

Company description

The Company aims to generate a regular and attractive level of income with low asset value volatility by investing in a diversified portfolio of public and private debt and debt-like instruments ('Debt Instruments'). Over the longer term, it is expected that the Company will be mainly invested in private Debt Instruments, which are those instruments not quoted on a stock exchange.

The Company has the ability to borrow up to 30% of net asset value although it is expected that it will primarily be managed without borrowing and typically any borrowings will not exceed 20% of net asset value. Any borrowings will magnify any gains or losses made by the Company.

Market review

During Q4 2018, markets experienced turbulence, resulting in greater volatility than was witnessed earlier in 2018. Stock and bond markets were impacted as a number of factors combined to provoke investors to significantly reassess their risk appetite.

Equity indices suffered substantial declines, with most major markets falling by more than 10% during the period. The fixed income markets were clearly split, with developed market government bonds generally rising as yields declined, sharply in some cases, such as the US. However, credit spreads in bond markets widened significantly. This led to a strongly negative quarter, relative to government bonds, for the core investment grade corporate bond markets.

Weakness in the high yield sector was more marked, with credit spreads moving substantially wider overall, causing sub-investment grade indices to decline significantly during the period. Currency markets, by contrast, were generally much calmer in comparison.

The Federal Reserve ('Fed') raised US interest rates again, taking the Fed Funds rate to 2.5%. Economic data releases continued to show the US economy in a positive light, with industrial production growth of around 4% year-on-year and capacity utilisation near cyclical highs. However, forward-looking indicators suggest the outlook may be less robust, and the US Treasury yield curve continued to flatten. Despite this, market expects the Fed to continue to normalise monetary policy with further tightening, although it may become less aggressive, with longer periods between rate hikes.

Elsewhere, newsflow was mixed. The Italian budget uncertainty was resolved to allay some ongoing concerns in that market. However, there has been widespread civil defiance of the authority of French President Macron, initially arising over his government's plans to raise fuel taxes. The ending of the European Central Bank's Asset Purchase Program adds further uncertainty, although the withdrawal of its steady demand for European government and corporate bond markets has been anticipated for many months.

In the UK, Brexit and the difficulties of achieving Parliamentary agreement of the terms of the UK's withdrawal from the European Union, continue to inspire elevated uncertainty and to stimulate volatility. With a number of potential outcomes seemingly still possible, it seems likely that the process will continue to weigh on sentiment for UK assets.

Manager commentary

Market conditions were turbulent when the Company began investing in mid-November, which created some attractive opportunities in certain sectors of the public market. Banks, property companies and insurers had all widened significantly and the Company made several investments in these sectors.

Non-financial corporate bonds were generally less attractive but there were some stock specific opportunities such as General Electric and Volkswagen Group. Some of these had longer interest rate duration and this was hedged using government bond futures.

The largest sectoral investment by the Company was in ABS and comprised mostly AAA and some AA mortgage backed floating rate bonds - which had also widened to attractive levels while also being easily tradeable.

With only about a one month investing window before the markets wound down for Christmas there was not much opportunity to buy private assets. We invested 7% of the Company in the M&G European Loan Fund and did one sterling private deal and another listed but effectively private US dollar deal. There were some potential private real estate loans, but these did not look as attractive as those in the public market.

By year end of 31 December 2018 approximately 60% of the Company was invested.

Outlook

During periods of volatility such as we are witnessing, the number of idiosyncratic, or company-specific, events is expected to increase, creating more individual stories and opportunities for investors. We believe the increase in credit spreads and market volatility will simultaneously increase the availability and variety of appealing value opportunities. The pricing of private assets tends to lag in such situations, so in the short term we would expect the proportion of the Company in public assets to remain high but over time if the wider spreads are sustained then attractively priced private assets should emerge.



Key information

Portfolio manager	Jeremy Richards
Portfolio manager tenure from	14 November 2018
Deputy portfolio manager	Adam English
Launch date	14 November 2018
ISIN number	GB00BFYLL325
TIDM code	MGCI
Number of holdings	58
Unit type	Inc
Ex-dividend dates^[a]	Quarterly: Jan, Apr, Jul & Oct
Payment dates^[a]	Quarterly: Feb, May, Aug & Nov

^[a] Dividends for the first accounting period will be declared (Ex-div) in July 2019 and January 2020 and paid in August 2019 and February 2020. Thereafter the Company intends to pay dividends on a quarterly basis with dividends typically declared in January, April, July and October and paid in February, May, August and November.

Please see the glossary for an explanation of terms used.

Charges

Entry charge	0.00%
Annual management charge^[b]	0.50%
Ongoing Charges Fee	1.03%

^[b] From January 2020 the annual management charge will increase to 0.70%.

Risks associated with the Company

The value of investments will fluctuate, which will cause share prices to fall as well as rise and you may not get back the original amount you invested. There is no guarantee the Company objective will be achieved.

The Company may be exposed to the possibility that a debtor will not meet their repayment obligations.

Changes in interest rates may adversely affect the market value of some of the Company's investments.

Loans may be prepaid by issuers at short notice, as a result it may be difficult for the Company to locate and reinvest capital at an attractive price or at all, which may affect the Company adversely.

