For Investment Professionals only

M&G INSTITUTIONAL

M&G European Credit Investment Fund

Monthly fund report

February 2024

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 8
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) 0.49% of NAV (P shares)
Share class currencies	EUR, GBP (Hedged)
Minimum investment	€1 million* (A/F shares) €175 million* (B shares) €200 million* (Q/Qi shares) €500,000* (W/Wi shares) €1000* (P shares)
Fund size	€4,956.08 million
Number of issues	595
Number of issuers	309
Modified duration **Spread duration**	4.42 4.67
PV01 **CR01** **IE01**	0.0450% 0.0470% 0.0000%
Average credit rating* **	A
Yield **	4.31%
99% 20 day value at risk	2.96%

Source: M&G as at 29 February 2024. *Or Sterling equivalent. **Calculated to worst. ***Linear average credit rating.

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 hedg`ed 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)[1]	-0.50%	2.92%	-0.06%	7.45%	-2.02%	0.91%	1.28%	2.23%	3.43%
E share class (Acc) € (net)[1]	-0.51%	2.89%	-0.07%	7.34%	-2.12%	0.80%	1.12%	1.99%	3.14%
Index	-0.89%	1.93%	-0.80%	6.57%	-2.70%	-0.44%	0.03%	1.11%	2.33%
E share class (Inc) € (gross)[2]	-0.50%	2.92%	-0.06%	7.43%	-2.02%	-	-	-	-0.37%
E share class (Inc) € (net)[2]	-0.51%	2.89%	-0.07%	7.32%	-2.12%	-	-	-	-0.47%
Index	-0.89%	1.93%	-0.80%	6.56%	-2.70%	-	-	-	-1.63%
E share class (Acc) £ (gross)[3]	-0.41%	3.22%	0.14%	8.85%	-0.94%	1.90%	-	-	2.34%
E share class (Acc) £ (net)[3]	-0.41%	3.20%	0.12%	8.74%	-1.04%	1.80%	-	-	2.23%
Index[9]	-0.79%	2.28%	-0.59%	8.06%	-1.62%	0.56%	-	-	0.96%
F share class (Acc) € (gross)[4]	-0.50%	2.92%	-0.06%	7.43%	-2.02%	-	-	-	0.15%
F share class (Acc) € (net)[4]	-0.52%	2.87%	-0.09%	7.24%	-2.20%	-	-	-	-0.03%
Index	-0.89%	1.93%	-0.80%	6.56%	-2.70%	-	-	-	-0.87%
Q share class (Acc) € (gross)[5]	-0.50%	2.92%	-0.06%	7.43%	-2.02%	-	-	-	-1.60%
Q share class (Acc) € (net)[5]	-0.52%	2.85%	-0.10%	7.16%	-2.27%	-	-	-	-1.85%
Index	-0.89%	1.93%	-0.80%	6.56%	-2.70%	-	-	-	-2.40%
Q share class (Dist) € (gross)[5]	-0.50%	2.92%	-0.06%	7.43%	-2.02%	-	-	-	-1.60%
Q share class (Dist) € (net)[5]	-0.52%	2.85%	-0.10%	7.16%	-2.27%	-	-	-	-1.85%
Index	-0.89%	1.93%	-0.80%	6.56%	-2.70%	-	-	-	-2.40%
QI share class (Acc) € (gross)[5]	-0.50%	2.92%	-0.06%	7.43%	-2.02%	-	-	-	-1.60%
QI share class (Acc) € (net)[5]	-0.52%	2.86%	-0.09%	7.20%	-2.23%	-	-	-	-1.81%
Index	-0.89%	1.93%	-0.80%	6.56%	-2.70%	-	-	-	-2.40%
QI share class (Dist) € (gross)[5]	-0.50%	2.92%	-0.06%	7.43%	-2.02%	-	-	-	-1.60%
QI share class (Dist) € (net)[5]	-0.52%	2.86%	-0.09%	7.20%	-2.23%	-	-	-	-1.81%
Index	-0.89%	1.93%	-0.80%	6.56%	-2.70%	-	-	-	-2.40%
A share class (Acc) € (gross)[6]	-0.50%	2.92%	-0.06%	7.43%	-2.02%	-	-	-	-2.02%
A share class (Acc) € (net)[6]	-0.52%	2.87%	-0.09%	7.24%	-2.20%	-	-	-	-2.20%
Index	-0.89%	1.93%	-0.80%	6.56%	-2.70%	-	-	-	-2.70%
A share class (Dist) € (gross)[6]	-0.50%	2.92%	-0.06%	7.43%	-	-	-	-	-2.77%
A share class (Dist) € (net)[6]	-0.52%	2.87%	-0.09%	7.24%	-	-	-	-	-2.94%
Index	-0.89%	1.93%	-0.80%	6.56%	-	-	-	-	-3.60%
B share class (Dist) € (gross)[7]	-0.50%	2.92%	-0.06%	7.43%	-	-	-	-	-2.87%
B share class (Dist) € (net)[7]	-0.52%	2.88%	-0.08%	7.26%	-	-	-	-	-3.03%
Index	-0.89%	1.93%	-0.80%	6.56%	-	-	-	-	-3.62%
W share class (Acc) € (gross)[8]	-0.50%	2.92%	-0.06%	7.43%	-	-	-	-	-2.77%
W share class (Acc) € (net)[8]	-0.53%	2.84%	-0.10%	7.12%	-	-	-	-	-3.05%
Index	-0.89%	1.93%	-0.80%	6.56%	-	-	-	-	-3.60%
W share class (Dist) € (gross)[8]	-0.50%	2.08%	-0.87%	6.56%	-	-	-	-	-2.60%
W share class (Dist) € (net)[8]	-0.53%	2.00%	-0.92%	6.25%	-	-	-	-	-2.89%
Index	-0.89%	1.93%	-0.80%	6.56%	-	-	-	-	-3.60%
WI share class (Acc) € (gross)[8]	-0.50%	2.92%	-0.06%	7.43%	-	-	-	-	-2.77%
WI share class (Acc) € (net)[8]	-0.52%	2.85%	-0.10%	7.16%	-	-	-	-	-3.01%
Index	-0.89%	1.93%	-0.80%	6.56%	-	-	-	-	-3.60%

