M&G Credit Income Investment Trust

Quarterly review as at 30 June 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 plus 2.75% on NAV and 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.

Market review

Q1 2020 saw one of the fastest and most aggressive market corrections in history, as Covid-19 spread around the globe. The speed and extent of the subsequent recovery witnessed in Q2 was equally as unprecedented as governments and central banks around the world took swift and drastic action to prevent markets from collapsing. In the UK, the Chancellor of the Exchequer, Rishi Sunak promised to do "whatever it takes" to protect businesses and household income, rolling out extraordinary fiscal measures whilst the Bank of England relaunched its corporate bond purchase programme, unleashing an additional £300bn in quantitative easing which steadied UK credit markets and provided much needed liquidity. The US Federal Reserve (Fed) announced a $2.3 trillion stimulus package whilst European Union finance ministers also agreed to a €750bn billion package intended to support those countries worst affected by Covid-19.

The harsh economic reality of the coronavirus pandemic and subsequent population lockdowns and business closures emerged in data released during the second quarter. After April's historic plunge (-20.4%), UK GDP for May was well below the rebound expected by forecasters, suggesting a longer road to recovery than initially anticipated. While backward-looking data remains largely negative, reflecting the worst of the initial reactions to the pandemic's spread, many forward-looking indicators, such as purchasing managers indices have recovered recently. However, any economic recovery is highly dependent on the prevention and containment of second wave cases as well as the change in consumer behaviour in relation to "non-essential" goods and services. Consensus forecast now expects the global economy to contract by -3.7% year-on-year in 2020 (as measured by gross domestic product). Despite this, equity and credit markets went from strength-to-strength during the period, seemingly shrugging off an impending recession as investor appetite for risk assuaged by central bank intervention and support led market conditions to diverge significantly from economic reality. Against this backdrop, the NAV based quarterly return of the Trust was 4.70%.

Manager commentary

As markets rallied in April, High Yield performed particularly strongly, retracing c.40-50% of losses seen in the previous month, with BB credit outperforming. The Trust took advantage of the strong technical picture in both this sector and the BBB space to lock in capital gains, selling down names that had performed strongly such as Iceland, Playtech and Deutsche Telekom which we had purchased during March at significantly wider levels. This theme continued into May as further tightening in BB credit allowed us to take profit on positions in Ziggo and Ellis, names which had also forcefully rebounded.

As the quarter progressed, liquidity in the ABS market gradually improved and we were able to sell down c.£11m in what we consider "cash-like instruments" and rotate into longer dated, fixed bonds, continuing to take the opportunity to add credit risk to the portfolio whilst increasing yield. We continue to hedge interest rate duration in the portfolio via our short position in the Long Gilt Future and as at the end of the period this figure was 1.37 years, in line with the historical average since launch.

During the period, much of our activity focussed on the raft of new issues particularly in the BBB space across a broad range of sectors. Notable purchases in the secondary market included Signify (previously Phillips lighting), Rolls Royce (Aerospace/Defence), Delamare B2 - the floating-rate, senior tranche of a CMBS secured by the sale and leaseback of 33 Tesco superstores and 2 distribution centres, and START 2018-1 A, the senior tranche of an aircraft leasing securitisation backed entirely by a portfolio of narrow-body aircraft.

In the private space, we completed the £1.4m purchase of our first private placement (PP) note, a business specialising in LPG (liquefied petroleum gas) and oil retail, acquired in the secondary market. We also participated in La Trobe (LTFC 2020- 1) a publicly listed but essentially private, Australian RMBS, in which we purchased AUD 1.05m of the mezzanine notes. Additionally, we completed the refinancing of an existing private position which offered an uplift in return and as part of the transaction we also took the opportunity to add the senior note in the new structure.

On June 4th the Trust undertook a share placing, raising c.£14.1m in proceeds on the issuance of 14,745,770 shares. The additional capital was deployed throughout the remainder of the month.

Key information

Portfolio manager	Adam English
Portfolio manager tenure from	14 November 2018
Deputy portfolio managers	Robert Whitten & Yiu-Wai Cheung
Launch date	14 November 2018
ISIN number	GB00BFYYL325
TIDM code	MGCI
Market capitalisation	£146.2m
Number of holdings	149
Future dividend dates	Quarterly: Feb, May, Aug & Nov
Yield to maturity	4.54%
Modified duration	1.37
Spread duration	4.32
Weighted Average Life	5.30

Please see the glossary for an explanation of terms used.

