

M&G Optimal Income Fund Sterling Class I – Accumulation shares

Monthly Fund Review as at 29 February 2024

For investment professionals only

Highlights

- In February, resilient economic data from the US, coupled with stickier-than-expected inflation, forced markets to dial back the number of interest rate cuts being priced in. Government bond yields rose for the second consecutive month. The main driver of underperformance for the fund was our overweight duration positioning. Tightening spreads meant credit contributed positively in absolute terms, particularly financials and credit default swap high yield indices. However, in relative terms credit performance was flat.
- We increased our investment grade exposure, favouring shorter-dated, high-quality bonds to increase yield without additional risk. We continued reducing high yield exposure, selling off some higher-beta names that performed well. Our equity exposure remains limited.
- We maintained our long duration positioning, in anticipation of a lower-inflation environment and slow, but steady economic growth. We also believe duration offers an attractive risk-reward profile. We increased duration slightly, topping up on periphery eurozone government bonds (mainly Italy) and adding an inflation-linked bond from New Zealand.

The main risks associated with this fund

For any past performance shown, please note that past performance is not a guide to future performance.

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.

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 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.

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.

Further risk factors that apply to the fund can be found in the fund's Prospectus.

Key information

Fund manager(s)	Richard Woolnough, Stefan Isaacs
Fund manager tenure from	08 December 2006
ISIN	GB00B1H05718
Launch date of fund	08 December 2006
Launch of share class	08 December 2006
Fund size (millions)	£ 1,425.18
Benchmark(s)	1/3 Bloomberg Global Treasury Index GBP Hedged, 1/3 Bloomberg Global Aggregate Corporate Index GBP Hedged, 1/3 Bloomberg Global High Yield Index GBP Hedged
Benchmark type	Target
Sector	IA Sterling Strategic Bond sector
Number of issuers	262
Distribution yield	4.22%
Underlying yield	4.22%
Modified duration (years)	7.07
VaR	4.72%
Average coupon	2.92
Spread duration (years)	5.5
Payment dates	May, Nov
Ex-dividend dates	Apr, Oct



Charges

Maximum entry charge	0.00%
Ongoing charge	0.63%

Things you should know

The fund allows for the extensive use of derivatives.

Fund ratings as at 29 February 2024

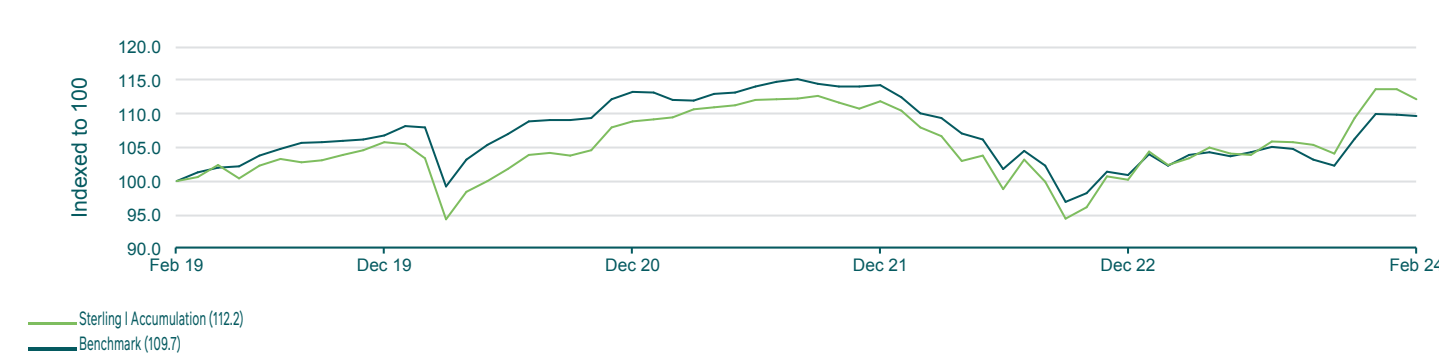
Morningstar Medalist Rating™	Analyst-Driven %
	100
	Data Coverage %
	100
Overall Morningstar rating	★★★★
Financial Express Crown Rating	
Fund Calibre Rating	Yes
Rayner Spencer Mills (RSM) Rating	Yes
Square Mile Rating	A
The Adviser Centre Rating	Recommended
Source of Morningstar ratings: Morningstar	
Source: Financial Express	
Source: FundCalibre	
Source: RSMR Group	
Source: Square Mile	
Source: Embark Investments Limited	

Ratings should not be taken as a recommendation.

