M&G Credit Income Investment Trust

Quarterly review as at 30 June 2024

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 SONIA +4% 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 SONIA 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.

Dividend Schedule

Period	Amount GBP
2019	3.74
2020	4.28
2021	4.04
2022	5.35
2023	7.96
2024 Q1	2.15
2024 Q2	2.15

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	£137.68m
Number of holdings	130
Dividend dates	Quarterly: Feb, May, Aug and Nov
Yield to maturity	8.46%
Modified duration	1.22
Spread duration	3.23
Weighted Average Life	3.70
Gearing	0.00%

Please see the glossary for an explanation of terms used.

Charges

Annual management charge	0.70%
Ongoing Charges Figure (OCF)	1.28%

Portfolio overview (%)

	Fund
Cash on deposit	1.65
Public	**43.75**
Asset backed securities	18.02
Bonds	18.29
Funds*	7.43
Equity	0.01
Private	**54.70**
Asset backed securities	5.06
Bonds	2.13
Funds	14.44
Loans	20.48
Private Placements	1.24
Other	11.35
Derivatives	**(0.09)**
Debt derivatives	(0.01)
Forwards	(0.08)

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

Market review

The second quarter of the year got off to a shaky start as US CPI for March showed a third straight month of higher-than-expected inflation. This prompted a US-led repricing of global rate expectations and investors also moved to push back the probability of rate cuts from other central banks. However, from there onwards it was very much a story of disinflationary progress, as core US CPI in May came in at 3.4% YoY, down from 3.6% in April - its slowest pace in 3 years. As the period progressed, a slew of data releases painted a picture of a slackening labour market and suggested the US may be approaching an inflection point, with a steady decline in job vacancies and a gradual pickup in unemployment. As these developments lent support to Fed rate cuts, in the UK, headline CPI also notably fell to 2.0% YoY in May, returning to the Bank of England's inflation target for the first time since July 2021. Although in the UK core inflation remains elevated (as in many G7 economies), the Bank of England hinted that more MPC members may be close to backing interest rate cuts, keeping alive hopes of a loosening by the end of the summer and although the base rate was left at its 16-year high, it was seen as a “dovish hold”. This was in contrast to action taken by the ECB during the quarter, which delivered its well flagged initial cut but warned against the expectation that this would be the beginning of a sustained easing cycle. This was perceived as a “hawkish cut” and market pricing adjusted to predict a shallower path for European rates. However, in Europe it was the political narrative which dramatically affected markets during the quarter as major gains by far-right parties in the European parliamentary elections also saw Marine Le Pen’s National Rally party dominate the French polls. The result prompted the surprise decision by French President Macron to call a snap legislative election which led to a sizeable bond and equity sell-off across Europe with France at the epicentre. The groundswell of support for populist political parties not only in France but across other core EU member states raised the spectre of future disruption to Euro-market status quo, spooking financial markets. French risk remained on the backfoot throughout the month, dragging down other European markets.

Manager commentary

The Company continues to deliver positive performance which year-to-date is closely tracking its SONIA +4% benchmark. The Company’s NAV total return in Q2 was +2.12% which notably outperformed comparative investment grade fixed income indices such as the ICE BofA Sterling Corporate and Collateralised Index (-0.26%), the ICE BofA 1-3 Year BBB Sterling Corporate Index (+1.07%), and the ICE BofA European Currency Non-Financial High Yield 2% Constrained Index (+1.49%). Performance was driven predominantly by income accrued over the quarter.

Overall, in public bond markets, the quarter saw a softening in investment grade credit spreads. In April this was driven by an escalation in geopolitical tensions in the Middle East, higher for longer rate concerns and a high volume of new issuance. Whilst May saw a stabilisation supported by positive inflation reports and resilient economic growth, financial markets in June were roiled by the political uncertainty resulting from the surprise announcement of a snap election in France. This led to credit spreads widening notably with weaker economic data also contributing to the risk-off tone.

