

M&G GLOBAL HIGH YIELD ESG BOND FUND - GBP

INVESTMENT RESEARCH NOTE

APRIL 2024

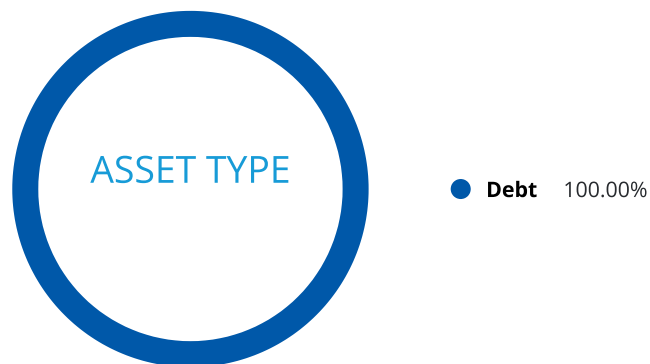
Risk warning: The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested. Our views are based upon our understanding of current legislation in England. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances. You should not act on any of the information without seeking professional advice. clarity Ltd is authorised and regulated by the Financial Conduct Authority (FCA).

SUMMARY

M&G is a long-established asset management house, specialising in fixed income funds. The company was formed in 1931, and launched the UK's first Mutual Fund (unit trust). Today, M&G is one of Europe's largest asset managers, with AUM of \$336bn, of which \$203bn is in fixed income funds, making it also one of the largest corporate bond fund managers. The company boasts one of the largest credit research teams, based in London. The team has been investing in HY bonds since the 1990s, and manages more than 11bn Euros in that space. The team in London is supported by a total 265-strong global team of fixed income specialists.

The Fund is managed by James Tomlins and Stefan Isaacs, who each have 18 years' experience, and a deputy Fund Manager, Lu Yu, with 13 years' experience, appointed in February 2020. The aim is to provide both growth and income while embracing ESG factors. The managers specifically seek to achieve a higher ESG rating than the global high yield market. The underlying yield is c.4.25%, with a distribution yield just over 5%. Duration runs very close to the market at 3.8 years, but, as with other HY funds, duration management is considered less important than in IG funds, due to the higher default risk.

At least 80% of the portfolio is invested in HY bonds issued by companies in any country and in any currency. The fund may also invest in a range of other instruments, and derivatives may be used for investment. The UK domiciled class is priced in GBP and benchmarked against the USD Hedged version of the ICE BoA Merrill Lynch Global HY Index.



INVESTMENT PROCESS

High yield bonds are bonds that have a credit rating below BBB (or equivalent) by credit rating agencies. They may come from an issuer with a low credit rating, or simply be in a less secure part of the capital structure, hence they pay a higher yield than government or investment grade corporate bonds. The Sterling OEIC version of the Fund is 100% hedged back to GBP.

The managers apply a blended top-down/bottom-up approach to the management of the Fund. The top-down analysis begins with a rigorous assessment of the macro-economic environment, taking into account economic growth, inflation, liquidity and the yield curve, and how these factors apply across regions and sectors.

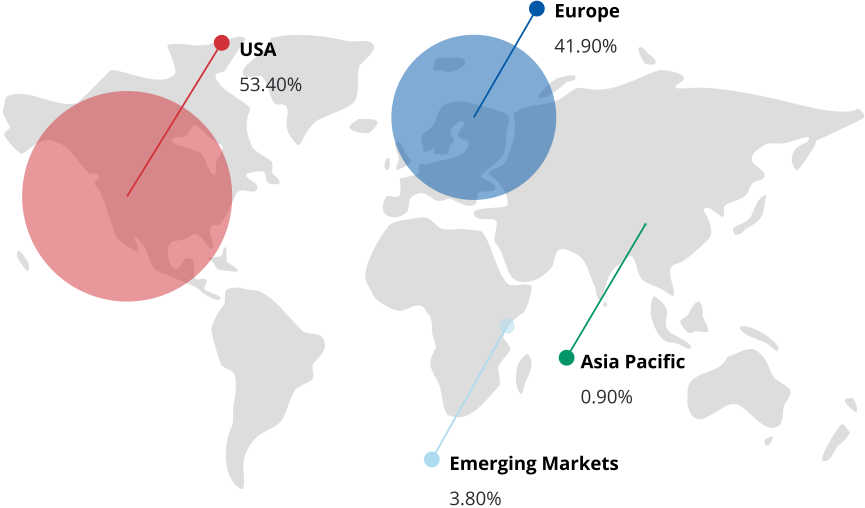
Candidates for inclusion in the portfolio are judged according to a range of financial metrics, focusing on the business model of the company, its financial situation, the company strategy and the specific characteristics of the bond in question. Bonds are also screened on ESG measures using MSCI's ESG research. This part of the process involves three steps:

