

M&G European Credit Investment Fund



Quarterly fund review as at 30 June 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.

Fund objective and description

The M&G European Credit Investment Fund ('The fund') aims to take advantage of opportunities primarily in investment grade corporate bonds denominated in Euros whilst meeting ESG criteria. 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 ICE BofA Euro Corporate Index.

Key Information

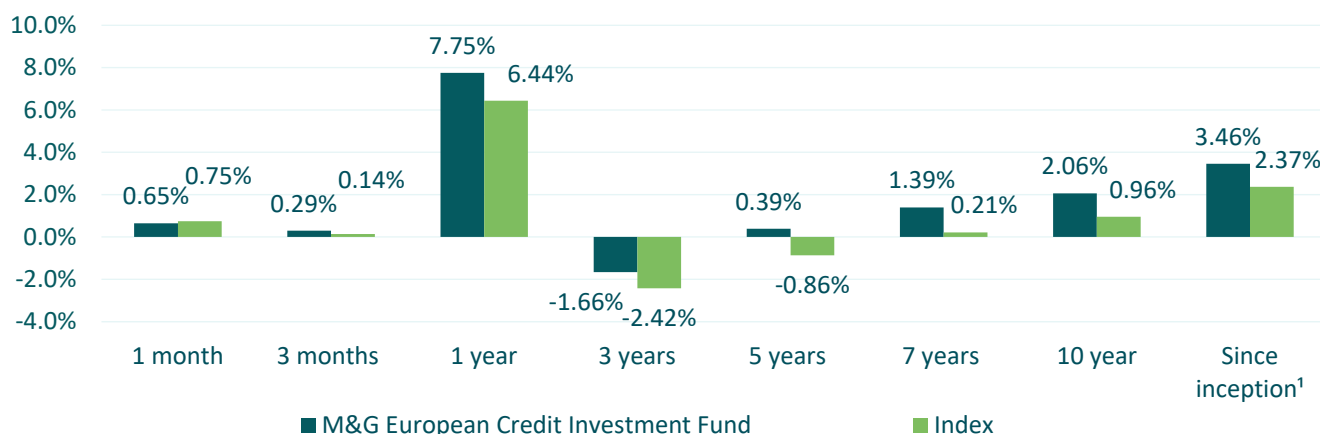
Fund manager	Gaurav Chatley
Fund launch date	12 April 2011
Fund type	Luxembourg SICAV (UCITS)
SFDR Classification	Article 8
Dealing and valuation dates	Daily (settlement t+2)
Available share classes	EUR, GBP, CHF, USD and JPY (Accumulation and Income)
Fund size	€5,330,650,037.55

Source: M&G as at 30th June 2024.

Investment objective

The fund seeks a total return (capital growth plus income) of the Benchmark plus 0.75% (gross of fees per annum), over any five-year period while applying ESG Criteria.

Fund performance



Source: M&G as at 30th June 2024.

Gross returns of E Euro (Accumulation) Share class.

¹ Inception date 12 April 2011. All returns greater than 1 year are annualised.

Fund performance (%)

