

# M&G Emerging Markets Bond Fund Sterling Class I – Accumulation shares

Monthly Fund Review as at 31 August 2021

For investment professionals only

## Highlights

- August was a strong month for investment returns in emerging market debt.
- Positive investor sentiment for emerging market sovereigns aided spread tightening, especially among some high yield and frontier market issuers.
- Emerging market currency performance (versus the US dollar) was mixed overall; most Asian currencies performed well, benefiting from an improving COVID-19 trend in the region.

## The main risks associated with this fund

For any past performance shown, please note that past performance is not a guide to future performance.

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.

Investing in emerging markets involves a greater risk of loss as there may be difficulties in buying, selling, safekeeping or valuing investments in such countries.

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.

The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.

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.

Further risk factors that apply to the fund can be found in the fund's Key Investor Information Document (KIID).

## Single year performance (5 years)

|                           | 2020 | 2019  | 2018  | 2017 | 2016  |
|---------------------------|------|-------|-------|------|-------|
| ■ Sterling I Accumulation | 2.3% | 12.1% | 0.6%  | 3.5% | 32.2% |
| ■ Benchmark               | 1.9% | 9.5%  | 2.0%  | 1.5% | 31.3% |
| ■ Sector                  | 3.5% | 10.2% | -3.7% | 5.3% | 23.3% |

## Performance over 5 years



## Fund performance

|                           | 1 month | 3 months | YTD   | 1 year | 3 years p.a. | 5 years p.a. |
|---------------------------|---------|----------|-------|--------|--------------|--------------|
| ■ Sterling I Accumulation | 2.3%    | 4.5%     | -0.3% | 3.9%   | 5.7%         | 4.4%         |
| ■ Benchmark               | 1.9%    | 4.3%     | -0.7% | 2.2%   | 4.9%         | 3.4%         |
| ■ Sector                  | 1.7%    | 2.6%     | -0.3% | 4.4%   | 5.3%         | 2.9%         |

### Past performance is not a guide to future performance.

The benchmark is a target which the fund seeks to outperform. The composite index has been chosen as the fund's benchmark as it 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 fund manager has complete freedom in choosing which assets to buy, hold and sell in the fund. The fund's holdings may deviate significantly from the benchmark's constituents.

Source: Morningstar, Inc and M&G, as at 31 August 2021. Returns are calculated on a price to price basis with income reinvested. Benchmark returns stated in GBP terms.

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## Key information

|                           |   |
|---------------------------|---|
| Fund manager(s)           | Claudia Calich  |
| Fund manager tenure from  | 02 December 2013  |
| Deputy fund manager(s)    | Charles De Quinsonas  |
| ISIN                      | GB00B7GNKY53  |
| Launch date of fund       | 15 October 1999   |
| Launch of share class     | 19 April 2012   |
| Fund size (millions)      | £ 938.13  |
| Benchmark(s)              | 1/3 JPM EMBI Global Diversified Index 1/3 JPM CEMBI Broad Diversified Index 1/3 JPM GBI-EM Global Diversified Index |
| Benchmark type            | Target  |
| Sector                    | IA Global Emerging Markets Bond - Blended sector  |
| Number of issuers         | 143   |
| Distribution yield        | 4.95%   |
| Underlying yield          | 4.95%   |
| Average credit rating     | BB  |
| Modified duration (years) | 6.54  |
| VaR                       | 5.12%   |
| Average coupon            | 5.67  |
| Spread duration (years)   | 4.8   |
| Payment dates             | Feb, Aug  |
| Ex-dividend dates         | Jan, Jul  |

## Charges

|                      |       |
|----------------------|-------|
| Maximum entry charge | 0.00% |
| Ongoing charge       | 0.70% |

## Things you should know

The fund allows for the extensive use of derivatives.

