M&G Credit Income Investment Trust plc (MGCI)
Quarterly Review

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M&G CREDIT INCOME INVESTMENT TRUST PLC

(the "Company")

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Quarterly Review

The Company announces that its quarterly review as at **30 September 2024** is now available, a summary of which is provided below. The full quarterly review is available on the Company's website at:

https://www.mandg.com/dam/investments/common/gb/en/documents/funds-literature/credit-income-investment-trust/mandg_credit-income-investment-trust_quarterly-review_gb_eng.pdf

Market Review
The global economy began to stabilise over the third quarter, with easing inflation prompting major central banks to cut interest rates from their previous highs. In the US, headline inflation reached the lowest level in over three years as the consumer price index rose 2.5% year-on-year in August, down from 2.9% in July. The UK's 12-month headline inflation rate held steady at 2.2% for both July and August. Headline inflation in the eurozone continued its downward trend, falling from 2.6% in July to 2.2% in August. With inflationary pressures continuing to subside, the strength of the labour market proceeded to take centre stage. At their meeting in July, Fed officials acknowledged that the dual mandate of reducing inflation and maintaining stable employment was now becoming more balanced in focus, admitting that the labour market may be nearing a turning point. Indeed, an unexpectedly weak July US jobs report contributed to a "blink and you missed it" episode of market volatility at the start of August, fueled by decelerating macroeconomic indicators, shifting global monetary policy expectations and sharp movements in the Japanese yen. September saw the Fed finally deliver it's much anticipated first rate cut of this economic cycle, opting for a bumper 0.5% reduction in their policy rate which went against market consensus for a more constrained 0.25% cut. The ECB then followed by delivering a much more widely anticipated 0.25% interest rate cut of its own, which preceded the release of weak Eurozone PMI data indicating economic contraction across the bloc which fueled wider growth concerns. The quarter closed with the Peoples Bank of China (PBOC) slashing a host of Chinese market lending rates, triggering a bounce in domestic indices with a particularly positive knock on effect to European stocks with exposure to the region.

Manager Commentary
Having closely tracked its SONIA+4% benchmark over the first half of the year, the Company's performance in the third quarter was notably hindered by an incident of credit stress occurring in one of the portfolio's private holdings. This led to a mark down equivalent to 0.6% of NAV which resulted in a quarterly NAV return of 1.61% compared to 2.30% returned by the benchmark. This also contributed to underperformance versus comparative investment grade fixed income indices such as the ICE BofA Sterling Corporate and Collateralised Index (+2.34%), the ICE BofA 1-3 Year BBB Sterling Corporate Index (+2.10%), and the ICE BofA European Currency Non-Financial High Yield 2% Constrained Index (+3.48%).

In public bond markets, despite some weakness in line with the wider macro tone during the pronounced (but short lived) bout of volatility in early August, sterling credit spreads finished the period roughly unchanged. Within August's short episode was in fact a rather compelling endorsement of credit markets, as the small move wider in spreads remained relatively contained despite wider market tumult. The technical in public bond markets remains very strong, with issuance levels lagging the pace of inflow and reinvestment which is keeping credit spreads well anchored. Whilst all-in yields for corporate bonds are attractive given the elevated risk-free component, credit spreads remain at historically tight levels and as such we maintain a bias towards reducing risk. We sold down our exposure to Thames Water in early September following further internal analysis upon which we concluded that a resolution in which our bonds wouldn't take a significant haircut was now looking increasingly remote. Subsequently, it was reported that Thames would face a liquidity crunch in December (previously thought to have enough cash to continue operating until May 2025) and rating agencies downgraded our previously held bonds to CCC+ from BB. We also sold down our exposure to UK REIT Hammerson Plc on relative value grounds rather than credit concerns. The bond had performed very well for us since being purchased at much wider levels in mid-2022, tightening in to offer a spread over cash which in our opinion wasn't commensurate with BBB+ rated risk. In the portfolio, REIT names and credits with Real Estate exposure performed well during the period on the deeper and swifter rate cuts narrative, along with higher beta financials.

In the private market, we committed a combined £4.8m across four new assets: Two investment grade Real Estate transactions, one for a loan secured against four prime retail warehouses in key Southeast and Midlands locations (£1.3m), and the other, the senior tranche in a mortgage secured whole loan providing financing against the development of two land plots in Woodford and Enfield which will become logistics warehouses (£1.5m). We also participated in two Direct Lending deals, the first a global manufacturer of waste recycling processes and equipment (£1m), and the second, a highly regarded small molecule drug manufacturer (£1m). During the quarter, we did an in-specie transfer of our holding in the M&G Lion Credit Opportunity Fund IV to the newly launched M&G Investment Grade ABS Fund, which follows the same strategy but is daily rather than monthly dealing and thus offers improved liquidity which is preferable in maintaining flexibility in the portfolio.

Outlook
At a global level, progress on inflation remains positive and an economic soft landing continues to be the consensus base case. However, this fabled "Goldilocks" scenario is threatened by geopolitical conflicts and fiscal uncertainty, whilst tepid growth (particularly in Europe) and rising trade barriers are also headwinds we remain cognisant of. As we enter the final quarter of the year, the rate setting policies of global central banks are poised to remain the dominant driver of financial markets.

Geopolitical risk remains elevated, as it has been persistently throughout the year. In the US, although we will see a newly elected President come November, the market's main sensitivity is to the government's wide deficit and elevated debt levels which are forecast to increase regardless of whether Democratic nominee Kamala Harris or Republican nominee Donald Trump take the Oval Office. A second Trump term would also threaten to heighten political risks arising from a US-China trade war, as well as complicating the protracted conflict between Russia and Ukraine by ending US involvement and cutting aid. In the Middle East, tensions have ratcheted up recently following a series of attacks that have drawn Iran into direct confrontation with Israel. At a macro level, the potential effects on oil supply and production in the region have increased concerns around inflation and seen the number of rate cuts that were expected a few months ago dialled back.

We remain positive on the outlook for investment grade credit, and given its yield benefits and defensive characteristics, it is, in our opinion, an attractive asset class to be invested in at this point in the economic cycle. We also remain positive on the outlook for the wider private credit market. Although credit spreads in public bond markets remain at historically tight levels, our flexibility in being able to invest across a diverse range of alternative asset classes and private credit can help continue to deliver a particularly attractive return premium to public markets. After a busy year for private market activity, we are still seeing a strong pipeline of investment opportunities as we approach the year end, a number of which are moving through to late stage and which we hope to transact on in the coming months.

Link Company Matters Limited
Company Secretary

31 October 2024

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The content of the Company's web-pages and the content of any website or pages which may be accessed through hyperlinks on the Company's web-pages, other than the content of the Update referred to above, is neither incorporated into nor forms part of the above announcement.

For further information in relation to the Company please visit: https://www.mandg.com/investments/private-investor/en-gb/investing-with-mandg/investment-options/mandg-credit-income-investment-trust

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