

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.

Performance 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		504
	ACC	INC
Fund size	£1,651.16m	£1,372.70m
Current bid/offer spread	0.83%	0.82%
Offer price	£37.43	£33.02
AMC/OCE†	0.30%/0.01%	0.30%/0.01%

*AMC - annual management charge; OCE - other charges and expenses.

Performance

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

12 months to end of September	2020	2019	2018	2017	2016
Fund (ACC)	5.8	10.7	0.3	1.0	15.8
Fund (INC)†	5.9	10.6	0.3	n/a	n/a
Benchmark	3.8	10.2	0.2	-0.2	14.0

	Qtr	1 yr	3 yrs*	5 yrs*
Fund (ACC)	1.2	5.8	5.5	6.6
Fund (INC)†	1.2	5.9	5.5	n/a
Benchmark	1.2	3.8	4.6	5.4

* Annualised

† Income units were introduced on 16 December 2016.

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.

Performance and attribution

- The fund was modestly ahead of its benchmark during the third quarter. Overall, having an overweight position in total credit risk relative to the benchmark contributed positively to performance as spreads tightened during the quarter.
- An overweight position in the sovereign and securitised sectors contributed positively to performance, but was offset by the fund's underweight quasi-government sector exposure. Overall sector selection was a negative contributor to performance.
- Stock selection added value to performance relative to benchmark. Notably, overweight positions in General Motors and Legal and General were positive contributors. Conversely, detractors to performance included overweight positions relative to the benchmark in Peel South East and Energy Transfer Operating.

Strategy

- Following strong performance in the corporate bond markets over the third quarter, the manager took the opportunity to decrease the overall credit risk in the fund (spread duration) and moved to an underweight position in corporate risk relative to the benchmark. This was achieved by reducing the fund's industrial exposure and selling bonds, for example, issued by Telecom Italia and Co-Operative following strong performance. In addition, the manager reduced the fund's exposure to US dollar investment grade bonds and realised profits on names such as International Paper, Starbucks and General Motors.
- The manager remained active in the secondary markets, purchasing sterling-denominated bonds issued by Hammerson and Rolls-Royce which appeared attractive on a relative value basis compared to other assets of similar credit quality.
- As valuations approach, and in some cases surpass, pre-COVID levels, the manager has largely reinvested the proceeds of sales into gilts and cash. Interest rate risk was maintained at benchmark-neutral levels.

Environmental Social Governance

Thematic case study: Engaging with companies on modern slavery

- The hidden nature of slavery today means it can be easily overlooked. Yet it was estimated that in 2016 there are 40 million people living in modern slavery worldwide.
- Within this total, 25 million people are in forced labour, being work or service exacted under the menace of any penalty and not voluntarily. More than two-thirds of victims are women, and a quarter are estimated to be children. Modern slavery takes many forms, and also includes human trafficking, forced marriage, child labour and debt bondage - where a person is tricked or forced into working for little or no money to repay an endless cycle of debt.
- It is important to understand that modern slavery is a truly global problem. Although most prevalent in countries marked with conflict and in emerging markets, we have seen that it happens in developed economies, sometimes within the communities where we live.

Modern slavery in supply chains

- In the summer of 2020, UK fast-fashion retailer Boohoo was subject to high-profile allegations relating to its domestic supply chain. The allegations exposed concerns that workers in Leicester making clothes sold by the company were paid much less than the minimum wage, while working in cramped factories that might have helped spread coronavirus in the city. Even where it may not directly be a local issue, modern slavery can be imported through what consumers buy. The global nature of supply chains means there is often a risk that modern slavery has played a hand in products that reach their final market.
- The G20 group of nations imported US\$354 billion of at-risk products in 2018, according to the Global Slavery Index, \$18 billion of which were to the UK. Although certain sectors, including electronics, garments and cocoa, are most at-risk, modern slavery can affect and involve companies irrespective of sector, size or location.
- Research conducted with leading UK retail brands suggested that 77% of companies, when interviewed anonymously, thought it likely that modern slavery occurred in their supply chains.