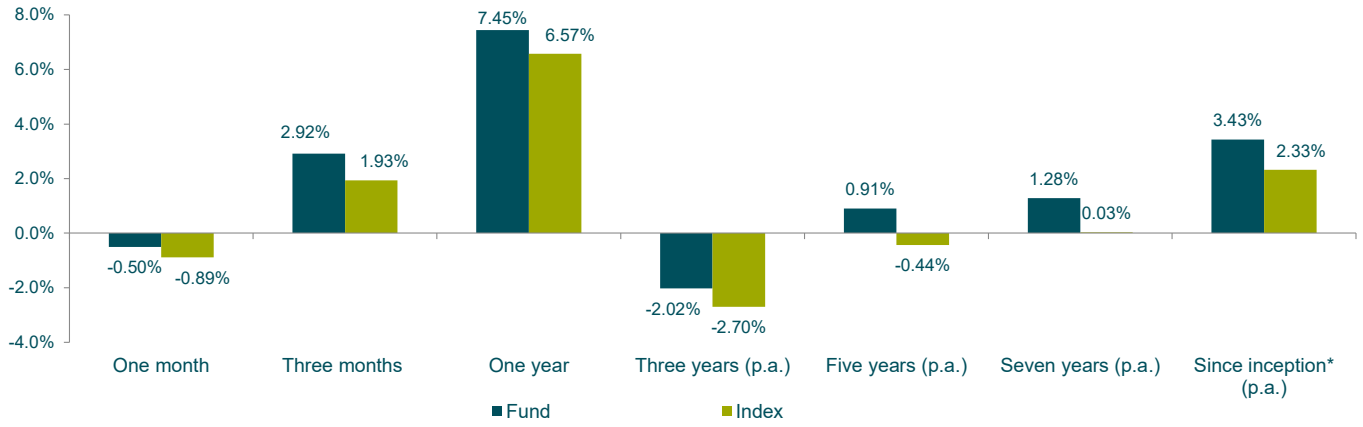
Total returns	One month	Three months	Year to date	One year	Three years (p.a.)	Five years (p.a.)	Seven years (p.a.)	Ten years (p.a.)	Since inception (p.a.)
WI share class (Dist) € (gross)[8]	-0.50%	2.92%	-0.06%	7.43%	-	-	-	-	-2.54%
WI share class (Dist) € (net)[8]	-0.52%	2.85%	-0.10%	7.16%	-	-	-	-	-2.78%
Index	-0.89%	1.93%	-0.80%	6.56%	-	-	-	-	-3.60%
P share class (Acc) € (gross)[9]	-0.50%	2.92%	-0.06%	7.43%	-	-	-	-	4.00%
P share class (Acc) € (net)[9]	-0.54%	2.79%	-0.14%	6.91%	-	-	-	-	3.49%
Index[9]	-0.89%	1.93%	-0.80%	6.56%	-	-	-	-	3.64%
P share class (Inc) € (gross)[9]	-0.50%	2.92%	-0.06%	7.43%	-	-	-	-	4.00%
P share class (Inc) € (net)[9]	-0.54%	2.79%	-0.14%	6.91%	-	-	-	-	3.49%
Index[9]	-0.89%	1.93%	-0.80%	6.56%	-	-	-	-	3.64%

