

For investment professionals only



Fixed Income and Macro Views

Richard Woolnough, Fund Manager
September 2018

M&G Optimal Income Fund

Risks associated with this fund

The value of investments and the income from them will rise and fall. This will cause the fund price, as well as any income paid by the fund, to fall as well as rise. There is no guarantee the fund will achieve its objective, and you may not get back the amount you originally invested.

When interest rates rise, the value of the fund is likely to fall.

The value of the fund may fall if the issuer of a fixed income security held is unable to pay income payments or repay its debt (known as a default).

The fund may use derivatives to gain exposure to investments exceeding the value of the fund (leverage). This may cause greater changes in the fund's price and increase the risk of loss.

The fund may use derivatives with the aim of profiting from a rise or a fall in the value of an asset (for example, a company's bonds). However, if the asset's value varies in a different manner, the fund may incur a loss.

Changes in currency exchange rates will affect the value of your investment.

Where market conditions make it hard to sell the fund's investments at a fair price to meet customers' sale requests, we may temporarily suspend dealing in the fund's shares.

Some transactions the fund makes, such as placing cash on deposit, require the use of other financial institutions (for example, banks). If one of these institutions defaults on their obligations or becomes insolvent, the fund may incur a loss.

Wherever a reference or indication of past performance is shown, please note, past performance is not a guide to future performance.

It is also important to note that:

The Fund allows for the extensive use of derivatives

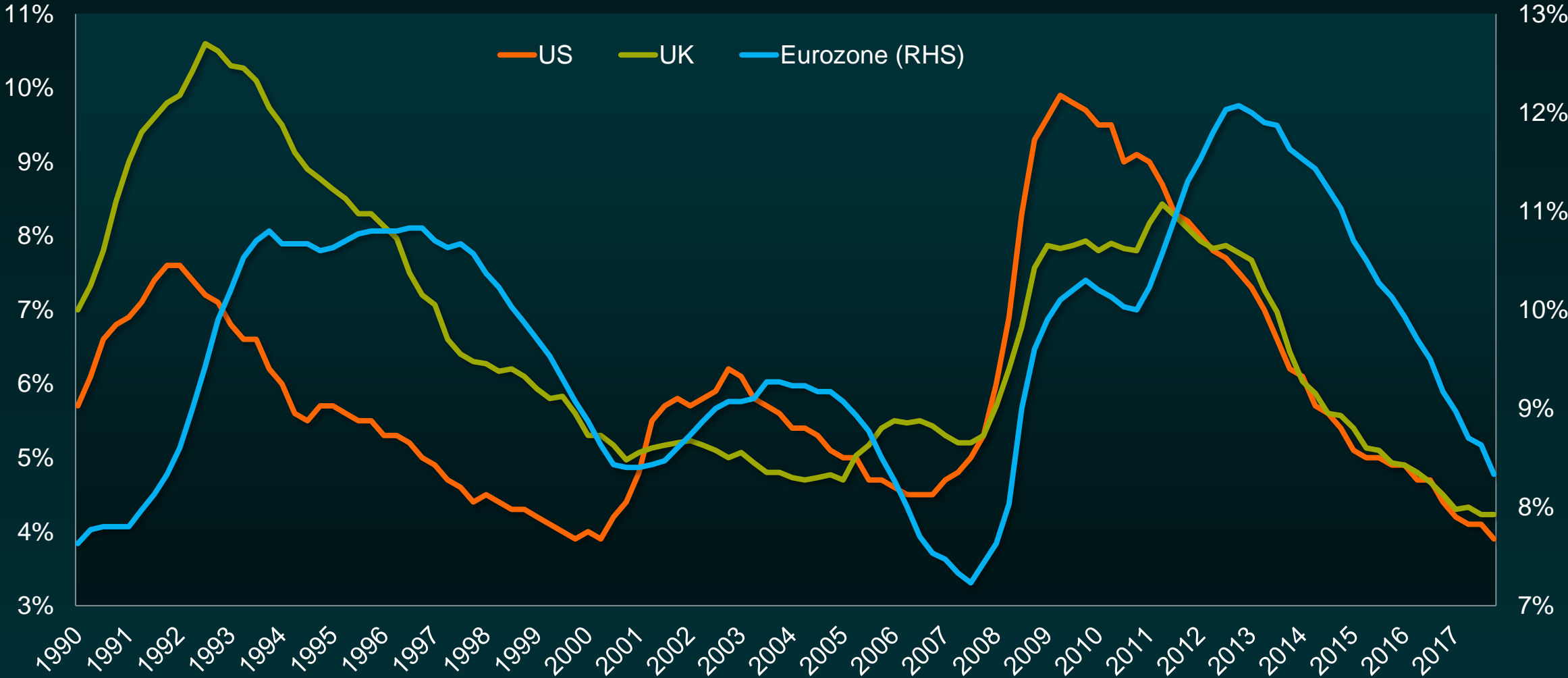
Agenda

Macro and credit update

