



M&G Optimal Income Fund

Stefan Isaacs, Fund Manager

June 2018

Defining the optimal income stream



Every single investment has two characteristics:

- Duration (interest rate risk)
- Credit risk

The optimal income stream is the best mix of duration and credit risk given a particular economic scenario

Under wider powers, we are now able to “unbundle” duration and credit risk

M&G Retail Fixed Interest team

12 fund managers and 10 other investment professionals

Macro/Emerging markets



Jim Leaviss
Head of Retail
Fixed Interest (23)



Claudia Calich
Fund Manager (24)



Charles de Quinsonas
Deputy Fund Manager
(7)



Anjulie Rusius
Junior Fund Manager
(9)



Ana Gil
Investment Director
(8)



Pilar Arroyo
Investment Specialist
(6)

Investment grade



Richard Woolnough
Fund Manager (31)



Ben Lord
Fund Manager (14)



Matthew Russell
Fund Manager (14)



Dr. Wolfgang Bauer
Fund Manager (4)



Laura Frost
Investment Director
(16)



Carlo Putti
Investment Specialist
(3)

High yield



Stefan Isaacs
Deputy Head of
Retail Fixed
Interest (16)



James Tomlins
Fund Manager (14)



Luke Coha
US High Yield
Specialist (19)



Lu Yu
Junior Fund Manager
(10)



Pierre Chartres
Investment Director
(12)



Mario Eisenegger
Investment Specialist
(3)



James Thompson
Head of Retail Fixed
Interest Fund Manager
Assistants (14)



Harry Baptist
Fund Manager
Assistant (1)



Parminder Sroya
Fund Manager
Assistant (3)



Daniella Carroll
Fund Manager
Assistant



Nicolo Carpaneda
Investment Director
(13)

Market-leading credit analyst teams

M&G in London

Rob Marshall – Head of Public Credit Research

Restructuring

Financials & Sovereigns

Asset-backed

Industrials

Paul Taylor (21)

John Page (21)

Heads of Fixed Income
Restructuring

David Covey (22)
Head of Financials

Matthew O'Sullivan (13)
Anuj Babber (17)
Co-Heads of ABS

Rob Marshall (22)

Andrew Amos (18)

Riccardo Cumerlato (17)

Martin Limpenny (16)

Rafael Cerezo (16)

Nick Karelis (16)

Richard Booth (15)

Tim Harrison (11)

Sam Chapman (10)

Jay Mankoo (10)

Andy Bishop (10)

Mustafa van Hien (9)

Michael Walker (6)

Biliana Sourlekova (5)

Daniela Cociorba (4)

Luca Lussana (2)

Jeanot Dawson (2)

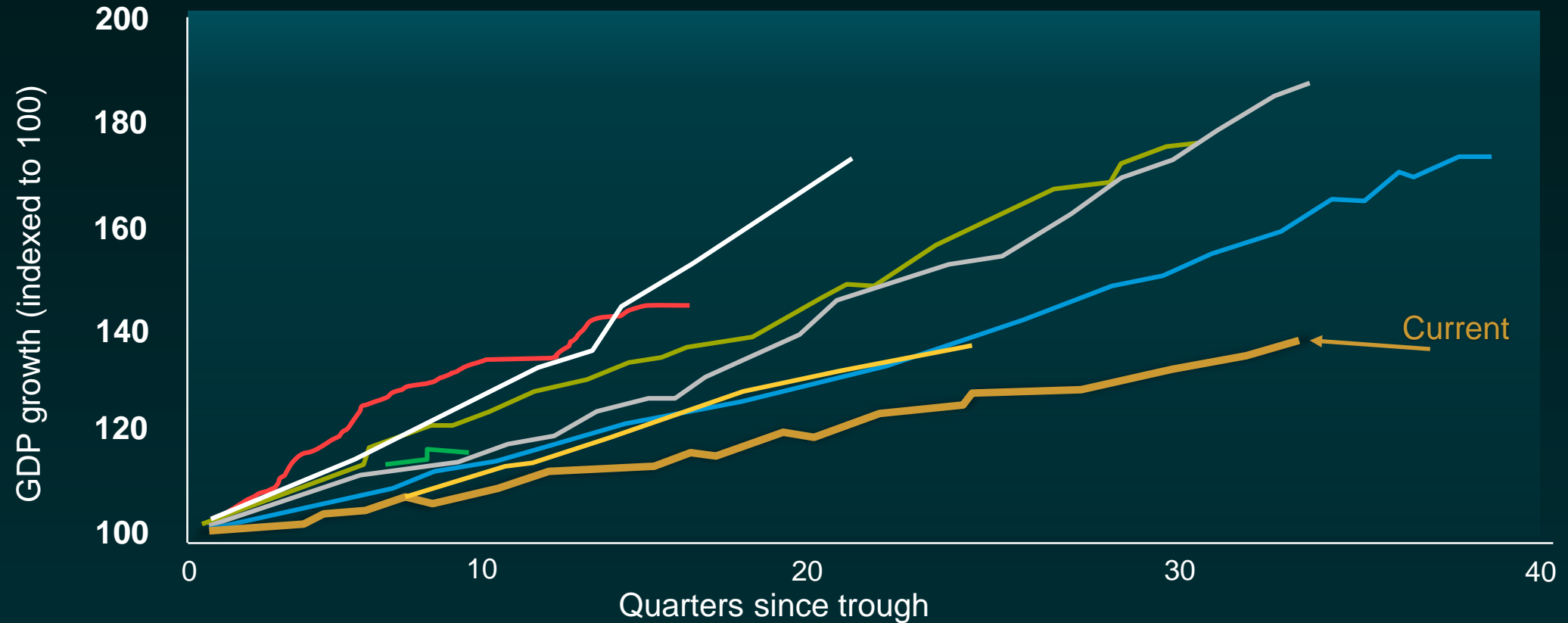
Alex Giles (21)
Mark Robinson (9)
Jaimin Shah (13)
Tolani Benson (8)
Elsa Dargent (8)
Hannah Godwin (7)
Alexander Radon (7)

Claire Schoeman (18)
Josephine Meertens (17)
Tim Morris (10)
James O'Prey (14)
Michael Coady (10)
Othman Eli Iraki (10)
Eoin O'Shaughnessy (10)
James Crole (4)

Simon Duff (20)
Rachita Patel (16)
Orlando Finzi (22)
Vladimir Jovkovic (13)
Stephen Wilson-Smith (27)
Michael Posnansky (16)
Miriam Hehir (24)
Saul Casadio (10)
Chris Money (12)
Yin Wu (11)
Yadeesh Moorthy (5)
Chris Saysell (25)

Are we due a recession?

