

M&G PP Total Return Credit Investment Fund

Fund Factsheet Q1 2025

Fund description

The investment strategy of the fund is to purchase units in the M&G Total Return Credit Investment Fund. That fund aims to maximise total return principally through prudent investment management. It aims to provide investors with attractive returns from capital and income from a diversified pool of debt and debt like assets, including but not limited to, debt instruments with a fixed, variable or floating rate coupon. The fund will identify opportunities at the market, sector, issuer or security level. There is no geographic limitation to the investment universe.

Key facts

Style	Active Multi-Asset Credit
Fund manager	Richard Ryan
Comparator	SONIA
Number of holdings	511
Fund size	£230.89m
Current bid/offer spread	0.07%
Offer Price	£15.24
AMC/OCE†	0.45%/0.02%

†AMC - annual management charges; OCE - other charges and expenses.

All statistics from M&G internal sources as at 31.03.25, unless indicated otherwise.

Performance

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

12 months to end of March	2025	2024	2023	2022	2021
Fund	7.9	12.2	1.8	0.7	15.7
SONIA	4.9	5.0	2.2	0.1	0.1

	Qtr	1 yr	3 yrs*	5 yrs*
Fund	1.5	7.9	7.2	7.5
SONIA	1.1	4.9	4.0	2.4

*Annualised

Fund launched on 16.06.15

Past performance is not a guide to future performance. The value and income from 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

As 2025 began, inflation concerns were prominent among investors as a consequence of the potential imposition of tariffs by the newly inaugurated Trump administration. This, together with the US jobs report on the 10th of January led to a significant global bond sell-off, as investors grew increasingly doubtful about central bank rate cuts (following the robust jobs report, this expectation dropped to just 29 basis points of cuts by the FED in 2025). The concerns of tariffs continued into February, with the threat of imminent US tariffs on Canada (25%), Mexico (25%) and China (10%), to be implemented from the 4th of February, leading to a strong risk-off move as markets opened at the start of the month. Heading into March, tariffs caused volatility in financial markets. The US implemented several new tariffs in the month including additional duties on imports from China, Hong Kong, Canada, and Mexico. Canada, China and Mexico imposed levies on American goods in response, which increased the uncertainty regarding future inflation and growth. On March 4th, Germany announced a significant fiscal spending package expected to stimulate economic growth and address the country's contracting economy, as a result German yields sold off strongly.

In the Euro area, the ECB cut rates due to fears of inflation, and because of persistently high geopolitical and policy uncertainty which was expected to weigh on Euro area economic growth. January also saw the Eurozone's gross domestic product (GDP) remain unchanged from the previous quarter, a sharp slowdown from the 0.4% growth recorded in the third quarter and below the 0.1% expansion forecast by analysts. Germany's economy shrank by 0.2%, worse than the anticipated 0.1% decline, while France's GDP fell by 0.1%, missing expectations of stagnation. However, in February the German election results were broadly

in line with opinion polls, and boosted the Eurozone's growth outlook, with expectations of increased defence spending and looser fiscal policy. Furthermore, the increased confidence in a ceasefire between Russia and Ukraine also supported economic growth expectations in the region. This saw European sovereign yields fall less than in the US, with higher yielding Italian bonds (+0.7%) outperforming German bunds (+0.6%). Markets currently expect the European Central Bank to cut rates by 25bps to 2.65% in its March 6th meeting, with February seeing the 10-year bund yield come down 6bps to 2.40%. Finally, in March the ECB lowered key interest rates by 25 basis points. This uncertainty affected exports and investment, leading to a decline in the Euro area's export market share. The fiscal stance was projected to tighten slightly in 2025 and remain neutral in 2026. Some other projections by the ECB were expecting a GDP growth at 0.9% for 2025 (which reflects a slight downward revision from previous forecasts due to lower exports and ongoing investment weakness) and headline inflation was projected to average 2.3% in 2025 driven by stronger energy price dynamics.

In the UK, gilts sold off following the latest labour market data. It showed that the number of payrolled employees was down by -47k in December (vs. -8k expected), and the unemployment rate in the three months to November also increased by 0.10% to 4.4%. That helped to cement the idea that the Bank of England are on course to cut rates at their next meeting on 6th of February. Elsewhere in the UK market, property prices grew less than expected. According to mortgage providers, the slowdown in house price growth is largely attributed to the spike in mortgage rates towards the end of 2024. In February the Office for Budget Responsibility (OBR) halved the UK growth forecast for 2025 from 2% to 1%. This revision was attributed to weaker-than-expected economic performance and global uncertainties. They also projected inflation to average 2.5% in 2025 reflecting ongoing pressures from energy prices and supply chain disruptions.