Single year performance (5 years)

	2023	2022	2021	2020	2019
■ Sterling I Accumulation	13.5%	-10.5%	2.8%	3.0%	9.0%
■ Benchmark	9.0%	-11.7%	0.9%	6.1%	9.2%
■ IA Sterling Strategic Bond sector	8.0%	-11.7%	0.9%	6.1%	9.2%

Performance over 5 years



Fund performance

	1 month	3 months	YTD	1 year	3 years p.a.	5 years p.a.
■ Sterling I Accumulation	-1.4%	2.5%	-1.4%	9.5%	0.8%	2.3%
■ Benchmark	-0.3%	3.1%	-0.3%	7.2%	-0.7%	1.9%
■ IA Sterling Strategic Bond sector	-0.5%	3.1%	-0.6%	5.9%	-1.1%	1.6%

Past performance is not a guide to future performance.

Benchmark: Prior to 6th March 2023 the benchmark was IA Sterling Strategic Corporate Bond Sector Average. Thereafter it is a composite index comprising 1/3 Bloomberg Global Treasury Index GBP Hedged, 1/3 Bloomberg Global Aggregate Corporate Index GBP Hedged, 1/3 Bloomberg Global High Yield Index GBP Hedged.

The benchmark is a target which the fund seeks to outperform. The sector has been chosen as the fund's benchmark as the fund is a constituent of the sector. 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.

Source: Morningstar, Inc and M&G, as at 29 February 2024. Returns are calculated on a price to price basis with income reinvested.

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Asset breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Government bonds	36.8	-1.8	0.0	35.1
Investment grade corporate bonds	43.3	0.0	0.0	43.3
Fixed rate	43.3	0.0	0.0	43.3
Floating rate	0.0	0.0	0.0	0.0
Index linked	0.0	0.0	0.0	0.0
Credit Default Swaps & Indices	0.0	0.0	0.0	0.0
High yield corporate bonds	7.8	0.0	14.3	22.0
Fixed rate	6.6	0.0	0.0	6.6
Floating rate	0.0	0.0	0.0	0.0
Index linked	0.0	0.0	0.0	0.0
Credit Default Swaps & Indices	1.2	0.0	14.3	15.4
Securitised	5.9	0.0	0.0	5.9
Equities	0.3	0.0	0.0	0.3
Other	0.0	0.0	0.0	0.0
Cash	5.9	0.0	0.0	5.9

Largest issuers (excl. government bonds and CDS indices, %)

	Fund
Philip Morris International	1.5
Electricite de France	1.3
European Union	1.2
JP Morgan	1.2
Lloyds Banking Group	1.0
Wells Fargo & Company	1.0
Imperial Brands Finance	1.0
Morgan Stanley	0.9
Apple	0.9
Banco Santander	0.9