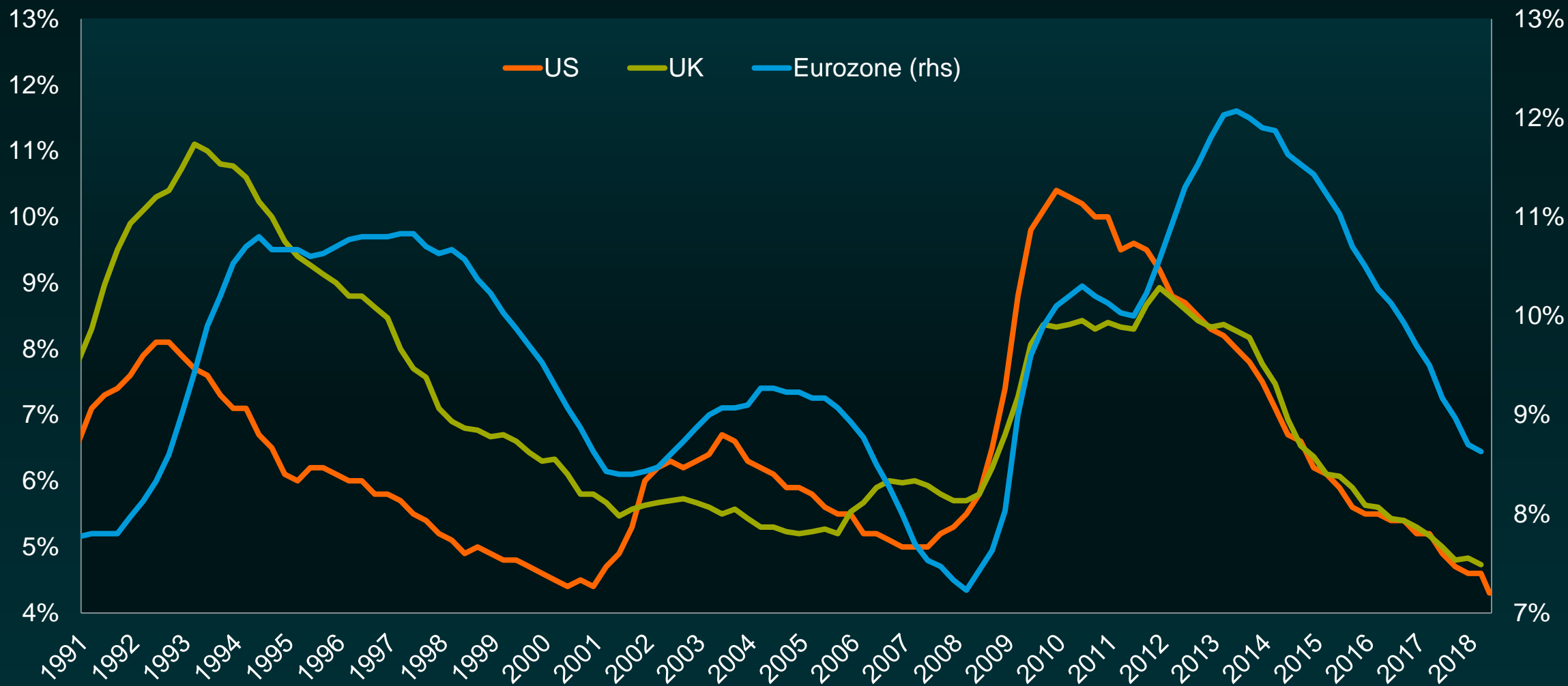
Cumulative GDP growth post-recessions



Past performance is not a guide to future performance

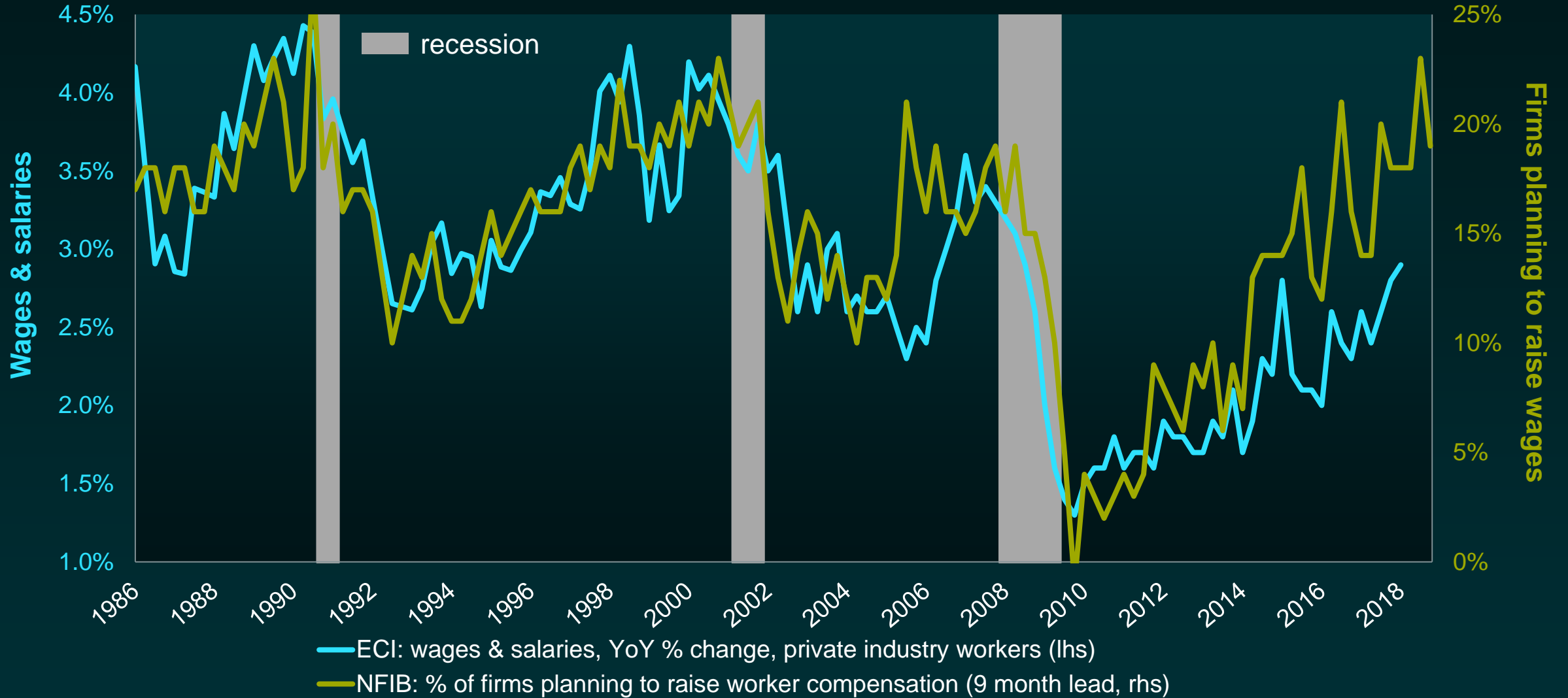
Monetary policy worked

Unemployment rate (YoY % change)

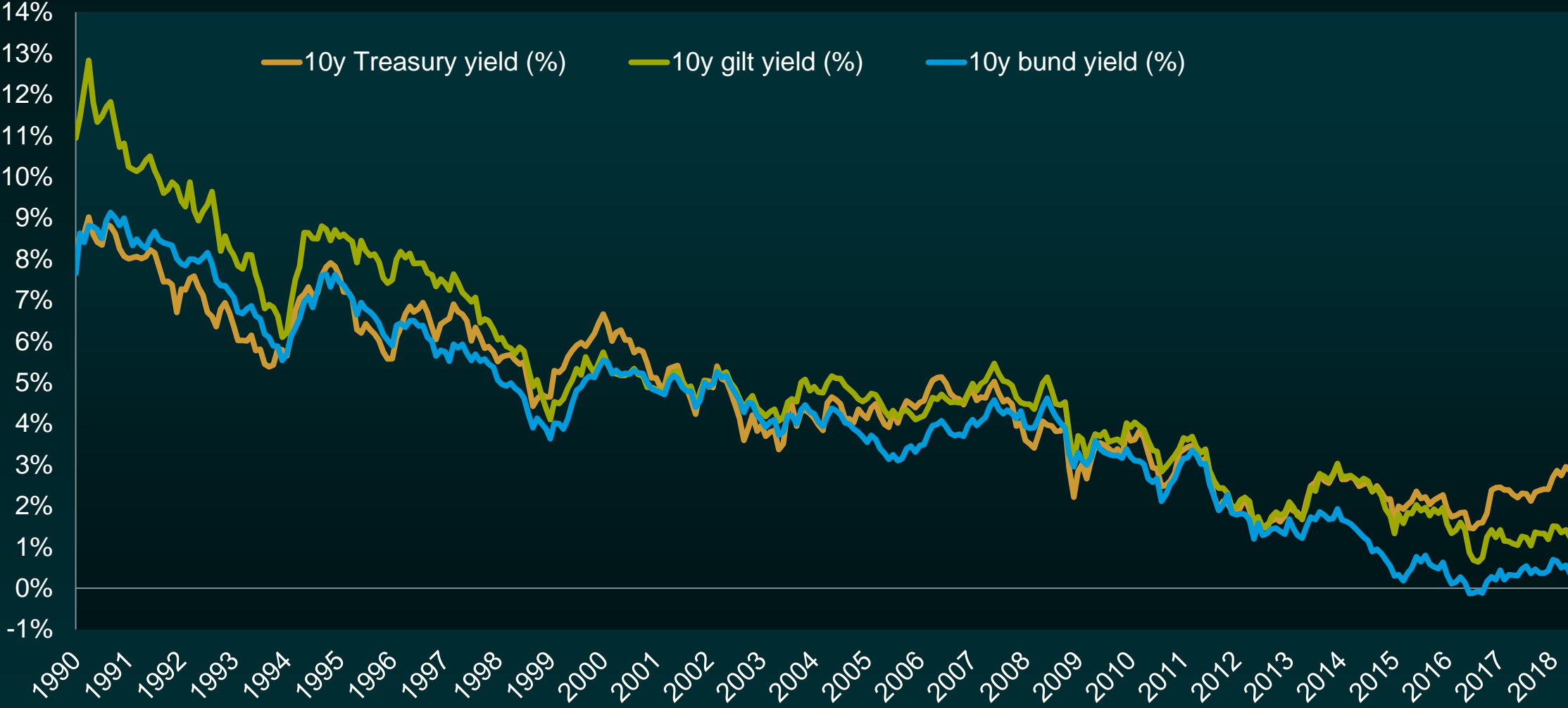


Source: Bloomberg, May 2018 (Latest data available)