Fund positioning

Monetary policy worked

Unemployment rate

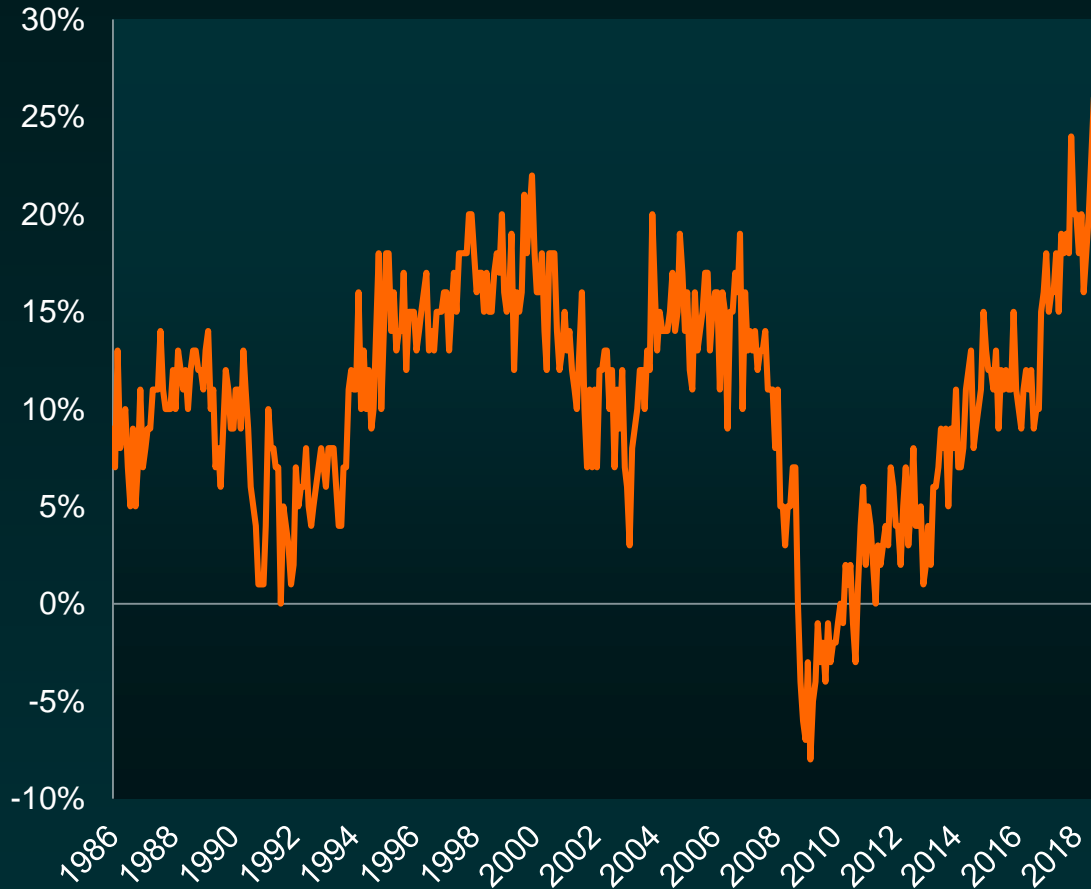


Wages and salaries