We added bonds selectively during the period, continuing to favour the up-in-quality trade and in particular the additional return that can be earned by rotating from BBB corporate bonds into A-rated, CLO tranches. As part of this rotation we sold down banking and insurance paper that had tightened significantly since initial purchase and redeployed £2.7m of proceeds into new issues from managers Ares (ARESE XIX), Anchorage Capital (ANCHE 10X) and M&G (MARGAY II C). We also participated (£0.75m) in the high yield new issue from 888 (Gaming) which we felt was priced attractively. Recent months have seen a notable pick up in private market activity, both in terms of the number of deals we are being shown and of those we have chosen to participate in which have progressed through to completion. During the quarter we deployed £3.9m across four private assets. These included taking additional exposure in existing facilities in the portfolio, lending to a waste-to-energy business (£1.5m) and an invoice financing business focussed on servicing large corporates and SMEs mainly in France (£0.4m). Two new private loans were entered into, the first of which saw £1m invested in a floating-rate, 7-year term loan to a provider of fresh food and catering services to healthcare facilities such as care homes and hospitals in the Netherlands, returning the equivalent of EURIBOR +600bps over its term. We also invested £1m in a UK headquartered business which provides fall protection equipment/systems and safe access solutions, with the 4-year term loan returning SONIA +500bps.

Sector breakdown (%)

	Trust
Funds	21.87
ABS (Assorted)	17.14
Real Estate Dev and Mgt	12.81
Banking	8.64
Non - Agency CMBS	6.54
Mortgage Backed	4.31
Cons/Comm/Lease Financing	2.54
Investments and Misc Financial Services	2.54
Life - Insurance	2.35
REITs	1.85
Telecom - Wireless	1.70
Cash on Deposit	1.65
Electric - Generation	1.59
Food - Wholesale	1.26
Electronics	1.16
Transport Infrastructure/Services	1.03
Media Content	0.96
ABS Utilities	0.95
Restaurants	0.93
ABS Credit Cards	0.85
Specialty Retail	0.83
Multi-Line Insurance	0.78
Gaming	0.74
Diversified Capital Goods	0.74
Health Services	0.73
Integrated Energy	0.71
ABS Automobiles	0.69
Support - Services	0.55
Trucking and Delivery	0.51
Tech Hardware and Equipment	0.43
Oil Field Equipment and Services	0.39
ABS Airline Leases	0.19
Electric - Integrated	0.09
Food and Drug Retail	0.01
Debt Derivatives	(0.01)
Forwards	(0.08)

Source: All data contained within the Factsheet is sourced from the Company administrator, State Street as at 30 June 2024.

Outlook

Policy makers remain cautious and keen to emphasise a data dependent approach to future decisions on the path of interest rates, despite positive progress on reducing inflation. This lends itself to ongoing volatility in interest rate markets, although we continue to mitigate against this risk by maintaining low portfolio duration – a function of holding mostly floating-rate assets but also hedging the interest rate risk on the fixed portion of the portfolio. Currently, core inflation across European and US economies remains undesirably high (despite recent positive trends in the underlying components) and remains an obstacle to the path of rate cuts the market is anticipating. Acknowledging the challenges and speed bumps that can occur in returning inflation to target over the last mile, the good news is that a soft landing looks to be on track in the UK, Eurozone and the US. The UK economy particularly is faring much better than expected with consumer spending projected to be the main driver of an acceleration in UK GDP growth which mostly reflects improvements in households' real incomes, due to falling inflation and firm wage growth. Looking further ahead, there are numerous structural drivers for higher inflation. A decline in labour supply, deglobalisation arising from geopolitical tensions, as well as effects from the global energy transition are just some of the contributing factors expected to add to higher price pressures in the long term, which would imply that interest rates will also need to remain higher.

Geopolitical risk remains elevated, noting the ongoing conflicts in Ukraine and the Middle East, the pending US election, and closer to home the rise of populist parties in Europe. The mood music in the UK feels slightly more sanguine, with anticipation that the parliamentary majority for the Labour party will provide a more predictable and stable backdrop for investment, whilst the recent "mini-budget" episode should provide enough of a deterrent against fiscal imprudence.