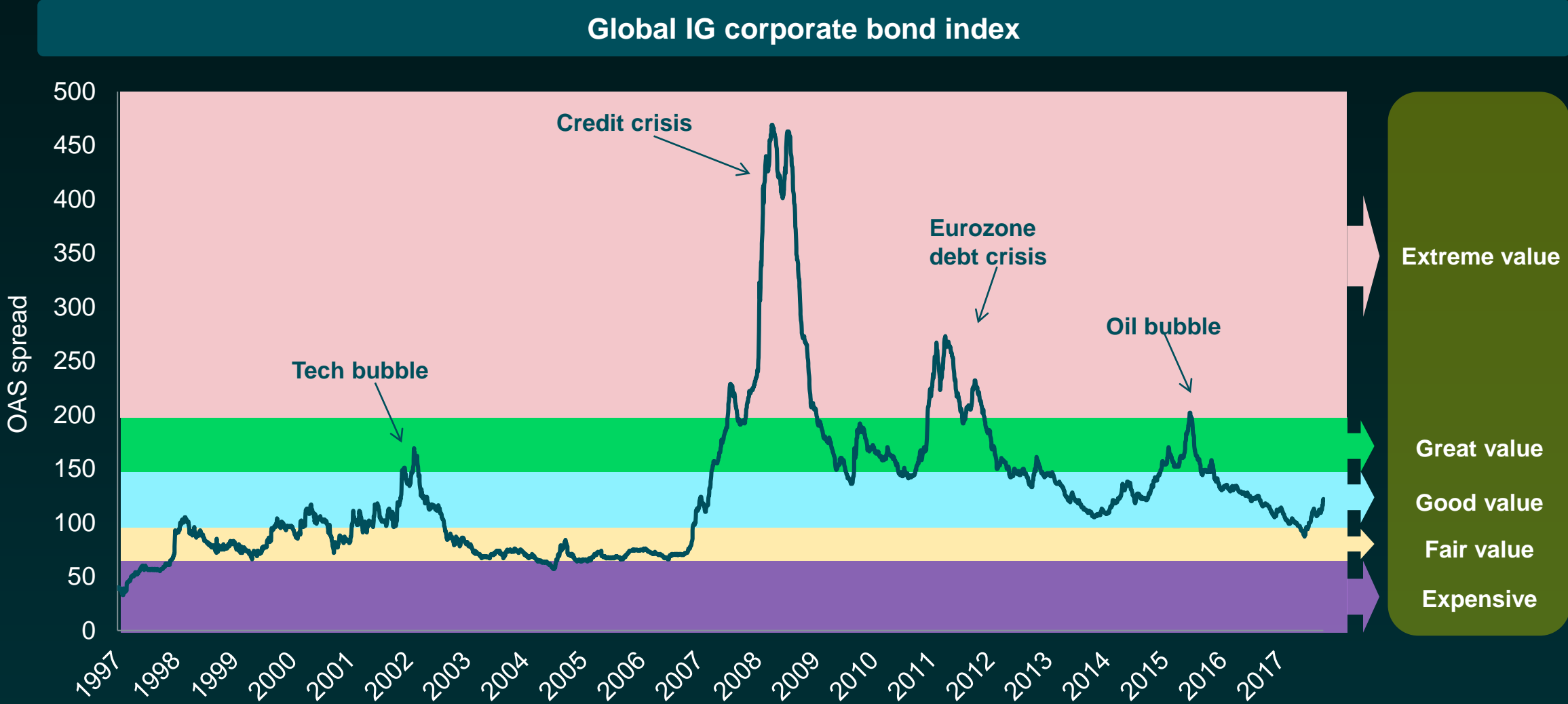
Where's wage growth going?



