

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

Monthly Fund Review as at 31 May 2024

For investment professionals only

## Highlights

- Positive inflation figures coupled with resilient economic growth generally supported bond prices in May. The fund's performance was mainly helped by its duration. Credit also contributed positively, primarily driven by financials and our high yield credit default swap indices.
- We maintained our long duration during the month. Within the duration exposure, we prefer mid-dated US Treasuries as they appear relatively attractive. We also find value in some long-dated UK gilts and French government bonds, as the yield curves there appear steeper. In credit, we have made a slight reduction in our exposure to investment grade names as spreads continued to tighten. However, we are on the lookout for opportunities in the primary market and participated in new deals from WarnerMedia, AES, and Oncore Electric Delivery.
- We continued to gradually reduce our allocation to high yield bonds, primarily through CDS indices. In equity, we included the shares of Swiss pharma company Roche, as we thought their valuation was more attractive than that of its bonds.

## 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

<b>Fund manager(s)</b>	Richard Woolnough, Stefan Isaacs
<b>Fund manager tenure from</b>	08 December 2006
<b>ISIN</b>	GB00B1H05718
<b>Launch date of fund</b>	08 December 2006
<b>Launch of share class</b>	08 December 2006
<b>Fund size (millions)</b>	£ 1,433.81
<b>Benchmark(s)</b>	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
<b>Benchmark type</b>	Target
<b>Sector</b>	IA Sterling Strategic Bond sector
<b>Number of issuers</b>	251
<b>Distribution yield</b>	3.69%
<b>Underlying yield</b>	3.69%
<b>Average credit rating</b>	A
<b>Modified duration (years)</b>	7.02
<b>VaR</b>	4.40%
<b>Average coupon</b>	2.94
<b>Spread duration (years)</b>	4.5
<b>Payment dates</b>	May, Nov
<b>Ex-dividend dates</b>	Apr, Oct



## Charges

<b>Maximum entry charge</b>	0.00%
<b>Ongoing charge</b>	0.63%

## Things you should know

The fund allows for the extensive use of derivatives.

## Fund ratings as at 31 May 2024

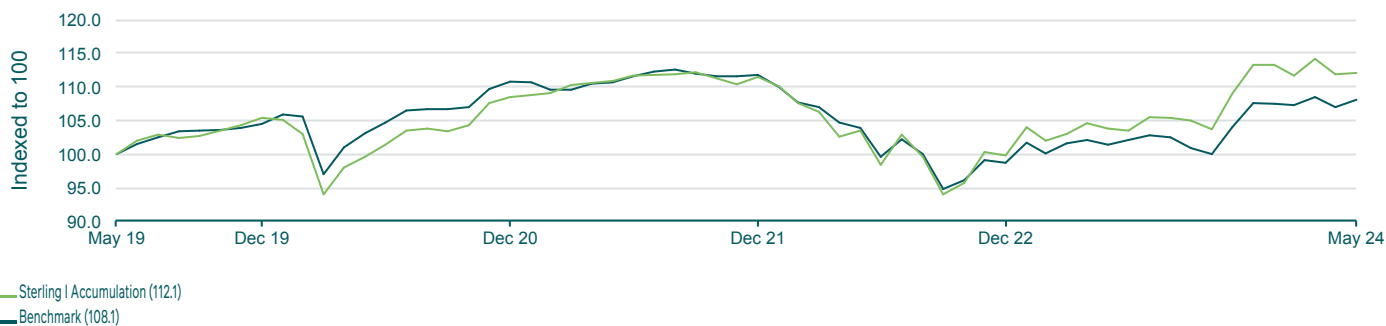
Morningstar Medalist Rating™	Analyst-Driven %	
	100	
	Data Coverage %	
	100	
Overall Morningstar rating		★★★★
Financial Express Crown Rating		
Fund Calibre Rating		Yes
Rayner Spencer Mills (RSM) Rating		Yes
Square Mile Rating		A
The Adviser Centre Rating		Established
Source of Morningstar ratings: Morningstar		
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	0.2%	0.3%	-1.1%	8.1%	0.4%	2.3%
■ Benchmark	1.0%	0.8%	0.5%	6.6%	-0.8%	1.6%
■ IA Sterling Strategic Bond sector	0.7%	1.0%	0.4%	7.3%	-1.1%	1.4%

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 31 May 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
<b>Government bonds</b>	<b>39.1</b>	<b>-1.8</b>	<b>0.0</b>	<b>37.4</b>
<b>Investment grade corporate bonds</b>	<b>39.3</b>	<b>0.0</b>	<b>0.0</b>	<b>39.3</b>
Fixed rate	39.3	0.0	0.0	39.3
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
<b>High yield corporate bonds</b>	<b>5.4</b>	<b>0.0</b>	<b>8.9</b>	<b>14.3</b>
Fixed rate	4.5	0.0	0.0	4.5
Floating rate	0.2	0.0	0.0	0.2
Index linked	0.0	0.0	0.0	0.0
Credit Default Swaps & Indices	0.7	0.0	8.9	9.6
<b>Securitised</b>	<b>6.3</b>	<b>0.0</b>	<b>0.0</b>	<b>6.3</b>
<b>Equities</b>	<b>0.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.6</b>
<b>Other</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Cash</b>	<b>9.3</b>	<b>0.0</b>	<b>0.0</b>	<b>9.3</b>