- Excluding companies that fail to comply with the UN Global Compact Principles (human rights, corruption, labour etc)
- Sector screening - to exclude companies that are materially involved in tobacco, alcohol, pornography, gambling, thermal coal or nuclear energy ('materially' means 5% of revenues for producers, or 10% for distributors)
- Measuring the extent to which ESG considerations are integrated into the business, and excluding laggards in this respect. This more qualitative screen is reviewed by M&G's ESG Advisory Group, but relies on MSCI ESG scores for a baseline assessment.

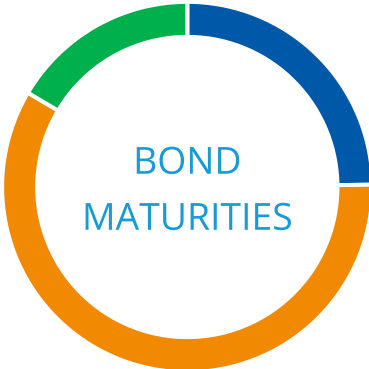
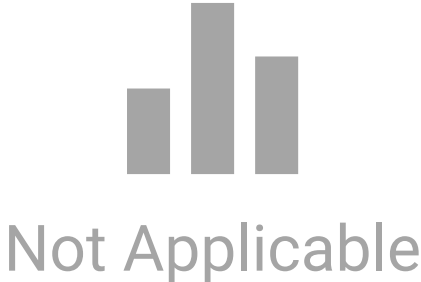
The managers oversee the portfolio's investment risk, supported by a team of risk analysts who report daily on risk parameters. Liquidity is managed by limits on issue size for investable bonds. The small size of the Fund helps with liquidity. The Investor base has internal funds as the largest holder, followed by a seed investor, holding 15%. The managers consider this to be 'sticky money', but it does represent a potential liquidity issue. The Fund operates a formal ESG screen on investments, and shows good integration of ESG considerations, though active engagement with investee companies appears light. Collidr rates the Fund 3 out of 4 for ESG.

AGGREGATED NET EXPOSURE

REGIONAL EXPOSURE



EQUITY MARKET CAP (%)



Maturity	Percentage
Short Term (1-3 yr)	24.80%
Intermediate Term (3-10 yr)	58.70%
Long Term (>10 yr)	16.50%



Rating	Percentage
Speculative Grade/High Yield	91.13%
Investment Grade	7.08%
Unreported	1.79%

OVERALL PERFORMANCE

● M&G Global High Yield ESG Bond FDGBP IH ● Barclays Global Aggregate High Yield TR GBPH Benchmark