Government bond yields still close to historically low levels

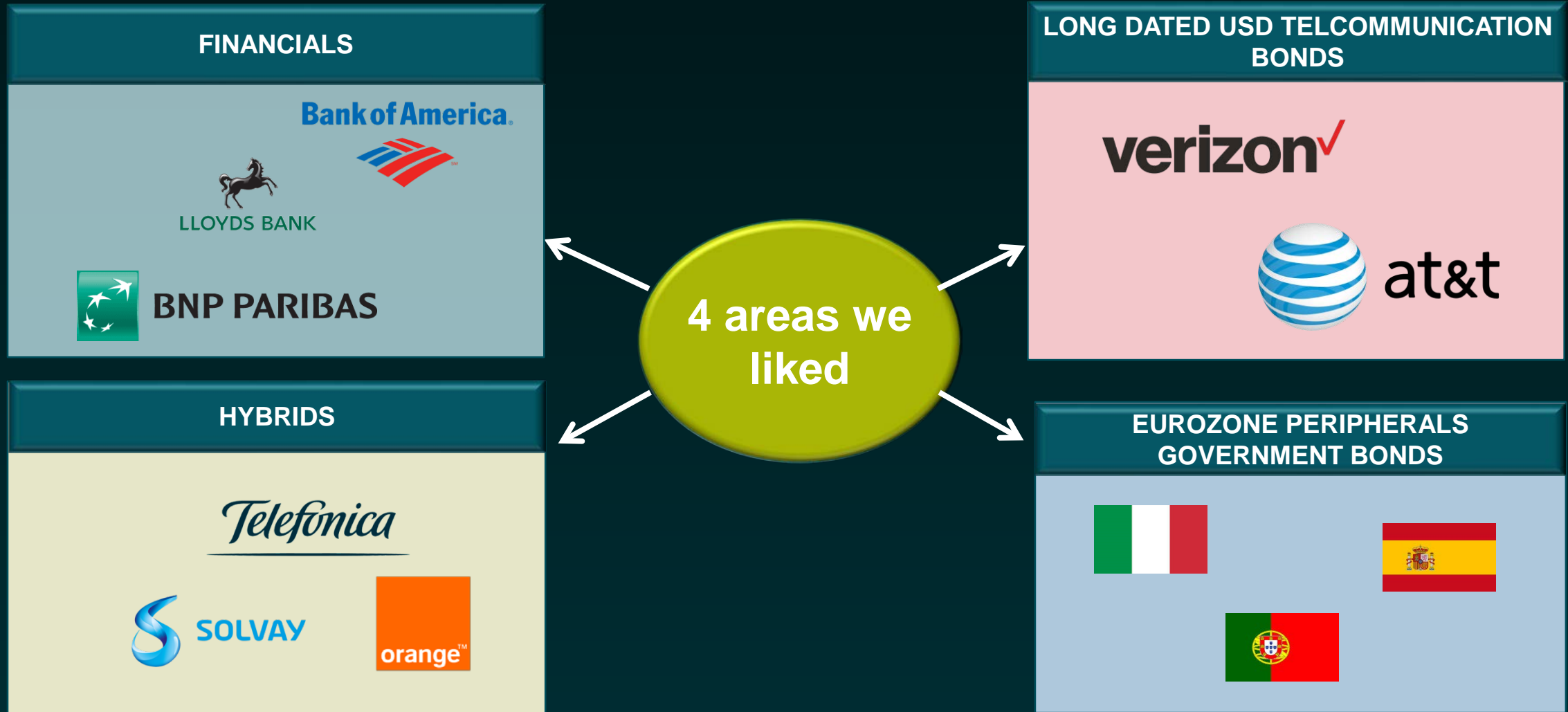


What past experience tells us about corporate bond spreads

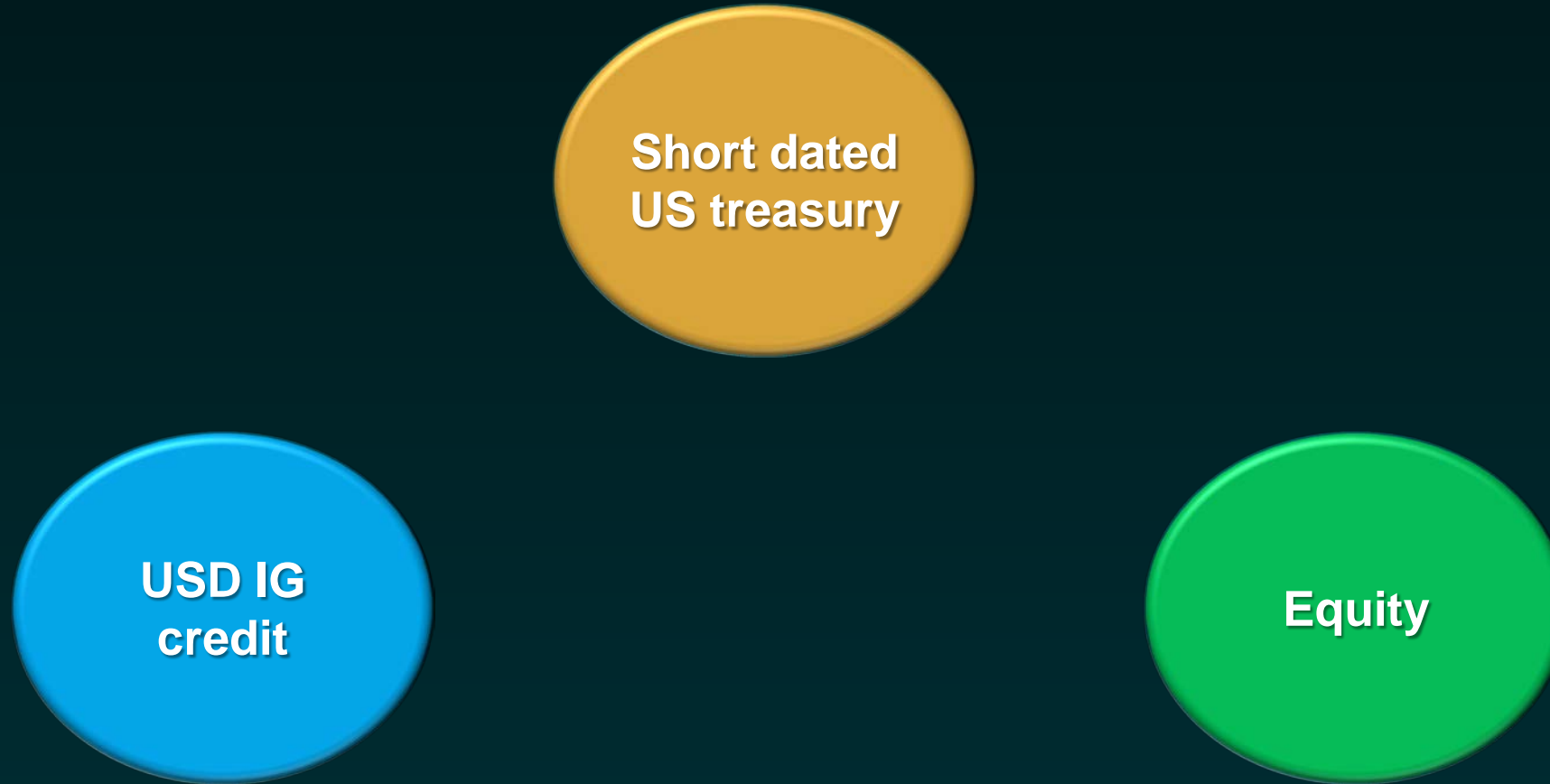


Source: M&G, Bloomberg, BofA Merrill Lynch indices, 31 May 2018

Areas we liked in 2017



Areas we are looking at



Short dated US Treasuries now looking more attractive

5-yr US Treasury yield (%)