Total returns	1 month	3 months	Year to date	1 year	3 years	5 years	7 years	10 years	Since inception ¹
Class A Euro (Accumulation) (Gross)	0.65	0.29	1.47	7.73	-1.66	-	-	-	-1.38
Class A Euro (Accumulation) (Net)	0.63	0.25	1.37	7.54	-1.84	-	-	-	-1.55
Benchmark ²	0.75	0.14	0.54	6.42	-2.42	-	-	-	-2.04
Class A Euro (Income) (Gross)	0.65	0.29	1.47	7.73	-	-	-	-	-1.90
Class A Euro (Income) (Net)	0.63	0.25	1.37	7.54	-	-	-	-	-2.07
Benchmark ²	0.75	0.14	0.54	6.42	-	-	-	-	-2.70
Class A Sterling (Accumulation) (Gross)	0.76	0.61	2.08	9.16	-	-	-	-	8.07
Class A Sterling (Accumulation) (Net)	0.74	0.57	1.99	8.97	-	-	-	-	7.88
Benchmark ²	0.86	0.46	1.19	7.88	-	-	-	-	6.98
Class A Sterling (Income) (Gross)	0.76	0.61	2.09	9.15	-	-	-	-	8.28
Class A Sterling (Income) (Net)	0.74	0.57	1.99	8.96	-	-	-	-	8.09
Benchmark ²	0.86	0.46	1.19	7.88	-	-	-	-	6.98
Class A Swiss Francs (Accumulation) (Gross)	0.45	-0.37	0.19	5.16	-2.98	-	-	-	-2.70
Class A Swiss Francs (Accumulation) (Net)	0.43	-0.41	0.10	4.97	-3.16	-	-	-	-2.88
Benchmark ²	0.52	-0.53	-0.74	3.75	-3.74	-	-	-	-3.40
Class A Swiss Francs (Income) (Gross)	0.45	-0.36	0.19	5.17	-	-	-	-	-3.14
Class A Swiss Francs (Income) (Net)	0.43	-0.41	0.10	4.98	-	-	-	-	-3.31
Benchmark ²	0.52	-0.53	-0.74	3.75	-	-	-	-	-4.10
Class A US Dollars (Accumulation) (Gross)	0.77	0.66	2.20	9.44	-	-	-	-	-0.13
Class A US Dollars (Accumulation) (Net)	0.75	0.61	2.11	9.24	-	-	-	-	-0.31
Benchmark ²	0.87	0.52	1.31	8.31	-	-	-	-	-0.71
Class A US Dollars (Income) (Gross)	0.77	0.66	2.22	9.46	-	-	-	-	0.05
Class A US Dollars (Income) (Net)	0.75	0.62	2.12	9.27	-	-	-	-	-0.13
Benchmark ²	0.87	0.52	1.31	8.31	-	-	-	-	-0.71
Class B Euro (Accumulation) (Gross)	0.65	0.29	1.46	7.74	-	-	-	-	-1.90
Class B Euro (Accumulation) (Net)	0.63	0.25	1.38	7.56	-	-	-	-	-2.05
Benchmark ²	0.75	0.14	0.54	6.42	-	-	-	-	-2.70
Class B Euro (Income) (Gross)	0.65	0.29	1.47	7.73	-	-	-	-	-2.05
Class B Euro (Income) (Net)	0.63	0.25	1.38	7.56	-	-	-	-	-2.21
Benchmark ²	0.75	0.14	0.54	6.42	-	-	-	-	-2.77

Past performance is not a guide to future performance. There is no guarantee the objective will be achieved.

