

M&G Sustainable Global Corporate Bond Fund

Introducing our new sustainable fund

M&G Public Fixed Income

May 2022

- The M&G Sustainable Global Corporate Bond Fund is a core **sustainable** bond proposition for investors who want to take advantage of the global investment grade opportunity set.
- The fund utilises M&G's well-established **dynamic and value-driven** investment approach, targeting assets where the management team is best compensated for the underlying credit fundamentals.
- Active duration management and up to 20% **portfolio flexibility** outside of core investment grade universe (asset-backed securities, high yield, government bonds, inflation-linked bonds) allows for optimisation of risk/reward throughout the economic cycle.
- The fund is supported by a **strong infrastructure** incorporating global credit research & analysis, Stewardship & Sustainability specialists, and a dedicated fixed income dealing desk for best execution.
- The fund puts **sustainability** factors at the core of the investment proposition, measured by Sustainability Indicators.
- This is M&G's first fund to commit to a fixed allocation to **ESG-themed bonds**, proactively driving positive environmental and social outcomes.

The value and income from the 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.

Fund overview

Fund managers	Ben Lord (Lead) and Mario Eisenegger (Deputy)
Investment objective	The fund aims to provide a combination of capital growth and income, net of the ongoing charge figure, that is higher than the Bloomberg MSCI Global Corporate ESG BB+ Sustainable SRI Bond Index over any five-year period while applying ESG Criteria and Sustainability Criteria.
Strategy in brief	The strategy is based on an analysis of corporate bonds and their issuers, combined with an assessment of macroeconomic factors such as economic growth, interest rates and inflation. Spreading investments across issuers, industries and countries is essential to the strategy.
Sustainability approach	The fund will not finance companies that do considerable harm to the environment or society, while a systematic focus is laid on issuers with adequate and sustainable ESG standards. The fund invests in securities that meet the ESG and Sustainability criteria
Benchmark*	Bloomberg MSCI Global HY Corporate ESG BB+ Sustainable SRI Bond index (customised ESG benchmark)
Baseline index (representing the global investment grade corporate market)	Bloomberg Barclays Global Aggregate Corporate Index
Pricing/dealing frequency	Daily
Valuation currency	GBP
Investment universe size**	US\$11.0trn
Fund structure and status	OEIC
Launch date	18 May 2022

*The benchmark is a target which the fund seeks to outperform and reflects the scope of the fund's investment policy. The benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction. The fund is actively managed. The fund manager has complete freedom in choosing which investments to buy, hold and sell in the fund. The fund's holdings may deviate significantly from the benchmark's constituents.

** As at 3 May 2022, source: Bloomberg.

A global investment opportunity

The size of the global investment grade corporate bonds market is around 24 times that of the UK's – £9.6trn vs £0.4trn (as at 2 May 2022, source: Bloomberg). A fund strategy with global reach allows the fund management team to take advantage of the best ideas that the global investment grade universe has to offer. Within this, the team believes it can find superior diversification due to the size and depth of the global investment grade market, and are well positioned to take advantage of dislocations across bond markets to generate sustainable investment value.

Due to varying macroeconomic factors, economies globally find themselves at different stages of the economic cycle, requiring a tailored monetary and fiscal policy response. This affects yield curves and credit fundamentals to various degrees. In this regard, a global mandate allows the fund management team to exploit global macro trends and utilise the fund's duration and credit risk budget where bond markets best compensate fund managers for the underlying risk.

Being a global investment grade corporate bond fund gives access to the rapidly-growing set of ESG-themed bond investment opportunities – the global supply of ESG-themed bonds rose over 220% between 2020 and 2021 (as at 31 December 2021), totalling more than US\$700bn of corporate bond supply. In fact, every fourth euro printed in 2021 from euro-denominated investment grade issuance has come with an environmental, social and governance (ESG) label.

A flexible investment approach

As highlighted in Figure 1 overleaf, the fund's investment strategy is designed to optimise risk/reward throughout the economic cycle with its dynamic and value-based investment approach. The fund strategy uses **active duration management** to both benefit and protect investment value from changes in rate curves and credit curves. The fund has the ability to establish **conviction views** as part of the issuer and security selection process based on credit fundamentals, market pricing and sustainability considerations. In addition, the fund has the **flexibility** to deploy up to 20% of its investments outside the traditional investment grade corporate bond universe to further optimise the risk/reward throughout the economic cycle.

