M&G Credit Income Investment Trust

Quarterly review as at 31 December 2020

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'), of which at least 70% will be investment grade. Over the longer term, it is expected that the Company will be mainly invested in private Debt Instruments, which are those instruments not traded on a stock exchange. The Company currently proposes quarterly dividends at an annual rate of LIBOR + 3% on NAV per calendar year with a variable, fourth interim dividend to be determined after each year end, which will take into account the net income over the whole financial year and, if appropriate, any capital gains. The Company targets LIBOR plus 4% over the longer term.

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 may magnify any gains or losses made by the Company.

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 that the Company's Investment Objective will be achieved.

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

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

Debt Instruments may be repaid by issuers at short notice: as a result it may be difficult for the Company to reinvest capital at an attractive price or at all, which may affect it adversely.

A variety of factors, such as market conditions,liquidity concerns or Company performance may lead to a reduction in trading volume or shares trading at a discount to their net asset value. Shareholders may also be unable to realise their investment at quoted market prices or at all.

Please note that this is not an exhaustive list. Please refer to the Risk section in the Prospectus.

Market review

The final quarter of the year saw the second wave of the Covid-19 virus continue to escalate and spread throughout Europe, triggering a tightening of social restrictions and in some countries (including the UK) the reintroduction of full lockdowns. November however, proved to be a watershed moment in the fight against the virus, as breakthroughs in three separate vaccine trials fuelled buoyant optimism that the severest restrictions on daily life would soon be lifted and open the door for a sustained rebound in economic activity. The news prompted the sharpest tightening of credit spreads since markets initially rallied in April following the extreme wides witnessed during the onset of the pandemic. The upbeat sentiment of the "vaccine rally" was reinforced by the outcome of the US election as Joe Biden was announced as the 46th president of the United States.

Key information

Portfolio manager	Adam English
Portfolio manager tenure from	14 November 2018
Deputy portfolio managers	Robert Whitten and Yiu-Wai Cheung
Launch date	14 November 2018
ISIN number	GB00BFYYL325
TIDM code	MGCI
Market capitalisation	£133.0m
Number of holdings	143
Dividend dates	Quarterly: Feb, May, Aug and Nov
Yield to maturity	3.42%
Modified duration	1.07
Spread duration	4.11
Weighted Average Life	5.00
Gearing	0.00%

Please see the glossary for an explanation of terms used.

Charges

Annual management charge	0.50%
Ongoing Charges Figure (OCF)	0.92%

Despite the renewed sense of optimism for 2021 and further ahead, the quarter also saw the release of sobering economic data which continued to highlight the damage caused by a second round of lockdowns. In the UK GDP grew just 0.4% in October (down from 1.1% in September) whilst November flash PMI showed the widest underperformance of its service economy relative to the manufacturing sector in 25 years. The UK remains the hardest hit economy in the G7, contracting more than twice as much as any other member nation during the first nine months of the year. Similar data for the Eurozone showed the economy had slipped back into contraction during the quarter and now faces the prospect a double dip recession in Q1 2020. The region continues to display the trend that is being witnessed more widely on a global level as a marked divergence between a resurgent manufacturing and contracting service sector continues to establish. The regional disparities in the economic recoveries of countries within the bloc has also led economists to warn of a two-speed recovery, as Europe's fiscally stronger north rebounds faster than the more heavily indebted south.

Although December saw the rapid spread of a new Covid variant accompanied by an alarming spike in UK infection rates, investors remained keen to take on risk. During the month credit spreads ground even tighter, with the search for yield supporting a continuation of the year-end rally in High Yield and spread compression relative to Investment Grade. As the year drew to a close, so did the 11 month transition period following the UK's official exit from the European Union. Following a month of see-saw negotiations, both parties agreed to the EU-UK Trade and Cooperation Agreement (TCA) which Parliament voted to approve on 30th December. In the US, after months of gridlock, Congress was able to pass a $900bn pandemic relief bill which included the renewal of direct payments to households and more generous unemployment benefits.