In public bond markets, credit spreads remain at historically tight levels and whilst rate cuts in the US and UK might provide a catalyst for further tightening in High Yield, in Investment Grade we see most good news as more-or-less already fully priced in. With strong demand from all-in yield buyers outstripping issuance, our expectation is that the market technical created by this imbalance will keep credit spreads anchored and fairly range bound in the near-to-medium term. Whilst the current macroeconomic environment remains relatively supportive for investment grade credit, which is positive for the existing portfolio, the question then becomes, where do we as spread buyers find value? If public credit markets continue in their current holding pattern and with a strong pipeline of private investment opportunities coming through, we are actually presented with an advantageous combination of conditions to realise capital gains on public bond sales whilst being able to redeploy proceeds into higher yielding private issuance. We have been successfully executing this rotation play in Q2 and see further opportunity to extend it as we move through Q3.

At time of writing, current market pricing is implying just shy of 4 rate cuts by June 2025 which would take the Bank of England base rate (tracked by SONIA) to 4.25%. Should this transpire, the Company's SONIA +4% dividend target would remain in the high single digits for the foreseeable future. We believe this is an attractive return for a strongly diversified portfolio with an average credit rating profile of BBB (considered firmly investment grade). Indeed, on a one-year basis, the NAV total return (+11.5%) has outperformed the European High Yield index (+10.98%) whilst carrying inherently less volatility and risk. The pipeline of private asset opportunities looks very strong right now and we are negotiating on a number of new facilities which we hope to add to the portfolio in the coming months. The portfolio is currently more defensively positioned than at the start of the year, with £10m held in a daily dealing ABS fund of AAA credit quality (held in lieu of cash) whilst also remaining fully undrawn on our £25m credit facility. When market volatility creates opportunity we are therefore well positioned to add risk into the portfolio as we have done effectively during previous episodes.

Credit rating breakdown (%)

	Trust
Unrated	**-0.09**
Equities	0.01
Derivatives	-0.09
Cash and Investment grade	**76.89**
Cash on Deposit	1.65
AAA	8.34
AA	2.81
AA-	3.08
A+	1.33
A	4.60
A-	4.01
BBB+	9.48
BBB	14.76
BBB-	17.96
M&G European Loan Fund*	8.86
Non-investment grade	**23.20**
BB+	4.20
BB	4.68
BB-	2.43
B+	3.54
B	5.26
D	0.59
M&G European Loan Fund*	2.50

*See glossary

Share Price vs NAV

As at	NAV p/s (cum income)	Share price
30 June 2024	96.26	97.00

Total Return

NAV total return (%, p.a.)**	1 month	3 months	6 months	YTD	1 year	2 years	3 years	5 years	Since Inception***
M&G Credit Income Investment Trust	0.65%	2.12%	4.59%	4.59%	11.50%	8.36%	4.62%	4.70%	4.71%
Benchmark*	0.76%	2.32%	4.69%	4.69%	9.62%	8.45%	7.08%	5.84%	5.56%

Calendar year NAV total return (%, p.a.)**	2023	2022	2021	2020	2019
M&G Credit Income Investment Trust	10.42%	-1.74%	4.25%	3.75%	6.04%
Benchmark*	8.96%	5.47%	4.09%	4.32%	3.34%

Source: Morningstar Inc, State Street and M&G, as at 30 June 2024. Returns stated in GBP terms.