Why it matters for investors

- It is believed that over US\$150 billion is made from forced labour each year. This is clearly morally unacceptable. Yet there is a danger that it plays a role, however small, in the supply chains of companies. This matters for investors not only as an ethical issue, but also because it amplifies investment risk.
- One element of this is the risk of reputational damage arising from association with controversial practices such as forced labour. Consumers are more empowered than ever to boycott brands which don't align with their values, meaning reputational damage can have a swift impact on sales.

- Reputational damage can wipe billions off the market value of a large business in an age when value of global brands is estimated to be around US\$7 trillion. Indeed, much - and, in many cases, most - of companies' value is derived today from intangible assets like reputation and brand. In 2019, intangible assets accounted for 84% of the value of stocks in the S&P 500 Index of the largest listed US companies. Companies that are implicated in modern slavery also face the risk of litigation, which itself carries the risk of financial losses for investors.
- In the UK, for example, the Modern Slavery Act was introduced in 2015 to give law enforcement the tools to fight modern slavery and ensure perpetrators can receive suitably severe punishments. Businesses with a global turnover of £36 million or more that supply goods or services in the UK must publish an annual slavery and trafficking statement that sets out what it has done to ensure there is no slavery within its business, including its supply chains. Punishment for failure to comply could ultimately result in an unlimited fine.

What M&G is doing

- While M&G does not consider itself the moral compass for our clients, there is a basic universal expectation that investors will not profit from modern slavery. M&G has a policy of engagement with companies that we invest in to face the issue head on. In practice, this means we seek a constructive dialogue with company management on the topic, supporting and encouraging them to find and remedy instances of slavery.
- Given how widespread the problem is, we expect companies to find cases of modern slavery in their operations or their supply chains. Where it is uncovered, we encourage transparency. This allows our investment teams to better understand our exposure to potential risks, as well as to learn more about how companies are monitoring and addressing the related issues in practice.
- We believe that engagement is a more effective way to encourage better corporate behaviour than 'naming and shaming' - an approach that has discouraged companies from being transparent on these issues in recent years. As well as encouraging issues to be swept under the rug, perpetuating cycles of abuse, opacity also creates risks for us as investors as there are likely to be hidden risks in company supply chains.
- Modern slavery is a global systemic issue which requires collective action to address. To this end, M&G has joined 'Find it, Fix it, Prevent It', an initiative made up of investors, charities and academics to tackle the issue.
- Using their engagement framework, we ask companies four high-level questions:
 - 1) Have you found modern slavery in your operations or supply chain?
 - 2) If not, can you demonstrate that you have rigorous processes in place to look for it?
 - 3) If so, can you demonstrate the steps you have taken to improve the lives of victims?
 - 4) Have you effectively reported your actions and the steps taken to prevent a re-occurrence?
- Based on our engagement with companies about modern slavery - including the case study below - we can see clear examples of best corporate practice, as follows:

- * Provide a confidential whistle-blower hotline to their supply chain
- * Provide education to suppliers on the issue
- * Work with charities and official bodies
- * Provide remediation where appropriate
- * Be proactive when looking for the issue
- * Have clear lines of responsibility on modern slavery

- There is a higher risk of instances of modern slavery in businesses with high labour intensity and less regulatory focus. We believe sectors that are more likely to be affected therefore include agriculture, hospitality, apparel and footwear, construction, food and beverage, manufacturing and mining.