Manager commentary

During the period we committed 6 new private transactions to the portfolio totalling c. £8.5m. These included 3 regulatory capital transactions (c.£4m) where we purchased mezzanine debt, gaining indirect exposure to the social housing, farming/agriculture and capital call loan sectors, with all deals backed by collateral pools which share very low default characteristics; £1.9m to a real estate development transaction funding the acquisition of a combined portfolio of two office assets which benefit from a strong roster of tenants including blue chip businesses and globally listed corporates; and the £2m secondary market purchase of a PFI (Private Finance Initiative) floating rate, amortising term loan. The latter represents the Trust's first direct investment into the social housing/infrastructure sector. The project relates to the refurbishment of 172 residential dwellings, the new build of 305 residential dwellings and the development of a new street, green spaces, a community centre and a district heating network in the London borough of Lambeth. The work reached financial close in May 2012, with all refurbishment and building work having now been completed. The Project also includes the ongoing maintenance of the combined 477 dwellings (367 for social rent and 108 leasehold) and associated infrastructure.

In the quarter, we also took the opportunity to increase our commitment to the M&G European Loan Fund by £3.5m (c.2.5%). The Leveraged Loan market has lagged the rally seen in both Investment Grade and High Yield credit, and it is our opinion that the yield currently offered by the fund (c.3.2%) is appealing on a risk-return basis and makes for an attractive re-entry point. Additionally, we purchased c.£1m of HNRS 2 A1, the senior tranche of a student loan securitisation which offers a c.4% yield for high quality, investment grade risk (Moodys:A3). The bond holds a public listing but we would consider it to be "illiquid".

We continue to fund private transactions by selling down holdings in selected public bonds, reducing our exposure to sectors which we believe will experience difficulty in the short/medium term and which have tightened to levels at which we are no longer sufficiently compensated for the associated risks. Similarly, we decided to take profit on some of our more defensive names which had tightened to the point where they offered yields significantly inside the long term target of the Trust. In doing so we have been able to improve the risk profile of the Trust whilst realising notable capital gains and adding yield to the portfolio.

Sector breakdown (%)

	Trust
ABS (Assorted)	17.54
Funds	11.98
Real Estate Dev and Mgt	10.45
Mortgage Backed	9.26
Non–Agency CMBS	5.75
Investments and Misc Financial Services	3.73
Cash on Deposit	2.77
Housing Association	2.73
REITs	2.62
Auto Loans	2.48
Banking	2.37
Life–Insurance	2.29
Cons/Comm/Lease Financing	1.98
ABS Automobiles	1.95
ABS Credit Cards	1.80
Telecom – Wireline Integrated and Services	1.59
Beverage	1.52
Food and Drug Retail	1.44
Diversified Capital Goods	1.42
Aerospace/Defense	1.41
Support–Services	1.31
Telecom – Wireless	1.28
Tech Hardware and Equipment	0.91
Multi–Line Insurance	0.86
Integrated Energy	0.76
Property and Casualty Insurance	0.74
Specialty Retail	0.70
Non–Electric Utilities	0.66
Health Services	0.65
Tobacco	0.63
Environmental	0.58
Brokerage	0.57
Electronics	0.46
Metals/Mining Excluding Steel	0.44
Steel Producers/Products	0.42
Forwards	0.41
Oil Field Equipment and Services	0.37
Food – Wholesale	0.33
Auto Parts and Equipment	0.27
Printing and Publishing	0.27
Building Materials	0.19
Personal and Household Products	0.12
Department Stores	0.12
Packaging	0.11
Debt Derivatives	(0.26)

Source: All data contained within the Factsheet is sourced from the Company administrator, State Street as at 31 December 2020.

