M&G High Yield Corporate Bond Fund

Monthly Fund Review

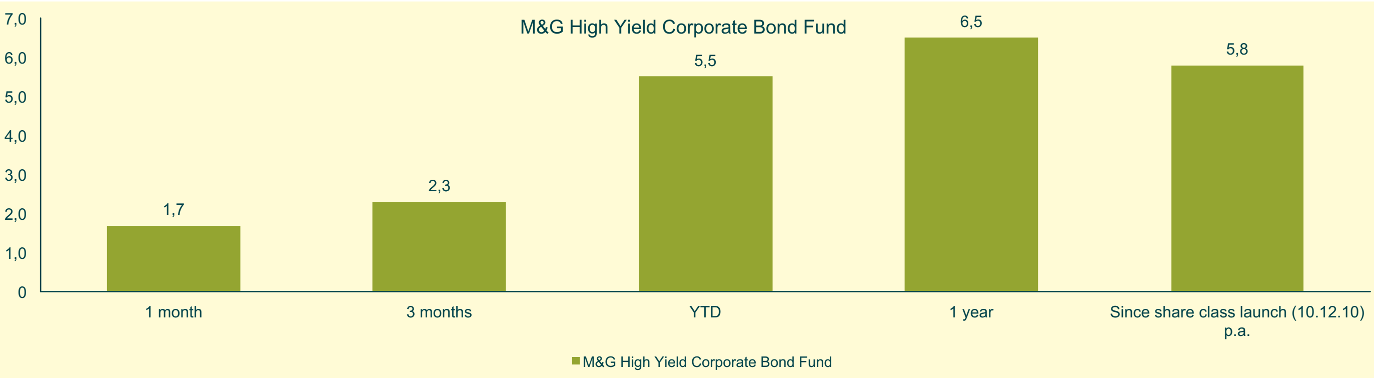
31 July 2012

Fund manager - Stefan Isaacs

Key summary points

- High yield corporate bonds produced positive returns over the month and benefited from a late rally following favourable market reaction to comments made by ECB president Mario Draghi.
- Fund manager Stefan Isaacs took the opportunity to add to some of his preferred names within the cable and telecoms industries.
- Stefan maintains his positive outlook for high yield corporate bonds with a preference for defensive sectors such as media and capital goods.

Fund performance (total return, in euro terms, %)



Performance review

High yield corporate bonds performed well in July following a rally towards the end of the month. Earlier in the period, sentiment was more negative with the IMF making downward revisions to its global growth forecasts. Investors once again sought refuge in safe havens such as US, UK and German government bonds, where the yields all reached new lows. In an unprecedented development, two-year bond yields went into negative territory for a total of six European countries (Switzerland, Denmark, Germany, Austria, Netherlands and Finland).

Concerns escalated later in the month with fears that Spain might need a full bailout when it became apparent that the country's heavily indebted regional governments would likely need rescuing. Reports also circulated that the IMF might be unwilling to support further Greek funding due to the government's difficulties in meeting its debt reduction targets. Additionally, Germany's AAA rating was placed on negative watch by Moody's, whilst UK's Q2 GDP figures came in at -0.7 %, much worse than expected. The market reacted by driving Spanish 10-year bond yields to unprecedented highs, peaking at over 7.5 %.

However, bond prices rallied at the end of July following comments made by ECB president Mario Draghi that the ECB would be "ready to do whatever it takes to preserve the euro". This was seen as an indication that the ECB might intervene to buy Spanish and Italian sovereign bonds in an effort to control excessive borrowing costs.

Over the month, European high yield corporate bonds, as measured by the Merrill Lynch Euro High Yield Constrained Index, returned 2.1 %. Although spreads dropped only slightly, from 835 to 829 basis points, returns were boosted by falling government bond yields, especially in Germany.

The fund's exposure to high quality BB and B names was a factor in the positive returns, along with the good credit selection and strong performance of individual names.

