Pooled Pensions

M&G PP UBS All Stocks Corporate Bond Fund

Fund Factsheet Q2 2021

M&G Investments

All statistics from M&G internal sources as at 30.06.21, unless indicated otherwise.

Fund description

The fund invests mainly in high quality Sterling corporate bonds across the range of maturities. The fund is actively managed against its benchmark, the iBoxx Sterling Non-Gilts Index. The fund may also hold UK government gilts and limited amounts of high yield and hedged non-sterling corporate bonds. Derivative instruments may be used for efficient portfolio fund management.

Investment objective

To outperform the benchmark by 0.80% per annum gross of fees on a rolling three year basis.

Key facts

Style	Active
Fund manager	Jamie Hamilton
Benchmark	iBoxx Sterling Non-Gilts Index
Number of holdings	534

	ACC	INC
Fund size	£1,832.77m	£1,155.73m
Current bid/offer spread	0.58%	0.58%
Offer price	£37.76	£32.61
AMC/OCE†	0.30%/0.01%	0.30%/0.01%

†AMC - annual management charges; OCE - other charges and expenses.

Performance

Percentage change in bid price since 1 January 2020, offer price prior to 1 January 2020 (net of fees).

12 months to end of June	2021	2020	2019	2018	2017
Fund (ACC)	2.7	8.6	6.7	1.3	7.8
Fund (INC)†	2.7	8.6	6.7	1.3	n/a
Benchmark	1.7	6.4	5.9	0.6	5.3

	Qtr	1 yr	3 yrs*	5 yrs*
Fund (ACC)	1.8	2.7	6.0	5.4
Fund (INC)†	1.8	2.7	6.0	n/a
Benchmark	1.7	1.7	4.7	4.0

*Annualised

† Income units were introduced on 16 December 2016.

Past performance is not a guide to future performance. The value and income from fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.

Performance and attribution

The second quarter brought some relative calm to bond and equity markets compared to previous ones, despite concerns about building inflation evident in recent data releases. Economic data continues to point to a strong recovery from the COVID-19 induced weakness of 2020, with much of the market's attention focussing on the inflation numbers. In the US, leading indicators point to a strong second quarter, with the ISM Manufacturing and Non-manufacturing Purchasing Managers indices both stronger once more, as were the Michigan Consumer Sentiment and Expectations indices. The unemployment rate declined further, to 5.8% for May, less than half what was recorded the previous May at the height of the pandemic. Inflation reached 5% for only the second time in almost 30 years, but despite this, U.S. Treasury yields declined as the Federal Reserve indicated it may consider whether some curbing of its stimulatory policies could be required. Nonetheless, few commentators anticipate higher official interest rates until later in 2022, at the earliest.

There is also currently no sign either, that the European Central Bank intends to begin tapering its bond purchase programme, which continues to provide support to the European investment grade corporate market. As the so-called 'hunt for yield' continues, investors have continued to buy riskier areas of the credit markets such as high yield bonds, where the lower rated CCC bonds have performed particularly strongly this year. The European Central Bank's level of support for credit markets is largely unchanged from the crisis period last year, and risks fuelling investor complacency in a credit market where fundamental credit risks are becoming increasingly out of alignment with current market pricing.

Elsewhere, strengthening economic growth and higher inflation were evident across Europe and the UK. Labour shortages have become a widespread feature in many economies, particularly where governments have been actively supporting companies and their workforces. As the furlough schemes close in the UK, it is possible that it may crystalise the viability of many smaller businesses to continue operating however, and we will maintain a close watch on developments for renewed signs of broader corporate stress.

The fund outperformed its benchmark by 0.10% during Q2 2021. The following factors contributed to the outperformance:

Security selection was the key driver of the outperformance. Individual overweight positions in bonds issued by companies such as Electricite de France and General Electric were key contributors. However, underweight positions in bonds issued by Barclays and Phoenix Group were minor detractors to performance. As the fund is underweight corporate risk relative to the benchmark, sector selection was a minor detractor to performance as credit spreads continued to tighten over the quarter.

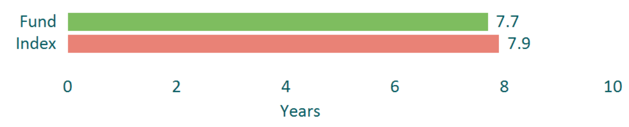
The fund remains closely positioned to the benchmark in terms of duration.