Outlook

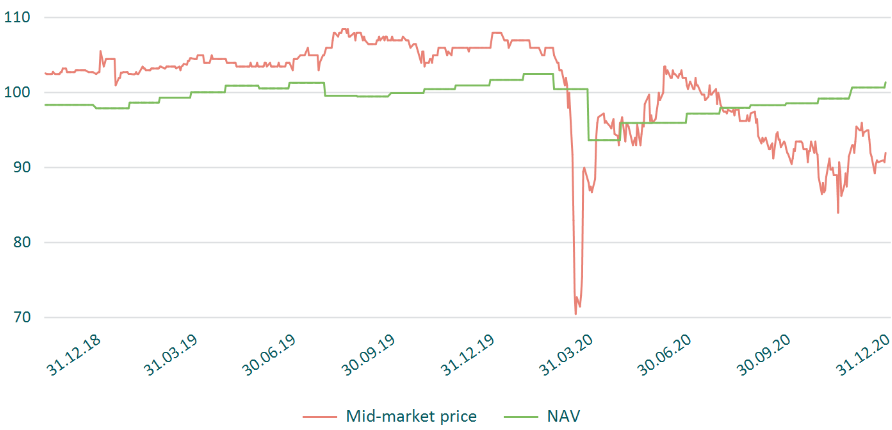
Despite the optimism in investor sentiment, there is still much to remain cautious about. Whilst the market in general appears to be quite bullish, with current pricing assuming a smooth recovery, given the amount of additional debt that issuers have taken on, any future downturns could yet prove problematic. With Investment Grade bonds now trading inside pre-Covid tights and High Yield having retraced almost all losses for the year, there remains very little value to be had in the public market at present. Fiscal stimulus from major central banks looks set to extend until at least 2022 and market technicals are supportive of a prolonged "low yield" environment. We also observe that an increasing amount of private deals are pricing more in line with pre-Covid levels. There has been a notable compression in illiquidity premia vs public markets in the second half of the year as public market tightening caused by central bank support is now beginning to be reflected in private transactions. Against this backdrop we remain focussed on rotating out of public and into private assets whilst increasing the yield of the portfolio. On a committed basis the portfolio is now c.50% invested in private assets (44% funded) with a further 10% of the public portion of the portfolio invested in assets that are illiquid in nature and expected to be held to maturity. We enter the new year with a healthy pipeline of private asset opportunities and will continue to actively grow this base in 2021.

Dividend schedule

	Pay date	Amount GBp
First	23 August 2019	2.09
Second	28 February 2020	1.65
Third	28 May 2020	0.85
Fourth	28 August 2020	0.77
Fifth	27 November 2020	0.71
Sixth	26 February 2021	1.95

Share price vs NAV

As at	NAV p/s (cum-income)	Share price
31 December 2020	101.40	92.00



Source: M&G and State Street as at 31 December 2020.

Past performance is not a guide to future performance.

Portfolio overview (%)

	Fund
Cash on deposit	2.77
Public	**52.98**
Asset backed securities	22.35
Bonds	30.63
Private	**44.09**
Asset backed securities	6.30
Bonds	1.28
Funds	11.98
Loans	13.80
Private Placement	0.99
Other	9.74
Derivatives	**0.16**
Debt derivatives	(0.26)
Forwards	0.41

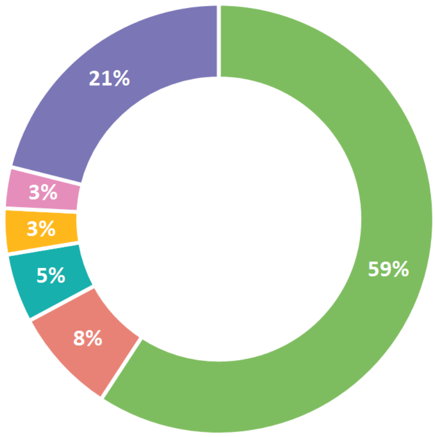
Due to rounding, percentage figures displayed in the Factsheet may not add up to exactly 100%.

Top 20 holdings (%)

	Trust
M&G European Loan Fund (Prvt)	11.98
Cash on Deposit	2.77
ATLAS 2020 1 Trust AUD Note A2 (Prvt)	1.76
Delamare Finance 1.3066% 19 Feb 2029	1.59
Finance For Residential Social FRSH 1 1 A2 RegS	1.58
Hall & Woodhouse Var. Rate 30 Dec 2023 (Prvt)	1.52
Signet GBP Stretch Term Loan (Prvt)	1.42
Regenter Myatt Field North GBP Term Loan (Prvt)	1.37
NDPFT 2017-1 A RegS	1.37
Project Hammond (Prvt)	1.32
Project Driver TL (Prvt)	1.32
RIN II LTD (A) A 144A	1.27
Sonovate Limited Var. Rate 12 Apr 2021 (Prvt)	1.22
Westbourne 2016 1 WR Senior Var. Rate 30 Sep 2023 (Prvt)	1.17
Finance For Residential Social FRSH 1 1 A1 RegS	1.16
Ripon 17-1X B RegS	1.04
Luminis Ltd 09/25 1 (Prvt)	1.02
MRSTNI 1 A4	1.02
LPG 4.49% 21 May 2024 (Prvt)	0.99
Gongga (Corporate Loans) Limited A A RegS	0.98