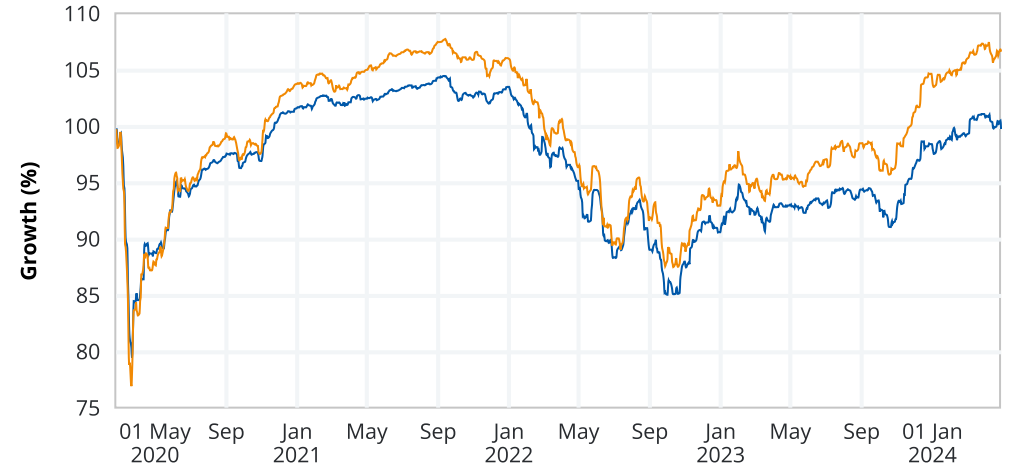
GROWTH (%) - OVER 1 YEAR

1 May 2023 - 30 Apr 2024



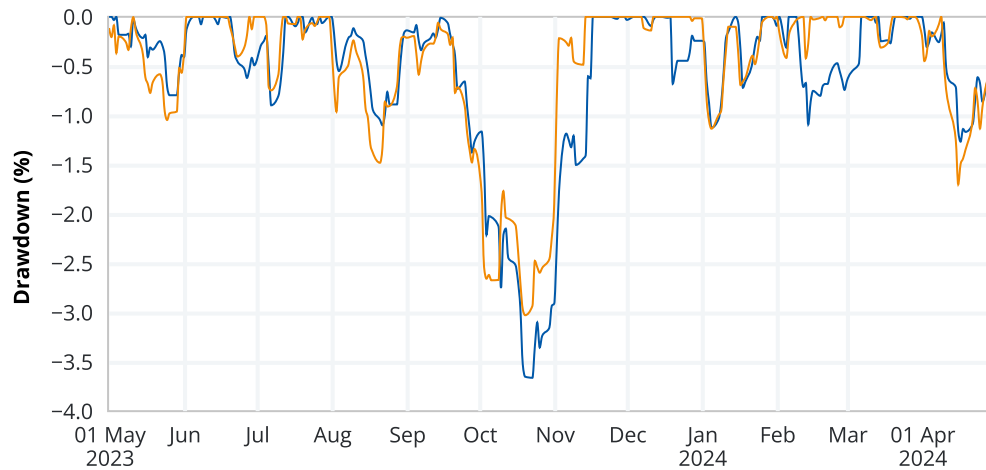
GROWTH (%) - FROM INCEPTION

26 Feb 2020 - 30 Apr 2024



DRAWDOWN (%) - OVER 1 YEAR

1 May 2023 - 30 Apr 2024



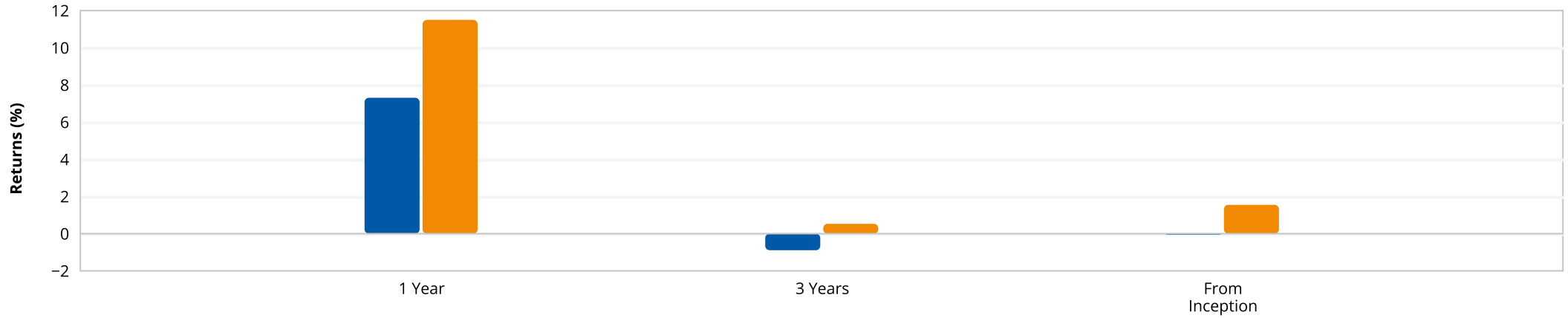
DRAWDOWN (%) - FROM INCEPTION

26 Feb 2020 - 30 Apr 2024



RETURNS

● M&G Global High Yield ESG Bond FDGBP IH ● Barclays Global Aggregate High Yield TR GBPH Benchmark



MONTHLY BREAKDOWN AND YEARLY TOTALS (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2024	0.53	0.18	1.99	-1.32									1.36
2023	3.19	-1.09	-0.21	0.75	-0.29	0.47	1.43	-0.11	-1.11	-1.68	4.93	2.23	8.63
2022	-2.62	-2.99	0.35	-3.02	-0.86	-6.12	3.90	-2.40	-5.21	3.21	3.23	-0.11	-12.47
2021	0.11	0.56	-0.30	0.49	0.19	0.64	0.10	0.83	-1.09	-0.37	-0.62	1.37	1.89
2020		-1.53	-13.85	4.76	4.10	1.34	2.59	1.11	-0.84	0.50	3.65	1.10	1.55

ANNUALISED ROLLING RETURNS (%)

	1 YEAR	3 YEAR	INCEPTION
M&G Global High Yield ESG Bond FDGBP IH	7.31	-0.89	-0.06
Barclays Global Aggregate High Yield TR GBPH Benchmark	11.50	0.53	1.55

