M&G Optimal Income Fund

Sterling Class I – Accumulation shares

Monthly Fund Review as at 31 March 2025

For investment professionals only

M&G Investments

Highlights

- March was volatile for bond investors. We maintain our overweight duration bias, relative to the benchmark, supported by our assessment that the risk-reward profile remains attractive, and that inflation concerns are less significant than commonly perceived. We also argue that in the event of a recession, the lack of fiscal room will necessitate significant monetary policy intervention, potentially driving government bond yields much lower than expected.
- The fund's relative outperformance was primarily due to the cautious stance on high yield bonds as well as our duration positioning, where euro assets significantly contributed. The volatility induced by the German government's new spending plans enabled us to reallocate some exposure from US Treasuries to Bunds, moving the fund from an underweight to a slightly overweight position in Bunds.
- We remain active within financial corporate bonds, in particular in European banks which we feel are underrated, and continue to look for value opportunities within emerging markets, where we increased our Brazil position. We reduced exposure to equities following some positive returns to a historical low, at around 0.1%.

The main risks associated with this fund

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)	£ 1,357.87
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	193
Distribution yield	3.76%
Underlying yield	3.76%
Average credit rating[1]	A+
Modified duration (years)	7.15
VaR	3.58%
Average coupon	2.86
Yield to maturity	5.65%
Yield to worst	5.52%
Spread duration (years)	4.1
Payment dates	May, Nov
Ex-dividend date	Apr, Oct

[1]See important information section for explanation of average credit rating methodology.

The yield-to-maturity (YTM) figure shown here is calculated on a monthly basis. It shows the weighted average long term total yield of all the instruments held by the fund, assuming that all coupon payments are made – and reinvested at the same rate as the bond's current yield – and all principal payments are made. The figure is expressed as an annual rate.

The yield-to-worst (YTW) figure shown here is calculated on a monthly basis. This is a measure of the lowest potential weighted average yield of the instruments held in the fund. This metric can be used to evaluate the worst-case scenario for yield at the earliest allowable retirement date of the bonds held. This figure will be less than the YTM given the shortened investment horizon. The figure is expressed as an annual rate.

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 31 March 2025

Morningstar Medalist Rating™ Silver™	Analyst-Driven % 100 Data Coverage % 100
Overall Morningstar rating	★★★★★
Financial Express Crown Rating	FE CROWN FUND 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.

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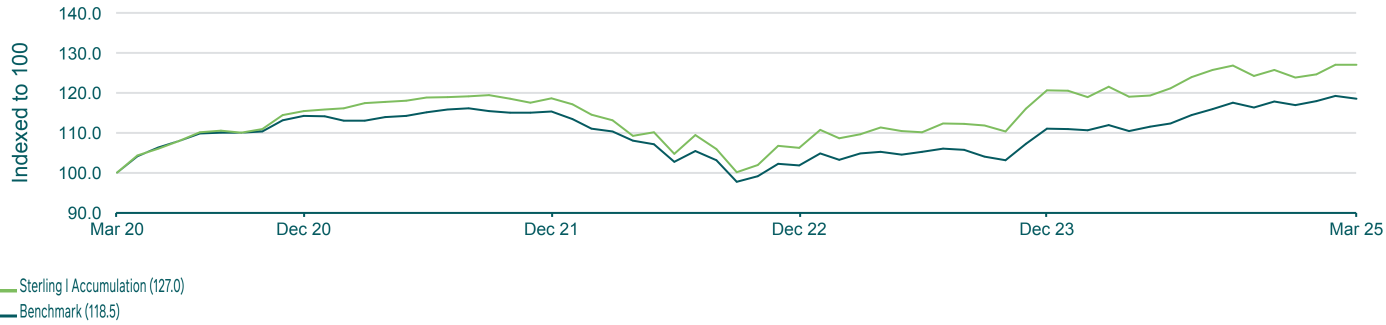
Single year performance (5 years)

	2024	2023	2022	2021	2020
Sterling I Accumulation	2.7%	13.5%	-10.5%	2.8%	3.0%
Benchmark	5.4%	9.0%	-11.7%	0.9%	6.1%
IA Sterling Strategic Bond sector	4.6%	8.0%	-11.7%	0.9%	6.1%

Performance over 5 years



Fund performance

	1 month	3 months	YTD	1 year	3 years p.a.	5 years p.a.
Sterling I Accumulation	0.0%	2.6%	2.6%	4.5%	3.9%	4.9%
Benchmark	-0.6%	1.3%	1.3%	5.9%	2.4%	3.4%
IA Sterling Strategic Bond sector	-0.5%	1.5%	1.5%	5.2%	1.9%	3.1%

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 composite index has been chosen as the Fund's benchmark as it best reflects the scope of the Fund's investment policy. 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. For each Share Class the Benchmark will be denominated or hedged into the relevant share class currency. The Benchmark for each Share Class will be shown in its respective KIID.

