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M&G Credit Income (MGCI)

MGCI's yield should rise if interest rates are hiked.

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Overview

Investment objective

To generate a regular and attractive level of income with low asset value volatility by investing in a diversified portfolio of public and private debt and debt-like instruments.

Source: Morningstar, M&G

As at:	14/09/2026
Trust Name	M&G Credit Income
Ticker	MGCI
Management Company	M&G Investment Management Limited
Manager Name	Adam English; Robert Whitten; Yiu-Wai Cheung;
Association of Investment Companies (AIC) Sector	Debt - Loans & Bonds
Dividend Yield	7.7%
Dividend Distribution Frequency	Quarterly
Latest Market Capitalisation	£190,844,053
Latest Net Gearing (Cum Fair)	-2%
Latest Ongoing Charge Ex Perf Fee	1.17%
Shares Outstanding	209,718,740
(Discount)/ Premium (Cum Fair)	0.2%
Daily Closing Price	91p

M&G Credit Income (MGCI) owns a highly diversified portfolio of fixed income assets and offers a very high yield (7.7% at the time of writing) without taking the risks that would typically be required to achieve it, and without the use of structural gearing. The trust invests across all segments of the public and private debt markets, taking advantage of M&G's deep resources to exploit the extra yield that can be earned in complex and illiquid securities, all within a closed-ended wrapper which facilitates this while providing the end investor daily liquidity.

Many of the specialist areas it invests in offer floating rate coupons, meaning that as interest rates rise, the income the trust receives rises too. With central banks currently under pressure to raise rates, and 78% of the portfolio offering as floating rate coupon, this could be a particularly attractive feature. And as the trust's dividend policy is to pay 4% of NAV plus SONIA (an interbank rate which tracks the base rate) each year, the dividends paid by the trust will rise if rates are indeed hiked.

One of the key objectives of the trust is to deliver this high yield along with low NAV volatility. To that end, the manager Adam English takes a defensive approach to sector and stock selection and a relative value approach when it comes to making investments. Over the past two years the portfolio has been very defensively positioned, with Adam unimpressed by the spreads being offered for credit risk. Nonetheless, the trust paid its high dividends, aided by the flexibility of the mandate. Over 2026, however, Adam has made significant investments in new private debt assets, which has seen the proportion held privately rise. This should hopefully feed through into higher portfolio income, although MGCI has also continued to see strong inflows which are initially parked in higher quality, liquid assets. The trust has been on a premium

for most of the past two years, and this stood at 2% at the time of writing.

The board has consequently announced a placing and retail offer of new shares to be issued at a 1.5% premium, with the fundraising to close on 20/10/2026.

Analyst's View

We think M&G's combination of high yield and defensive positioning should appeal to lots of income-seeking investors, which explains the premium rating for most of the past two years. In particular, the ability to avoid taking duration risk is attractive with the prospect of rate hikes on the horizon, and some analysts expecting structurally higher rates in the current cycle. Perhaps more importantly, investing in assets of high credit quality is particularly appealing given how expensive public corporate bond and high yield markets are. Given these markets are cyclical, tight spreads imply the potential for significant losses at some point, even if it is not clear what will see this multi-year environment end. An economic slowdown or recession accompanied by higher interest rates could be one way, if it leads to default rates ticking up and credit selling off, and MGCI should appeal to cautious investors concerned about this possibility. We note that MGCI delivered steady NAV performance through the volatility seen in Q1 when the war in the Gulf broke out.

Of course, the primary appeal is the potential to receive a higher income if rates do rise, along with this defensive portfolio performance. MGCI's yield is paid quarterly, without the use of structural gearing. The spread of 400bps over SONIA should be attractive in relative terms even if rates fall. We note the recent investments in private debt have helped the portfolio income rise, and Adam is confident that, with spreads at historic tights, there will be opportunities in the coming years to invest at much wider yields and for portfolio income to exceed the dividend target in a later stage of the cycle.

Bull

- High yield linked to interest rates, with average investment-grade-quality credit
- Offers access to private-debt markets, providing attractive risk/return characteristics and diversification
- NAV should prove resilient due to many defensive characteristics

Bear

- Complexity makes it harder for investors to understand exposures
- Limited capital gain potential, including from duration
- Portfolio yield below dividend target

Portfolio

M&G Credit Income (MGCI) generates its high yield without the use of structural gearing and without taking high duration risk. It also has a very strong bias to investment grade quality assets rather than taking lots of credit risk to generate its yield. The key to achieving this is investing into the less liquid areas of the fixed income markets which have historically been the preserve of institutional investors. M&G is one of the largest institutional fixed income investors in the world, meaning that it has extensive teams covering all areas of the market and originating loans themselves directly with borrowers. Manager Adam English has full freedom to invest across the areas covered by this vast franchise, including some more complex and less liquid segments of the public market. Most importantly, though, this means investing heavily in private debt. This made up 52% of the portfolio as of the end of July, and allows higher yields to be earned for equivalent credit risk than the public markets, in return for taking the risks associated with the complexity of the deals and the illiquidity of the investments.