Industry breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Sovereign	33.3	0.0	0.0	33.3
Banking	17.3	0.0	0.0	17.3
Consumer goods	5.0	0.0	0.0	5.0
Insurance	4.9	0.0	0.0	4.9
Utility	4.3	0.0	0.0	4.3
Foreign Sovereign	3.5	-1.8	0.0	1.8
Covered Bonds	3.3	0.0	0.0	3.3
Telecommunications	2.4	0.0	0.0	2.4
Financial services	2.2	0.0	0.0	2.2
Asset backed	2.2	0.0	0.0	2.2
Energy	2.2	0.0	0.0	2.2
Real Estate	1.6	0.0	0.0	1.6
Technology & electronics	1.4	0.0	0.0	1.4
Media	1.3	0.0	0.0	1.3
Supranational	1.2	0.0	0.0	1.2
Transportation	1.0	0.0	0.0	1.0
Capital goods	0.9	0.0	0.0	0.9
Leisure	0.8	0.0	0.0	0.8
Agency	0.7	0.0	0.0	0.7
Retail	0.7	0.0	0.0	0.7
Basic industry	0.6	0.0	0.0	0.6
Automotive	0.5	0.0	0.0	0.5
Government Guaranteed	0.5	0.0	0.0	0.5
Healthcare	0.4	0.0	0.0	0.4
Commercial Mortgage Backed	0.4	0.0	0.0	0.4
Equity	0.3	0.0	0.0	0.3
Services	0.1	0.0	0.0	0.1
Futures	0.0	0.0	0.0	0.0
High Yield indices	1.2	0.0	14.3	15.4
Cash	5.9	0.0	0.0	5.9

Credit rating breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
AAA	3.8	0.0	0.0	3.8
AA	35.4	0.0	0.0	35.4
A	10.8	0.0	0.0	10.8
BBB	34.6	0.0	0.0	34.6
BB	6.4	-1.8	7.2	11.8
B	2.1	0.0	7.1	9.1
CCC	0.5	0.0	0.0	0.5
CC	0.0	0.0	0.0	0.0
C	0.1	0.0	0.0	0.1
D	0.1	0.0	0.0	0.1
No rating	0.5	0.0	0.0	0.5
Cash	5.9	0.0	0.0	5.9

Maturity breakdown (%)

	Physical
0 - 1 years	0.3
1 - 3 years	4.0
3 - 5 years	16.8
5 - 7 years	21.1
7 - 10 years	19.1
10 - 15 years	7.7
15+ years	24.8
Cash	5.9
Other	0.4

Duration by currency and asset class (years)

	Fund	Futures	Swaps	Net
Euro	2.5	-0.8	0.0	1.7
British pound	2.9	0.0	-1.4	1.6
US dollar	2.4	1.4	-0.2	3.7
Other	0.0	0.0	0.0	0.0
Total	7.9	0.6	-1.5	7.1

Country breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
US	28.6	0.0	0.0	28.6
UK	24.5	0.0	0.0	24.5
France	12.1	0.0	0.0	12.1
Italy	4.2	0.0	0.0	4.2
Germany	3.3	0.0	0.0	3.3
Spain	3.1	0.0	0.0	3.1
Netherlands	1.9	0.0	0.0	1.9
Australia	1.7	0.0	0.0	1.7
Other	13.6	-1.8	0.0	11.8
High Yield indices	1.2	0.0	14.3	15.4
Cash	5.9	0.0	0.0	5.9

Currency breakdown (%)

	Fund
British pound	99.4
US dollar	0.4
Euro	0.2
New Zealand dollar	0.0
South African rand	0.0
Swiss franc	0.0

Fund codes and charges

Share class	ISIN	Bloomberg	Currency	Share class launch date	Ongoing charge	Distribution yield	Underlying yield	Minimum initial investment	Minimum top up investment
Sterling A Acc	GB00B1H05155	MGOIANA LN	GBP	08/12/2006	1.03%	3.82%	3.82%	£500	£100
Sterling A Inc	GB00B1H05049	MGOIANI LN	GBP	08/12/2006	1.03%	4.85%	3.82%	£500	£100
Sterling I Acc	GB00B1H05718	MGOIINA LN	GBP	08/12/2006	0.63%	4.22%	4.22%	£500,000	£10,000
Sterling I Inc	GB00B1H05601	MGOIINI LN	GBP	08/12/2006	0.63%	4.85%	4.22%	£500,000	£10,000
Sterling R Acc	GB00B7FM9R94	MGOPIRA LN	GBP	03/08/2012	0.88%	3.97%	3.97%	£500	£100
Sterling R Inc	GB00B76FNM05	MGOPIRI LN	GBP	03/08/2012	0.88%	4.85%	3.97%	£500	£100

Any ongoing charge figure with * indicates an estimate. The ongoing charge figure may vary from year to year and excludes portfolio transaction costs. The charges are mostly, if not exclusively, the Annual Charge which may be discounted depending on the size of the fund. For further details, please see the fund's Key Investor Information Document (KIID). The fund's annual report for each financial year will include details on the exact charges made. Please go to www.mandg.co.uk/literature to view the Costs and charges illustration which contains information on the costs and charges applicable to your chosen fund and share class.