Source: Morningstar, Inc and M&G, as at 31 March 2025. 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	**51.4**	**0.0**	**0.0**	**51.4**
Investment grade corporate bonds	**29.6**	**0.0**	**0.0**	**29.6**
Fixed rate	29.6	0.0	0.0	29.6
Floating rate	0.0	0.0	0.0	0.0
Index linked	0.0	0.0	0.0	0.0
Credit Default Swaps & Indices	0.0	0.0	0.0	0.0
High yield corporate bonds	**5.2**	**0.0**	**4.5**	**9.7**
Fixed rate	4.8	0.0	0.0	4.8
Floating rate	0.2	0.0	0.0	0.2
Index linked	0.0	0.0	0.0	0.0
Credit Default Swaps & Indices	0.3	0.0	4.5	4.8
Securitised	**5.0**	**0.0**	**0.0**	**5.0**
Equities	**0.3**	**0.0**	**0.0**	**0.3**
Other	**0.0**	**0.0**	**0.0**	**0.0**
Cash	**8.5**	**0.0**	**0.0**	**8.5**

Credit rating breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
AAA	8.3	0.0	0.0	8.3
AA	43.3	0.0	0.0	43.3
A	12.3	0.0	0.0	12.3
BBB	20.9	0.0	0.0	20.9
BB	5.0	0.0	2.8	7.8
B	1.0	0.0	1.7	2.7
CCC	0.3	0.0	0.0	0.3
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	0.3	0.0	0.0	0.3
Cash	8.5	0.0	0.0	8.5

A mid-average credit rating for each security, where available from S&P, Fitch, Moody's, is calculated. Where a security has not been rated by S&P, Fitch or Moody's, we may use M&G's internal credit rating. Ratings should not be taken as a recommendation.

Country breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
US	37.7	0.0	0.0	37.7
UK	17.7	0.0	0.0	17.7
France	7.9	0.0	0.0	7.9
Germany	7.6	0.0	0.0	7.6
Ireland	3.1	0.0	0.0	3.1
Italy	3.0	0.0	0.0	3.0
Spain	2.9	0.0	0.0	2.9
Switzerland	1.6	0.0	0.0	1.6
Other	9.7	0.0	0.0	9.7
High Yield indices	0.3	0.0	4.5	4.8
Cash	8.5	0.0	0.0	8.5

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

	Fund
Philip Morris International	1.8
Imperial Brands Finance	1.4
Federal National Mortgage Association	1.1
Apple	1.1
Lloyds Banking Group	1.0
Intesa Sanpaolo	1.0
Barclays	0.7
AXA	0.7
JP Morgan	0.7
UBS Group	0.7

Maturity breakdown (%)

	Physical
0 - 1 years	1.2
1 - 3 years	5.4
3 - 5 years	10.9
5 - 7 years	16.2
7 - 10 years	20.8
10 - 15 years	9.5
15+ years	27.1
Cash	8.5
Other	0.3

Currency breakdown (%)

	Fund
British pound	99.4
US dollar	0.5
Euro	0.1
New Zealand dollar	0.0
Australian dollar	0.0
South African rand	0.0
Swiss franc	0.0

Industry breakdown (%)

	Physical	Short (via CDS)	Long (via CDS)	Net
Sovereign	48.8	0.0	0.0	48.8
Banking	14.1	0.0	0.0	14.1
Insurance	5.1	0.0	0.0	5.1
Consumer goods	4.9	0.0	0.0	4.9
Foreign Sovereign	2.5	0.0	0.0	2.5
Asset backed	2.1	0.0	0.0	2.1
Financial services	1.6	0.0	0.0	1.6
Agency	1.6	0.0	0.0	1.6
Utility	1.3	0.0	0.0	1.3
Technology & electronics	1.1	0.0	0.0	1.1
Energy	1.0	0.0	0.0	1.0
Capital goods	0.9	0.0	0.0	0.9
Commercial Mortgage Backed	0.8	0.0	0.0	0.8
Real Estate	0.7	0.0	0.0	0.7
Telecommunications	0.7	0.0	0.0	0.7
Leisure	0.7	0.0	0.0	0.7
Media	0.7	0.0	0.0	0.7
Covered Bonds	0.6	0.0	0.0	0.6
Transportation	0.6	0.0	0.0	0.6
Basic industry	0.4	0.0	0.0	0.4
Equity	0.3	0.0	0.0	0.3
Healthcare	0.2	0.0	0.0	0.2
Automotive	0.2	0.0	0.0	0.2
Retail	0.1	0.0	0.0	0.1
Services	0.1	0.0	0.0	0.1
Futures	0.0	0.0	0.0	0.0
High Yield indices	0.3	0.0	4.5	4.8
Cash	8.5	0.0	0.0	8.5

Duration by currency and asset class (years)

	Physical	Futures	Swaps	Net
Euro	3.0	0.7	-2.0	1.7
British pound	1.8	0.0	-0.6	1.2
US dollar	3.3	0.9	-0.1	4.2
Other	0.1	0.0	0.0	0.1
Total	8.3	1.6	-2.7	7.2

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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%	3.36%	3.36%	£500	£100
Sterling A Inc	GB00B1H05049	MGOIANI LN	GBP	08/12/2006	1.03%	4.38%	3.36%	£500	£100
Sterling I Acc	GB00B1H05718	MGOIINA LN	GBP	08/12/2006	0.63%	3.76%	3.76%	£500,000	£10,000
Sterling I Inc	GB00B1H05601	MGOIINI LN	GBP	08/12/2006	0.63%	4.38%	3.76%	£500,000	£10,000
Sterling R Acc	GB00B7FM9R94	MGOPIRA LN	GBP	03/08/2012	0.88%	3.51%	3.51%	£500	£100
Sterling R Inc	GB00B76FNM05	MGOPIRI LN	GBP	03/08/2012	0.88%	4.38%	3.51%	£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.

Important information

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

For the avoidance of doubt, for fixed income funds, we count different entities belonging to the same company as separate issuers to arrive at the number of issuers in the fund, as shown under the key information section.[†]The fund's average credit rating uses a mid-average rating (S&P, Fitch, Moody's or M&G's internal rating if no rating is available from these ratings agencies) of securities held by the fund. It excludes some derivatives that are used for efficient portfolio management only. Ratings should not be taken as a recommendation.

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

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.
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