The weighting to private debt has risen this year, from 46.9% at the end of February when we last provided an update, and 46% at the start of January. As much as £9m was deployed into private debt over Q2 alone, with Adam seeing a significant

rise in the number of attractive opportunities presented to him. His approach is fundamentally relative value, the manager assessing the compensation in the spread for the risks relative to government bonds and to the other areas of the market. Fixed income spreads tend to be cyclical, and Adam aims to be buying assets when their spreads are closer to cycle wides than cycle tights.

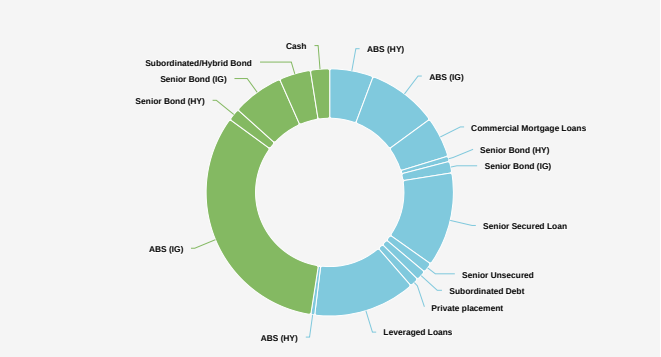
Due to this focus on value, MGCI has been cautiously positioned over the last couple of years. Credit spreads in the public fixed income markets have been very tight, not offering much compensation for taking extra risk. This has impacted spreads in some of the private debt segments too. With spreads being unattractive, Adam has allowed the portfolio to become more heavily tilted towards high-quality public and private securities. This means accepting some lower yields, with the intention being to recycle into higher-yielding opportunities as they emerge. For example, the position in the M&G Investment Grade ABS Fund reached 18.1% as of the end of July. These public asset-backed securities are of very high credit quality, but offer some yield pick-up over investment grade bonds. This is a good example of how the trust is able to exploit some more complex and less liquid areas of the public debt markets, on top of its freedom to invest in private debt. The M&G European Loan Fund made up 13.3% of the portfolio as of the end of July. While these loans are private assets, c. 74% of the position is considered to be investment grade. The trust also had a 3.3% position in the M&G Senior Asset Backed Securities Fund, which invests in public ABS. The long-term strategy is to maintain at least 70% in assets with an investment grade quality rating, and this stood at 76% at the end of July.

As such, the portfolio remains cautiously positioned overall, notwithstanding the recent investments in private debt. These have been largely funded from the sale of some directly held public corporate bonds which were bought when spreads were wider and sold with some capital gain, the cash reinvested in higher yielding assets. However, at the same time the trust has been seeing steady inflows (see Discount), with cash being parked in the higher quality assets while Adam waits for better opportunities. The manager doesn't make macro calls, but is led by the opportunities he sees at the bottom-up level, with the flurry of attractive private deals not having any obvious thematic or macro driver. They include first loss and mezzanine tranches of regulatory capital transactions, i.e. debt securities created and sold by banks to help manage their loan books. These are the riskiest tranches, showing that Adam will take risk when he sees it as attractively compensated. Other investments include some infrastructure related debt: a senior real estate loan refinancing a prime London office asset, debt secured against future receivables linked to an Italian road project and a secondary market purchase of debt linked to one of Europe's largest independent bulk-terminal operators.

Adam has also found some opportunities in the public markets. One purchase was a lower mezzanine tranche of a commercial mortgage backed security issues by SAGE, an affordable social housing provider. While being one of the riskier tranches in the stack, the tranche is rated A by S&P, so solidly investment grade. The security pays SONIA plus 275bps, which would compare to a typical spread of around 100bps for A-rated corporate bonds, and is a good example of how the more complex and less liquid areas of the public markets can also offer considerably higher yields.