## Fund ratings, as at 31 August 2021

|  |             |
|--|-------------|
| Overall Morningstar rating                 | ★★★★★       |
| Financial Express Crown Rating             |             |
| Fund Calibre Rating                        | Yes         |
| Rayner Spencer Mills (RSM) Rating          | Yes         |
| Square Mile Rating                         | A           |
| The Adviser Centre Rating                  | Recommended |
| Source of Morningstar ratings: Morningstar |             |
| Source: Financial Express                  |             |
| Source: FundCalibre                        |             |
| Source: RSMR Group                         |             |
| Source: Square Mile                        |             |
| Source: Embark Investments Limited         |             |

Ratings should not be taken as a recommendation.

## Asset breakdown (%)

|                                   | Physical   | Short<br>(via CDS) | Long<br>(via CDS) | Net        |
|-----------------------------------|------------|--------------------|-------------------|------------|
| Government bonds - local currency | 27.6       | 0.0                | 0.0               | 27.6       |
| Government bonds - hard currency  | 41.3       | 0.0                | 0.0               | 41.3       |
| Credit - local currency           | 3.0        | 0.0                | 0.0               | 3.0        |
| Credit - hard currency            | 27.4       | 0.0                | 0.0               | 27.4       |
| <b>Other</b>                      | <b>0.0</b> | <b>0.0</b>         | <b>0.0</b>        | <b>0.0</b> |
| <b>Cash</b>                       | <b>0.7</b> | <b>0.0</b>         | <b>0.0</b>        | <b>0.7</b> |

## Credit rating breakdown (%)

|           | Physical | Short<br>(via CDS) | Long<br>(via CDS) | Net  |
|-----------|----------|--------------------|-------------------|------|
| AAA       | 0.6      | 0.0                | 0.0               | 0.6  |
| AA        | 3.3      | 0.0                | 0.0               | 3.3  |
| A         | 4.8      | 0.0                | 0.0               | 4.8  |
| BBB       | 21.4     | 0.0                | 0.0               | 21.4 |
| BB        | 33.7     | 0.0                | 0.0               | 33.7 |
| B         | 24.6     | 0.0                | 0.0               | 24.6 |
| CCC       | 5.5      | 0.0                | 0.0               | 5.5  |
| CC        | 0.0      | 0.0                | 0.0               | 0.0  |
| C         | 1.0      | 0.0                | 0.0               | 1.0  |
| D         | 0.9      | 0.0                | 0.0               | 0.9  |
| No rating | 3.5      | 0.0                | 0.0               | 3.5  |
| Cash      | 0.7      | 0.0                | 0.0               | 0.7  |

## Country breakdown (%)

|              | Physical | Short<br>(via CDS) | Long<br>(via CDS) | Net  |
|--------------|----------|--------------------|-------------------|------|
| Mexico       | 6.4      | 0.0                | 0.0               | 6.4  |
| Russia       | 4.8      | 0.0                | 0.0               | 4.8  |
| Brazil       | 4.5      | 0.0                | 0.0               | 4.5  |
| South Africa | 4.4      | 0.0                | 0.0               | 4.4  |
| Indonesia    | 3.7      | 0.0                | 0.0               | 3.7  |
| China        | 3.0      | 0.0                | 0.0               | 3.0  |
| Japan        | 3.0      | 0.0                | 0.0               | 3.0  |
| Ukraine      | 2.8      | 0.0                | 0.0               | 2.8  |
| Other        | 66.8     | 0.0                | 0.0               | 66.8 |
| Cash         | 0.7      | 0.0                | 0.0               | 0.7  |

## Largest issuers (%)

|                    | Fund |
|--------------------|------|
| Japan              | 3.0  |
| Mexico             | 2.9  |
| Russia             | 2.9  |
| South Africa       | 2.8  |
| Indonesia          | 2.6  |
| Dominican Republic | 2.4  |
| Brazil             | 2.3  |
| Ukraine            | 2.2  |
| Serbia             | 1.9  |
| Czech Republic     | 1.8  |