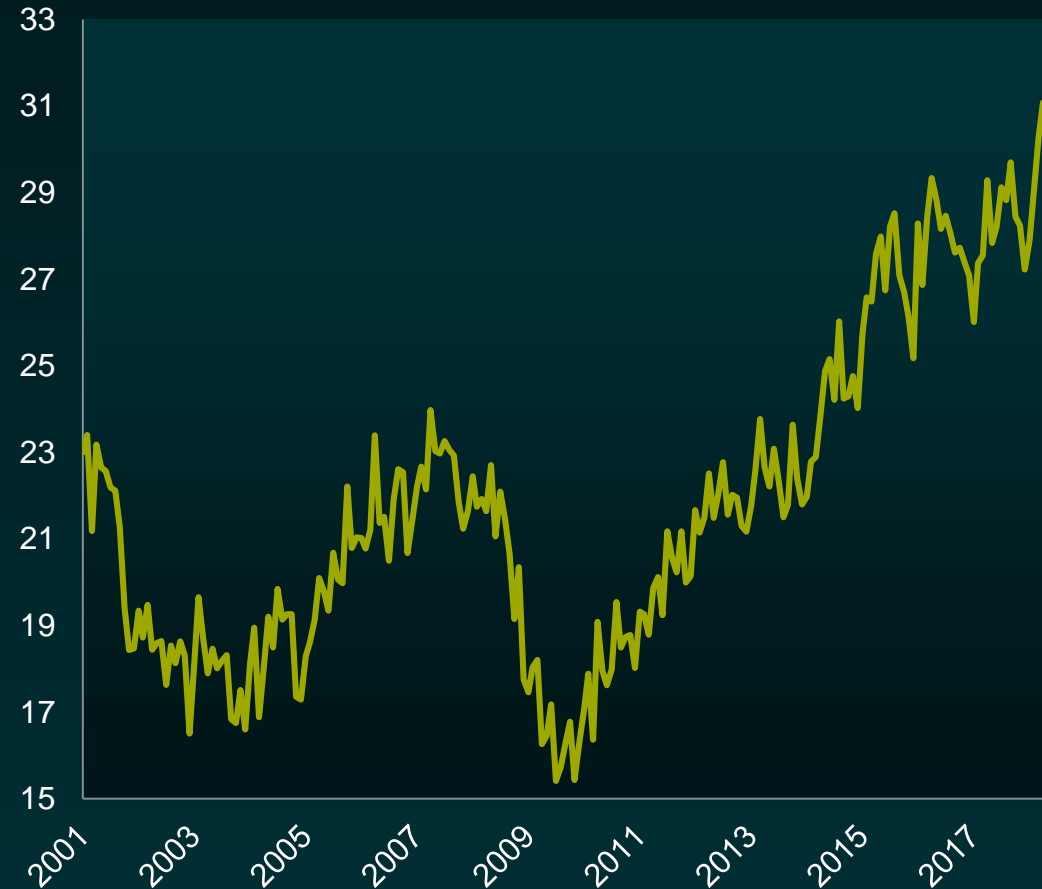


US labour market is overheating

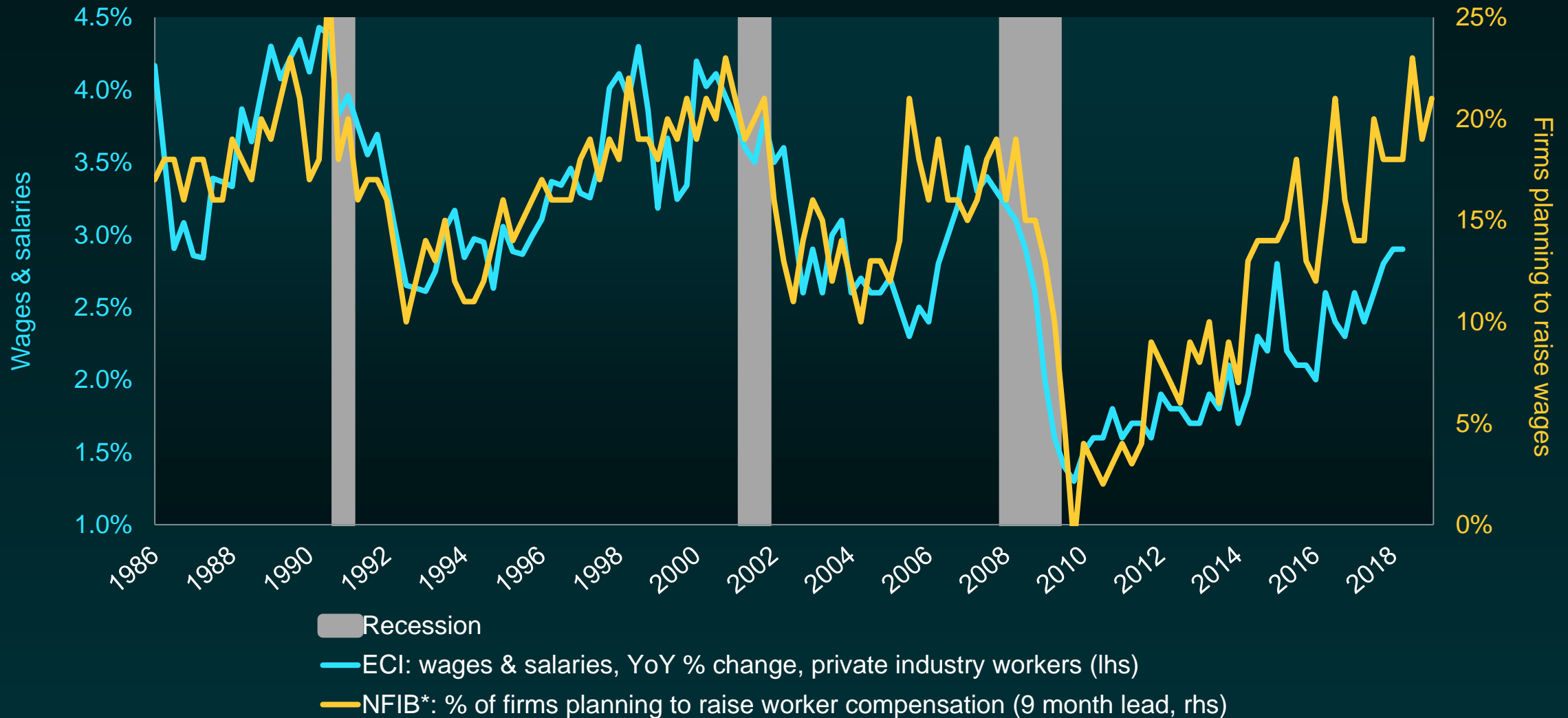