The chart below shows the diverse set of assets in the portfolio, with the private investments coloured blue and public green. There are 133 individual holdings, with the diversification even broader when considering the underlying assets of the funds. Adam bids for the investment ideas generated by M&G's internal teams, and MGCI receives pro-rata allocations alongside other internal M&G clients, allowing it to invest small sums in a broad set of investments, benefitting from the size of the other M&G funds it invests alongside. This structure also means that although the trust is relatively small within the context of the M&G machine, it has the same access to M&G's deal flow as much larger funds that M&G manage.

portfolio allocation



Source: M&G

Past performance is not a reliable indicator of future results.

Leaving aside the current, relatively cautious tactical positioning, the long-term strategy is centred around being prudent, avoiding excessive risk and delivering a NAV with low volatility. The objective is to have at least 70% of the portfolio in assets of investment grade quality, and as of the end of July the figure was 76%. At the sector level, MGCI is structurally defensively positioned too. This means that it had very little exposure to the asset-light software sector when it ran into trouble in late 2025 / early 2026. While Adam did look for opportunities in the aftermath of this sell-off, he didn't find any attractive opportunities, with any sell-off in the debt market being very short-lived. He has picked up bonds issued by companies in embattled sectors like UK water (SWS Finance), EU chemicals (Ineos), and Autos (Ford) in recent months, but is always highly selective. Similarly, the trust did participate in a private deal lending against a data centre business operating for a tech megacap last December but has otherwise been very wary of getting involved in fashionable sectors where pricing typically reflects positive sentiment and compensation is low.

Around the turn of the year, some US Business Development Companies (BDC) ran into difficulties. Press coverage sometimes discusses this in terms of a systemic private debt issue, but the modus operandi of these highly leveraged funds which focussed on asset-light technology companies could hardly be more different from MGCI's ungeared, conservative and diversified approach. Adam's focus on bottom-up value and being fairly compensated for any risk should help keep the fund out of the riskiest credits. That said, private borrowers do on occasion default. As of 31/12/2025, write-downs had detracted c. 2% of NAV over the entire life of the portfolio, although M&G has a large restructuring team which will try to recover as much of the value of the loans as possible.

Another defensive element to the fund is the structurally low duration. Adam can adjust this tactically very slightly, but generally uses futures to keep the duration low if he wants to buy fixed coupon, longer-dated assets. As of the end of July, duration was just 1.1. We think this could prove an attractive consideration in the current market environment, with central banks under pressure to raise rates in order to tackle inflation (indeed, the ECB has already hiked once). Having such a low duration means there should be very little impact on MGCI's NAV from any rate hikes, while the high proportion of floating rate investments (78%) means the income generated would rise. This is in contrast to the typical corporate bond or high yield bond fund, which will have a higher duration and so see a greater hit to bond prices while the income being earned remains fixed.

Gearing

Unlike a lot of high-yielding trusts, MGCI does not use gearing to hit its income targets, another important factor contributing to its cautious, low volatility performance profile. Structural gearing can lead to volatility in the value of a portfolio, in share prices and discounts, which income-seeking investors might not be keen to take, and MGCI's ungeared approach should appeal.

There is a short-term borrowing facility available, but this is intended to provide short-term liquidity and flexibility. This is particularly useful given that private investments can take some time to arrange on the way in and some time to sell on the way out, and the revolving credit facility means Adam can continue to invest while cash is tied up. This facility allows Adam to borrow up to £40m.

So far, Adam has only used it once, building up a net geared position of just under 6% in late 2022, which had been paid back by May 2023. This allowed him to quickly take advantage of disruptions seen around the Truss/Kwarteng mini-budget. Currently, there are no drawings under the facility, while the trust holds c. 2.5% of NAV in cash on deposit.

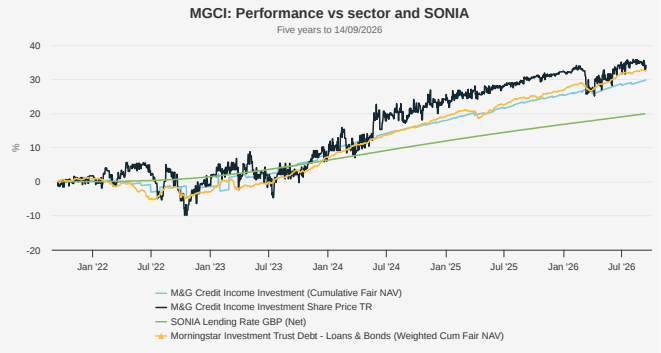
Officially, the articles of association allow borrowings of 30% of NAV at the time of drawdown, even if the board has stated it does not expect it to exceed 20%, and given the approach taken by Adam, anything close to this seems very unlikely. MGCI pays SONIA plus 1.35% on any drawings and 0.3% on any undrawn funds.