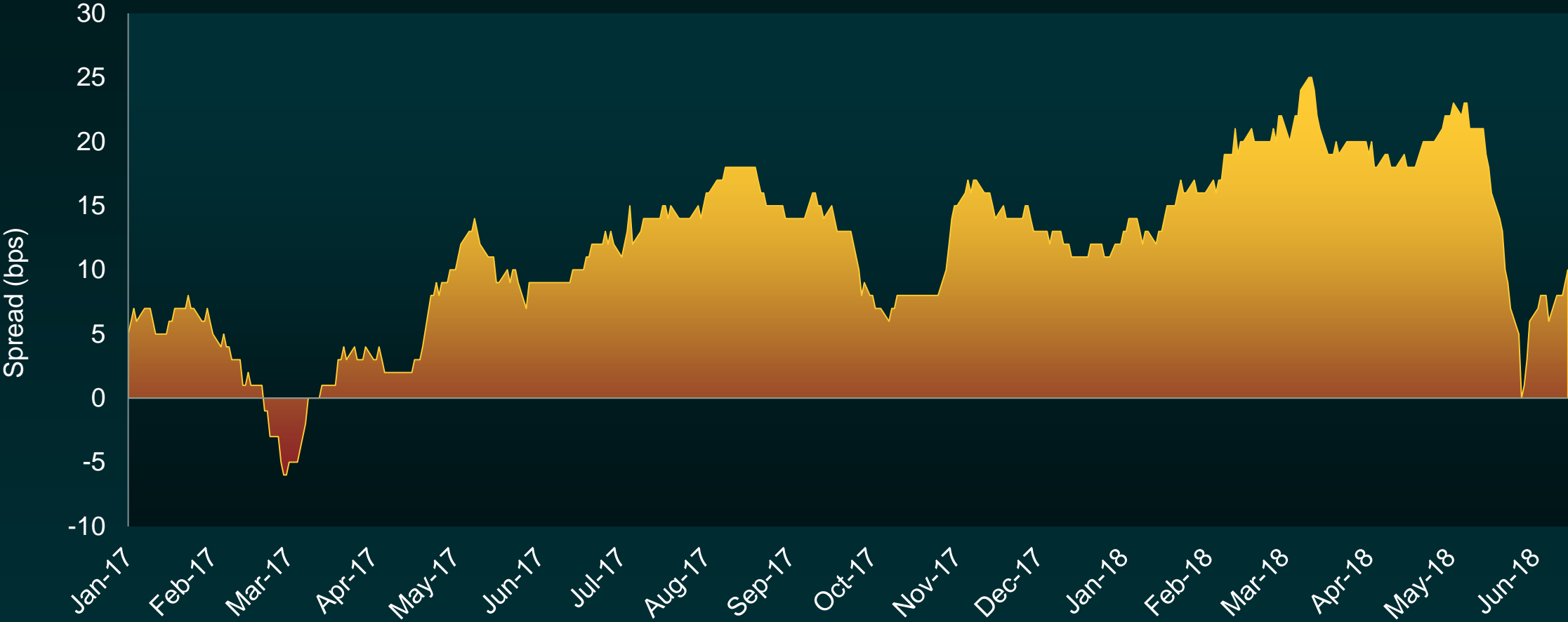


10-yr US Treasury yield (%)