## Maturity breakdown (%)

|               | Physical |
|---------------|----------|
| 0 - 1 years   | 5.7      |
| 1 - 3 years   | 9.7      |
| 3 - 5 years   | 18.3     |
| 5 - 7 years   | 13.3     |
| 7 - 10 years  | 17.1     |
| 10 - 15 years | 10.1     |
| 15+ years     | 25.2     |
| Cash          | 0.7      |

## Currency breakdown (%)

|                    | Pre-hedge | Post-hedge |
|--------------------|-----------|------------|
| US dollar          | 57.0      | 64.4       |
| Mexican peso       | 3.2       | 3.2        |
| Japanese yen       | 3.0       | 3.0        |
| Russian ruble      | 2.9       | 2.9        |
| Indonesian rupiah  | 2.6       | 2.6        |
| South African rand | 2.5       | 2.5        |
| Brazilian real     | 2.3       | 2.3        |
| Colombian peso     | 1.9       | 1.9        |
| Czech koruna       | 1.8       | 1.8        |
| Other              | 22.9      | 15.5       |

## Industry breakdown (%)

|                          | Physical | Short<br>(via CDS) | Long<br>(via CDS) | Net  |
|--------------------------|----------|--------------------|-------------------|------|
| Foreign Sovereign        | 36.9     | 0.0                | 0.0               | 36.9 |
| Sovereign                | 32.0     | 0.0                | 0.0               | 32.0 |
| Energy                   | 5.5      | 0.0                | 0.0               | 5.5  |
| Banking                  | 3.3      | 0.0                | 0.0               | 3.3  |
| Financial services       | 3.1      | 0.0                | 0.0               | 3.1  |
| Utility                  | 2.9      | 0.0                | 0.0               | 2.9  |
| Basic industry           | 2.0      | 0.0                | 0.0               | 2.0  |
| Agency                   | 1.9      | 0.0                | 0.0               | 1.9  |
| Telecommunications       | 1.8      | 0.0                | 0.0               | 1.8  |
| Real Estate              | 1.6      | 0.0                | 0.0               | 1.6  |
| Transportation           | 1.5      | 0.0                | 0.0               | 1.5  |
| Healthcare               | 1.0      | 0.0                | 0.0               | 1.0  |
| Consumer goods           | 0.9      | 0.0                | 0.0               | 0.9  |
| Local-Authority          | 0.8      | 0.0                | 0.0               | 0.8  |
| Technology & electronics | 0.7      | 0.0                | 0.0               | 0.7  |
| Government Guaranteed    | 0.6      | 0.0                | 0.0               | 0.6  |
| Supranational            | 0.6      | 0.0                | 0.0               | 0.6  |
| Media                    | 0.6      | 0.0                | 0.0               | 0.6  |
| Retail                   | 0.4      | 0.0                | 0.0               | 0.4  |
| Capital goods            | 0.4      | 0.0                | 0.0               | 0.4  |
| Insurance                | 0.3      | 0.0                | 0.0               | 0.3  |
| Services                 | 0.3      | 0.0                | 0.0               | 0.3  |
| Automotive               | 0.0      | 0.0                | 0.0               | 0.0  |
| Leisure                  | 0.0      | 0.0                | 0.0               | 0.0  |
| Other                    | 0.0      | 0.0                | 0.0               | 0.0  |
| Cash                     | 0.7      | 0.0                | 0.0               | 0.7  |

## Duration by currency and asset class (years)

|               | Fund       | Futures    | Swaps      | Net        |
|---------------|------------|------------|------------|------------|
| Euro          | 0.6        | 0.0        | 0.0        | 0.6        |
| British pound | 0.1        | 0.0        | 0.0        | 0.1        |
| US dollar     | 3.9        | 0.0        | 0.0        | 3.9        |
| Other         | 1.9        | 0.0        | 0.0        | 1.9        |
| <b>Total</b>  | <b>6.5</b> | <b>0.0</b> | <b>0.0</b> | <b>6.5</b> |

## Commentary

Emerging markets debt assets registered positive returns in the month of August, supported by a continuation of the global reopening theme, impressive macroeconomic data and, to an extent, dovish remarks from US Fed Chair Powell (despite the US tapering of bond purchases seemingly moving a step closer).