Key changes

Stefan made no significant changes to the overall fund positioning in July. He continues to prefer issuers from defensive sectors such as capital goods, cables and telecoms, primarily based in stronger non-eurozone countries. He maintains his negative stance on banks, particularly those in peripheral eurozone countries, and cyclical sectors such as autos. As always, his approach is flexible and he is willing to invest in better quality names and where he believes he is being well paid on a risk/reward basis.

During the month, Stefan invested further in Mexican building materials maker Cemex. With more positive prospects for the US economy, he sees this company as well positioned to benefit from a US housing market recovery.

Stefan still sees value in cable and telecom companies and he added to his existing positions in preferred names such as Swiss mobile and broadband provider Sunrise Communications, along with Swedish cable company Norcell. He also switched his euro-

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denominated holding in South African paper manufacturer Sappi to US dollar denominated bonds of a similar maturity. In addition to providing a more attractive yield, this also gave exposure to a currency which he views more favourably.

The fund continues to have exposure to German index-linked government bonds, which Stefan likes due to his belief that current breakeven rates do not sufficiently price in longer-term inflationary pressure in the eurozone. They also provide exposure to a highly liquid, risk-free asset class.

The fund manager continues to take a bottom-up approach to stock selection based on thorough credit analysis and does not currently take an active duration position. Overall, Stefan maintains his positive outlook for high yield bonds, which he sees as offering good value in a low default environment. Although he expects further volatility on a month-to-month basis, he believes that with careful credit selection, there continues to be a number of high-quality and attractively valued companies in which to invest.

Key information

Fund manager tenure from	30 September 2010
Fund size (millions)	€1.528,29
Distribution yield	6.38 %
Yield to maturity (excluding derivatives)*	5,7 %
No. of issuers	134
Modified duration (years)	3,2
Average credit rating (as at 30.06.12)	BB-
Nominated OEIC Share Class	Euro Class A-H

* Net of fund expenses.

Bond markets, total return (%)

	Jul 12
US Treasuries	1,1
UK government bonds	2,1
German government bonds	2,1
Sterling investment grade corporate bonds	4,3
Euro investment grade corporate bonds	2,3
Euro high yield corporate bonds	2,1

Source: Merrill Lynch indices

Asset breakdown (%)

	Physical	CDS short	CDS long	Net
Government bonds	16,3	0,0	0,0	8,1
Investment grade bonds	6,0	0,0	0,0	6,0
High yield bonds	73,3	0,0	10,9	84,2
Equities	0,0	0,0	0,0	0,0
Loans	0,0	0,0	0,0	0,0
Alternatives	0,0	0,0	0,0	0,0
Other	1,8	0,0	0,0	1,8
Cash	2,8	0,0	0,0	0,0

CDS short: bought protection (short credit exposure); CDS long: sold protection (long credit exposure)

The columns may not always add up when reading across as physical bond holdings and/or cash are sometimes used as collateral for CDS exposure.

Industry breakdown (%)

	Fund
Industrials	66,1
Sovereign	11,4
Financial	6,2
Utility	5,6
International government	4,9
Securitised	0,8
Other	2,2
Cash	2,8

Geographical breakdown (%)

	Fund
UK	21,0
Germany	17,9
US	14,3
Luxembourg	12,3
Netherlands	10,3
Ireland	6,1
Sweden	3,3
France	2,9
Other	9,2
Cash	2,8

Credit rating breakdown (%)

	Physical	CDS short	CDS long	Net
AAA	11,4	0,0	0,0	3,2
AA	4,9	0,0	0,0	4,9
A	1,4	0,0	0,0	1,4
BBB	4,6	0,0	0,0	4,6
BB	29,0	0,0	0,3	29,3
B	36,4	0,0	10,3	46,7
CCC	7,9	0,0	0,3	8,2
CC	0,0	0,0	0,0	0,0
C	0,0	0,0	0,0	0,0
D	0,0	0,0	0,0	0,0
No rating	1,8	0,0	0,0	1,8
Cash	2,8	0,0	0,0	0,0