Percentage of firms planning to increase employment



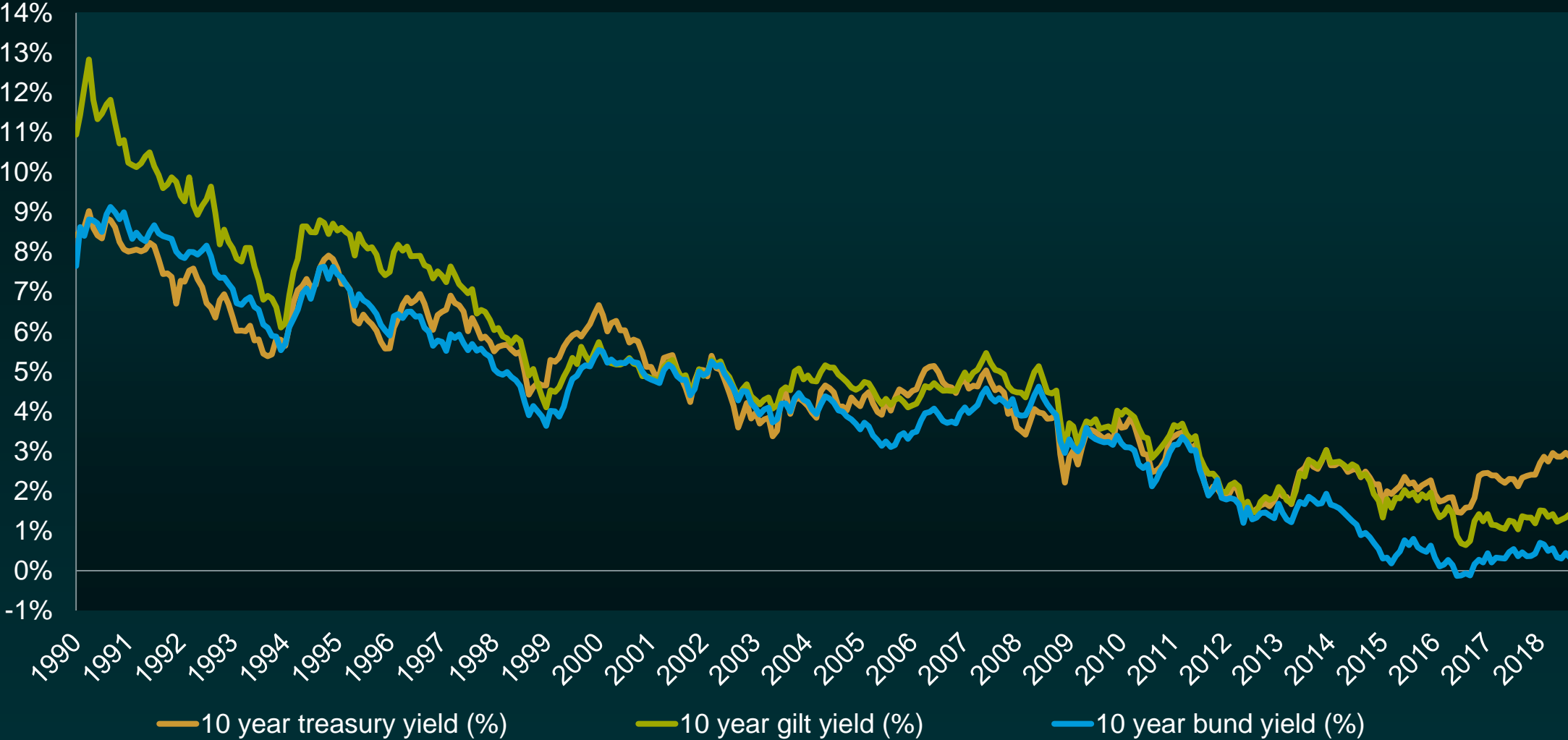
Average number of days to fill vacant jobs