Source: M&G as at 29 February 2024. 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 22July 2021. 8EUR W WI Distribution and Accumulation share class inception 27 September 2021. 9EUR P Accumulation and Distribution Shareclass Inception 21 June 2022 . 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 29 February 2024, 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	2022	2023
E share class (Acc) €	3.95%	8.11%	-0.85%	7.76%	3.75%	-0.53%	7.55%	6.29%	-0.61%	-13.67%	8.95%
Index	2.39%	8.25%	-0.43%	4.75%	2.42%	-1.14%	6.25%	2.65%	-1.02%	-13.94%	8.02%

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)	6.40%	6.41%	5.50%
Volatility (net)	6.40%	6.41%	5.49%
Information ratio (gross)	0.91	1.53	1.63
Information ratio (net)	0.78	1.42	1.42

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	€148.85	€1,278,443,996.22	*
EUR E (Dist)	16 August 2019	LU0617481303	ESMEEDE LX	€91.99	€53,427,435.35	*
GBP E (Acc)	28 November 2018	LU1877940137	ESMGEHG LX	£112.29	£65,743,179.08	*
EUR F (Acc)	07 May 2020	LU2101367030	EUECIAE LX	€99.90	€556,057,691.21	0.18%
EUR Q (Acc)	03 November 2020	LU2188668169	EECIQAE LX	€94.00	€117,274,514.42	0.25%
EUR Q (Dist)	03 November 2020	LU2188668243	EECIQDE LX	€89.86	€51,228,947.13	0.25%
EUR QI (Acc)	03 November 2020	LU2188668326	EUECIQA LX	€94.12	€1,338,574,896.01	0.21%
EUR QI (Dist)	03 November 2020	LU2188668599	EUECIQD LX	€89.87	€4,414,150.62	0.21%
EUR A (Acc)	25 February 2021	LU2255705829	ESMGEAA LX	€93.54	€671,752,975.88	0.18%
EUR A (Dist)	27 September 2021	LU2255706041	ESMGEAD LX	€89.15	€61,600,164.80	0.18%
EUR B (Dist)	22 July 2021	LU2355145918	ESECIBE LX	€88.34	€444,986,922.56	0.16%
EUR W (Acc)	27 September 2021	LU2377004903	EUECIWE LX	€92.77	€75,204,365.86	0.29%
EUR W (Dist)	27 September 2021	LU2377005033	EUECICD LX	€89.13	€8,984.35	0.29%
EUR WI (Acc)	27 September 2021	LU2377005207	EUECIWA LX	€92.86	€77,482,347.34	0.25%
EUR WI (Dist)	27 September 2021	LU2377005389	EUECICW LX	€89.13	€5,176,705.76	0.25%
EUR P (Acc)	21 June 2022	LU2482630162	MGSJTPA LX	€106.53	€67,685,067.62	0.49%
EUR P (Dist)	21 June 2022	LU2482630246	ESMRCPD LX	€102.98	€869,652.93	0.49%

Source: M&G as at 29 February 2024. *Early Bird E share classes are now closed to new investors.

Positioning

Key characteristics	Fund	Index
Number of issues	595	4,226
Number of issuers	309	813
Modified duration	4.42	4.44
Spread duration	4.67	4.60
Average credit rating	A	A-
WAL to worst	5.56	5.04
Yield to worst	4.31%	3.87%
Yield to Maturity	4.16%	3.95%
Coupon	2.77%	2.22%

Source: M&G as at 29 February 2024.