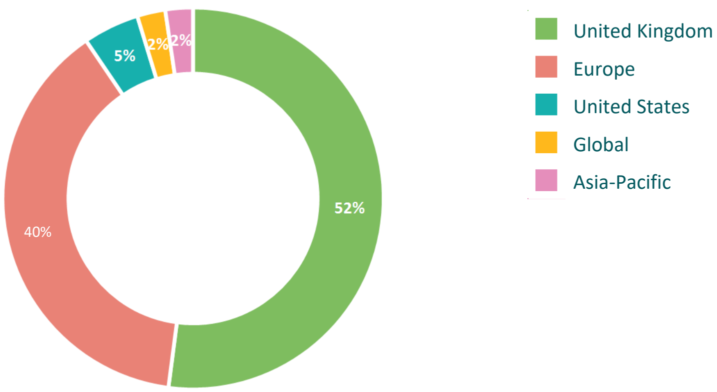
*3 Month Libor +2.5% from inception to 31/12/2019, 3 Month Libor +4% from 1st January 2020 to December 2021, thereafter SONIA +4%.

**The total return calculation assumes that dividends paid to shareholders are reinvested at NAV at the time the shares are quoted ex-dividend.

***Trust inception 14 November 2018.

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

Geographical Split %



Source: M&G and State Street as at 30 June 2024.

Top 20 holdings (%)

	Trust
M&G European Loan Fund (Prvt)	11.36
M&G Senior Asset Backed Credit Fund	7.43
M&G Lion Credit Opportunity Fund IV (Prvt)	3.08
ICSL 2 B RegS	1.77
Delamare Finance 1.3066% 19 Feb 2029	1.76
Cash on Deposit	1.65
Project Energy from Waste UK (Prvt)	1.59
Aria EUR Term Loan A (Prvt)	1.41
Project Hammond (Prvt)	1.39
Signet GBP Stretch Term Loan (Prvt)	1.28
ATLAS 2020 1 Trust AUD Note A2 (Prvt)	1.28
BSAM 1 1 RegS	1.26
Regenter Myatt Field North GBP Term Loan (Prvt)	1.17
Grover Term Loan A (Prvt)	1.16
Project Grey Senior Term Loan (Prvt)	1.16
GONGG 1 (A) A RegS	1.16
CBNA T12 Mezz (Prvt)	1.15
STCHB 7 A (Prvt)	1.13
ICSL 1 B RegS	1.12
Finance for Residential Social Housing 8.569% 04 Oct 2058	1.10

(Prvt) – Private Investment

Glossary

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 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.

CLO (Collateralised loan obligation)

Actively managed investment vehicle which issues rated tranches of debt from AAA-B and an unrated equity tranche. Underlying assets are predominantly made up of leveraged loans and high yield bonds.

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.

ECB (European Central Bank)

Central bank of the 19 European Union countries which have adopted the euro.

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.

M&G European Loan Fund ("ELF")

An open-ended fund managed by M&G that invests in leveraged loans issued by, generally, substantial private companies located in the UK and Continental Europe. ELF is not rated and the Investment Manager has determined an implied rating for this investment, utilising rating methodologies typically attributable to collateralised loan obligations. On this basis, 78% of the Company's investment in ELF has been ascribed as being investment grade, and 22% has been ascribed as being sub-investment grade. These percentages have been utilised on a consistent basis for the purposes of determination of the Company's adherence to its obligation to hold no more than 30% of its assets in below investment grade securities.

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.

NAV Total Return

A measure showing how the net asset value (NAV) per share has performed over a period of time, taking into account both capital returns and dividends paid to shareholders.
NAV total return is expressed as a percentage change from the start of the period. It assumes that dividends paid to shareholders are reinvested at NAV at the time the shares are quoted ex-dividend.
NAV total return shows performance which is not affected by movements in share price discounts and premiums. It also takes into account the fact that different investment companies pay out different levels of dividends.

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.

Share price total return

Total return to shareholders, assuming all dividends received were reinvested at the mid-market price without transaction costs into the shares of the Company at the time the shares were quoted ex-dividend.

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.

SONIA (Sterling overnight index average)

Aninterest rate index administered by the Bank of England and based on actual transactions. It reflects the average interest rate that banks pay to borrow sterling overnight from other banks and institutional investors.

Spread duration

A measure of the portfolio's sensitivity to changes in credit spreads. The higher a bond or bond fund's spread duration, the more sensitive it is 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.

Contacts

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M&G Investments