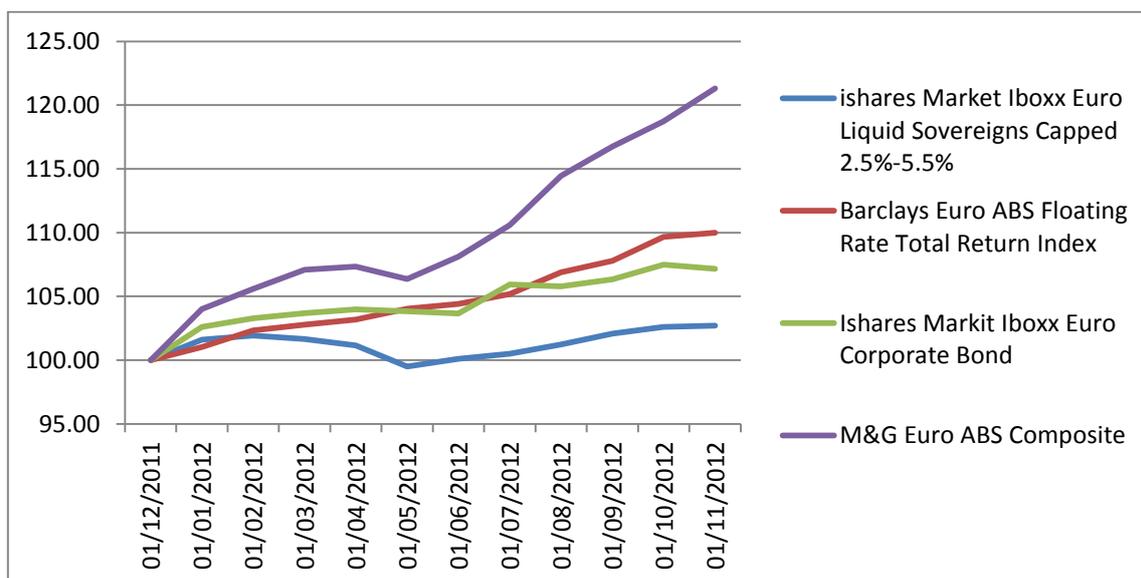


## ASSET-BACKED SECURITIES BEAT CORPORATE AND GOVERNMENT BONDS IN 2012, SAYS M&G INVESTMENTS

- **UK non-conforming residential mortgage bonds look cheap going into 2013**

**London, 17 December 2012** – Over 2012 to date, the performance of a basket of European asset-backed securities (ABS) has beaten that of European investment grade or European government bonds. Investors who chose ABS at the start of the year will have received a total return of 10% compared with 7.2% and 2.7% from corporate and government bonds respectively\*.

In the view of M&G's institutional fund managers, the performance of this fixed income asset class is underpinned by widespread misunderstanding of their value. Too few investors in ABS have the expertise to analyse these often complex bonds and so fail to buy them at attractive prices. Investors who can research the bonds and their underlying pools of assets have an advantage.



**M&G data\*\* is net of fees. Source: M&G Investments using Bloomberg data as at 13.12.12**

**Patrick Janssen, ABS fund manager at M&G Investments**, says, “The European ABS market offers good yields, security and some pretty good liquidity – I’m not at all surprised they beat investment grade and government bonds hands down over the year. Of course, investors who chose an ABS fund rather than an index may well have done considerably better than 10% of total returns. M&G’s portfolios in this asset class, which cater to a range

of risk appetites, are up over the year by an average of 21% - all from an asset class prized for its high levels of security.

“We think there is still a reasonable amount of risk aversion in the world and as such we believe investors will start 2013 by continuing to favour short term paper. While some short term ABS does look good value to us such as new issue Auto ABS, and some of the older senior commercial mortgage backed paper (the latter often still rated AA or AAA and paying an equivalent yield of at least 2-3% per annum over cash), we think the real value is in the longer term paper, particularly areas such as UK non-conforming RMBS (the UK's version of "sub prime") as well as more recent senior CMBS paper.”

### **About M&G's ABS capabilities**

M&G has a long standing expertise in ABS, particularly for third party clients looking to capitalise on the price dislocation in European ABS, and now has over €1bn of funds dedicated to that opportunity. The funds comprise segregated mandates and pooled vehicles for individual institutional clients. They invest in the full range of ABS – bonds backed by residential and commercial mortgages but also by consumer loans such as credit cards – and their managers benefit from M&G's extensive credit analysis platform, which includes a team of nine ABS analysts.

\* Indices used: sovereign – iShares Market Iboxx Euro Liquid Sovereigns Capped 2.5%-5.5%; corporate – iShares Markit Iboxx Euro Corporate Bond; ABS – Barclays Euro ABS Floating Rate Total Return Index. Source: Bloomberg as at 13.12.12

\*\* M&G fund data is a composite of M&G fund performance across its ABS range.

**-ENDS-**

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### ***Notes to editors:***

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