Total returns	1 month	3 months	Year to date	1 year	3 years	5 years	7 years	10 years	Since inception ¹
Class E Euro (Accumulation) (Gross)	0.65	0.29	1.47	7.75	-1.66	0.39	1.39	2.06	3.46
Class E Euro (Accumulation) (Net)	0.64	0.27	1.42	7.64	-1.76	0.29	1.24	1.82	3.17
Benchmark ²	0.75	0.14	0.54	6.44	-2.42	-0.86	0.21	0.96	2.37
Class E Euro (Income) (Gross)	0.65	0.29	1.47	7.74	-1.66	-	-	-	-0.04
Class E Euro (Income) (Net)	0.64	0.27	1.42	7.63	-1.76	-	-	-	-0.14
Benchmark ²	0.75	0.14	0.54	6.42	-2.42	-	-	-	-1.25
Class E Sterling (Accumulation) (Gross)	0.76	0.61	2.08	9.17	-0.51	1.38	-	-	2.55
Class E Sterling (Accumulation) (Net)	0.75	0.59	2.03	9.06	-0.61	1.28	-	-	2.44
Benchmark ²	0.86	0.46	1.19	7.88	-1.26	0.13	-	-	1.23
Class F Euro (Accumulation) (Gross)	0.65	0.29	1.47	7.73	-1.66	-	-	-	0.51
Class F Euro (Accumulation) (Net)	0.63	0.25	1.37	7.54	-1.84	-	-	-	0.33
Benchmark ²	0.75	0.14	0.54	6.42	-2.42	-	-	-	-0.48
Class P Euro (Accumulation) (Gross)	0.65	0.29	1.47	7.73	-	-	-	-	4.10
Class P Euro (Accumulation) (Net)	0.61	0.17	1.22	7.21	-	-	-	-	3.59
Benchmark ²	0.75	0.14	0.54	6.42	-	-	-	-	3.71
Class P Euro (Income) (Gross)	0.67	0.35	1.59	7.99	-	-	-	-	4.63
Class P Euro (Income) (Net)	0.61	0.17	1.22	7.21	-	-	-	-	3.60
Benchmark ²	0.75	0.14	0.54	6.42	-	-	-	-	3.71
Class Q Euro (Accumulation) (Gross)	0.65	0.29	1.47	7.73	-1.66	-	-	-	-1.05
Class Q Euro (Accumulation) (Net)	0.63	0.23	1.34	7.47	-1.91	-	-	-	-1.29
Benchmark ²	0.75	0.14	0.54	6.42	-2.42	-	-	-	-1.83
Class Q Euro (Income) (Gross)	0.65	0.29	1.47	7.73	-1.66	-	-	-	-1.05
Class Q Euro (Income) (Net)	0.63	0.23	1.34	7.47	-1.91	-	-	-	-1.30
Benchmark ²	0.75	0.14	0.54	6.42	-2.42	-	-	-	-1.83
Class QI Euro (Accumulation) (Gross)	0.65	0.29	1.47	7.73	-1.66	-	-	-	-1.05
Class QI Euro (Accumulation) (Net)	0.63	0.24	1.36	7.51	-1.87	-	-	-	-1.26
Benchmark ²	0.75	0.14	0.54	6.42	-2.42	-	-	-	-1.83
Class QI Euro (Income) (Gross)	0.65	0.29	1.47	7.73	-1.66	-	-	-	-1.05
Class QI Euro (Income) (Net)	0.63	0.24	1.36	7.51	-1.87	-	-	-	-1.25
Benchmark ²	0.75	0.14	0.54	6.42	-2.42	-	-	-	-1.83
Class W Euro (Accumulation) (Gross)	0.65	0.29	1.47	7.73	-	-	-	-	-1.90
Class W Euro (Accumulation) (Net)	0.62	0.22	1.32	7.42	-	-	-	-	-2.18
Benchmark ²	0.75	0.14	0.54	6.42	-	-	-	-	-2.70

Total returns	1 month	3 months	Year to date	1 year	3 years	5 years	7 years	10 years	Since inception ¹
Class W Euro (Income) (Gross)	0.65	0.29	0.63	6.86	-	-	-	-	-1.95
Class W Euro (Income) (Net)	0.62	0.22	0.49	6.55	-	-	-	-	-2.23
Benchmark ²	0.75	0.14	0.54	6.42	-	-	-	-	-2.70
Class WI Euro (Accumulation) (Gross)	0.65	0.29	1.47	7.73	-	-	-	-	-1.90
Class WI Euro (Accumulation) (Net)	0.63	0.23	1.34	7.47	-	-	-	-	-2.14
Benchmark ²	0.75	0.14	0.54	6.42	-	-	-	-	-2.70
Class WI Euro (Income) (Gross)	0.65	0.29	1.47	7.73	-	-	-	-	-1.90
Class WI Euro (Income) (Net)	0.63	0.23	1.34	7.47	-	-	-	-	-2.14
Benchmark ²	0.75	0.14	0.54	6.42	-	-	-	-	-2.70
Class W Swiss France (Accumulation) (Gross)	0.45	-0.36	0.19	-	-	-	-	-	0.43
Class W Swiss France (Accumulation) (Net)	0.42	-0.43	0.04	-	-	-	-	-	0.27
Benchmark ²	0.52	-0.53	-0.74	-	-	-	-	-	-0.53

Source: M&G as at 30th June 2024.