In the US, various data releases indicated heightened demand pressures. Notably, the ISM services report on 7th of January revealed that the prices paid index surged to 64.6 in December, marking its highest level in nearly two years. Additionally, the US jobs report released on the 10th of January exceeded expectations, with nonfarm payrolls increasing by +256k, the fastest growth in nine months. US core CPI for December decelerated to a monthly rate of +0.2%, ending a four-month streak of +0.3%. Heading into February, the Fed's preferred measure of PCE was at a weaker +0.33%, in line with expectations, but it was still the fastest rise since March 2024, and left inflation lingering above their 2% target, at 2.5%. February also saw the Conference Board report a 7 point fall in consumer confidence to 98.3, its largest monthly decline since August 2021. Finally in March, US consumers' inflation expectations moved higher, and the University of Michigan's long-term measure moved up to 4.1% in March, the highest since February 1993. Latest PCE inflation data, which is the Fed's preferred measure of inflation, showed the 3m annualised rate of core PCE was running at +3.6% in February, the highest since March 2024. At the same time, there were also growing concerns about the US growth outlook feeding the fears about stagflation.

Across the US, Europe, and UK, spreads on investment-grade corporate bonds widened in March 2025. The convergence in spreads across geographies over recent months means that ranges are much tighter, with investment grade spreads in USD, EUR, and GBP markets finishing March at 97bps (+9/+15 over month and quarter respectively), 95bps (+5), 106bps (+12) and finishing the quarter at 97 (+15), 95 (-6) and 106 (-15) basis points respectively. Total returns for March were negative across US IG (-0.2%), EUR IG (-0.9%) and UK IG (-1.2%) as spreads widened whilst government bonds rallied in the US (+0.2%) and fell in Europe (-2.0%) and the UK (-1.15%). However, over the quarter investment grade corporate bond markets delivered positive total returns (US (+2.9%), EUR (+0.65%) and UK (+1.5%)), as spreads tightened in Europe, but widened in the US and UK. US treasuries and UK Gilts delivered strong positive returns (+3.4% and +2.3% respectively) whilst Bunds underperformed (-0.9%).

March saw HY spreads rise across all regions, with US HY seeing the largest widening (65bp) to end at around 355bps, being a more compelling level in absolute terms, and relative to Europe, as it's the first time since 2023 that the US index trades wider. European spreads currently stand at 328bps which is 39bps wider than February.

In March US HY underperformed (-1.1%) vs European HY (-0.99%) which fared a little better. Tariffs, inflation and growth concerns weighed down US HY sentiment while Euro HY sentiment was better supported by expectations for potentially better-than-anticipated growth on the back of recently announced fiscal policies. Year-to-date US HY and European HY performed in-line, delivering total returns of +0.7%.

The Fund delivered a 0.42% return above its cash benchmark during Q1 2025. All sectors contributed positively over the period, but the primary contributor to performance was exposure to bonds in the financial sector. The largest individual positive contributors were MPT Operating Partnership, Triodos Bank, NWD and Spirit IP Cayman. Notable detractors were SFA, Kohls Corp, ASP Unifrax and Avis Budget Finance.

Outlook

The potential for future unforeseen financial or geopolitical events remains, which could spark future bond market volatility and changes in monetary policy. We believe that a patient and highly selective approach to fixed income investment is the best strategy to take advantage of opportunities in today's market.

Strategy

During the first quarter, the Fund derisked into areas that saw strength, whilst steadily increasing its defensive allocation as spreads continued to under compensate. Primary market issuance was relatively busy over the period with the Fund sourcing several idiosyncratic opportunities that offered relative value. The Fund gained profits on investments in industrials, financials and real estate assets that had performed well over the period.

In terms of de-risking, we reduced exposure to EUR-denominated hybrids, specifically CPI Property Group (real estate) following strong performance, Alstom (capital goods), and Dana Incorporated (automotive). Additionally, the Fund reduced exposure to financial bonds issued by Alpha Bank, Novo Banco, Atradius Group, Intesa Sanpaolo and Piraeus Bank, which no longer appeared attractive.

We remained active in the primary market, purchasing investment grade rated bonds primarily in the financial and industrial sectors. Purchases included EUR-denominated financials issued by Commerzbank, Jyske Bank, Royal Bank of Canada, SBAB Bank, Athene Global funding and Société Générale. As well as investments in State Street (USD, Financial), Johnson&Johnson (USD & EUR, Industrial) and CISCO (USD, Industrial) which holds an AA MSCI rating. Additionally, we continue to diversify our allocation to defensive assets, purchasing supranational bonds and AAA rated tranches of new ABS/MBS deals.

Furthermore, we continued to identify individual opportunities where market dispersions remained, purchasing GBP and EUR denominated financials and USD denominated utilities, issued by Metro Bank (GBP), BPCE SA (EUR), Belfius (EUR) and Spirit Airlines (EUR). All of which offered attractive value relative to underlying credit fundamentals.

Finally, the Fund carried out various relative value switches within the industrial and financial sectors for a pick-up in yield. This included switching from shorter dated bonds issued by DirecTV, WorldLine, Celanese and ZF Finance into their longer dated equivalents. We also switched from Tier 1 Barclays bonds into Tier 1 Lloyds where we saw more attractive credit fundamentals from a risk and credit quality perspective.

Fund positioning

Asset class*	%
Net Cash and Derivatives	30.0
Financial	22.9
Industrial	21.3
Securitized	7.9
Covered	6.2
Quasi & Foreign Government	5.9
Sovereign	3.0
Utility	2.7
Equity	0.0

* BofA Merrill Lynch Level 2 Industry sectors.

