

M&G Enhanced Income Fund: Celebrating 15 years of income enhancement

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M&G Investments

Flexible income funds, such as [M&G's Enhanced Income Fund](#), have garnered significant attention from investors seeking lower-risk solutions coupled with potential capital growth, particularly in today's high interest rate environment.

M&G Investments distinguishes itself within the ASISA Multi-Asset Income category by adopting a conservative approach towards credit. The fund favours high quality credit names at the expense of high yielding "junk" rated issues. This has the effect of lowering the fund's yield relative to peers, but also reducing the risk of a drawdown emanating from a credit event. The recent past has clearly illustrated that the chase for yield without the commensurate respect for credit risk has dire consequences. Furthermore, the fund does not hold instruments which mask the true volatility of the fund.

Celebrating its 15th anniversary, the M&G Enhanced Income Fund has outperformed its benchmark, the STeFI Composite Index, and the ASISA category average. The fund's objective is clear: to maximise total returns over rolling 36-month periods while protecting capital through active investment strategies. This approach, followed by experienced portfolio managers Roshen Harry and Bulent Badsha, targets returns in excess of 2% above the STeFI Composite Index before fees, with a steadfast commitment to capital preservation.

The foundation of the fund strategy is to be drawdown focused, then cyclically aware of both the global and local inflation and interest rate cycles, and finally tactically alert to opportunities. Beyond traditional fixed-income assets like money market instruments, floating rate notes, and bonds (both nominal and inflation-linked), the fund tactically allocates across interest rate swaps, bond options, listed property, currencies, and equities. The co-portfolio managers further enhance the fund by investing in international fixed income markets to diversify risk in deeper and more liquid markets.

Over its 15-year track record, the fund has navigated significant market events such as the "Taper Tantrum," "Nenegate," and the Covid-19 crash, refining its approach to mitigate downside risk. Shifting the strategy to a more flexible, tactically managed approach has proven effective in reducing volatility and boosting resilience during market dislocations.

Recent performance highlights the fund's success, delivering an annualized return of 11.4% net of fees over the one-year period. This exceeds both the category average (10.4% p.a.) and the benchmark (8.5% p.a.), underscoring its top-quartile Morningstar ranking across one-, two-, three-, and four-year periods (all data to the period ending 30 June 2024).

Looking Ahead

While recent performance metrics are promising, the fund managers remain focused on sustaining long-term consistency of returns for investors. The fund's disciplined approach positions it well to capitalize on investment opportunities across the fixed-income spectrum and beyond.

In conclusion, the M&G Enhanced Income Fund offers investors a compelling blend of stability, growth potential, and risk management within the flexible income fund category. With a track record of outperformance and a robust investment framework, the fund continues to meet investor expectations while adapting to evolving market conditions. The portfolio managers' commitment to being drawdown focused, cyclically aware and tactically alert ensures the fund remains well-equipped to navigate future uncertainties, delivering enduring value to clients.

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