¹ Please refer to the since inception dates in the pricing table. All returns greater than 1 year are annualised.

² Benchmark: ICE of BofA Euro Corporate Index (currency hedged where applicable)

Single year performance (%)

Yearly return (gross of fees)	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class A Euro (Accumulation)	8.95%	-13.67%	-	-	-	-	-	-	-	-
Benchmark ¹	8.02%	-13.94%	-	-	-	-	-	-	-	-
Class B Euro (Accumulation)	8.95%	-13.67%	-	-	-	-	-	-	-	-
Benchmark ¹	8.02%	-13.94%	-	-	-	-	-	-	-	-
Class E Euro (Accumulation)	8.95%	-13.67%	-0.61%	6.29%	7.55%	-0.53%	3.75%	7.76%	-0.85%	8.11%
Benchmark ¹	8.02%	-13.94%	-1.02%	2.65%	6.25%	-1.14%	2.42%	4.75%	-0.43%	8.25%
Class A Sterling (Accumulation)	-	-	-	-	-	-	-	-	-	-
Benchmark ¹	-	-	-	-	-	-	-	-	-	-
Class A Swiss Francs (Accumulation)	6.72%	-14.18%	-0.88%	-	-	-	-	-	-	-
Benchmark ¹	5.68%	-14.39%	-1.25%	-	-	-	-	-	-	-
Class A US Dollars (Accumulation)	11.09%	-11.92%	-	-	-	-	-	-	-	-
Benchmark ¹	10.43%	-11.92%	-	-	-	-	-	-	-	-

Source: M&G as at 30th June 2024.

¹ Benchmark is the ICE BofA Euro Corporate Index. (currency hedged where applicable).

Performance attribution

Position	Basis points
Asset Allocation	
Sector selection	0
Positive:	
<ul style="list-style-type: none"> Overweight Covered Overweight Real Estate Overweight Banking 	
Negative:	
<ul style="list-style-type: none"> Overweight Asset Backed 	
Stock selection	23
Positive:	
<ul style="list-style-type: none"> Overweight SBB Overweight Aroundtown Overweight CPI Property Group 	
Negative:	
<ul style="list-style-type: none"> Overweight Thames Water 	
Yield curve and duration	-4
Other Factors	-4
Residual*	0
Total	15

Source: M&G, Blackrock Aladdin™, M&G as at 30th June 2024.

Attribution based on the absolute performance return of the E Euro share class gross of fees. Attribution is calculated arithmetically and may not map directly to geometrically calculated performance. *Residual differences may arise between custodian pricing and internal performance attribution system due to currency rates and securities pricing particularly during times of increased market volatility.

Fund Analytics

Key characteristics	Fund	Benchmark
Number of issues	613	4,291
Number of issuers	322	831
Average credit rating ¹	A	A-
Running yield	2.87	2.51
Yield to worst	4.25%	3.80%
Yield to maturity	3.95%	3.88%
Coupon	2.81%	2.38%
Spread duration (years)	4.19	4.70
Modified duration to worst	4.56	4.54
WAL to worst (years)	5.05	5.19
PV01	0.0460%	–
CR01	0.0420%	–
IE01	0.0000%	–
99% 20 day value at risk	2.51%	–

Source: M&G as at 30th June 2024.

¹ Linear average credit rating.

Ex-Post Risk statistics (%)

Ex-post risk statistics	3 years	5 years	7 years	10 years	Since inception
Volatility (gross) ¹	6.47	6.36	5.52	5.02	4.80
Volatility (net) ¹	6.47	6.36	5.52	5.02	4.79
Sharpe ratio (gross)	-0.51	-0.06	0.17	0.36	0.65
Sharpe ratio (net)	-0.52	-0.08	0.14	0.31	0.60

Source: M&G as at 30th June 2024.

Based on gross and net returns of Euro E Accumulation share class. ¹ Ex-post volatility.