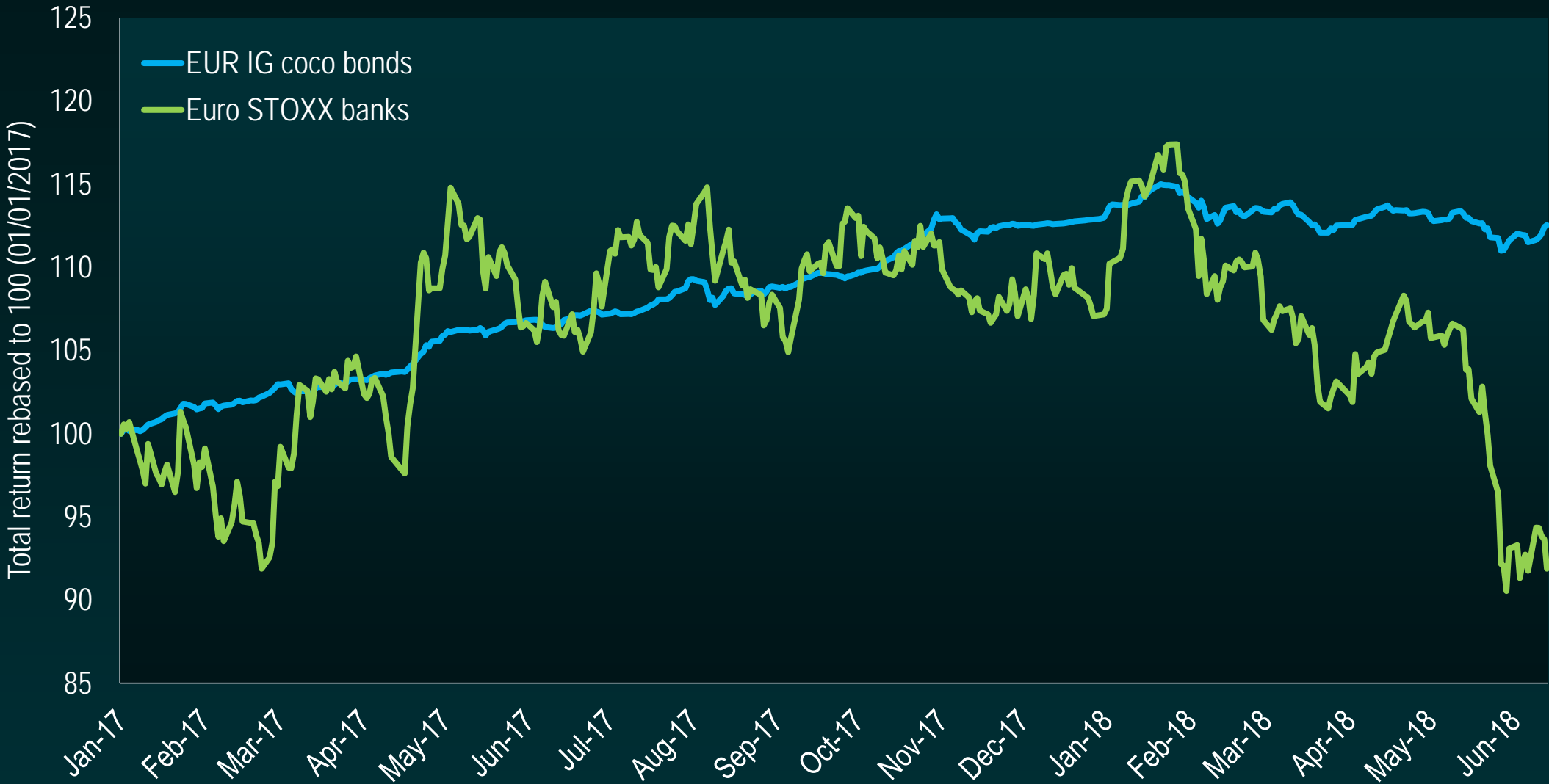


USD IG corporate bonds versus EUR IG corporate bonds

USD IG corporate spreads – EUR IG corporate spreads



Euro coco bonds versus bank equity performance



Agenda

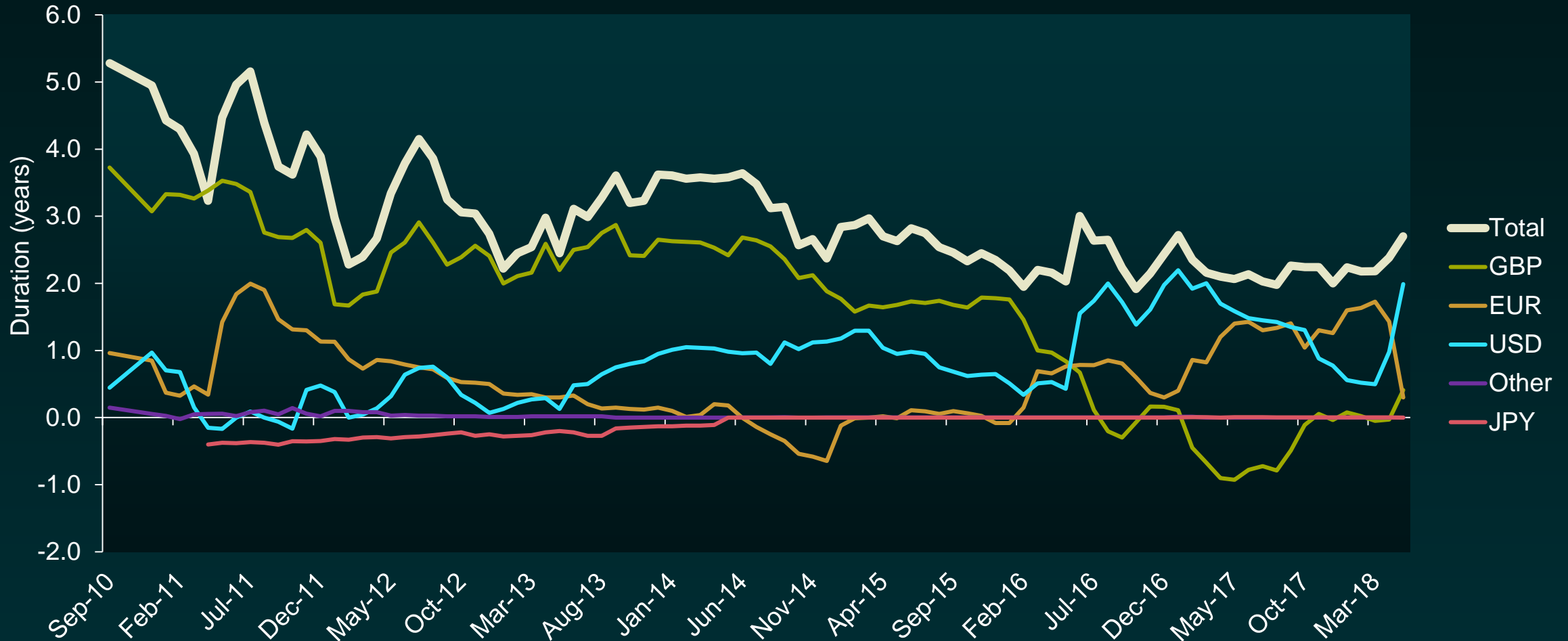
Introduction

Macro and credit views

Fund positioning