Performance

MGCI aims to generate a high income along with low NAV volatility. Capital growth isn't an objective, and although trading gains can be made at times, growth is never likely to be a part of the investment case. For most investors, the dividends paid and the outlook for future dividends are likely to be more important when it comes to judging performance (see **Dividends**). Nonetheless, looking at total returns can provide valuable context and allows comparison with other options.

For MGCI, total returns reflect largely the dividends generated, assuming they are reinvested at NAV. Movements in the NAV will depend on realised gains or losses from trading, unrealised or 'marked-to-market' gains or losses which will usually not be realised, and the impact of any shortfall between the income earned and the dividends paid out. Over the past five years, the NAV total return of 29.8% equates to an annualised total return of 5.4%. Investing at the SONIA lending rate would have delivered 19.9%, or 3.7% annualised.

performance over five years



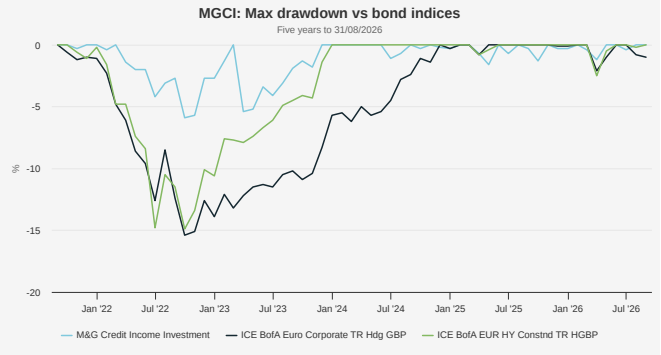
Source: Morningstar

Past performance is not a reliable indicator of future results

The current dividend yield is higher than this annualised return largely because the dividends have risen over the past five years, from 4.04p in 2021 to 7.62p in 2025 (and higher in 2024). Higher dividends imply higher future total returns, if they can be maintained. That said, additionally, the NAV itself has declined from c. 102p to 89.97 as of 31/07/2026. A key factor behind this is Adam's cautious approach, which means that he has not been prepared to chase yield if he views the valuations as unattractive or the risks too high. As such, the portfolio has been generating a yield lower than the dividend payout over the past year or so, which means the NAV has been declining. Adam remains confident there will be opportunities to invest at wider spreads which will more than cover the dividend target and so allow the capital account to be restored. However, we think investors should be aware of this dynamic, which could continue if spreads remain tight and means the dividend is currently uncovered.

To visualise the impact of the cautious approach, and the strategy of buying low duration, lower credit risk bonds, we like the below chart of maximum drawdown, looking over 12 month rolling periods. In the dramatic sell-off of 2022, when bonds and equities fell together, MGCI saw very modest drawdowns, unlike the European corporate and high yield indices. MGCI was also more resilient in the bond sell off when the Iran war started in February 2026. In both cases, low duration (1.2 in 2022, 1.1 in 2025) and high credit quality protected the value of the portfolio. It has to be borne in mind that private investments don't have a daily price, and so they will naturally bias down volatility, but MGCI publishes monthly NAVs and marks its investments each month, so the chart below shows the estimated impact of public market sell-offs on the private investments.

maxi mumdrawdown



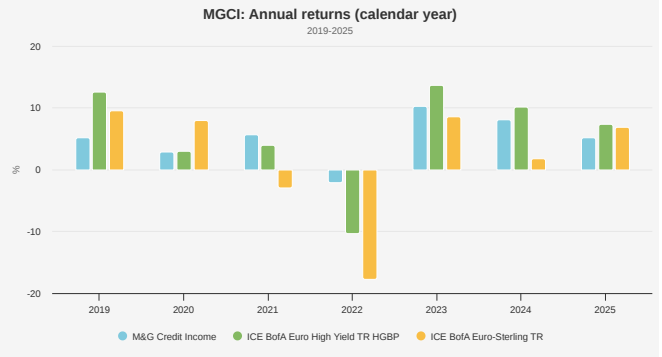
Source: Morningstar

Past performance is not a reliable indicator of future results

Explaining his cautious positioning, Adam notes that credit spreads remain tight in credit markets, with only the weakest segments of the market showing wide spreads. Here there are already elevated default levels, which he fears could worsen if rates are hiked. While he doesn't manage the portfolio to macro views, but focusses on bottom-up relative value, he does note that inflationary pressures are tightening, and with the ECB having already hiked, there is pressure on the UK and US to do so too; market pricing suggests two to three rate hikes over the next year. This could be the catalyst for more disruption in fixed income markets and therefore credit spread widening. In a rate hiking scenario, MGCI's low duration means it should suffer minimal NAV impact, while the income received from the high proportion of floating rate investments would rise.