Positioning

Sector breakdown ¹	Fund %	Benchmark %	Relative %
Covered	4.79	0.00	4.79
Financial	39.97	38.02	1.95
Industrial	31.37	51.68	-20.31
Utility	10.33	10.30	0.03
Securitized	0.46	0.00	0.46
Quasi & Foreign Government	0.00	0.00	0.00
Sovereign	7.82	0.00	7.82
Net cash and derivatives	5.26	0.00	5.26
Total	100	100	0

Source: M&G as at 30th June 2024.

¹ ICE BofA level 2 industry sectors.

Top five corporates overweight's by issuer ¹	Fund %	Benchmark %	Relative %
CRH	0.58	0.00	0.58
CPI Property	0.49	0.00	0.49
Arion Banki	0.52	0.03	0.49
Northwestern Mutual	0.51	0.02	0.49
MassMutual	0.50	0.02	0.48

Source: M&G as at 30th June 2024.

¹ Excludes sovereign and quasi government instruments.

Currency of assets before hedging ¹	Fund %	Benchmark %	Relative %
EUR	99.71	100.00	-0.29
GBP	0.15	0.00	0.15
USD	0.14	0.00	0.14
Net derivatives	0.00	0.00	0.00
Total	100	100	0

Source: M&G as at 30th June 2024.

¹ Unhedged currency of assets in fund, all non-EUR investments are fully currency hedged.

Credit rating breakdown ¹	Fund %	Benchmark %	Relative %
AAA	12.02	0.32	11.70
AA	8.56	6.62	1.94
A	33.54	41.41	-7.87
BBB	37.65	50.79	-13.14
BB and below	2.97	0.86	2.11
Net cash and derivatives	5.26	0.00	5.26
Total	100	100	0

Source: M&G as at 30th June 2024.

¹ Average of S&P, Moodys and Fitch or M&G internal rating.

Top five corporates underweights by issuer ¹	Fund %	Benchmark %	Relative %
Volkswagen	0.81	1.52	-0.72
HSBC	0.04	0.63	-0.59
AB InBev	0.11	0.69	-0.58
Orange	0.13	0.70	-0.57
Telefonica	0.00	0.51	-0.51

Source: M&G as at 30th June 2024.

¹ Excludes sovereign and quasi government instruments.

Pricing

Share class	Inception date	ISIN	Bloomberg code	Price per share	Dividend rate ¹
EUR A (Acc)	25-Feb-21	LU2255705829	ESMGEEA LX	€94.90	-
EUR A (Inc)	27-Sep-21	LU2255706041	ESMGEEA LX	€89.69	0.76
GBP A (Acc)	26-Apr-23	LU2101366578	EUCIAGA LX	£109.36	-
GBP A (Inc)	26-Apr-23	LU2101366735	EUECIAG LX	£106.07	0.90
CHF A (Acc)	11-Dec-20	LU2101366818	EUECIAC LX	CHF90.16	-
CHF A (Inc)	27-Sep-21	LU2101366909	EUCIACI LX	CHF86.21	0.76
USD A (Acc)	27-Sep-21	LU2242359417	EECAUHA LX	\$99.14	-
USD A (Inc)	27-Sep-21	LU2242359680	EECAUHI LX	\$94.26	0.79
EUR B (Acc)	27-Sep-21	LU0617481725	ESMGECB LX	€131.98	-
EUR B (Inc)	22-Jul-21	LU2355145918	ESECIBE LX	€88.88	0.76
EUR E (Acc)	12-Apr-11	LU0617482376	ESMECAE LX	€151.07	-
EUR E (Inc)	16-Aug-19	LU0617481303	ESMEEDE LX	€92.55	0.81
GBP E (Acc)	28-Nov-18	LU1877940137	ESMGEGH LX	£114.44	-
EUR F (Acc)	07-May-20	LU2101367030	EUECIAE LX	€101.36	-
EUR P (Acc)	21-Jun-22	LU2482630162	MGSJTPA LX	€107.98	-
EUR P (Inc)	21-Jun-22	LU2482630246	ESMRCPD LX	€103.57	0.80
EUR Q (Acc)	03-Nov-20	LU2188668169	EECIQAE LX	€95.35	-
EUR Q (Inc)	03-Nov-20	LU2188668243	EECIQDE LX	€90.40	0.75
EUR QI (Acc)	03-Nov-20	LU2188668326	EUECIQA LX	€95.49	-
EUR QI (Inc)	03-Nov-20	LU2188668599	EUECIQD LX	€90.41	0.76
EUR W (Acc)	27-Sep-21	LU2377004903	EUECIWE LX	€94.09	-
EUR W (Inc)	27-Sep-21	LU2377005033	EUECICD LX	€89.66	-
EUR WI (Acc)	27-Sep-21	LU2377005207	EUECIWA LX	€94.20	-
EUR WI (Inc)	27-Sep-21	LU2377005389	EUECICW LX	€89.66	0.75
CHF W (Acc)	19-Dec-23	LU2713266968	ESMGWAC LX	CHF100.27	-