Where's wage growth going?



Government bond yields still close to historically low levels



Short dated US Treasuries now looking more attractive

5-yr US Treasury yield (%)

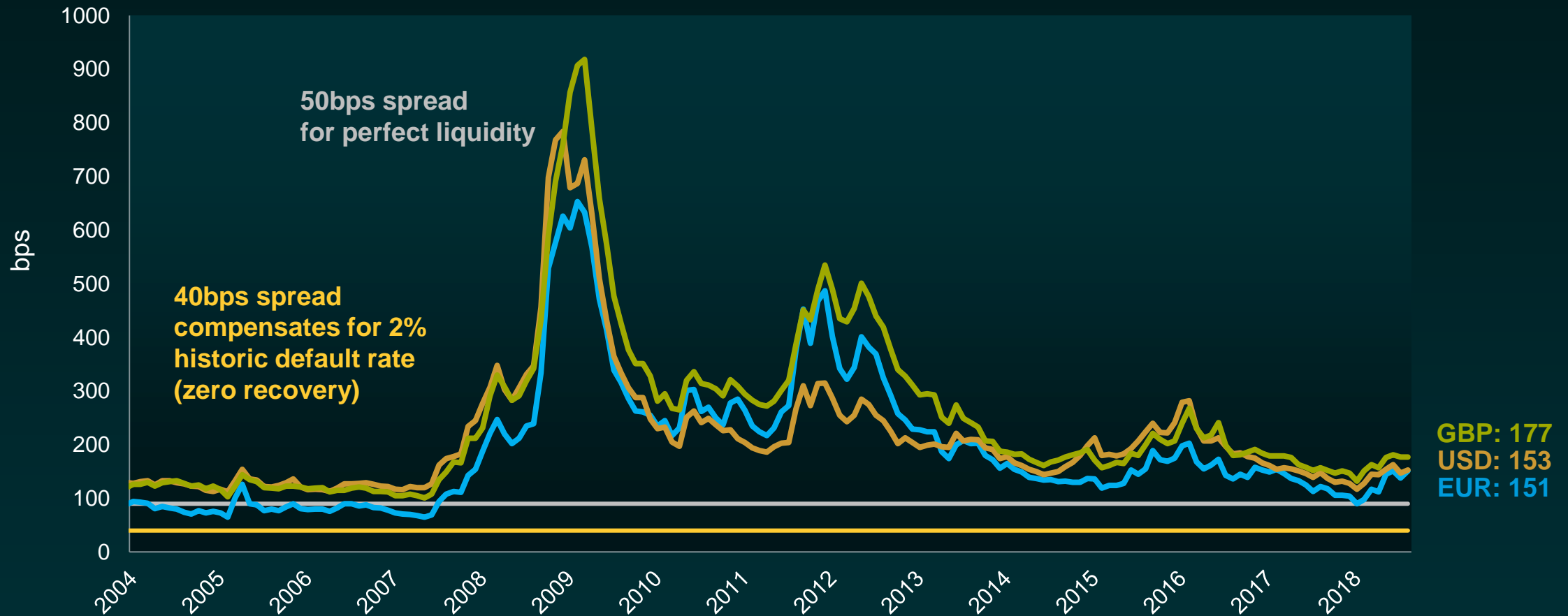


10-yr US Treasury yield (%)



