

M&G Emerging Markets Bond IH Inc GBP

November 2021
Investment Research



Overview

We believe that this fund fulfils both our capital accumulation and income outcomes. The fund seeks to generate returns for investors through the accumulation of capital predominantly in the emerging market fixed interest universe. It looks to outperform the wider emerging market bond market, represented by a third emerging market government bonds issued in hard currencies (mainly dollars but may also include sterling, euro, Swiss franc), a third government bonds issued in local emerging market currencies and a third emerging market corporate bonds.

In addition the fund will pay an income to investors, generated by the coupons of the bonds in which it invests. The managers do not target a specific income however, and the income of the fund will be affected by several factors including the underlying bond yields in the markets in which the fund invests, currency movements of the local emerging market currencies and the willingness/ability of issuers to pay their obligations.

| Capital Accumulation | Capital Preservation | Income | Inflation Protection |
|----------------------|----------------------|--------|----------------------|
| ● | | ● | |

Square Mile Expected Outcome

We believe outperforming the composite benchmark (1/3 JP Morgan EMBI, 1/3 JP Morgan GBI-EM and 1/3 JP Morgan CEMBI) over rolling three year periods is a reasonable expectation for this fund.

| | |
|---|--|
| Active/Passive: Active | Domicile: United Kingdom |
| Asset Class: Fixed Income | IA Sector: IA Global EM Bonds - Blended |
| Launch Date: 15/10/1999 | Fund Size (as at 31 Oct 2021): £903.2m |
| Yield: 5.37% | Distribution Pay Date: Jan 01, Jul 01 (Final) |
| Fund Manager: Charles De Quinsonas, Claudia Calich | Ongoing Charge Figure: 0.73% |
| | Transaction Cost ex Ante: 0.14% |



Fund Opinion

This fund is attractive on many levels. We like the flexible strategy which is employed in the fund, allowing investors to outsource the asset allocation decision within emerging market debt. In recent years the debt markets across emerging economies have developed considerably, with many issuers who, in the past, only issued bonds in dollars now issuing not just in their local currencies, but also in various different maturities in order to build out their yield curves. In addition there has been significant growth in corporate bonds issued by companies in emerging economies. Whilst this provides investors with both choice and increased opportunities to generate returns, it also complicates the decision of where to invest. This fund has a flexible mandate, allowing it to invest across government and corporate bonds issued in both hard (mainly dollar) and local (emerging market) currencies. We believe that the flexible mandate of this fund makes sense for many investors, allowing them access to the full opportunity set of this market without having to constantly move their positions around.

The manager of the fund, Claudia Calich, is an experienced investor with a strong pedigree of investing across emerging market debt, whilst Charles de Quinsonas, the fund's deputy manager, brings a complimentary skill set with his background in analysing emerging market corporate bonds. As the assets have grown, the team expanded in 2019 with the addition of four new investment professionals, increasing the expertise and resources available in different areas of the market. The fund is also backed by the extensive resources of the wider retail fixed interest team at M&G Investments.

We believe that the fund should be attractive to investors who wish to gain access to the full range of emerging market bonds through an experienced manager who is more than capable of making sensible asset allocation decisions on their behalf.

Fund Description

The fund is managed by Claudia Calich, with assistance from deputy manager Charles de Quinsonas. Ms Calich joined M&G Investments in October 2013 as a member of the Retail Fixed Interest team, and was appointed to the fund two months later. Ms Calich has over 20 years of emerging market experience, most recently at Invesco. Mr de Quinsonas was appointed deputy manager of the fund in 2015, having joined M&G Investments as a junior portfolio manager a year earlier. He specialises in the analysis of emerging market corporate bonds. The team was strengthened in 2019 with the addition of four senior investment professionals to cover dealing, sovereign and corporate analysis for the strategy. M&G Investments is a large asset manager with funds across a range of asset classes and geographies.

The process uses both top-down and bottom-up analysis in order to determine the best areas within emerging markets in which to invest and the best securities to express these views. The fund can invest across emerging markets in both government and corporate bonds. As a starting point the manager considers a neutral position for the fund as one third emerging market government bonds issued in hard currencies (mostly US dollars but this may also include euros, sterling and swiss francs), one third emerging market government bonds issued in local emerging market currencies and one third corporate bonds (dollar denominated). However, this is only a starting point and the actual fund may differ considerably from this allocation depending on the manager's views.