Source: M&G as at 30th June 2024.

¹ The dividend rate is a preliminary rate and is subject to change.

Market commentary

Q2 saw four developed market central banks (the ECB, BoC, Riksbank, and the SNB) commence their respective rate cutting journeys, with the BoE expected to join in August as headline CPI returned to its target of 2.0% YoY in May. This positions the Fed as one of the last to embark on the 'easing train', with rate cutting pace across the board expected to be gradual as inflation remains ahead of central banks' targets in most regions (except for Switzerland, which has seen two rate cuts so far).

In particular, US CPI in May showed the lowest monthly core CPI reading since August 2021 at 3.4% YoY, with core PCE (the Fed's preferred inflation gauge) increasing 0.08% MoM in May to 2.6% YoY, the softest reading since November 2020. These figures helped cement expectations that rate cuts were still on the horizon from the Federal Reserve, but suggest that more evidence of disinflation will be needed to gain confidence that inflation is moving back to the 2% target.

Despite the lowering of policy rates in Europe, the fallout from the European parliamentary elections and subsequent announcement of snap French legislative elections saw European sovereign yields rise, with the Franco-German 10-year spread widening by +29bps to 80bps in Q2 - the biggest quarterly widening since Q4 2011, when the Euro sovereign crisis was ongoing.

In the Investment Grade (IG) market, spreads finally widened in June after tightening for most of the year, with the sell-off being attributed to several factors, including the weaker economic data and political risks in France. Despite the widening spreads, total returns have remained generally positive, driven by the duration component as yields fell. EUR IG generated a total return of 0.7% over the month, with USD and GBP up at 0.6% and 0.8% respectively. The EUR IG index offers a spread of 118 basis points, +11bps wider versus end of May.

June was also a positive month for high yield markets, with carry and tighter rates driving returns. Global HY index delivered 0.91% thanks to the rally in government bond yields that followed the news of softer US inflation and the first rate cut from the ECB. However, French election uncertainty weighed on spread performance and Euro HY markets lagged (0.54%) their US (0.97%) counterparts.

Quarterly positioning

In the second quarter, the manager reduced the level of risk in the fund and the DxS ratio (Fund/Benchmark) decreased from 1.27 to 1.08 during the period. Thematically, the fund remains overweight areas of the market which continue to offer value, such as real estate and financials (particularly European banks), albeit we are now reducing some of our exposure in selective financial and industrial names where we are not being compensated

for taking credit risk. Cash from these sales has been reinvested into higher quality areas of the market through new issues and the secondary market.

In terms of sales, in the financial sector we reduced exposure to Tier 2 bonds issued by CaixaBank, Belfius, KBC Group and Santander during the quarter. Exposure to certain industrial names was also reduced, including bonds issued by Alstom and Siemens Energy (capital goods), Ford and BMW (automotives), and Amprion and EON International (utilities). Elsewhere, we selectively purchased bonds which appear attractive in our view, including hybrids from Paramount (media), Mobico Group (transportation) and Orsted (utility).