Strategy

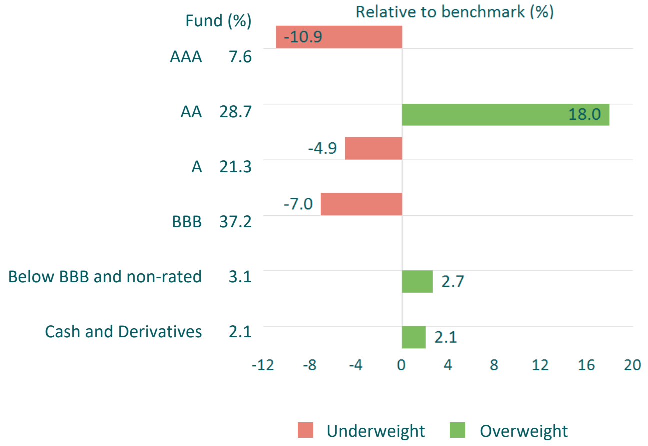
Over the quarter, the manager continued to de-risk the fund and retain an underweight position in credit spread duration and corporate risk relative to the benchmark. To reduce risk in the fund, the manager engaged in relative value trades and switched out of the existing Berkshire Hathaway holdings into bonds issued by the same company with a shorter maturity.

The manager continued to reduce the fund's exposure to strong performing assets and took profits on names such as Rolls Royce, HSBC and The AA. In the secondary market, the manager purchased attractively priced assets such as bonds issued by National Grid, Yorkshire Water and GDF Suez. As valuations are looking increasingly stretched, the manager has largely re-invested the sale proceeds into gilts or cash. Interest rate risk was maintained at benchmark neutral levels.

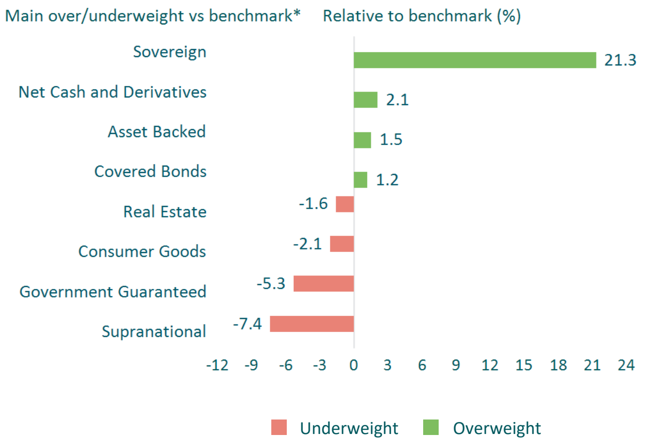
Duration



Credit ratings



Sector positions



From 2019, M&G is pleased to announce the introduction of a relationship discount for those clients invested in multiple strategies who meet certain criteria. We will be contacting clients directly where they may benefit from this initiative and, if you are interested in discussing this further, please get in touch with your usual M&G contact.

Environmental Social Governance

M&G incorporates the evaluation of ESG factors into its investment process. Recent engagements include the followings:

Fiserv

M&G met with Fiserv to encourage the US fintech company to deliver better disclosure and to push for clear environmental objectives, in line with their peers. The company explained that it had just released its first sustainability report (after we made first contact on the issue, but before our meeting). As a result of the engagement, we have updated the ESG scorecard using their new sustainability report and await announcements around new environmental targets, due later in the year. We believe the company is still working on internal targets and policies, but is making good progress.

BHP

M&G met with BHP, the diversified mining business, to encourage the company to accelerate its remediation work at Samarco in relation to the Fundão tailings dam disaster in Brazil, and to thereby facilitate the removal of ISS' UN Global Compact red flag. We found that the pace of remediation has been slow. Firstly, the villagers whose homes had been destroyed in the disaster wanted their new village to be relocated in virgin forest, which meant creating new infrastructure, and then the impact of COVID affected building work. The village is now unlikely to be completed for a couple of years, and some villagers are taking direct financial compensation instead of waiting for the village to be completed. We will continue to monitor the evolving situation.