Trading volumes may reduce, or shares may trade at a discount to their respective net asset value, due to a variety of factors, such as market conditions, liquidity concerns or the Company's performance. Shareholders may also be unable to realise their investment at quoted market prices or at all.

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, any investment in the Company should only be made on the basis of the information contained in the Company's Prospectus.

This glossary provides an explanation of terms used in this factsheet and in our literature.

Asset

Anything having commercial or exchange value that is owned by a business, institution or individual.

Asset class

Category of assets, such as cash, company shares, fixed income securities and their sub-categories, as well as tangible assets such as real estate.

Basis points (bps)

A common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.

Bond

A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

Capital

Refers to the financial assets, or resources, that a company has to fund its business operations.

Capitalisation

The total market value of all of a company's outstanding shares.

Comparative sector

A group of funds with similar investment objectives and/or types of investment, as classified by bodies such as the Investment Association (IA) or Morningstar™. Sector definitions are mostly based on the main assets a fund should invest in, and may also have a geographic focus. Sectors can be the basis for comparing the different characteristics of similar funds, such as their performance or charging structure.

Consumer Prices Index (CPI)

An index used to measure inflation, which is the rate of change in prices for a basket of goods and services. The contents of the basket are meant to be representative of products and services we typically spend our money on.

Convertible bonds

Fixed income securities that can be exchanged for predetermined amounts of company shares at certain times during their life.

Corporate bonds

Fixed income securities issued by a company. They are also known as bonds and can offer higher interest payments than bonds issued by governments as they are often considered more risky.

Credit

The borrowing capacity of an individual, company or government. More narrowly, the term is often used as a synonym for fixed income securities issued by companies.

Credit Default Swaps (CDS)

Are a type of derivative, namely financial instruments whose value, and price, are dependent on one or more underlying assets. CDS are insurance-like contracts that allow investors to transfer the risk of a fixed income security defaulting to another investor.

Credit rating

An independent assessment of a borrower's ability to repay its debts. A high rating indicates that the credit rating agency considers the issuer to be at low risk of default; likewise, a low rating indicates high risk of default. Standard & Poor's, Fitch and Moody's are the three most prominent credit rating agencies. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of security's life.

Credit spread

The difference between the yield of a corporate bond, a fixed income security issued by a company, and a government bond of the same life span. Yield refers to the income received from an investment and is expressed as a percentage of the investment's current market value, and a bond is a fixed income security.

Default

When a borrower does not maintain interest payments or repay the amount borrowed when due.

Derivatives

Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded over the counter.

Developed economy / market

Well-established economies with a high degree of industrialisation, standard of living and security.

Dividend

Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

Duration

A measure of the sensitivity of a fixed income security, also called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

Emerging economy or market

Economies in the process of rapid growth and increasing industrialisation. Investments in emerging markets are generally considered to be riskier than those in developed markets.

Episode

A phase during which investors allow their emotions to affect their decision making, which can cause financial markets to move irrationally.

Equities

Shares of ownership in a company.

Ex-dividend, ex-distribution or XD date

The date on which declared distributions officially belong to underlying investors.

Exposure

The proportion of a fund invested in a particular share/fixed income security, sector/region, usually expressed as a percentage of the overall portfolio.

Fixed income security

A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

Floating rate notes (FRNs)

Securities whose interest (income) payments are periodically adjusted depending on the change in a reference interest rate.

Gearing

Is the level of a company's debt in relation to its assets.

Gilts

Fixed income securities issued by the UK government.

Government bonds

Fixed income securities issued by governments, that normally pay a fixed rate of interest over a given time period, at the end of which the initial investment is repaid.

Hard currency (bonds)

Refers to bonds denominated in a highly traded, relatively stable international currency, rather than in the bond issuer's local currency. Bonds issued in a more stable hard currency, such as the US dollar, can be more attractive to investors where there are concerns that the local currency could lose value over time, eroding the value of bonds and their income.

Hedging

A method of reducing unnecessary or unintended risk.

High yield bonds

Fixed income securities issued by companies with a low credit rating from a recognised credit rating agency. They are considered to be at higher risk of default than better quality, ie higher-rated fixed income securities but have the potential for higher rewards. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of security's life.

Index

An index represents a particular market or a portion of it, serving as a performance indicator for that market.

Index-linked bonds

Fixed income securities where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also referred to as inflation-linked bonds.

Inflation

The rate of increase in the cost of living. Inflation is usually quoted as an annual percentage, comparing the average price this month with the same month a year earlier.

Investment Association (IA)

The UK trade body that represents fund managers. It works with investment managers, liaising with government on matters of taxation and regulation, and also aims to help investors understand the industry and the investment options available to them.

Investment grade bonds

Fixed income securities issued by a company with a medium or high credit rating from a recognised credit rating agency. They are considered to be at lower risk from default than those issued by companies with lower credit ratings. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

Investment trust

An investment trust is a form of collective investment found mostly in the United Kingdom. Investment trusts are closed-end funds and are constituted as public limited companies.

Issuer

An entity that sells securities, such as fixed income securities and company shares.