The asset allocation of the fund relies on the manager's considered views of the global macroeconomic environment. This analysis will influence both the overall level of risk in the fund and the asset allocation. Having formed these broad views the team then undertake analysis of individual countries within the fund's universe. If the team believes a country to be attractive from a top-down perspective they will undertake an assessment of whether to invest in hard currency sovereign bonds, local currency sovereign bonds or corporate bonds, using a combination of top-down views and relative value analysis. Mr de Quinsonas alongside the fund's deputy manager, Nick Smallwood, are responsible for undertaking the credit analysis used to determine which corporate bonds to buy, but the top-down view remains important and the fund will only buy corporate bonds issued in countries on which the team have a positive view. Mr de Quinsonas and Mr Smallwood will draw upon M&G Investments' extensive analytical resources including the high yield and investment grade credit teams, as well as the emerging markets equity team, in order to supplement their work.

Asset allocation (including currency allocation) will be an important source of returns on this fund. Ms Calich also actively manages the interest rate sensitivity of the fund, bearing in mind that interest rate cycles in emerging markets may be quite different to those in developed markets and, indeed, to each other.

The fund tends to be relatively concentrated, with around 70-80 holdings, and a limit on any individual country exposure of 10-25%, depending on its sovereign credit rating.

The rated share class is hedged. The result of this is that investors gain full access to Ms Calich's investment views, inclusive of any emerging market currency exposure, without having exposure to the US dollar or other hard currencies.

Risk Summary

This asset class consists of debt instruments, both sovereign and corporate, issued in emerging markets. The main risks at an asset class level are likely to be interest rate risk, emerging market risk, credit risk and currency risk.

Interest rate risk will always be a feature of the fund due to the instruments in which it invests. Interest rate cycles in emerging economies may not move in synchronisation with those in developed economies. This should lead to diversification, but investors should be aware that such bonds may not behave in the manner which they would expect from their home markets. Investors should note that this interest rate risk is likely to be a mixture of US interest rate risk (through the dollar denominated bonds in the portfolio) and local emerging market interest rate risk (through the local currency denominated bonds).

Investors should remain aware that emerging economies may have very different legal and political regimes and that this can, at times, affect investments in these areas. The managers are very aware that investments in emerging economies can be vulnerable, particularly in the short term, to large swings in prices. Whilst they will take this into account in their analysis they will be unable to eliminate this risk completely.

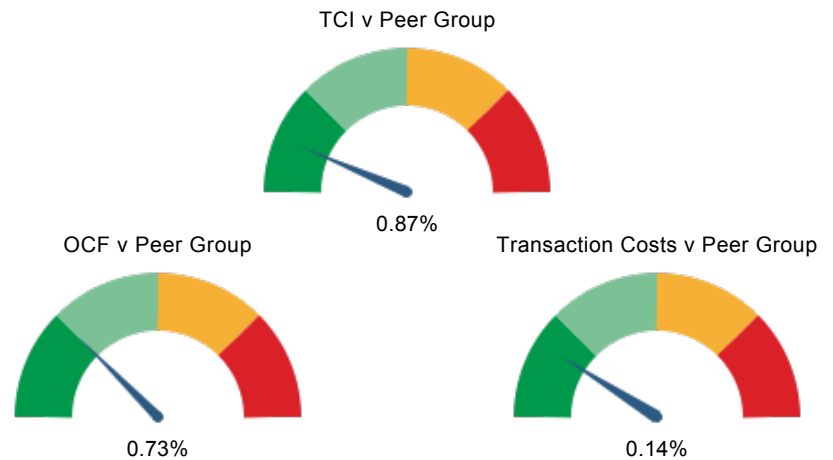
The fund will have significant exposure to emerging market currencies which, whilst an important source of returns, may add significantly to the volatility of the fund at times. Currencies can move quickly and by large magnitudes.