The fund remained active in the primary market, selectively participating in high quality new issue deals which came to market at attractive levels across the financial, healthcare, capital goods and transport sectors. Purchases include bonds issued by Nordea Bank, JP Morgan, Allianz, Johnson and Johnson, John Deere and DSV.

The fund has also carried out relative value switches in Morgan Stanley and BFCM, moving from longer to shorter dated notes.

Performance

The Fund outperformed the benchmark by 15 basis points in Q2 2024. The portfolio benefitted from being overweight in the real estate, banking and covered bond sectors relative to the benchmark, however being overweight the asset backed sector was a detractor to performance. In terms of individual positions, overweight exposure to SBB, CPI Property Group and AroundTown were positive contributors to performance, whilst an overweight position in Thames Water was a drag on returns. As yield curve, duration and currency exposures are fully hedged to benchmark levels, there was no material impact on performance from these factors.

Outlook

Credit markets continue to perform strongly, with spreads approaching historically tight levels. However, the snap French legislative elections act as a reminder of how sensitively markets react to unexpected events at these spread levels. The potential for future unforeseen events – financial or geopolitical – remains which could spark future bond market volatility or even a sharp turn in monetary policy. There are more elections to come across the globe in the second half of 2024 and this may be the first time that many company executives have faced a period of high financing costs. We believe that a patient and highly selective approach to fixed income investment is the best strategy to take advantage of opportunities in today's market.

Environmental, Social and Governance

As a member of the Institutional Investors Group on Climate Change, and as founding signatories of Climate Action 100+, M&G recognises the importance of providing transparent reporting to investors on climate change related metrics such as carbon emissions. From a fixed income perspective, we believe that the Weighted Average Carbon Intensity measure is the most appropriate measure of carbon emissions for bond funds. We have provided more information on the metric and our data sources in the following paragraphs.

Currently at M&G we use MSCI as our main third party data provider for greenhouse gas emissions data. Given the size of our investment universe, we find MSCI’s coverage to be the broadest of the current providers. MSCI collect data once per year from most recent corporate sources, including: Annual Reports, Corporate Social Responsibility Reports and websites. In addition, MSCI’s ESG Research uses the carbon emissions data reported through CDP (formerly the Carbon Disclosure Project) or government databases (when reported data is not available through direct corporate disclosure). As with any mass data collection, there are methodology limitations; this also applies to MSCI. We do endeavour to check their data and are currently building proprietary tools which will ultimately use a variety of data sources to gather and map our carbon emissions.

The weighted average carbon intensity is the carbon footprint metric used in fixed income mandates to measure carbon emissions. To calculate the carbon emissions of the fund, we have used the MSCI weighted average carbon intensity (fund weight x (carbon emissions/\$million sales), rather than just simply the carbon emissions. This is because when weighting regular carbon emissions, MSCI calculates it based on an ownership principle (ie it assumes your holding is equity, using equity market capitalisation as the denominator). Fixed income investors are lenders to companies, not owners of companies. We are therefore better able to obtain the carbon footprint of a fixed income mandate by looking at the fund’s weighted average carbon intensity, measured by CO2 emissions (in tons) per \$ million sales, which doesn’t apply the ownership principle used by MSCI.

We will report this metric on a quarterly basis so that investors may monitor the long term trend of carbon emissions within their bond funds. For benchmarked funds, we will provide the metric for both the fund and benchmark. For non-benchmarked funds, we will provide the metric for the fund and, where appropriate, a comparable market index.

Carbon emissions	WACI	% Coverage
European Credit Investment Fund	80.06	87.79
ICE BofA Euro Corporate Index	105.32	97.54

ESG Engagement Examples

M&G incorporates the evaluation of ESG factors into its investment process. Recent engagements include the following:

Harmony Gold

M&G met with Harmony Gold, to encourage the South African gold and copper mining and exploration company to obtain verification of their long-term emissions reduction targets by SBTi or TPI, and to encourage the company to disclose such targets to CDP (Carbon Disclosure Project).