The three main asset class components (hard and local currency sovereigns and hard currency corporate bonds) registered positive returns in the month. Hard currency sovereigns outperformed slightly, benefiting from spread tightening, despite a small negative contribution from duration. High yield issuers outperformed investment grade issuers. Local bonds benefited from a slightly weaker US dollar, although returns from emerging market currencies were mixed overall.

The fund outperformed its benchmark in August, although a fall in the value of sterling against the US dollar detracted the fund's sterling hedged share class. The fund benefited from its overweight exposure to higher yielding issuers, particularly from positions in Argentina, including the Province of Buenos Aires that finally completed its debt restructuring. Zambian government bonds were up 20% after a market-friendly election outcome in the country (although the fund has a benchmark-neutral weight in the issuer). The recovery in value of some Chinese property issuers was also helpful for relative returns, following a difficult July for the sector.

On the other hand, some smaller distressed issuers where the fund has no exposure outperformed during the month (Tunisia, Lebanon and Suriname). The performance contribution from local markets was mixed: the fund's underweight exposure to emerging European markets helped relative returns (both currency and rates underperformed), however its underweight exposure to select Asian markets (particularly the Thai bhat and Malaysian Ringgit) was hurt by the US dollar weakness following US Fed Chair Powell's dovish tone. A spike in COVID-19 cases in the US south versus an improving trend in Southeast Asia were additional factors here. Finally, the fund's overweight exposure in Peru detracted from performance as the country's central bank is behind the curve in terms of monetary policy tightening.

## Key changes

There were no major changes in fund positioning in the month. The new issue pipeline saw a summer lull, but we are expecting the market to get very busy over the next few weeks.

We took the opportunity to come out of our holding of Rwandan sovereign bonds in favour of an issue from Panama City airport (Aeropuerto Internacional de Tocumen) after the former was able to take advantage of the benign market conditions to raise new issuance at lower yields.

Due to yield curve steepening among some emerging market sovereign bonds during the month, we implemented some relative value trades on longer-dated bonds from Costa Rica and Panama.

We are increasingly wary of stretched valuations among both investment grade and some high yield issuers (BBs and increasingly some single Bs as well) and will look to gradually reduce risk as a result.

## Fund codes and charges

| Share class      | ISIN         | Bloomberg  | Currency | Share class launch date | Ongoing charge | Distribution yield | Underlying yield | Minimum initial investment | Minimum top up investment |
|------------------|--------------|------------|----------|-------------------------|----------------|--------------------|------------------|----------------------------|---------------------------|
| Sterling A Acc   | GB0031958738 | MGEMBAA LN | GBP      | 01/10/2002              | 1.10%*         | 4.56%              | 4.56%            | £500                       | £100                      |
| Sterling A Inc   | GB0031958621 | MGEMBAI LN | GBP      | 01/10/2002              | 1.10%*         | 5.65%              | 4.56%            | £500                       | £100                      |
| Sterling I Acc   | GB00B7GNKY53 | MGEMSIA LN | GBP      | 19/04/2012              | 0.70%*         | 4.95%              | 4.95%            | £500,000                   | £10,000                   |
| Sterling I Inc   | GB00B4TL2D89 | MGEMSII LN | GBP      | 19/04/2012              | 0.70%*         | 5.65%              | 4.95%            | £500,000                   | £10,000                   |
| Sterling I-H Acc | GB00BZ0YDS58 | MGEMSIH LN | GBP      | 24/07/2015              | 0.73%*         | 4.94%              | 4.94%            | £500,000                   | £10,000                   |
| Sterling I-H Inc | GB00BZ0YDT65 | MGEMIII LN | GBP      | 24/07/2015              | 0.73%*         | 5.66%              | 4.94%            | £500,000                   | £10,000                   |
| Sterling R Acc   | GB00B777RC30 | MGEBSRA LN | GBP      | 03/08/2012              | 0.95%*         | 4.71%              | 4.71%            | £500                       | £100                      |
| Sterling R Inc   | GB00B74C4S61 | MGEBSRI LN | GBP      | 03/08/2012              | 0.95%*         | 5.65%              | 4.71%            | £500                       | £100                      |
| Sterling X Acc   | GB0031286312 | MGSEMBA LN | GBP      | 15/10/1999              | 1.10%*         | 4.56%              | 4.56%            | £500                       | £100                      |
| Sterling X Inc   | GB0031286205 | MGSEMBI LN | GBP      | 15/10/1999              | 1.10%*         | 5.65%              | 4.56%            | £500                       | £100                      |