Asset class*	Fund	Index	Relative
Covered	4.66%	0.01%	4.65%
Financial	40.91%	38.46%	2.45%
Industrial	31.55%	51.16%	-19.61%
Utility	11.20%	10.37%	0.83%
Securitized	0.49%	0.00%	0.49%
Quasi & Foreign Government	0.00%	0.00%	0.00%
Sovereign	10.25%	0.00%	10.25%
Net cash and derivatives	0.94%	0.00%	0.94%
Total	100.00%	100.00%	0.00%

*ICE BofA level 2 industry sectors. Source: M&G as at 29 February 2024

Rating*	Fund	Index	Relative
AAA	14.09%	0.24%	13.85%
AA	7.63%	7.07%	0.57%
A	31.73%	41.23%	-9.50%
BBB	43.10%	50.63%	-7.54%
BB and below	2.51%	0.83%	1.68%
Net Cash and Derivatives	0.94%	0.00%	0.94%
Total	100.00%	100.00%	0.00%

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

Currency of assets*	Fund	Index	Relative
EUR	99.64%	100.00%	-0.36%
GBP	0.36%	0.00%	0.36%
USD	0.00%	0.00%	0.00%
Net derivatives	0.00%	0.00%	0.00%
Total	**100.00%**	**100.00%**	**0.00%**

*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
Arion Banki	0.53%	0.02%	0.51%
Thames Water	0.49%	0.00%	0.49%
Aroundtown	0.60%	0.13%	0.47%
MassMutual	0.49%	0.02%	0.47%
Northwestern Mutual	0.49%	0.02%	0.47%

Underweights	Fund	Index	Relative
AB Inbev	0.00%	0.60%	-0.60%
Orange	0.21%	0.75%	-0.54%
HSBC	0.04%	0.57%	-0.53%
Telefonica	0.00%	0.52%	-0.52%
Unibail-Rodamco-Westfield	0.06%	0.55%	-0.49%

Source: M&G as at 29 February 2024.

Investment commentary

February saw some significant inflation data which led to markets pushing expectations of rate cuts out for a second successive month. Market expectations of Fed cuts to the end of the year fell by 61bps over the course of the month from 146bp to 85bp. In turn, this caused sovereign bond yields to rise, further eating into the gains from the November/ December rally.

Notably, following the significant fall in expectations for rate cuts in 2024, US Treasuries (-1.4%) had their worst performing month since September. In Europe the story was very similar (-1.2%) with country-level flash CPI prints coming in mostly as expected, with expectations of cuts to the end of the year being brought back from 160bps to 91bps. In the UK, GDP release showed the UK had entered technical recession after a second successive quarter of negative growth. However, inflation continues to appear sticky in the UK, with headline CPI remaining at 4.0% for a second month. Like its European and American peers, Gilts delivered negative returns (-1.3%).

Despite a historically large supply of Investment Grade corporate bonds, investors have been able to easily absorb the excessive supply, pushing credit spreads even lower. Although most deals were oversubscribed, suggesting a strong demand for the asset class, rates have continued to reprice higher as macroeconomic indicators continue to surprise to the upside, prompting investors to reduce their expectations on interest rate cuts. Consequently, Investment Grade indices were generally lower in February as the positive contribution from spreads compression was outweighed by the increase in rates. As a result, EUR IG and GBP IG indices tightened by 9bps and 6bps respectively but delivered slightly negative total returns of -0.99% (EUR IG) and -0.56% (GBP IG).

The European High Yield market continued to perform strongly as government bond yields continued to rise and spreads grinded tighter. The European High Yield index ended February 44bps tighter than January end and delivered positive total returns of 0.37%.

During February, the Fund continued to reduce exposure to bonds which had performed well and primarily added positions to covered bonds where we saw compelling relative value opportunities, as spreads continued to rally.

We have further reduced our exposure to industrial bonds, including real estate hybrids issued by Castellum, Balder and Grand City Properties. Elsewhere, we reduced our exposure to Fresenius, Heidelberg Materials, Logicor, and long-dated Medtronic bonds (switching into shorted dated bonds from the same issuer). In the utilities sector, we moved into shorted dated bonds issued by Engie (via the new issue market) and RWE. We also reduced our exposure to certain financial issuers, including Barclays and Mizuho.

In the primary market, we topped up our exposure to a number of bonds including those issued by Siemens and covered bonds issued by Iccrea Banca and UBS. The Fund also purchased covered bonds issued by Credit Agricole and TSB Bank, as well as senior bonds issued by Engie, Ford, Omnicom, and Verizon which are now overweight positions vs the Fund's benchmark. In the secondary market, we purchased tier 2 bonds issued by Triodos Bank.

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.

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 29 February 2024

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