Duration contributions

M&G Optimal Income Fund

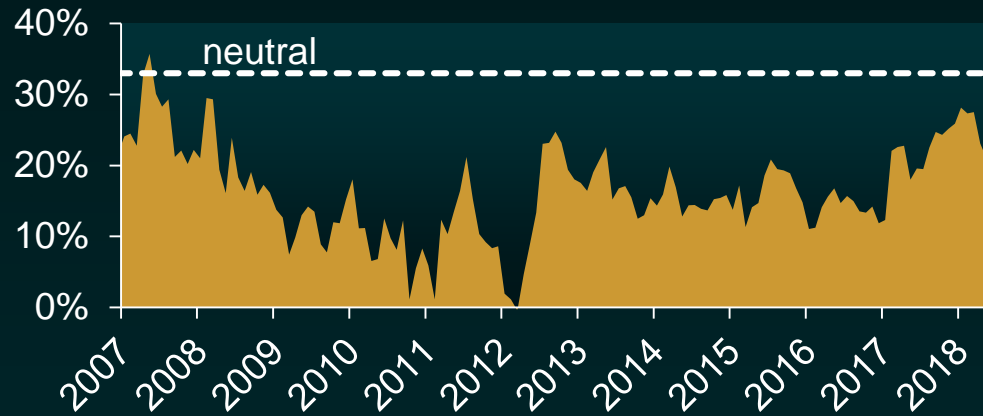


Actively managing duration across markets

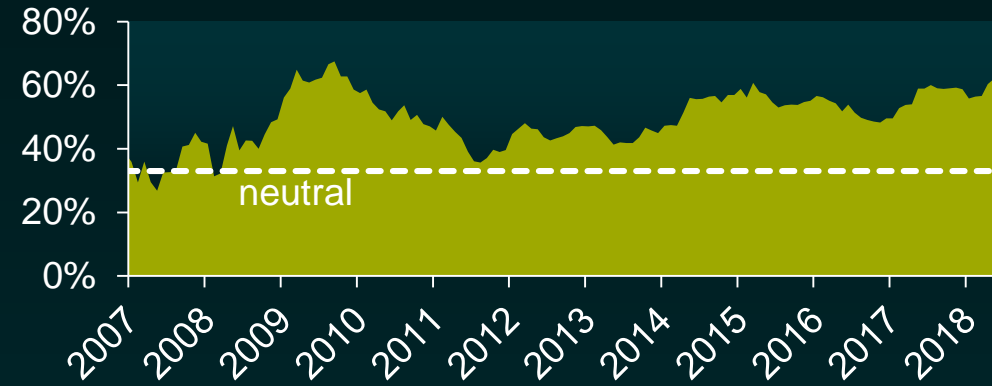
Asset allocation over time

M&G Optimal Income Fund

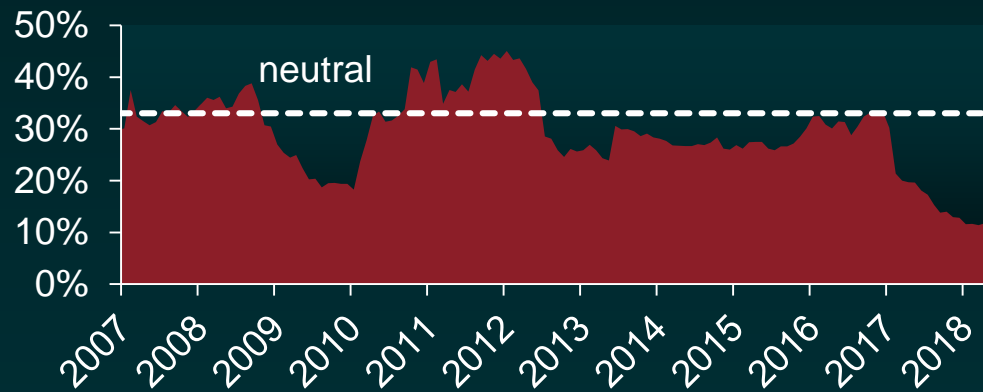
Govt bonds (and cash)



