

Investment insight

How M&G approaches investing in global credit

Senior credit fund manager, **Jamie Hamilton**, describes how he applies the strengths of M&G's extensive and highly experienced teams of credit researchers and portfolio managers as he manages global credit portfolios for our clients.



The value of investments will fluctuate, which will cause prices to fall as well as rise and you may not get back the original amount you invested. Wherever past performance is shown, please note that this is not a guide to future performance.

M&G adopts a value-driven approach to investing in credit. There are no short cuts to success in investing so we ask questions about the value on offer from an asset before we commit.

- What do we know about issuers and the position they are in? Equally important can be, what don't we know?
- Is the compensation available sufficient to justify the risk we are taking for our investors?
- Does the issuer of the security have enough capacity to pay the money back?

The answers to these questions help guide our investment decisions.

Objectivity and analysis, from the bottom up

As value-based investors we believe that by carefully considering the available information, and not being drawn into the folly of forecasting, it is possible to deliver consistent and reliable returns, with less volatility, for investors.

In our opinion, applying a top-down approach and using forecast-driven strategies can be an inconsistent and volatile source of returns. Markets may not deliver the expected impact even when predictions of data or events are correct.

Instead, M&G takes a bottom-up perspective as part of a rigorous value-driven investment process.

We aim to capture value opportunities, which arise where the fundamental credit risks of an issuer are mispriced. We undertake detailed analysis of the companies underlying the issues available in the market to determine what value they have to offer. If the market price of an issue does not fully reflect that

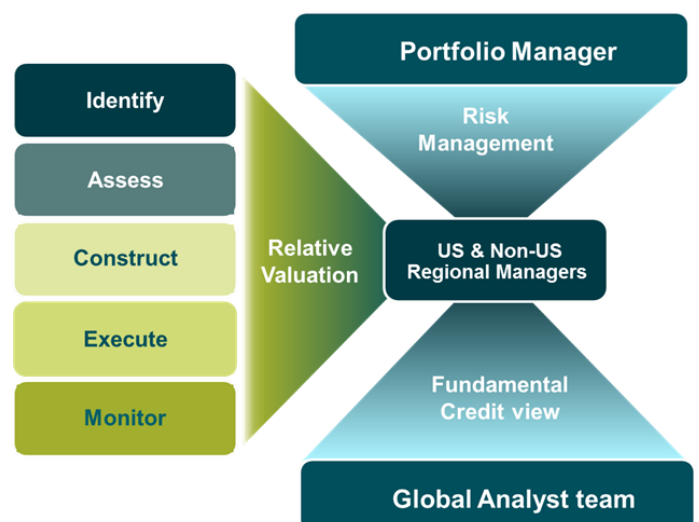
value, it may represent an opportunity to invest. If that price is too high, we are prepared to wait until it reflects that value more fairly.

M&G possesses extensive expertise in the field of credit research, having one of the largest global credit analyst teams, with colleagues situated in both Europe and the US.

Localism applied globally

M&G believes that applying a local market perspective and approach to valuations, wherever we are in the world, is the best way to manage corporate bonds at a global level.

Disciplined approach to credit management



Source: M&G, illustrative.

To achieve success, the first requirement is to identify potential value opportunities. Our team of credit researchers provides an independent view of credit fundamentals of issues as well as continuous monitoring and intelligence across the breadth of global corporate credit markets. The insights of M&G's analysts

are supplemented by our locally-based teams of specialist dealers who use their experience and far-reaching market contacts to provide valuable pricing intelligence.

Accurately assessing potential opportunities represents a crucial stage in the credit investment process. We believe that the best approach is to allocate responsibility to portfolio managers and analysts based locally to consider the relative value opportunities as they appear in their own market, given our view of the credit fundamentals. This acknowledges that key pricing drivers may differ from market to market, and vary over time.

Our locally-based regional managers will construct their part of the overall portfolio, to reflect the objectives of the broader investment mandate. They receive valuable input from the locally-based dealers regarding accessible pools of liquidity. In our experience, success in the long term requires the discipline and patience to wait for the right price before trading.

We aim to ensure we execute trades at prices that allow us to capture worthwhile fundamental value for our investors. We employ specialist, experienced local dealing resources, skilled in identifying and accessing pools of reliable liquidity. We have established strong reputations in markets globally over many years, enhancing our ability to access liquidity.

The local expertise of our regional managers provides the mainstay of our added-value. In addition, the overall portfolio manager provides valuable oversight and monitors positions in aggregate aiming to ensure that the mix of risk is appropriate and anticipated.

Value-investing offers diversification of style

While many other market participants persist with applying a top-down, forecast-driven approach to investing in global corporate credit, applying a bottom-up value based approach can also benefit investors by offering them clear style diversification.

M&G differentiates itself by driving returns from stock specific factors alone. This approach contrasts with most global managers who base their portfolio construction on top-down forecasts or view-driven positioning (for example duration, curve or currency positions which often dominate performance) and then select stocks to populate their bigger picture views. This frequently results in a high correlation of their positions towards their macro view or forecast scenario and often increases the volatility of returns. It also means that, given the focus on top-down positioning approach used by most managers, there is a high correlation of performance among them. We believe that our value-based approach offers both risk and style diversification in a market where returns from different managers are increasingly correlated.

We believe it is more effective to address fixed income markets selectively, always questioning whether the compensation is sufficient for the risk being taken. Investors will likely be best served by adopting a value-driven approach, identifying and acting on opportunities as they present themselves.

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