Engie

M&G attended a collective meeting with Engie, the French multinational electric utility company, to receive an update from the chair on the company's climate strategy. The company set out a very ambitious pathway to 2030, and M&G asked that it disclose its plans after 2030. The company announced that it was going to build capacity for 80GW of renewables by 2030 and then accelerate renewable supply further. Engie sees huge demand in renewables, and gas will be part of the transition - the company will convert its coal plants to gas and all gas will become green by 2045.

BASF

M&G Investments and other Climate Action 100+ members met with the company to plan the next phase of engagement which will take place in the second half of 2021. Having persuaded the company to announce a Net Zero target for scope 1 and 2 emissions, the next stage of the engagement is to extend this target to scope 3 emissions. A planning meeting took place in Q2 2021 for an engagement in the second half of 2021. We believe a combination of collective and bilateral engagement to be an effective means of achieving change, and will review the company response after the Climate Action 100+ meeting has taken place.

Risk rating

Minimal	Lower	Lower to Medium	Medium	Medium to Higher	Higher

What type of funds are in this risk category? These funds may invest in corporate bonds and multi-asset strategies with a higher weighting in corporate bonds (and other comparable strategies).

M&G Investment Pooled Pensions

M&G Investments Pooled Pensions manage a full range of funds on both an active and passive basis for defined benefit and defined contribution clients. We believe that the quality of client service is an important part of our overall pooled fund service. Our team of Directors is responsible for all aspects of our relationships with individual clients, including regular attendance at trustee meetings to present performance and investment strategy.

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Please note that information contained within an email cannot be guaranteed as secure. We advise that you do not include any sensitive information when corresponding with M&G in this way.

For scheme members

If you require further information about your pension please talk to your sponsoring employer. For all general enquiries and administration please contact The Bank of New York Mellon Asset Servicing - Customer Services Desk on 0344 892 1812.

Regulatory and technical information

Usage

- This factsheet is intended for trustees, sponsors, advisers and 'defined contribution' members of occupational pension schemes and personal pensions invested in M&G Pooled Pensions fund range.
- The commentary in this factsheet reflects the general views of M&G and should not be taken as a recommendation or advice as to how a specific market or fund is likely to perform
- You should also consider discussing your decision and the appropriateness of a fund's risk rating with an adviser.

Advice

- This factsheet is intended for trustees, sponsors, advisers and 'defined contribution' members of occupational pension schemes and personal pensions invested in M&G Pooled Pensions fund range.

Performance

- Performance is measured on a bid price to bid price basis since 1 Jan 2020, offer price to offer price prior to 1 Jan 2020 (net of fees).
- The annual management charges are deducted before the unit prices are set and hence before the net performance figures shown here are calculated.
- To obtain unit price information for all funds in M&G. Pooled Pensions fund range, Pension Schemes can log on to www.mandg.com/investments/institutional/en-gb/funds

How are fund prices calculated?

- M&G Pooled Pensions funds operate on a 'single swinging' price basis. Although we create both bid and offer prices for each dealing day, the basis on which units in the fund are transacted is dependent upon the cash flow into/out of the fund on any day. If the fund has net positive cash flow on the day then it will be priced on an offer basis. If the fund has net negative cash flow on the day then it will be priced on a bid basis.
- The annual management charges are deducted from the fund before the unit prices are calculated.
- M&G Pooled Pensions funds are 'forward' priced, which means that the unit price is set after money is invested. Money is invested on a 'T+0' dealing cycle, which means that money received before 12.00 will be invested by close of business that day and the unit price applicable for that 'valuation date' would be published by 12.00 on the following day.

What is the risk rating?

- Risk ratings have been developed by Prudential to help provide an indication of a fund's potential level of risk and reward based on the type of assets which may be held by the fund. Other companies may use different descriptions and as such these risk ratings should not be considered as generic across the fund management industry.
- We regularly review our fund risk ratings, so they may change in the future. If, in our view, there is a material change in the fund's level of risk, for example due to a significant change to the assets held by the fund or in the way the fund is managed, we will provide information on the new risk rating. We recommend that you make sure you understand the risk rating of any fund before you invest.
- You should also consider discussing your decision and the appropriateness of a fund's risk rating with an adviser.

Glossary

For definitions of the investment terminology used within this document please see the glossary at: www.mandg.com/investments/private-investor/en-gb/help-centre/glossary

M&G Investments

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