The company confirmed that they intend to submit their long-term targets to SBTi and have agreed to come back to us regarding timescales. They explained that despite their medium-term targets being submitted and approved by SBTi, they are likely to change because the life of some of the mines has been extended following changes in the oil price. As their decarbonisation is contingent on mines closing, the change in oil price has resulted in some mines being extended and as a result of this the company is having to recalibrate the medium-term targets. The company confirmed that, longer term they still want to be carbon zero by 2045.

Additionally, the company confirmed that they currently disclose to CDP and produce a TCFD report.

In terms of next steps, we will review the company's next set of sustainability disclosures, which are due to be published in October 2024.

Fever-Tree

M&G met with the Chairman of Fever-Tree, to ensure sufficient succession planning is in place for the Executive Team.

This is a key topic on the Boards agenda and whilst there are no current plans for either the Executive to leave (CEO or CFO), there is a clear risk with the CFO over the CEO (founder). The Board have reviewed remuneration to ensure the CFO's opportunity is in line with the market average. Internally there is a variety of candidates being developed beneath the executive level, and particularly in the finance division there has been a step up in headcount which provides further support at a top level.

We will continue to keep in contact with Fever-Tree to monitor this objective.

Pool Corporation

M&G had a call with the representatives of Pool Corporation, including their director of accounting and tax and their senior manager of external reporting to convey our expectations on board gender diversity and to discuss how the company aims to meet said expectations.

We specifically asked the company to appoint another female director to the board and wanted to explore what actions are taken by the company to increase management level gender diversity and what the obstacles to success are.

Pool Corporation is an American distributor of swimming pool supplies, equipment and related leisure products. The company does not currently meet our expectations on board gender diversity with 22% of directors being female. We expressed our desire for the company to appoint another female director within the next year. The company did not commit to fulfilling our ask and commented that there are no targets with respect to gender diversity in place with respect to the board or executive management however the level of representation is likely to increase slightly as one director will not stand to re-election in the coming AGM. The company made a point that there is representation at the executive level, including the CFO and the Chief Legal Officer. Additionally, it was also pointed out that despite not having explicit targets, D&I considerations are embedded in the nomination process and when using external search firms. Furthermore, the D&I disclosures that are available in the company's ESG report will be expanded this year. We also discussed initiatives in the company has in place to advance diversity and support inclusion, which have received positive feedback from employees.

We will continue to keep in contact with Pool Corporation to monitor this objective.

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 fund's risk positions with the fund manager. Our investment process and highly diversified approach to fund construction aim to deliver consistent returns above the fund's benchmark.

Benchmark

ICE BofA 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.

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.

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)	Benchmark + 5
All individual AA and A issuers	Benchmark + 3
All individual BBB issuers	Benchmark +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 30th June 2024.

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.

Contact

Austria

Werner Kolitsch

+49 69 133 867 27

@ werner.kolitsch@mandg.com

France

Florent Delorme

+33 (0) 1 71 70 30 88

@ florent.delorme@mandg.fr

Italy

Costanza Morea

+39 02 3206 5577

@ Costanza.Morea@mandg.com

Netherlands

Stefan Cornelissen

+31 (0)20 799 7680

@ stefan.cornelissen@mandg.com

Switzerland

Patrick Abgottspon

+41 (0)43 443 8206

@ patrick.abgottspon@mandg.com

Benelux

Stacey Notteboom

+324 7739 1317

@ Stacey.notteboom@mandg.com

Germany

Ingo Matthey

+49 69 133 867 16

@ ingo.matthey@mandg.com

Nordics

Robert Heaney

+46 (0)7 0266 4424

@ robert.heaney@mandg.com

Spain

Alicia García

+34 91 561 5253

@ alicia.garcia@mandg.com

www.mandg.com/institutions



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