Charges

Annual management charge	0.50%
Ongoing Charges Figure	0.93%

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.

Contact M&G

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Outlook

Investment grade and high yield credit spreads have rebounded so strongly from their lows that bonds in all but the most affected sectors (REITS, Leisure, Retail, Travel) are now offering relatively low returns given the tough operating environment and macro headwinds that remain on the horizon. Investors' clamour for risk has compressed new issue premia and new issuance has slowed with the summer now upon us and corporates having tapped markets for record amounts of capital in recent months. As such, in the public market we remain cautious on adding risk at current levels and continue to adopt a measured and analytical approach to sourcing names where we see valuations as misaligned relative to underlying credit fundamentals.

The private market sprang back to life during the quarter and reflecting the changing investment environment and uncertainty created by the pandemic, illiquidity premia on new opportunities has widened (vs. pre-Covid transactions). Many investment grade transactions are now offering returns more in line with the long term target of the Trust, and also given public market tightening, a very healthy pick up over comparable public bonds. We are currently seeing a very strong pipeline of private investment opportunities and have bid on a good number of these. We will continue to sell down high grade ABS positions and take profit on names that have rallied strongly to the point that we see further upside potential being limited, in order to fund further private transactions as and when they become available.

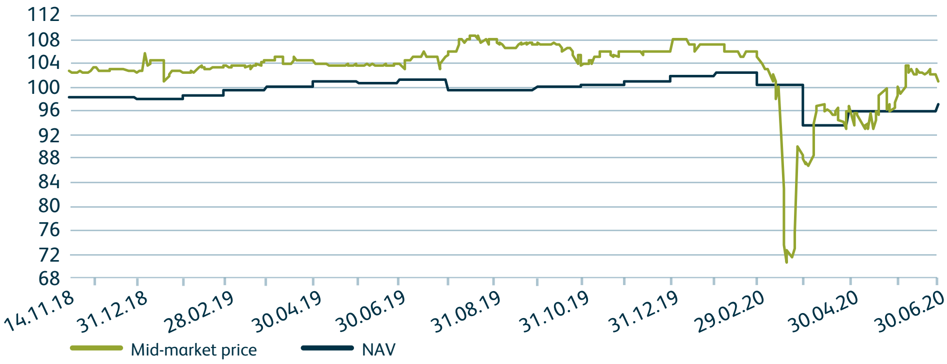
There remain many risks on the horizon as we enter the second half of the year, from the risk of a second wave of cases, to heightened geopolitical risks (notably surrounding US-China-Hong Kong relations, and Brexit). Also, with the economic damage to household income currently cushioned by the Government furlough scheme, another key risk on the horizon is the tapering of economic assistance later in the year, how this is managed and the ensuing impact to the real economy. The market seems largely to have ignored these risks so far but the Trust is well positioned to take advantage of any periods of volatility that may materialise as a result.

--Dividends

	XD date	Pay date	Amount GBp
First	25.07.2019	23.08.2019	2.09
Second	06.02.2020	28.02.2020	1.65
Third	07.05.2020	28.05.2020	0.85
Fourth	06.08.2020	28.08.2020	0.77

Share price vs NAV

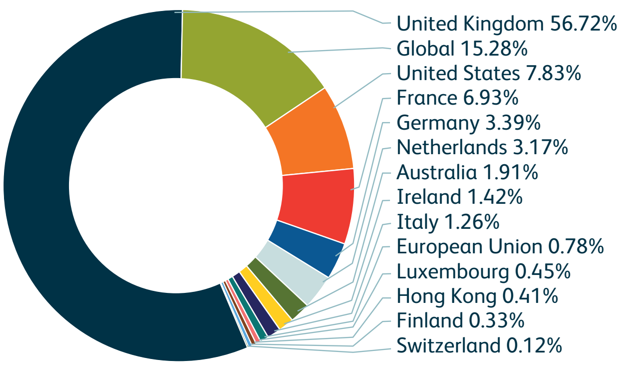
As at	NAV p/s (cum-income)	Share price
30.06.20	97.23	101.0



Source: M&G and State Street as at 30 June 2020.

Past performance is not a guide to future performance.

Geographical exposure (%)



Source: State Street.

