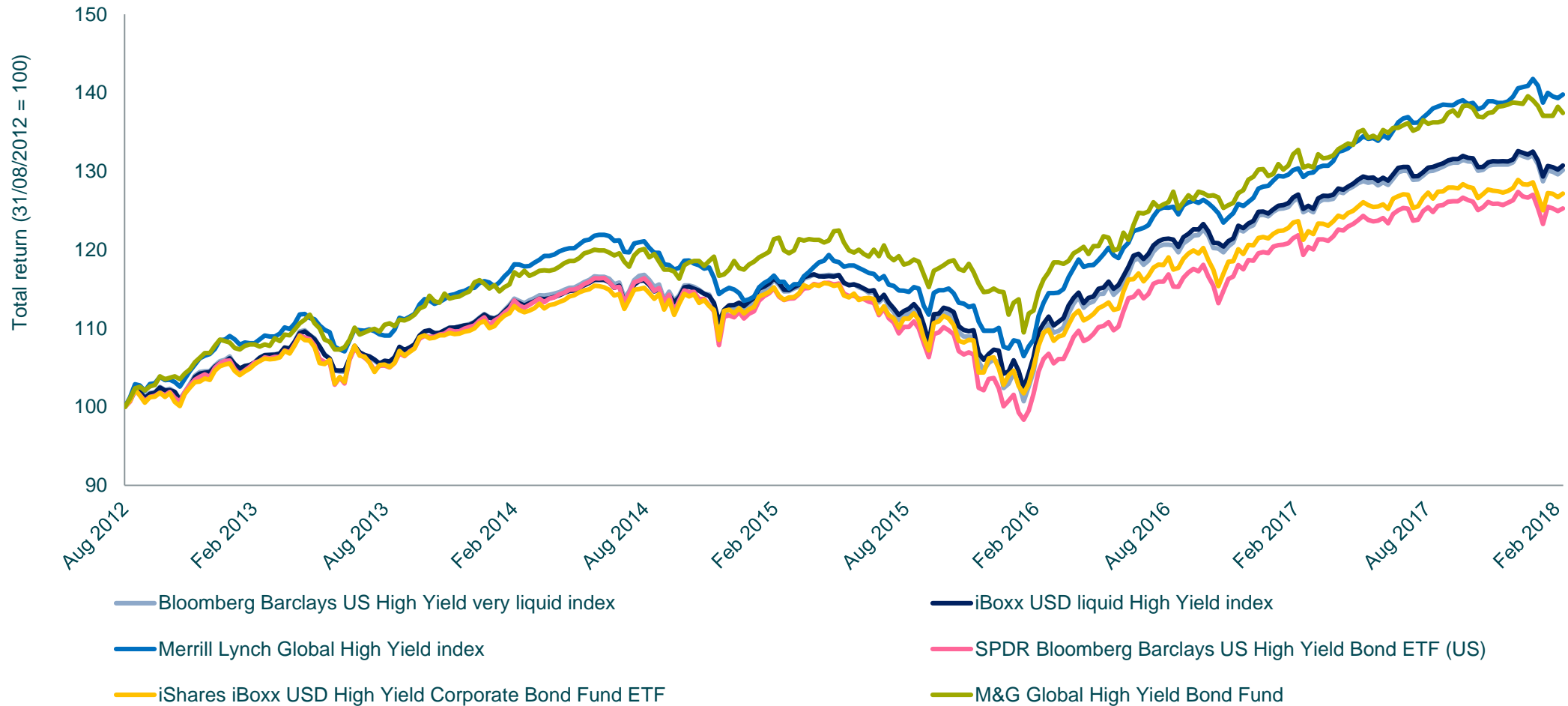
This financial promotion is issued by M&G International Investments S.A. Registered Office: 16, Boulevard Royal, L-2449, Luxembourg. The Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários, the "CMVM") has received a passporting notification under Directive 2009/65/EC of the European Parliament and of the Council and the Commission Regulation (EU) 584/2010 enabling the fund to be distributed to the public in Portugal.

How do we manage money?



Be mindful of hidden dealing costs

Historical returns for 2 largest HY ETFs vs index



Source: M&G, Bloomberg, Morningstar Inc, Pan European database, 16th March 2018, USD A class shares, income reinvested, price-to-price. On this occasion we have chosen to show the M&G Global High Yield Bond Fund USD A share class, as the Merrill Lynch Global High Yield Index is a US Index and we believe this to be the most meaningful share class for this comparison.



German bunds

Weak risk reward, high volatility and disconnected from fundamentals

10y Bund scenarios

	Yield	Price change
	-2%	+13.2%
	-1%	+3.6%
Current	-0.6%	0.0%
	0%	-5.1%
	1%	-13.0%
	2%	-20.2%
	3%	-26.7%
	4%	-32.7%

Long dated bund yield vs Eurozone nominal GDP