Whilst there will always be risk present in this fund, we believe the lead manager is capable of assessing and balancing these risks, and only taking it on where the returns make it worthwhile. Nonetheless, investors should remember that emerging market debt remains a riskier part of the fixed income asset class.

Value for Money

The M&G Emerging Market Bond fund total cost of investment (TCI) is comfortably below the median for the peer group. We believe that the fund represents good value for money, given the quality of the management team and the flexibility of the investment approach, taking into account both asset allocation and stock selection factors.

As of August 2019, M&G Investments switched to an all-in fee pricing structure across their UK OEIC range. We believe this is a helpful step in increasing charging transparency. The move has resulted in reduced fees on many of M&G's funds. The new pricing structure includes a tiered fee reduction as a fund grows in size, this starts with a 0.02% discount for funds over \$1 billion. The tiering is designed to pass on the administrative cost savings of managing a larger fund to investors.



ESG Integration

| Company Assessment | 0 | 1+ | 2 | 3 |
|---|----|----|---|---|
| The company has made ESG factors available to the investment teams as an input to their analysis, but they are not compelled to consider that as a factor when making investment decisions. | | | | |
| UN PRI Strategy & Governance Rating | A+ | | | |
| Fund Assessment | 0 | 1 | 2 | 3 |
| ESG factors may be considered by the fund's manager as an input into their analysis but are not a formal part of the investment process. | | | | |

Responsible Investing Approach

| Exclusion | Responsible Practices | Sustainability | Impact |
|--------------------------|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Additional Information

| | |
|------------------------------|---------|
| Annualised Return | 4.76% |
| Annualised Volatility | 9.96% |
| Max Drawdown | -20.36% |
| Max Gain | 12.09% |
| Max Loss | -20.36% |
| Sharpe Ratio | 0.44 |
| Sortino Ratio | 0.32 |

(3 years data to last month end unless otherwise stated)

Currency of Share Class

GBP

Fund Price (as at 12 Nov 2021)

92.5 pence

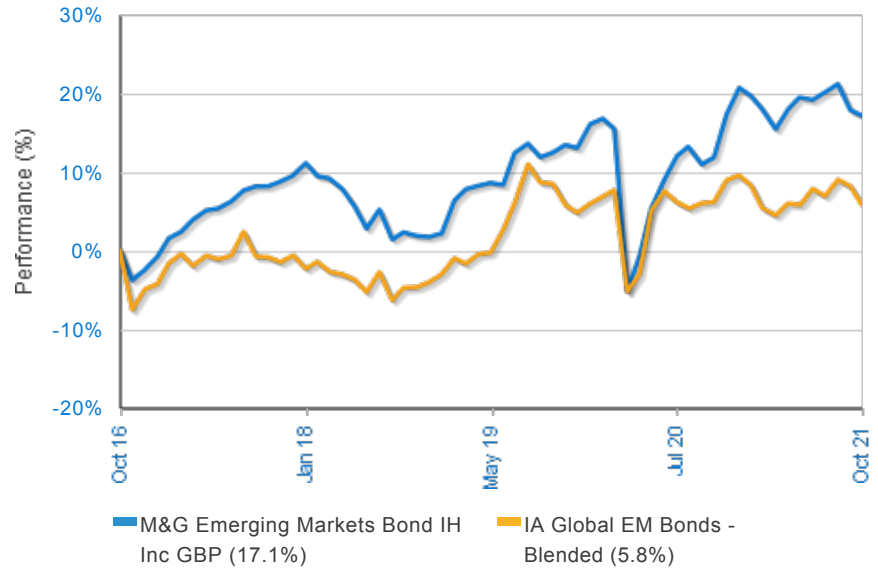
Benchmark

JPM EM Composite (1/3 JPM EMBI, 1/3 JPM GBI, 1/3 JPM CEMBI)