CDS short: bought protection (short credit exposure); CDS long: sold protection (long credit exposure)

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Interest rate futures

	Fund
Long	0,0 %
Short	0,0 %
Duration impact	+0,0 years

Top issuers (%)

	Fund
Germany	9,2
US Treasury	4,9
Unity Media	4,3
Smurfit Kappa	2,8
Ardagh Glass	2,4
Intergen	2,3
UK index-linked	2,2
Norcell Sweden	2,0
Matter	1,7
Edcon	1,6

Cash may be held on deposit and/or in the Northern Trust Cash Funds, a range of collective investment schemes.

Sources of performance data: Morningstar, Inc., as at 31 July 2012, euro class AH shares, gross income reinvested, bid to bid basis.

For Italy, please note that the performance stats are quoted gross of Italian tax on capital gains. All other statistics from M&G internal sources, as at 31 July 2012 unless indicated otherwise. **Prices may fluctuate and you may not get back your original investment. Telephone calls may be recorded. This document is designed for investment professionals' use only, not for onward distribution to any other person or entity. For Switzerland: Distribution of this document in or from Switzerland is not permissible with the exception of the distribution to qualified investors according to the Swiss Collective Investment Schemes Act, the Swiss Collective Investment Schemes Ordinance and the respective Circular issued by the Swiss supervisory authority ("Qualified Investors"). Supplied for the use by the initial recipient (provided it is a Qualified Investor) only.** In Spain the M&G Investment Funds are registered for public distribution under Art. 15 of Act 35/2003 on Collective Investment Schemes as follows: M&G Investment Funds (1) reg. no 390, M&G Investment Funds (2) reg. no 601, M&G Investment Funds (3) reg. no 391, M&G Investment Funds (5) reg. no 972, M&G Investment Funds (7) reg. no 541, M&G Investment Funds (9) reg. no 930, M&G Global Dividend Fund reg. no 713 M&G Dynamic Allocation Fund reg. no 843, M&G Global Macro Bond Fund reg. no 1056 and M&G Optimal Income Fund reg. no 522. The collective investment schemes referred to in this document (the "Schemes") are open-ended investment companies with variable capital, incorporated in England and Wales. In the Netherlands, all funds referred to, with the exception of M&G Investment Funds (2), M&G Investment Funds (5), M&G Investment Funds (9) and the M&G Dynamic Allocation Fund, are 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 prospectus, Key Investor Information Document (KIID), annual report and subsequent semi-annual report, are available free of charge, in paper form, from the ACD: M&G Securities Limited, Laurence Pountney Hill, London, EC4R 0HH, GB, or one of the following: M&G International Investments Limited, German branch, Bleidenstraße 6-10, D-60311 Frankfurt am Main, the German paying agent J.P. Morgan AG, Junghofstraße 14, D-60311 Frankfurt am Main, the Austrian paying agent, Raiffeisen Bank International A.G., Am Stadtpark 9, A-1030 Wien, the Luxembourg paying agent, J.P. Morgan Bank Luxembourg S.A., European Bank & Business Center, 6 c route de Treves, 2633 Senningerberg, 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, M&G International Investments Limited, 34 Avenue Matignon, 75008, Paris, France or from the French centralising agent of the Fund: RBC Dexia Investors Services Bank France. For Switzerland: Please refer to M&G International Investments Ltd., Bleidenstraße 6-10, D-60311 Frankfurt am Main or, for Sweden, from the paying agent, Skandinaviska Enskilda Banken AB (publ), Sergels Torg 2, 106 40 Stockholm, Sweden. For Italy, they can also be obtained from one of the appointed paying agents, details of which can be found by visiting the contact section on the following website: www.mandg-investments.it. **Before subscribing you should read the prospectus,** which includes investment risks relating to these funds. This financial promotion is published by M&G International Investments Ltd. Registered Office: Laurence Pountney Hill, London EC4R 0HH, authorised and regulated by the Financial Services Authority and registered with the CNMV in Spain.

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