Portfolio overview (%)

	Trust
Cash on deposit	2.83
Public	66.88
Asset-backed securities	24.57
Bonds	42.31
Private	30.97
Asset-backed securities	3.64
Bonds	0.77
Investment funds	9.53
Loans	10.53
Private placements	1.03
Other	5.47
Derivatives	(0.68)
Debt derivatives	(0.08)
Forwards	(0.60)

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

Credit rating breakdown (%)

	Trust
Unrated	(0.68)
Derivatives	(0.68)
Cash and investment grade	80.05
Cash on deposit	2.83
AAA	8.68
AA+	3.13
AA	5.46
AA-	1.51
A+	0.23
A	2.54
A-	1.07
BBB+	12.82
BBB	14.99
BBB-	19.36
M&G European Loan Fund ("ELF") (note)	7.43
Non-investment grade	20.63
BB+	4.38
BB	3.64
BB-	4.06
B+	1.59
B	3.13
B-	0.94
CCC+	0.79
M&G European Loan Fund ("ELF") (note)	2.10

Top 20 Holdings (%)

	Trust
M&G European Loan Fund (Prvt)	9.53
Cash on Deposit	2.83
Delamare Finance 1.3066% 19 Feb 2029	1.65
Hall & Woodhouse Var. Rate 30 Dec 2023 (Prvt)	1.59
Warwick Finance Residential Mortgages Number One Var. Rate 21 Sep 2049	1.45
RIN II 1.9598% 10 Sep 2030	1.43
NewDay Partnership Funding 0.8191% 15 Dec 2027	1.41
Project Driver TL (Prvt)	1.37
Paragon Mortgages No 25. 0.9423% 15 May 2050	1.32
Sonovate Limited Var. Rate 12 Apr 2021 (Prvt)	1.28
Westbourne 2016 1 WR Senior Var. Rate 30 Sep 2023 (Prvt)	1.21
Gate 2 Var. Rate 4 Jun 2021 (Prvt)	1.12
Marston's Issuer 1.7074% 15 Oct 2031	1.12
Asia-Pacific Mtge Securitisation A1 (Prvt)	1.11
Gongga Var. Rate 04 Jun 2021	1.09
Leeds Building Society 3.75% 25 Apr 2029	1.08
Ripon Mortgages 1.4561% 20 Aug 2056	1.07
LPG 4.45% 21 May 2024 (Prvt)	1.03
Iliad 2.375% 17 Jun 2026	0.99
Kennedy Wilson Europe Real Estate 3.95% 30 Jun 2022	0.98

(Prvt) – Private Investment

Sector breakdown (%)

	Trust
ABS (Assorted)	16.05
Mortgage Backed	11.84
Funds	9.53
Banking	6.44
Real Estate Dev & Mgt	5.75
Commercial Mortgage Backed	4.69
Investments & Misc Fincl Svcs	4.20
Auto Loans	4.18
Cash on Deposit	2.83
REITs	2.63
Food & Drug Retail	2.46
Life-Insurance	2.18
Cons/Comm/Lease Financing	2.04
ABS Automobiles	1.91
ABS Credit Cards	1.86
Diversified Capital Goods	1.83
Telecom - Wireline Integrated & Services	1.64
Beverage	1.59
Support-Services	1.36
Aerospace/Defense	1.35
Automakers	1.34
Telecom - Wireless	1.17
Tobacco	1.03
Integrated Energy	0.96
Tech Hardware & Equipment	0.94
Gaming	0.88
Multi-Line Insurance	0.83
Specialty Retail	0.69
Property and Casualty Insurance	0.69
Non-Electric Utilities	0.66
Rail	0.61
Brokerage	0.58
Auto Parts & Equipment	0.51
Electronics	0.50
Food - Wholesale	0.49
Metals/Mining Excluding Steel	0.44
Environmental	0.44
Oil Field Equipment & Services	0.38
Steel Producers/Products	0.35
Printing & Publishing	0.26
ABS Utilities	0.22
Packaging	0.12
Personal & Household Products	0.11
Department Stores	0.11
Debt Derivatives	(0.08)
Forwards	(0.60)

Source: All data contained within the Factsheet is sourced from the Company administrator, State Street as at 30 June 2020.

Glossary

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

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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.

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.

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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.

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.

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.

Important information

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