Any ongoing charge figure with \* indicates an estimate. The ongoing charge figure may vary from year to year and excludes portfolio transaction costs. The charges are mostly, if not exclusively, the Annual Charge which may be discounted depending on the size of the fund. For further details, please see the fund's Key Investor Information Document (KIID). The fund's annual report for each financial year will include details on the exact charges made. Please go to [www.mandg.co.uk/literature](http://www.mandg.co.uk/literature) to view the Costs and charges illustration which contains information on the costs and charges applicable to your chosen fund and share class. Please see the Important Information for Investors document and the relevant Key Investor Information Document for more information on the risks associated with this fund and which share classes are available for which product and which investor type.

## ESG Integrated funds



Funds that integrate financially material ESG data into the risk management and decision-making process, as well as our company-wide exclusions (cluster munitions and anti-personnel mines). Some strategies may have some additional ESG exclusions.

## Approach to responsible investment

|  | Yes | No | N/A |
|--|-----|----|-----|
| ESG integration                              | ✓   |    |     |
| Additional ESG specifications                |     | ✓  |     |
| Exclusions                                   | ✓   |    |     |
| Cluster munitions & anti personnel landmines | ✓   |    |     |
| Other exclusions or restrictions             |     | ✓  |     |
| Voting                                       |     |    | ✓   |
| Engagement                                   | ✓   |    |     |

Please see glossary for further explanation of these terms.

## ESG Standard Glossary

**Additional ESG specifications:** In the context of M&G, these are funds managed with an explicit ESG objective, outcome or in accordance with specific ESG criteria, and will have a number of minimum exclusions in place.

**Engagement:** Interaction with company management on various financial and non-financial, including ESG, issues. Engagement allows investors to better understand how a company is undertaking its operations and how it is interacting with its stakeholders, as well as advising on and influencing company behaviour and disclosures where appropriate.

**ESG integration:** Describes the explicit and systematic inclusion of Environmental, Social and Governance factors in investment analysis and investment decisions. It underpins a responsible investment approach, and allows investors to

better manage risk and generate sustainable, long-term returns.

**Exclusions:** The exclusion or restriction of investments based on the sector in which they operate, the products or services they provide or for other specific criteria, i.e. they are deemed to be in breach of the United Nations Global Compact principles on human rights, labour the environment and anti-corruption.

**Voting:** As the partial owners of a company, shareholders have the right to vote on resolutions put forward at a company's annual general meeting. These resolutions include the re-election of directors, executive remuneration and business strategy, among others, and may include resolutions put forward by shareholders.

## Important information

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

The M&G Emerging Markets Bond Fund is a sub-fund of M&G Investment Funds (3).

The Morningstar Overall Rating based on the fund's Sterling Class I shares. Copyright © 2021 Morningstar UK Limited. All Rights Reserved. Ratings should not be taken as recommendation.

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