Rating*	%
Net Cash and Derivatives	30.0
AAA	20.6
AA	2.9
A	8.0
BBB	21.8
BB	11.2
B	4.5
CCC	0.7
C	0.0
D	0.0
Equity	0.2

* Average of S&P, Moodys and Fitch or M&G internal rating.

Environmental Social Governance

M&G incorporates the evaluation of ESG factors into its investment process. Recent engagements include the following:

Ford Motor Credit Company

M&G wrote a letter to Ford, addressing key questions concerning emissions, the Transition Pathway Initiative (TPI), and its net-zero commitment. The letter also sought updates on the automotive manufacturer's transition plans and external disclosures in order to help us understand the measures the company is implementing. Additionally, the correspondence aimed to affirm and detail how Ford's investment plan is evolving, particularly in relation to delivering any adjustments to its transition strategy, and called for the setting of a science-approved net-zero target to reinforce this commitment.

We requested a follow-up meeting to further discuss these subjects, the company's approach and to comprehend their timelines for the implementation of these plans.

Volkswagen International

As part of a collective engagement with CA100+, M&G co-signed an investor letter addressed to the chairman of the company to encourage the automotive manufacturing company Volkswagen Group to release a public statement/policy position on the EU's 2025, 2030 and 2035 CO2 targets for cars and vans, including any position on potential review timing and clarity around any differences between the company's own position and that of its industry associations and to update its climate reporting to include a list of policy dependencies that the company requires to successfully deliver its net zero target and climate transition plan.

In the letter, we noted that we recognise that the European automobile sector is facing an enormous industrial transformation, driven by the climate transition, technology, and artificial intelligence. We also understand that this requires long-term planning for the transformation of supply chains, workforce training, and investment. We explained that, as investors in the company and sector, we want to see government policy that supports this transition in a way that is consistent, robust, comprehensive and focuses on delivering long-term outcomes. We welcome the company's climate policy and industry association disclosure in 2023, and also in 2024, and the company's decision to exit membership of the Federal Chamber of Automotive Industries due to misalignment on climate policy positions.

However, we also noted that there have been conflicting public reports about the company's positions on EU's 2025, 2030 and 2035 CO2 targets for cars and vans. For example, it has been reported that the company is calling for the EU to review its 2025 emissions reduction target. In addition, the European Automobile Manufacturer's Association (ACEA), of which the company is a member, has also pushed to weaken previously agreed 2025 CO2 targets, and called to bring forward the CO2 regulation review for both light and heavy-duty vehicles forward to 2025.

We explained that we would welcome further transparency on the company's policy positions on these matters, and how these align with the company's own internal plans and commitments including CO2 reduction and its transition to electric vehicles.

In terms of next steps, we will review the next annual disclosures when they become available and wait to hear back from the company.

Stellantis

As part of a collective engagement with Climate Action 100+ (CA100+), M&G co-signed an investor letter addressed to the investor relations team at Stellantis. The purpose of this letter was to urge the automotive manufacturer to publicly address a discrepancy in its lobbying activities, specifically the divergence between the stance of the European Automobile Manufacturers' Association (ACEA), which Stellantis rejoined on 1 January 2025, and its own position on the 2025 CO2 targets.

The ACEA has advocated for the weakening of previously established 2025 CO2 targets and proposed advancing the review of CO2 regulations for both light and heavy-duty vehicles to 2025. This stance seems inconsistent with Stellantis' declared commitment to the objectives of the Paris Agreement, as well as its own internal plans and commitments regarding CO2 reduction and the transition to electric vehicles.

In the letter, we expressed that, as investors, we acknowledge the significant industrial transformation the European automobile sector is undergoing, driven by climate transition, technological advancements, and artificial intelligence. We also understand that this transformation requires long-term planning for the overhaul of supply chains, workforce training, and investment. As stakeholders in the sector, we advocate for government policies that support this transition in a manner that is consistent, robust, comprehensive, and focused on delivering sustainable long-term outcomes.

We encouraged Stellantis to consider the following in its upcoming disclosure:

- Issuing a public statement or policy position on the EU's 2025, 2030, and 2035 CO2 targets for cars and vans, including its stance on the timing of the CO2 regulation review. This should also encompass an explanation of any misalignments between its own positions and those of industry associations, detailing the actions the company plans to take in instances of such discrepancies.
- Updating its climate reporting to include a list of policy dependencies necessary for successfully meeting its net-zero target and climate transition plan, such as the deployment of electric charging infrastructure. This should also entail the disclosure of efforts to advocate for these measures, including through industry associations to which it belongs.

As the next step, we intend to review the 2024 annual disclosures when they become available.

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 Investment 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.
- 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.
- You should also consider discussing your decision and the appropriateness of a fund's risk rating with an adviser.

Advice

- 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.

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 M&G. Pooled Pensions fund range, Pension Schemes can log on to www.mandg.com/investments/institutional/en-gb/funds

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.com/investments/private-investor/en-gb/help-centre/glossary