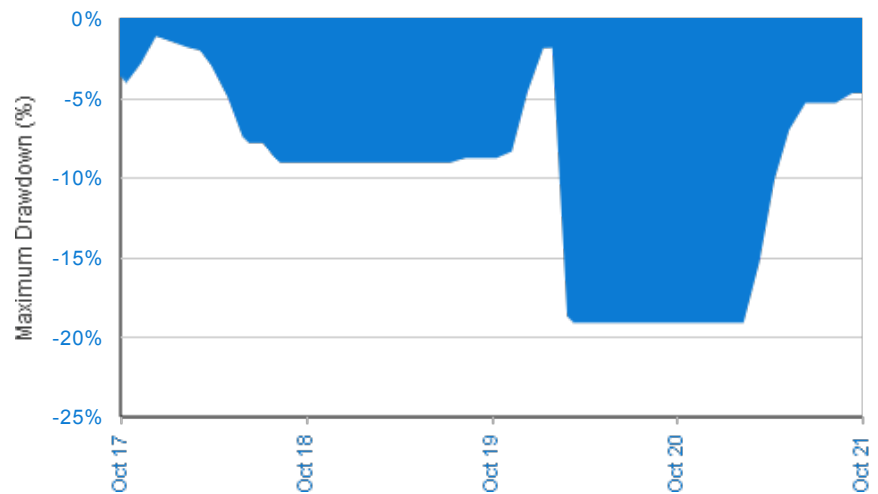
Discrete Annual Performance to Last Quarter End

| Period | Fund (%) | Sector (%) | Quartile Ranking |
|--------|----------|------------|------------------|
| 0-12m | 6.2 | 2.0 | 4 |
| 12-24m | -1.3 | -2.3 | 3 |
| 24-36m | 9.9 | 13.4 | 1 |
| 36-48m | -5.4 | -4.0 | 1 |
| 48-60m | 7.7 | 3.4 | 1 |

Capital Growth



Maximum Drawdown (Rolling 12 Months)



Credit Rating (Data as at 31 Oct 2021)

| Name | % |
|--------------------|------|
| AAA | 0.6 |
| AA | 3.2 |
| A | 4.8 |
| BBB | 22.1 |
| BB | 33.2 |
| B | 25.8 |
| Cash | 0.4 |
| Non-Rated / Others | 2.5 |

Bond Maturity

(Data as at 31 Oct 2021)

| Name | % |
|----------------------------|------|
| Cash & Floating Rate Notes | 0.4 |
| 1-3 Years | 8.1 |
| 3-5 Years | 23.5 |
| 5-15 Years | 33.1 |
| 15+ Years | 35.0 |

Asset Allocation Positioning

| Name | % |
|--|------|
| Global Emerging Market Government Fixed Interest | 70.6 |
| Global Emerging Market Fixed Interest | 27.5 |
| European Emerging Government Fixed Interest | 2.0 |
| Money Market | -0.1 |

(Data as at 30 Sep 2021)

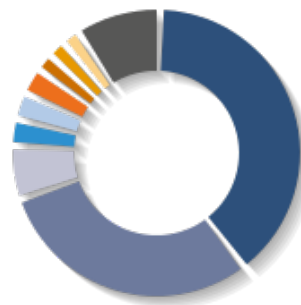
Top Ten Holdings

(Data as at 30 Sep 2021)

| Company Name | % |
|--|-----|
| JAPAN(GOVERNMENT OF) 0.1% BDS 20/09/22 JPY50000 | 30 |
| RUSSIAN FEDERATION MINISTRY FINANCE 8.15% BDS 03/02/27 RUB1000 | 29 |
| MEXICO(UNITED MEXICAN STATES) 8.5% BDS 18/11/38 MXN100 | 24 |
| SOUTH AFRICA(REPUBLIC OF) 8.75% BDS 28/02/48 ZAR1000000 | 22 |
| BRAZIL(FEDERATIVE REPUBLIC OF) 10% BDS 01/01/29 BRL1000 | 21 |
| CZECH REPUBLIC 1% BDS 26/06/26 CZK10000 | 1.8 |
| INDONESIA(REPUBLIC OF) 8.25% BDS 15/05/36 IDR1000000 | 1.5 |
| URUGUAY 3.875% BDS 02/07/40 UYU1000 | 1.1 |
| UKRAINE(REPUBLIC OF) 4.375% BDS 27/01/30 EUR100000REG S | 1.1 |
| GHANA(REPUBLIC OF) 8.125% AMORT NTS 26/03/32 USD200000REG S | 0.9 |