CUMULATIVE RETURNS (%)

	1 YEAR	3 YEAR	INCEPTION
M&G Global High Yield ESG Bond FDGBP IH	7.31	-2.63	-0.27
Barclays Global Aggregate High Yield TR GBPH Benchmark	11.50	1.59	6.60

● M&G Global High Yield ESG Bond FDGBP IH ● Barclays Global Aggregate High Yield TR GBPH Benchmark

PERFORMANCE - OVER 1 YEAR

1 May 2023 - 30 Apr 2024

	M&G Global High Yield ESG Bond FDGBP IH	Barclays Global Aggregate High Yield TR GBPH Benchmark
RETURNS (%)	7.31	11.50
VOLATILITY (%)	3.92	3.84
ALPHA	-0.13 *	
BETA	0.91 *	1.00
CORRELATION	0.96 *	1.00
SHARPE RATIO	0.56	1.61
SORTINO RATIO	0.84	2.56
MAX DRAWDOWN (%)	-3.66	-3.03

PERFORMANCE - FROM INCEPTION

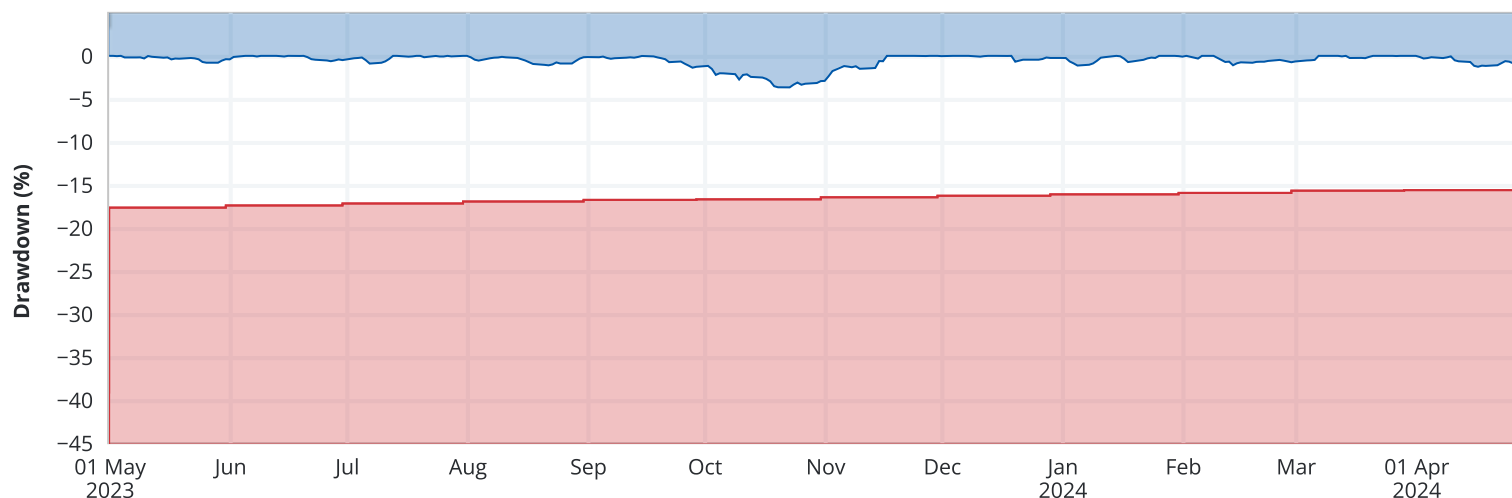
26 Feb 2020 - 30 Apr 2024

	M&G Global High Yield ESG Bond FDGBP IH	Barclays Global Aggregate High Yield TR GBPH Benchmark
RETURNS (%)	-0.07	1.55
VOLATILITY (%)	6.03	7.07
ALPHA	-0.13	
BETA	0.93	1.00
CORRELATION	0.98	1.00
SHARPE RATIO	-0.33	-0.06
SORTINO RATIO	-0.44	-0.08
MAX DRAWDOWN (%)	-20.39	-22.87

*Calculated over a 3 year period where history permits.

SIMPLE STRESS TEST DRAWDOWN (%)

1 May 2023 - 30 Apr 2024



Stress test notes

The chart shows the calculated drawdown over the last year. The Review Point is the fund intervention point. Any drawdown above this line indicates a typical drawdown in a normal market cycle. Should the drawdown hit the review point, then this indicates that market conditions may be abnormal. This is the point that we would consider taking immediate action for an extreme market event.

DISCLAIMER

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