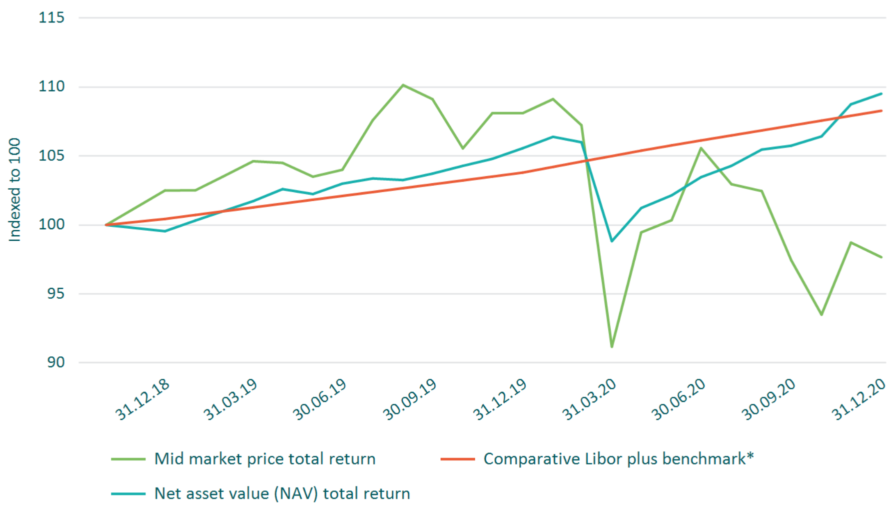
(Prvt) – Private Investment

Geographical exposure %



Source: M&G and State Street as at 31 December 2020.

Total return



*3 Month Libor +2.50% from inception to 31 December 2019, thereafter 3 Month Libor +4.00%.

The Company proposes (for the calendar year 2021 onwards) three quarterly interim dividends at an annual rate of LIBOR + 3% on NAV with a variable, fourth interim dividend to be determined after each year end, which will take into account the net income over the whole financial year and, if appropriate, any capital gains. The M&G Credit Income Investment Trust paid the initial 3 interim dividends per calendar year at a return of LIBOR +2.75% after returning LIBOR +2.5% for the period 14.11.18-31.12.19.

The portfolio is actively managed. The Portfolio Manager has complete freedom in choosing which investments to buy, hold and sell in the fund.

Source: Morningstar Inc, State Street and M&G, as at 31 December 2020. Returns are calculated on a price to price basis with income reinvested. Returns stated in GBP terms.

Credit rating breakdown (%)

	Trust
Unrated	**0.16**
Derivatives	0.16
Cash and Investment grade	**79.28**
Cash On Deposit	2.77
AAA	5.53
AA+	2.52
AA	4.66
AA-	3.97
A+	0.21
A	1.67
A-	3.28
BBB+	10.53
BBB	11.82
BBB-	22.98
M&G European Loan Fund	9.34
Non-investment grade	**20.56**
BB+	4.76
BB	2.81
BB-	4.25
B+	1.40
B	3.07
B-	0.39
CCC+	0.58
CC	0.42
D	0.25
M&G European Loan Fund	2.64

Contacts

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M&G Investments

Glossary

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

Asset

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

Asset Backed Security (ABS)

A security whose income payments and value are derived from and collateralized by a specified pool of underlying assets.

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.

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.

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 a measure of financial leverage that demonstrates the degree to which the Investment Trust's operations are funded by equity capital versus creditor financing.

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, also called a bond, or bond fund to changes in interest rates. The higher a bond or bond fund's modified 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.

Ongoing Charges Figure (OCF)

Ongoing charges figure (as a percentage of shareholders' funds) is an annualised rate calculated using average net assets over the period in accordance with the AIC's recommended methodology.

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.

Physical

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

Private

Refers to assets that are not listed or traded on a recognized exchange.

Public

Refers to assets that are listed on and can be traded on a recognized exchange.

REIT (Real Estate Investment Trust)

A REIT is a company that owns, operates or finances income-producing real estate.

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.

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.

Spread duration

A measure of the portfolio's sensitivity to changes in credit spreads.

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.

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.

Weighted Average Life (WAL)

The asset-weighted average number of years to final maturity of the portfolio, based on the final maturity for all assets/exposures.

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.

Yield to maturity

The total return anticipated on the portfolio if the underlying bonds are held until maturity.