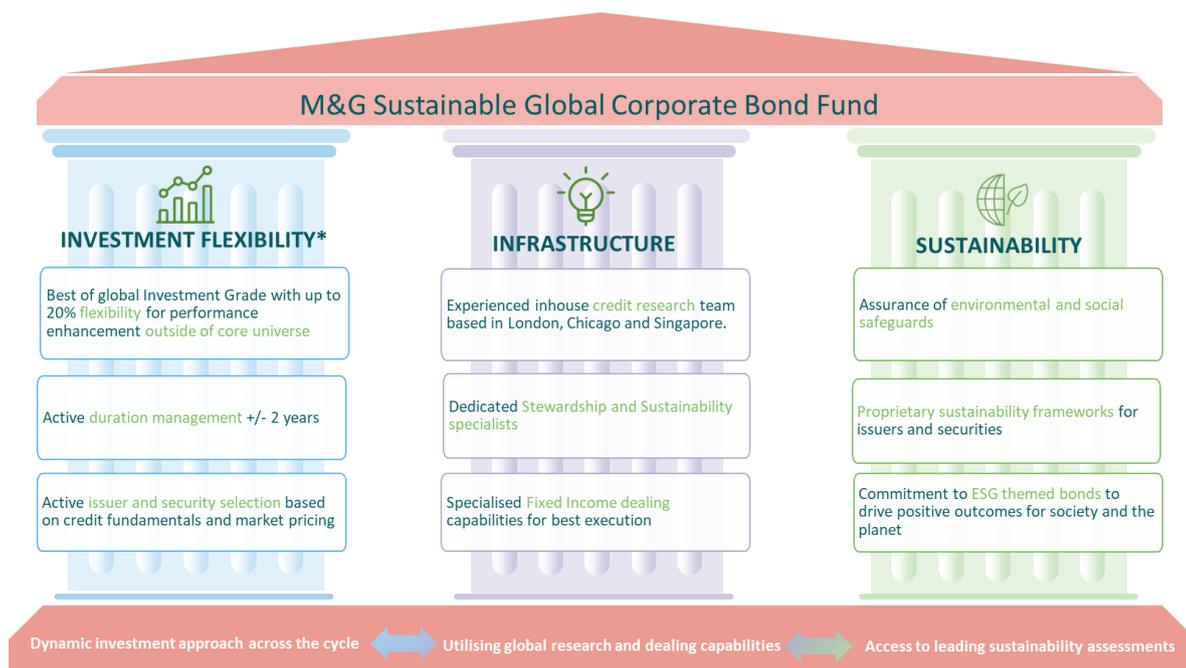
A strong infrastructure

M&G has a strong history as a fixed income investor with global reach. The fund managers of this strategy benefit from access to a significant **in-house credit research team** located in Europe and the US. Credit research analysts are sector experts with an ingrained knowledge of industry and company dynamics, covering more than 5,000 issuers globally. In-house credit ratings and independent financial modelling provides the fund management team with a key competitive advantage, allowing them to fully understand a bond issuer's fundamentals, and act quickly when new information comes to light.

M&G also has dedicated **fixed income dealing desks** to ensure best trade execution. This can enhance the ability of the fund management team to trade bonds in periods where liquidity can be challenging and reach better price levels thanks to a special skill-set of the M&G fixed income dealing team. The dealing desk also provides daily insights on market liquidity and trading patterns.

The investment team has access to and works alongside a dedicated **Stewardship & Sustainability** team. The 15-strong team coordinates M&G's ESG engagement efforts with target companies, provides thought leadership around thematic issues and provides deep-dive analysis on key sustainability themes.

Figure 1. The pillars of strength – Where the fund is well-supported



Source: M&G, May 2022. Investment limits have been defined by the fund investment team and are subject to change

Sustainability at the core

The M&G Sustainable Global Corporate Bond Fund has been designed to **maximise sustainability outcomes within the context of a global investment grade bond universe**. As part of the investment process, the fund monitors **environmental and social safeguards** on each holding, utilising a rigorous controversy and business activity screening process.

Minimum ESG quality standards are also established to reduce the risk of unexpected revenue loss or business disruption related to insufficient management of material environmental, social or governance (ESG) risks. The fund is also M&G's first fund to commit to a **dedicated ESG-themed bond allocation**, such as green, social, sustainability or sustainability-linked bonds – instruments that are designed to drive positive environmental or social outcomes. M&G's in-house credit analyst team systematically assesses the credibility of ESG-themed bonds prior to investing by analysing the quality standards of the issuer framework as well as the corporate strategic alignment to ensure the ESG-themed bond issuance forms part of the wider group sustainability strategy.

The fund also has a carbon reduction target providing clients with an **improved climate profile** by maintaining a lower weighted average carbon intensity (WACI) than the global corporate bond market, as represented by the Bloomberg Global Aggregate Corporate Index, and also aims for an **uplift in ESG quality** against the global investment grade corporate bond market by maintaining a higher weighted average ESG score.