Leverage

When referring to a company, leverage is the level of a company's debt in relation to its assets. A company with significantly more debt than capital is considered to be leveraged. It can also refer to a fund that borrows money or uses derivatives to magnify an investment position.

LIBOR

The three-month GBP London Interbank Borrowing Rate is the rate at which banks borrow money from each other (in UK pounds) for a three-month period.

Liquidity

A company is considered highly liquid if it has plenty of cash at its disposal. A company's shares are considered highly liquid if they can be easily bought or sold since large amounts are regularly traded.

Local currency (bonds)

Refers to bonds denominated in the currency of the issuer's country, rather than in a highly traded international currency, such as the US dollar. The value of local currency bonds tends to fluctuate more than bonds issued in a hard currency, as these currencies tend to be less stable.

Long position

Refers to ownership of a security held in the expectation that the security will rise in value.

Macroeconomic

Refers to the performance and behaviour of an economy at the regional or national level. Macroeconomic factors such as economic output, unemployment, inflation and investment are key indicators of economic performance. Sometimes abbreviated to 'macro'.

Maturity

The length of time until the initial investment amount of a fixed income security is due to be repaid to the holder of the security.

Modified duration

A measure of the sensitivity of a fixed income security, called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

Monetary policy

A central bank's regulation of money in circulation and interest rates.

Morningstar™

A provider of independent investment research, including performance statistics and independent fund ratings.

Near cash

Deposits or investments with similar characteristics to cash.

Net

The proportion of a fund invested in, for example, different sectors. Derivatives are included. The latter are financial instruments whose value, and price, are dependent on one or more underlying assets.

Net Asset Value (NAV)

A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.

Non-Executive Director (NED)

A non-executive director is a member of a company's board of directors who is not part of the executive team. A non-executive director typically does not engage in the day-to-day management of the organization, but is involved in policymaking and planning exercises.

Open-Ended Investment Company (OEIC)

A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

Options

Financial contracts that offer the right, but not the obligation, to buy or sell an asset at a given price on or before a given date in the future.

Overweight

If a fund is 'overweight' a stock, it holds a larger proportion of that stock than the comparable index or sector.

Payment date

The date on which distributions will be paid by the fund to investors, usually the last business day of the month.

Important information

This financial promotion is issued by M&G Alternatives Investment Management Limited which is authorised and regulated by the Financial Conduct Authority. This communication is only intended for and will be only distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations. The company's registered office is Laurence Pountney Hill, London EC4R 0HH. Registered in registered in England and Wales under number 2059989.

Physical

The fund's exposure excluding derivatives, which are financial instruments whose value, and price, is dependent on one or more underlying securities.

Property Expense Ratio (PER)

Property expenses are the operating expenses that relate to the management of the property assets in the portfolio. These include: insurance and rates, rent review and lease renewal costs and maintenance and repairs, but not improvements. They depend on the level of activity taking place within the fund. The Property Expense Ratio is the ratio of property expenses to the fund's net asset value.

Retail Prices Index (RPI)

A UK inflation index that measures the rate of change of prices for a basket of goods and services in the UK, including mortgage payments and council tax.

Securitise/Securitisation

The creation and issuance of tradable securities, such as bonds, that are backed by the income generated by an illiquid asset or group of assets. By pooling a collection of illiquid assets, such as mortgages, securities backed by the mortgages' income payments can be packaged and sold to a wider range of investors.

Share class

Each M&G fund has different share classes, such as A, I and R. Each has a different level of charges and minimum investment. Details on charges and minimum investments can be found in the Key Investor Information Documents.

Short position

A way for a fund manager to express his or her view that the market might fall in value.

Short-dated corporate bonds

Fixed income securities issued by companies and repaid over relatively short periods.

Short-dated government bonds

Fixed income securities issued by governments and repaid over relatively short periods.

Sub-investment grade bonds

Fixed income securities issued by a company with a low rating from a recognised credit rating agency. They are considered to be at higher risk from default than those issued by companies with higher credit ratings. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

Swap

A swap is a derivative contract where two parties agree to exchange separate streams of cashflows. A common type of swap is an interest rate swap to hedge against interest rate risk.

Synthetic inflation-linked bonds

Refers to securities created using a combination of assets to simulate the characteristics of inflation-linked bonds. By buying inflation-linked government bonds and selling protection against companies defaulting on their debts, using credit default swaps, the combined synthetic investment will behave similarly to a physical inflation-linked bond, had one had been issued. Synthetic inflation-linked bonds are usually created where a company does not have any inflation-linked bonds in issue.

Total return

The term for the gain or loss derived from an investment over a particular period. Total return includes income (in the form of interest or dividend payments) and capital gains.

Unit trust

A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

Valuation

The worth of an asset or company based on its current price.

Volatility

The degree to which a given security, fund, or index rapidly changes. It is calculated as the degree of deviation from the norm for that type of investment over a given time period. The higher the volatility, the riskier the security tends to be.

Yield

This refers to either the interest received from a fixed income security or to the dividends received from a share. It is usually expressed as a percentage based on the investment's costs, its current market value or its face value. Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.