Breakeven analysis: corporate spreads offering excess premium

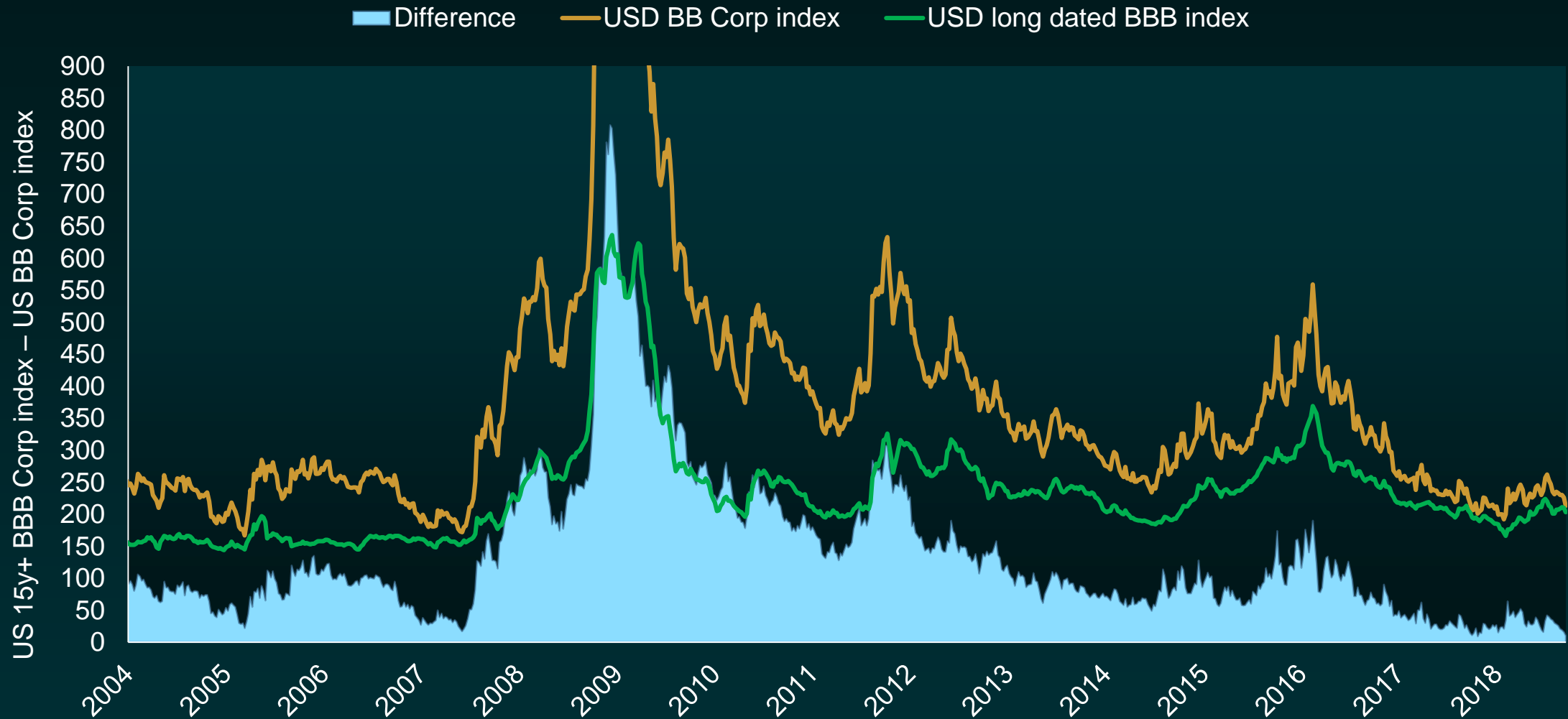
BBB corporate bond spreads



GBP: 177
USD: 153
EUR: 151

Long dated IG vs HY

Long dated IG now paying almost as much as HY



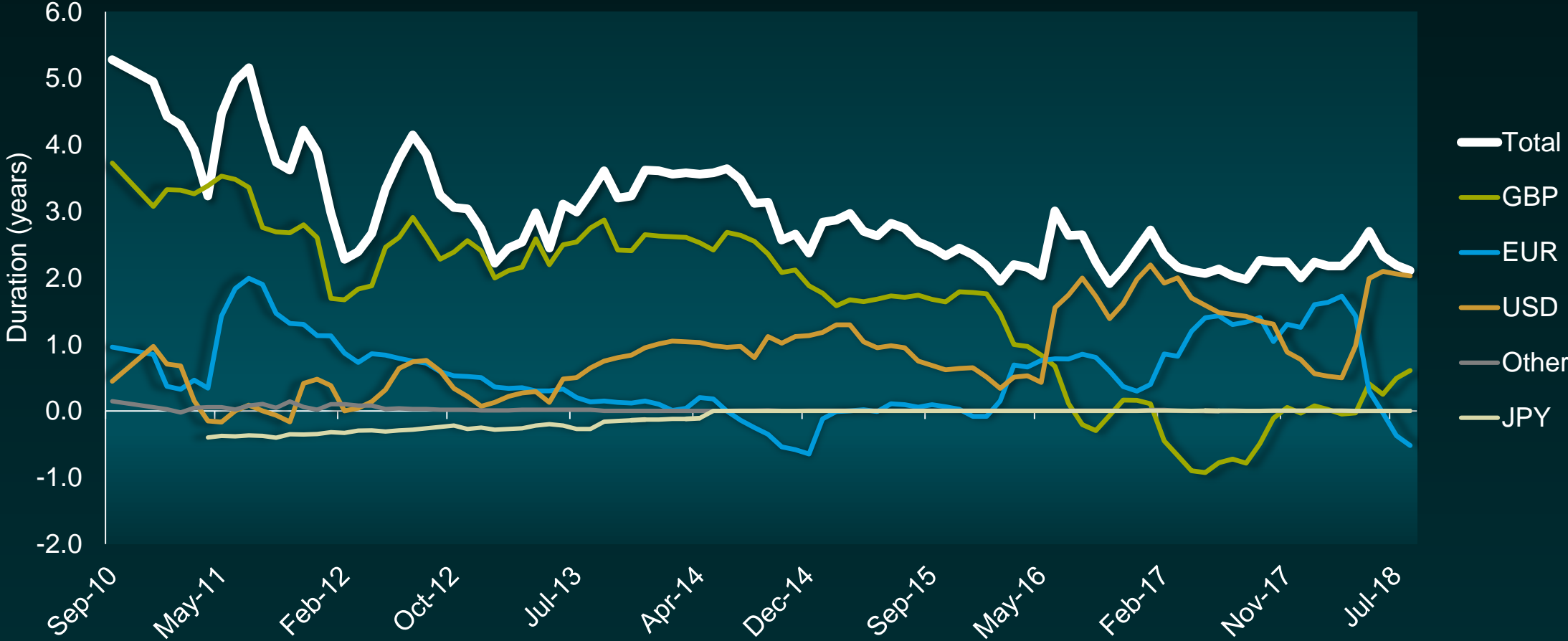
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Macro and credit update

Fund positioning

Duration contributions

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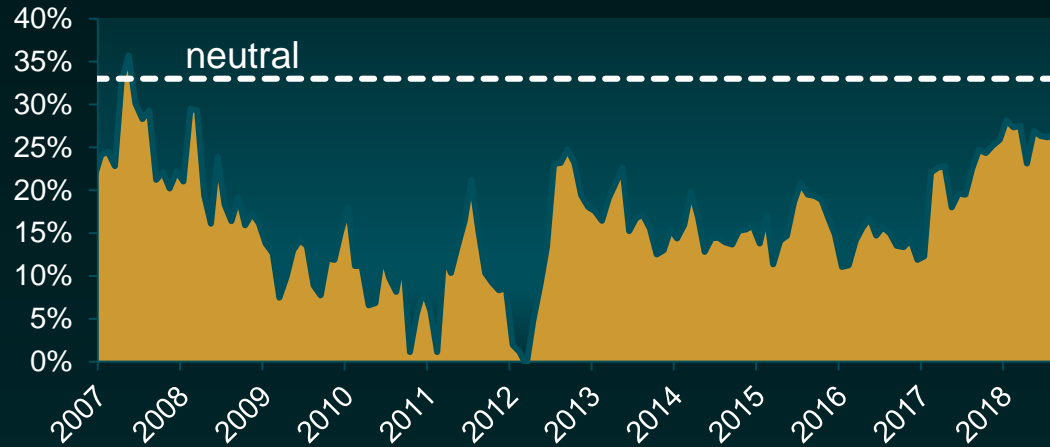


