Debt Opportunities Fund 2

Fund Profile

Appendix 3

December 2013

Executive summary

The M&G Debt Opportunities Fund 2 (DOF2) will continue the successful strategy of our first distressed fund (DOF1), focussing on acquiring the discounted debt of commercially viable but over-leveraged companies.

The central investment thesis of the Fund is that the combination of M&G's expert credit analysis and specialist restructuring expertise will facilitate the successful recovery of these companies' balance sheets and subsequent price appreciation of the Fund's investments.

DOF2 will target predominantly European companies and will have the scope to invest across all fixed income asset classes, thereby ensuring a wide opportunity set and a diverse range of investments.

Background

M&G's restructuring team, led by Paul Taylor, has been responsible for the analysis of M&G's distressed fixed income investments since 2005. In the years following the financial crisis, his team developed a strategy for investing in underperforming assets and having successfully applied this strategy on behalf of the internal funds of our parent company, the Prudential, the team subsequently raised a fund for our institutional pension fund clients.

Our first distressed fund, DOF1, closed with €280m of commitments in June 2012 and is on-track to be fully invested in the first quarter of 2014, with expected returns since inception exceeding the 15% p.a. target. The team continues to see numerous opportunities to put capital to work in this area and will be launching a second fund in 2014 once the first fund is fully drawn.

Market opportunity

The market environment continues to support a distressed strategy:

- Corporate default rates remain at elevated levels despite artificially low interest rates
- Continued pressure for banks to deleverage and dispose of non-core portfolios
- Continuing low GDP growth in Europe
- Opportunities are expected to follow from the inevitable withdrawal of Central Bank support
- Refinancing options are mostly limited to larger, higher rated issuers.

Why M&G?

- A dedicated restructuring team with a proven track record in work-outs and recoveries
- Full access to M&G's credit research and legal due diligence
- Visibility into multiple restructuring and distressed situations across all major fixed income asset classes
- A focussed strategy of disciplined bottom-up stock selection, rather than a wider top-down market approach
- M&G's reputation and strong relationships with a broad range of market participants provides multiple opportunities for sourcing illiquid assets
- Investing alongside M&G and Prudential funds' significant holdings can exert considerable influence in restructurings without deploying extra capital or using leverage

Investment strategy

Our approach is based on a disciplined investment framework, our "checklist", supported by fundamental credit and legal analysis on a case-by-case basis.

- **Our approach is risk averse, credit driven and disciplined**
  - Thorough legal and financial analysis
  - Supported by M&G's large analyst resource
- **Investments actively managed throughout the restructuring process**
  - Joining and influencing restructuring committees
- **Exit within the investment horizon**
  - Secondary sale of investment
  - Refinancing
  - Sale of business

Checklist	
Underlying business is sound	✓
Assets underpin recovery	✓
Financial diligence confirms value	✓
Legal diligence confirms clear path through restructuring	✓
Ability to join credit committee or otherwise influence restructuring	✓
Strategy for managing spoiling tactics of equity and other creditors	✓
Debt yield to maturity >1500bps	✓
More than one way to exit and unlock value	✓

The team

We have a highly experienced team of restructuring professionals:

- a well-established team of eight restructuring specialists
- a mix of finance, legal and accounting backgrounds
- a proven ability to maximise returns from investments in restructurings or insolvencies
- strong relationships within the restructuring and advisory community.

Paul Taylor – Fund Manager

Paul joined M&G Investments in 2005 and is head of M&G's restructuring team and responsible for the workout of all problem credits across fixed income. He has been the Fund Manager of the first M&G Debt Opportunities Fund since its inception in 2012. Prior to joining M&G, Paul was a senior manager at KPMG within their Corporate Restructuring team advising both debtors and creditors in turnaround situations. Paul has a BSc Hons in Economics/Biology from the University of Leeds and is a member of the Institute of Chartered Accountants in England and Wales.

Andrew Amos – Deputy Fund Manager

Andrew joined M&G Investments in August 2009 from US law firm, Jones Day. He is a qualified solicitor who has been specialising in restructuring and insolvency since 2001. Andrew has an LLB from UWA Law School and is a member of the Law Society of England and Wales.

Richard Booth – Director

Richard joined M&G Investments in 2012. Before this, Richard spent 10 years at KPMG advising debtors and creditors on financial restructuring and insolvency situations. Richard has a BA Hons in Economic and Political Development from the University of Exeter and is a member of the Institute of Chartered Accountants in England and Wales.

Rafael Cerezo – Director

Rafael joined M&G Investments in 2006 and worked in the Leveraged Finance team. Prior to joining M&G, Rafael worked in the Leverage Finance team at Barclays. Rafael has an MBA from Columbia University and a BA in economics from UEA.

Nicholas Karelis – Director

Nicholas joined M&G Investments in 2013 from Ernst & Young's restructuring advisory practice. Prior to Ernst & Young, Nicholas worked for Talbot Hughes McKillop, the corporate restructuring advisory boutique. Nicholas is a qualified chartered accountant (ICAS) and has a BA Hons First Class in Geography from University of Manchester.

Key information

Fund structure	A sub-fund of an existing Limited Liquidity Qualifying Investor Fund (QIF) This structure has a number of advantages: • Tax efficiency – Structure enables the fund to take advantage of double taxation treaties across Europe – The VAT exempt status of the QIF structure means that management fees and administration fees are not subject to VAT • Cost efficiency – The umbrella fund prorates its fees across the sub-funds, therefore set-up costs for the Fund are minimised • Administrative efficiency – Structure is well established for institutional investors and M&G
Fund manager	Paul Taylor
Target fund size	€500m
Target return	15% target IRR p.a.
Currency	Euro, with both GBP and EUR share classes
Valuation	Quarterly
Reporting	Quarterly
Distributions	Distributions will be made after the reinvestment period, as investments are realised
Investment period	Two years
Drawdowns	Aligned to investments
Reinvestment	Allowed until the end of the fourth year of the Fund
Term of fund	Five years (with option to extend up to seven years to achieve maximum sale value of illiquid assets)
Target closing date	H1 2014
Fee schedule	Investment management fee: 150bps p.a. on drawn capital Performance Related Fee (PRF): 20% above 8% compound preferred return to investors (only paid on realised returns)

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