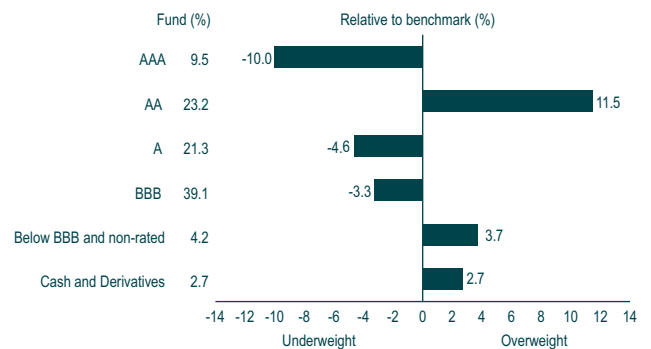
Case study: Engagement with a large UK retailer

- We engaged with a large UK retailer that is a recognised leader in the area of modern slavery, to forge a better understanding of what best practice looks like when dealing with such a complex issue.
- We learned about various tools available to companies to enable them to better understand their exposure to potential modern slavery cases, and to support suppliers and workers to combat the problem. The company uses both risk mapping software, which uses data to identify which suppliers may be at high risk, as well as an in-house tool to identify the vulnerability of workers based on factors such as the percentage of migrant labour, sectors in operation and education levels by region. These tools enable the retailer to be proactive in engaging with suppliers on the issue of modern slavery rather than simply responding to instances when it occurs.
- The company undertakes both direct and third-party audits of suppliers. Suppliers categorised as medium or high risk by the risk mapping tools are audited thoroughly, including compulsory employee interviews.
- Employees can call the retailer's own direct line to report grievances, although it encourages suppliers to run their own with the escalation taking place once they have understood the issue themselves. The company also looks to educate and train its suppliers on modern slavery and forced labour, working with charities such as Stronger Together.
- When it comes to remediating incidents, the retailer stressed that there is no one-size-fits-all approach. Due to the individual nature of each case, an individual's safety and situation must be considered.
- Our engagement with the company reinforced our view that, as an investor looking to address modern slavery, we should support transparency in this area. It is important that we encourage, not penalise, companies who are willing to discuss these issues with us. Our conversations with the retailer supported our view that recognising and dealing with modern slavery is a more positive indication of a company's culture than claiming not to have found instances within their supply chain.
- We would of course like to see other companies adopting a similar approach to this UK retailer. While we do not expect perfection from the companies we invest in, we look for open, honest conversations about the risks that they face and how they are working to minimise these.

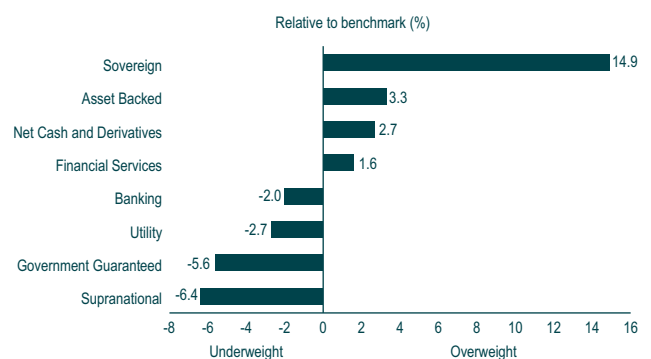
Duration



Credit ratings



Sector positions



* Market weighted basis.

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 or multi-asset strategies with a higher weighting in corporate bonds (and other comparable strategies).

M&G Investments 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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For security purposes and to improve the quality of our service, we may record and monitor telephone calls.

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.
- This factsheet reports upon the investment management of the fund during the quarter.
- There is no guarantee the fund objective will be achieved.

Advice

- This factsheet is provided for information purposes only. Any changes to your investment arrangements should be discussed with your advisers.
- 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.

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 the M&G Pooled Pensions fund range, Pension Schemes can log on to www.mandg.co.uk/institutions/resource-centre/pooledfundprices/

Fund availability

- Not all of the funds available may be used by your scheme.
- If you are in any doubt as to which M&G funds are applicable to you, please contact your personnel or pensions department as appropriate.

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.co.uk/investor/help-centre/glossary

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.

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