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

	Fund
Philip Morris International	1.5
Electricite de France	1.2
JP Morgan	1.2
Imperial Brands Finance	1.0
Intesa Sanpaolo	1.0
Morgan Stanley	1.0
Boeing	0.9
Lloyds Banking Group	0.9
Altria Group	0.9
BNP Paribas	0.8

## Industry breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Sovereign	35.5	0.0	0.0	35.5
Banking	15.4	0.0	0.0	15.4
Consumer goods	5.1	0.0	0.0	5.1
Insurance	4.7	0.0	0.0	4.7
Utility	3.9	0.0	0.0	3.9
Covered Bonds	3.1	0.0	0.0	3.1
Foreign Sovereign	2.9	-1.8	0.0	1.2
Asset backed	2.6	0.0	0.0	2.6
Financial services	2.4	0.0	0.0	2.4
Telecommunications	2.1	0.0	0.0	2.1
Energy	1.6	0.0	0.0	1.6
Capital goods	1.5	0.0	0.0	1.5
Real Estate	1.3	0.0	0.0	1.3
Media	1.2	0.0	0.0	1.2
Technology & electronics	1.1	0.0	0.0	1.1
Transportation	0.9	0.0	0.0	0.9
Basic industry	0.8	0.0	0.0	0.8
Agency	0.7	0.0	0.0	0.7
Equity	0.6	0.0	0.0	0.6
Commercial Mortgage Backed	0.6	0.0	0.0	0.6
Leisure	0.6	0.0	0.0	0.6
Retail	0.5	0.0	0.0	0.5
Healthcare	0.5	0.0	0.0	0.5
Automotive	0.5	0.0	0.0	0.5
Services	0.1	0.0	0.0	0.1
Futures	0.0	0.0	0.0	0.0
High Yield indices	0.7	0.0	8.9	9.6
Cash	9.3	0.0	0.0	9.3

## Credit rating breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
AAA	4.4	0.0	0.0	4.4
AA	36.1	0.0	0.0	36.1
A	16.7	0.0	0.0	16.7
BBB	27.1	0.0	0.0	27.1
BB	3.8	-1.8	3.3	5.3
B	1.4	0.0	5.6	7.1
CCC	0.6	0.0	0.0	0.6
CC	0.0	0.0	0.0	0.0
C	0.0	0.0	0.0	0.0
D	0.0	0.0	0.0	0.0
No rating	0.6	0.0	0.0	0.6
Cash	9.3	0.0	0.0	9.3

## Maturity breakdown (%)

	Physical
0 - 1 years	0.5
1 - 3 years	4.8
3 - 5 years	17.8
5 - 7 years	16.4
7 - 10 years	20.7
10 - 15 years	5.3
15+ years	24.8
Cash	9.3
Other	0.6

## Duration by currency and asset class (years)

	Physical	Futures	Swaps	Net
Euro	2.0	0.0	-0.9	1.1
British pound	3.0	0.0	-1.3	1.7
US dollar	2.7	1.6	-0.1	4.1
Other	0.1	0.0	0.0	0.1
Total	7.7	1.6	-2.3	7.0

## Country breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
US	32.7	0.0	0.0	32.7
UK	24.9	0.0	0.0	24.9
France	8.8	0.0	0.0	8.8
Italy	3.7	0.0	0.0	3.7
Germany	2.8	0.0	0.0	2.8
Spain	2.8	0.0	0.0	2.8
Australia	1.6	0.0	0.0	1.6
Netherlands	1.5	0.0	0.0	1.5
Other	11.3	-1.8	0.0	9.6
High Yield indices	0.7	0.0	8.9	9.6
Cash	9.3	0.0	0.0	9.3

## Currency breakdown (%)

	Fund
British pound	99.4
US dollar	0.5
Euro	0.1
New Zealand dollar	0.0
Swiss franc	0.0
South African rand	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%	3.28%	3.28%	£500	£100
Sterling A Inc	GB00B1H05049	MGOIANI LN	GBP	08/12/2006	1.03%	4.33%	3.28%	£500	£100
Sterling I Acc	GB00B1H05718	MGOIINA LN	GBP	08/12/2006	0.63%	3.69%	3.69%	£500,000	£10,000
Sterling I Inc	GB00B1H05601	MGOIINI LN	GBP	08/12/2006	0.63%	4.33%	3.69%	£500,000	£10,000
Sterling R Acc	GB00B7FM9R94	MGOPIRA LN	GBP	03/08/2012	0.88%	3.44%	3.44%	£500	£100
Sterling R Inc	GB00B76FNM05	MGOPIRI LN	GBP	03/08/2012	0.88%	4.33%	3.44%	£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](http://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.

## Important information

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Cash may be held on deposit and/or in the Northern Trust Cash Funds, a range of collective investment schemes.

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

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