The annual returns chart below shows the steady performance of MGCI, with the resilient performance in 2022 again evident. The corollary of not losing so much in down markets is not making the same gains in rising markets, as MGCI's returns are more or less limited to the income generated. Adam can trade the public assets he owns, and he does take a relative value approach to investment, looking to allocate to cheaper areas and sell as yields look less attractive. However, this is not likely to be a major source of return, with Adam focussed on delivering a high income and low volatility.

returns



Source: Morningstar

Past performance is not a reliable indicator of future results

Private debt is not without risks, and there have been some write-downs in this space, although they have only cost the fund 2% of NAV over its life. However, we note that MGCI has a well-resourced restructuring team which endeavours to make back as much as possible from any loan that has run into trouble.

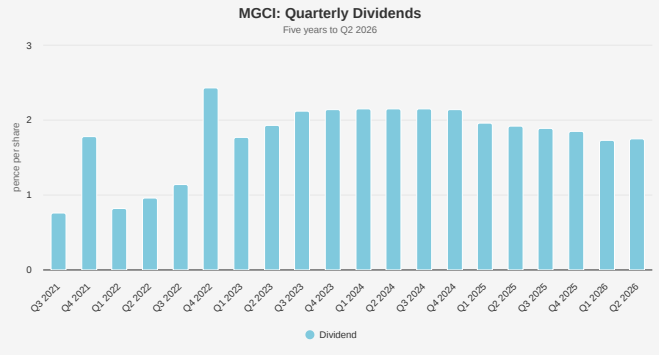
Dividend

If market expectations of two to three rate hikes in the UK over the next year are correct, then MGCI shareholders should expect their dividends to rise to the same degree, and so MGCI's yield should also rise from the current 7.7% implied by annualising the most recent dividend. This is because MGCI's dividend policy is to pay a quarterly dividend worth 1% of NAV plus SONIA, an interbank lending rate which tracks the BoE's base rate. The NAV used in the calculation is fixed at the start of the year, but SONIA varies as interest rates do, and so MGCI's dividend should rise when the base rate does, albeit with a slight lag. Higher rates would be bad for bond prices, but MGCI has such low duration, aided by a high proportion of floating rate debt, that the impact on portfolio value should be very small. Moreover, particularly in the private investments, assets are usually held to maturity, by which time any change in value will be reversed.

This link to rates is an attractive feature in a rising interest rate environment, although of course the inverse is also true, and MGCI's dividends have fallen slightly over the past year

and a half as rates have been cut (see chart below). However, the wide spread of 400bps should remain in any eventuality, meaning the attraction of the yield versus cash and short-dated government debt should remain essentially the same. We would compare it to short-dated debt because of the risk profile: MGCI's strategy sees it keep duration low and credit risk relatively low, allowing it to generate higher yields than could be achieved in the mainstream public bond markets at these levels. It takes on the liquidity risk and the complexity risk in the private debt space instead in order to generate its higher yield. An additional factor reducing risk is that MGCI does not use structural gearing to achieve its high yield, unlike many high-yielding investment trusts. As noted above, the dividend is currently uncovered due to the cautious positioning of the portfolio, but Adam is confident that when the market cycle turns the portfolio will generate an income in excess of the dividend target.

dividends



Source: Morningstar

Past performance is not a reliable indicator of future results.

Management

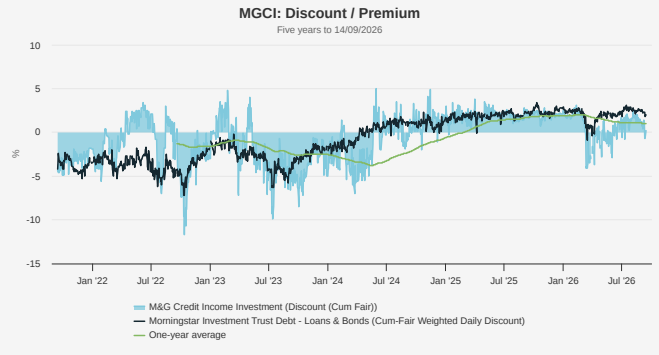
MGCI is managed by Adam English. In addition to managing MGCI, Adam works as a fund manager for M&G's Insurance and Annuities department. He has over two decades of experience working in credit markets for M&G, as well as earlier industry experience. Adam's deputy managers, Robert Whitten and Yiu-Wai Cheung, are also fund managers on the Life and Annuity funds team.