Sector Breakdown

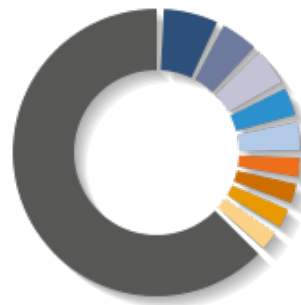
(Data as at 30 Sep 2021)



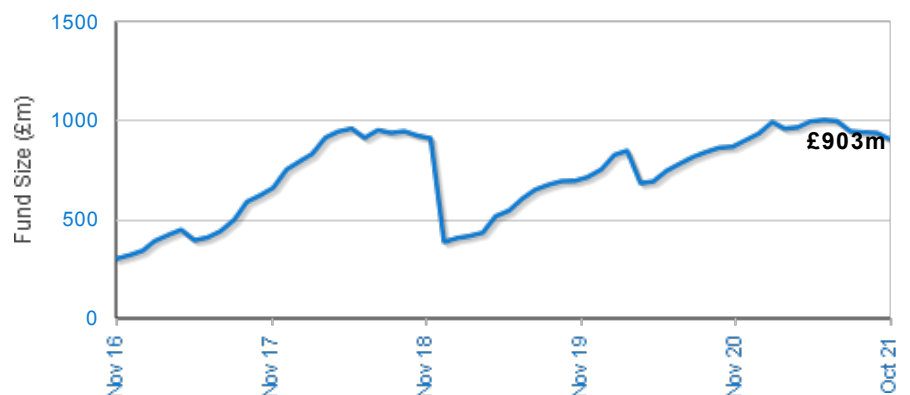
- Government Bonds (39%)
- Government Bonds (30%)
- Energy (6%)
- Banks (3%)
- Utilities (3%)
- Financial Services (3%)
- Telecommunications (2%)
- Basic Industries (2%)
- Government Agency Bonds (2%)
- Other (9.5%)

Geographic Breakdown









(Data as at 30 Sep 2021)



- Mexico (7%)
- Russia (5%)
- South Africa (5%)
- Brazil (4%)
- Indonesia (4%)
- Japan (3%)
- China (3%)
- Ukraine (3%)
- Colombia (3%)
- Other (64.0%)

Assets Under Management

Qualitative Risk Assessment

| | Significant | Potentially Significant | Not Significant |
|-----------------------|---|--|---|
| Equity Risk | | |  |
| Interest Rate Risk |  | | |
| Credit Risk |  | | |
| Exchange Rate Risk |  | | |
| Liquidity Risk |  | | |
| Emerging Markets Risk |  | | |
| Derivative Risk | |  | |
| Manager Risk |  | | |

Equity Risk

The fund has no direct exposure to shares.

Interest Rate Risk

The fund is predominately invested in fixed interest markets. The fund price may fall if interest rates climb more rapidly than expected. Emerging market interest rate cycles do not perfectly correlate with those in developing markets.

Credit Risk

The fund can take exposure to both investment grade and sub-investment grade credit. Credit defaults and downgrades may adversely impact the fund price, typically this occurs at times of economic weakness.

Exchange Rate Risk

The fund predominately invests in emerging markets and will always have exposure, of varying degrees, to emerging market currencies.

Liquidity Risk

The fund invests in assets which could be difficult to sell at certain times. In extreme circumstances the fund may have to resort to selling assets at below fair value. The risks of this happening are most acute at times of financial distress.

Emerging Markets Risk

The fund predominately invests in emerging regions. Economic, political, legal and market events in the region may have a material adverse effect on the fund price. Valuations in emerging market assets can be volatile.

Derivative Risk

The fund employs derivative strategies as part of its risk management. These derivative instruments have been employed by the manager to mitigate and more accurately manage the risks within the fund. These are complex instruments and investors should be aware that there is a chance that they may not behave in a manner that the manager intends. The use of derivatives may increase the counterparty risks in the fund.

Manager Risk

The manager is seen as a critical element in Square Mile's rating of the fund. Square Mile is likely to downgrade the fund if the manager were to leave.

FE Risk Rating: 49.00

SRRI: 4

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