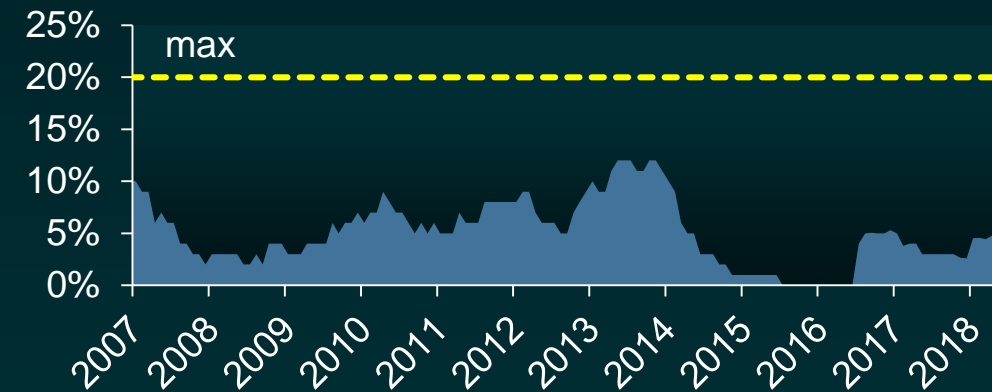
IG corporate



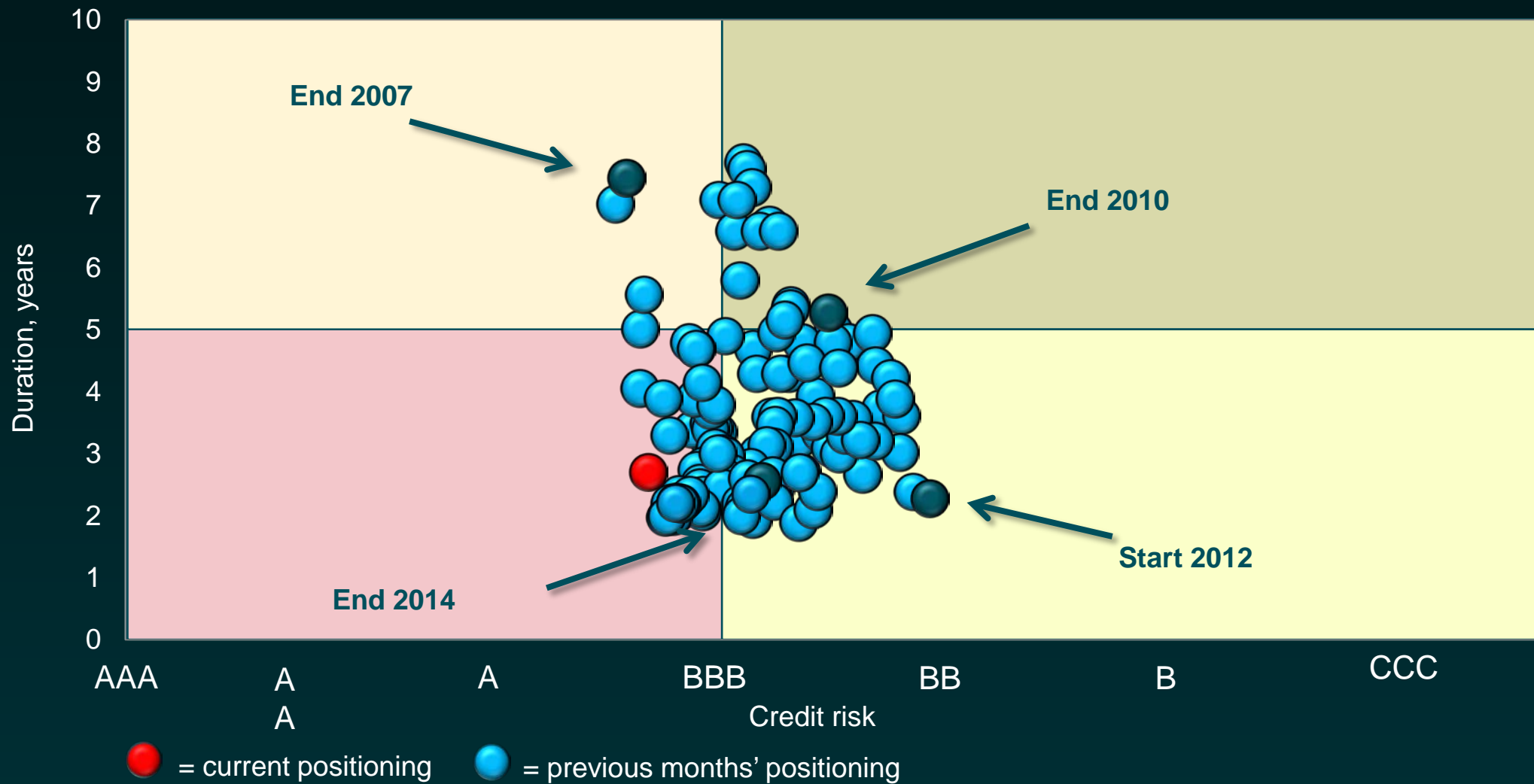
HY corporate



Equity



Duration vs credit risk



Note: equity is considered with a CCC rating

Performance in Sterling

M&G Optimal Income Fund

	01.06.17 to 31.05.18	01.06.16 to 31.05.17	01.06.15 to 31.05.16	01.06.14 to 31.05.15	01.06.13 to 31.05.14
M&G Optimal Income Fund	1.9%	7.7%	1.7%	2.2%	6.0%
IA £ Strategic Bond sector	0.4%	8.4%	0.6%	4.6%	4.4%

Past performance is not a guide to future performance

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

M&G Optimal Income Fund



Past performance is not a guide to future performance

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.** This financial promotion is issued by M&G Securities Limited which is authorised and regulated by the Financial Conduct Authority in the UK and provides ISAs and other investment products. The company's registered office is Laurence Pountney Hill, London EC4R 0HH. Registered in England No. 90776.