Please note that not all of the share classes listed above might be available in your country. Please see the Important Information for Investors document and the relevant fund's Prospectus for more information on the risks associated with this fund and which share classes are available for which product and which investor type.

Approach to responsible investment

	Yes	No	N/A
ESG integration	✓		
Additional ESG specifications		✓	
Exclusions	✓		
Cluster munitions & anti personnel landmines	✓		
Other exclusions or restrictions		✓	
Voting	✓		
Engagement	✓		

Please see glossary for further explanation of these terms.

Climate Metrics

	Weighted Average Carbon Intensity	Coverage by portfolio weight (%)
Sterling I Accumulation	61.94	88.75%
Benchmark	240.50	85.07%

Source: MSCI

ESG Standard Glossary

Additional ESG specifications: In the context of M&G, these are funds managed with an explicit ESG objective, outcome or in accordance with specific ESG criteria, and will have a number of minimum exclusions in place.

Engagement: Interaction with company management on various financial and non-financial, including ESG, issues. Engagement allows investors to better understand how a company is undertaking its operations and how it is interacting with its stakeholders, as well as advising on and influencing company behaviour and disclosures where appropriate.

ESG integration: Describes the explicit and systematic inclusion of Environmental, Social and Governance factors in investment analysis and investment decisions. It underpins a responsible investment approach, and allows investors to better manage risk and generate sustainable, long-term returns.

Exclusions: The exclusion or restriction of investments based on the sector in which they operate, the products or services they provide or for other specific criteria, i.e. they are deemed to be in breach of the United Nations Global Compact principles on human rights, labour the environment and anti-corruption.

Voting: As the partial owners of a company, shareholders have the right to vote on resolutions put forward at a company's annual general meeting. These resolutions include the re-election of directors, executive remuneration and business strategy, among others, and may include resolutions put forward by shareholders.

Explanation of our climate metrics

The Weighted Average Carbon Intensity (WACI) is the metric used to report our funds' carbon emissions. It is a measure of how much CO2 is being emitted per US\$ million of sales by each company that the fund invests in. This can be used to determine the likely effect a company is having on the environment. It can also help to compare the impact different companies have on the environment, and to compare companies against the broad market or the financial benchmark for the fund. However, this metric does not take into account the difference in carbon characteristics among sectors.

The WACI metric is one of many greenhouse gas emissions data points, each offering a different aspect of analysis on climate impact. M&G have selected this metric as it is applicable to multi-asset, equity and fixed income funds and it is aligned to the recommendations from the Taskforce for Climate Related Financial Disclosures (TCFD). It has also been chosen to align with M&G's groupwide target of transparency when it comes to the disclosure of climate emissions.

At M&G we currently use MSCI as our main third-party data provider for carbon intensity data as we consider its coverage to be the broadest of the current providers. As with any mass data collection, there are methodology limitations; this also applies to MSCI. We make every effort to check its data and are currently building our own tools which will use a variety of data sources to gather and map the carbon emissions of our funds.

For the avoidance of doubt, this fund is not managed to a carbon emission objective and, the benchmark WACI (should funds have a benchmark) has been included for information purposes only.

Important information

With effect from November 2023, we are reporting using our internal accounting book of record (ABOR) moving away from the investment book of record (IBOR) used for reporting up to October 2023.

The way we report our FRN's has changed to categorise the coupon more accurately, which may result in changes to the percentage allocation.

The M&G Optimal Income Fund is a stand alone OEIC.

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The value of investments will fluctuate, which will cause fund prices to fall as well as rise and investors may not get back the original amount invested. **For financial advisers only. Not for onward distribution. No other persons should rely on any information contained within.**

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