Beyond that, the fund managers works closely with the wider investment team on a daily basis to **further enhance sustainability credentials** of the portfolio as opportunities arise. This is done by identifying attractively priced ESG-themed bonds or companies that act as enablers or solution providers helping to address some of the biggest sustainability challenges we face on our planet. **Carefully balancing the sustainability outcomes with the financial objective** of the fund remains a key tenet of the strategy (see Figure 2).

The M&G Sustainable Global Corporate Bond Fund allows the fund management team to pursue a **value-based and dynamic investment style** to generate financial performance for clients throughout the economic cycle, while making sure sustainability factors are kept at heart of the proposition.

Figure 2. Balancing of financial objectives and sustainable outcomes is key for the strategy



Maximizing sustainability elements while applying a value-based investment approach

Source: M&G, May 2022

Fund management team

Ben Lord, Fund Manager



Ben joined M&G in 2007 and was appointed fund manager of the M&G Global Corporate Bond Strategy from launch in 2013. Ben also manages the M&G UK Inflation-Linked Corporate Bond Fund and the M&G Index-Linked Bond Fund, as well as being co-fund manager of the M&G Strategic Corporate Bond Fund and the M&G Corporate Bond Fund. Ben is the deputy manager of the M&G (Lux) European Inflation-Linked Corporate Bond Fund and the M&G Short Dated Corporate Bond Strategy. He holds an MA (Hons) from the University of Edinburgh and is a CFA Charterholder. Ben also holds the CFA® Certificate in ESG Investing.



Mario Eisenegger, Deputy Fund Manager



Mario joined M&G in 2015 as an investment specialist within the fixed interest team. He is a regular contributor to the Bond Vigilantes blog, and an expert in environmental, social and governance (ESG) investing. In January 2022, Mario joined the Public Fixed Income (PFI) fund management team as a dedicated ESG fund manager, taking on portfolio management activities linked to the new sustainable PFI fund franchise. Mario holds a bachelor of science in Business Administration, Major Finance, from the University of Applied Sciences Northwestern Switzerland in Basel. He is a CFA Charterholder and also holds the CFA® Certificate in ESG Investing.



Fund name	M&G Sustainable Global Corporate Bond Fund
Launch date	18 May 2022
Initial seed:	£15 million
Fund managers:	Ben Lord (Lead) and Mario Eisenegger (Deputy)
Investment objective:	The fund seeks to provide a higher total return (the combination of income and growth of capital) than that of the global investment grade corporate bond market over any five-year period, while applying ESG and Sustainability criteria
Strategy in brief	The strategy is based on an analysis of corporate bonds and their issuers, combined with an assessment of macroeconomic factors such as economic growth, interest rates and inflation. Spreading investments across issuers, industries and countries is essential to the strategy.
Sustainability approach:	The fund will not finance companies that do considerable harm to the environment or society, while a systematic focus is laid on issuers with adequate and sustainable ESG standards. The fund invests in securities that meet the ESG and Sustainability criteria
Benchmark:	Bloomberg MSCI Global Corporate ESG BB+ Sustainable SRI Bond Index (customised ESG benchmark)
Baseline index	Bloomberg Barclays Global Aggregate Corporate Index
Valuation currency:	GBP
Fund structure:	UK OEIC - UCITS
Pricing/dealing frequency:	Daily
IA sector:	Global Corporate Bond
Fees:	GBP I class: 0.45% (all-in), GBP A class: 0.85% (all-in) *
Overall credit quality of portfolio:	Investment grade (at least 80% of the fund is invested in investment grade corporate bonds)
Portfolio duration:	Benchmark** +/- 2 years
Currency risk:	Hedged back to sterling.

*Other share classes are available.

** Duration of benchmark as at 30 April 2022 is 6.25 years.

Other key fund risks

- Investments in bonds are affected by interest rates, inflation and credit ratings. It is possible that bond issuers will not pay interest or return the capital. All of these events can reduce the value of bonds held by the fund.
- High yield bonds usually carry greater risk that the bond issuers may not be able to pay interest or return the capital.
- The fund is exposed to different currencies. Derivatives are used to minimise, but may not always eliminate, the impact of movements in currency exchange rates.
- The fund may use derivatives to profit from an expected rise or fall in the value of an asset. Should the asset's value vary in an unexpected way, the fund will incur a loss. The fund's use of derivatives may be extensive and exceed the value of its assets (leverage). This has the effect of magnifying the size of losses and gains, resulting in greater fluctuations in the value of the fund.
- Investing in emerging markets involves a greater risk of loss due to greater political, tax, economic, foreign exchange, liquidity and regulatory risks, among other factors. There may be difficulties in buying, selling, safekeeping or valuing investments in such countries.

Further details of the risks that apply to the fund can be found in the fund's Prospectus.

Other important information

The fund allows for the extensive use of derivatives.



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