One of MGCI's attractions is the depth of resources that Adam can draw on for idea generation and research. M&G is a major player in the fixed-income business, with a deep bench of analysts working across the public markets as well as those covering complex, illiquid, or private assets, serving institutional investors such as pension funds and insurers. The firm is one of the largest managers of private assets in Europe, and has a team dedicated to private credit as well as others working on leveraged finance, real estate finance, and project and infrastructure finance. M&G also has a restructuring team, which works to recover as much value as possible from loans which become distressed.

Discount

MGCI's combination of high income and low volatility has been rewarded with a premium rating for much of the last two years. When war broke out in the Middle East, the shares did slip out to a discount, but have since regained their premium despite hostilities not ceasing. We interpret this as part of a general panic selling – interest rate expectations actually rose during this period, which would imply higher income from MCGI in future. In fact, we think rate hikes have become more likely over the past year, and as such MGCI should be more attractive as an income vehicle, and so we view this as positive for demand for the shares. Significant rate cuts and a crisis for credit are probably the two most likely routes we see to a derating, but neither seem very likely for the foreseeable future. Moreover, MGCI's cautious positioning means it should be far less affected by any sell-off in credit markets than most funds, but have the liquidity to take advantage. It's worth noting when interpreting the rating that MGCI publishes a monthly NAV, which means there is some uncertainty around the exact premium or discount between NAVs.

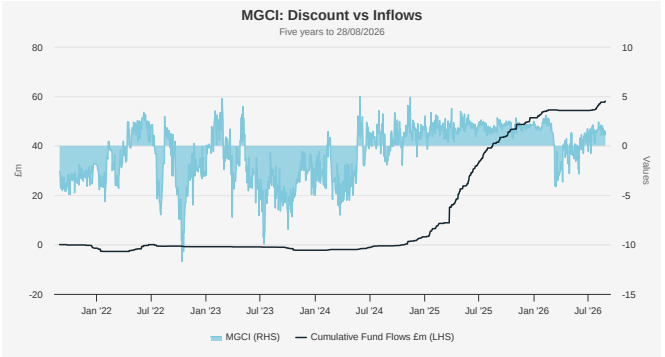
discount



Source: Morningstar

Past performance is not a reliable indicator of future results.

inflows



Source: Morningstar

Past performance is not a reliable indicator of future results.

The board has been issuing shares regularly to meet demand, and we estimate it has raised c. £58m since May 2024. The chart below shows these inflows mapped against the discount, and that, having paused during the early 2026 discount widening, the board is once again issuing shares and growing the trust, which has passed £190m in total assets.

One reason to have confidence when buying at a premium or close to par, is the zero discount policy. The board has stated it will aim to keep the shares trading as close to par as possible, issuing shares when they are trading at a premium in the market and buying back when there is a discount.

The board is also required to present, prior to the 2028 AGM, proposals for a liquidity window that will offer shareholders the opportunity to exit at NAV less costs. We note the shareholder register is concentrated, which would give the largest shareholders a heavy weight in any such vote. M&G owns c. 18.5% of the shares, their position having come down from 26% at the start of 2025.

Charges

MGCI's latest ongoing charges figure (OCF) is 1.17%, calculated as of 30/6/2026. We note that the impact of these charges has already been reported in the NAV, and they aren't deducted from any share price returns. The OCF includes a management fee of 0.7% of NAV, calculated quarterly, and compares to an average for the AIC Debt – Loans & Bonds sector of 1.19%. Any management fees on M&G funds that MGCI invests in are waived, which has a meaningful impact given the current high allocations to the ABS and floating-rate loan funds.

ESG

ESG factors are considered where they have a material impact on risk or return, and investment teams take a long-term view of their investments, which increases the significance of ESG factors. The investment teams take the view that ESG risks frequently develop over the long term. The only hard exclusions are thermal coal and cluster munitions, with M&G preferring to focus on supporting companies transitioning to more sustainable ways of operating, rather than excluding investments. M&G reports extensively on its **responsible investment policy** at the firm level on its website. ESG

principles are incorporated into the investment decisions as detailed in the annual report, and M&G is a signatory to the United Nations Principles for Responsible Investment (UN PRI).

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