Actively managing duration across markets

Asset allocation over time

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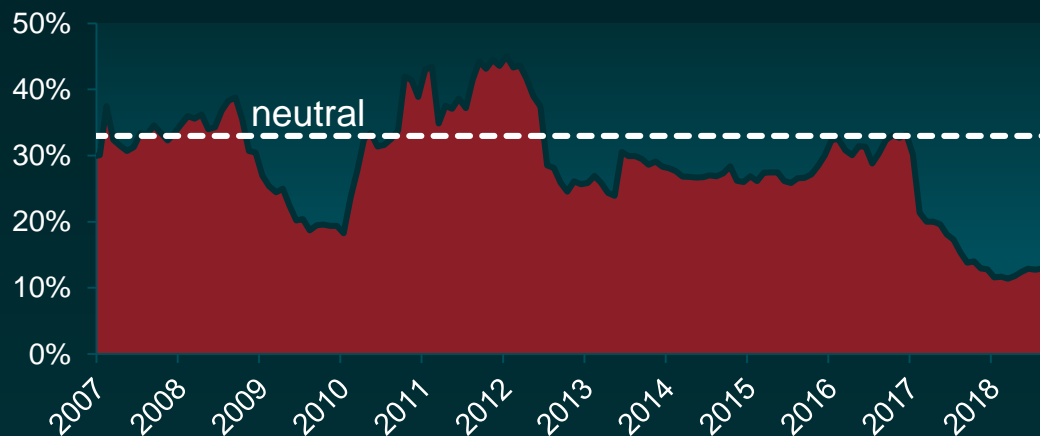
Govt bonds (and cash)



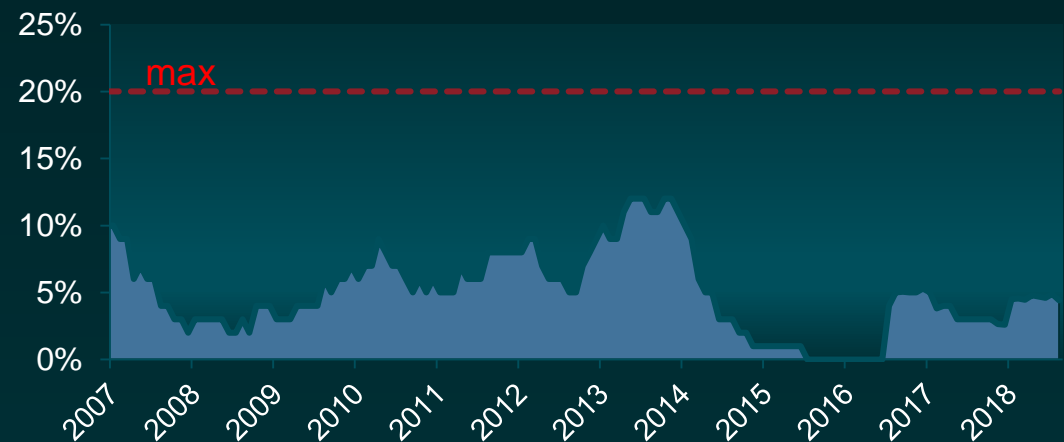
IG corporate



HY corporate



Equity



Average credit risk over time

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Calendar year performance in sterling

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	YTD %	2017 %	2016 %	2015 %	2014 %	2013 %
M&G Optimal Income Fund	-1.1	5.8	8.1	-0.9	5.2	7.7
IA STER Strategic Bond sector average	-1.0	5.6	7.4	0.2	6.5	3.5

Past performance is not a guide to future performance.

M&G Optimal Income Fund

Fund manager has outperformed the major bond sectors through different market conditions



One of UK's best performing bond funds since launch

Past performance is not a guide to future performance

Source: Morningstar, Inc., UK database, 31 August 2018, sterling I share class, income reinvested, price to price.

Q&A

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Corporate bond holdings* as a % of issuer debt

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