

Highlights

- February saw heightened volatility in financial markets, in marked contrast to the past 18 months or so.
- The fund declined as the team's preferred equity markets – Asia Pacific ex Japan, Europe and Japan – lost ground over the month.
- The fund managers added back to equities and moved US government bond and dollar positioning from short to modestly long, to take advantage of the significant price movement and valuation changes during February.

Risks associated with this fund

For any past performance shown, please note that past performance is not a guide to current or future performance and the performance data does not take into account any entry and exit charges incurred on the purchase and sale of shares but does take into account the ongoing charge.

The value of investments and the income from them will rise and fall. This will cause the fund price, as well as any income paid by the fund, to fall as well as rise. There is no guarantee the fund will achieve its objective, and you may not get back the amount you originally invested.

The fund may use derivatives with the aim of profiting from a rise or a fall in the value of an asset (for example, a company's bonds). However, if the asset's value varies in a different manner, the fund may incur a loss.

The fund may use derivatives to gain exposure to investments exceeding the value of the fund (leverage). This may cause greater changes in the fund's price and increase the risk of loss.

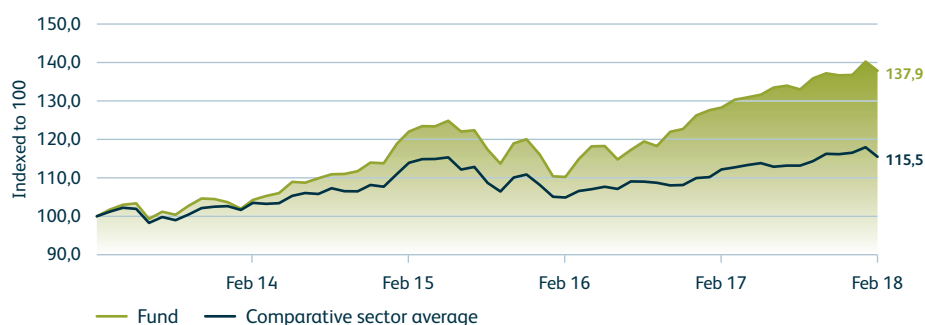
Changes in currency exchange rates will affect the value of your investment.

Further risk factors that apply to the fund can be found in the fund's Key Investor Information Document (KIID).

Single year performance (5 years ending February)

From To	01.03.17 28.02.18	01.03.16 28.02.17	01.03.15 29.02.16	01.03.14 28.02.15	01.03.13 28.02.14
Euro A Acc	7,5%	16,4%	-9,7%	17,1%	4,3%

Performance over 5 years



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	Since tenure (%) p.a.	Since inception (%) p.a.
Fund	-1,7	+0,9	+0,8	+7,5	+4,1	+6,6	+6,5	+6,5
Sector	-2,1	-0,6	-1,0	+2,7	+0,6	+3,7	+3,7	+4,4
Ranking	44/105	11/104	9/104	11/99	6/81	9/59	7/44	9/38
Quartile ranking	2	1	1	1	1	1	1	1

Past performance is not a guide to future performance.

Things you should know

The fund allows for the extensive use of derivatives.

Key information

Fund managers	Juan Nevado & Tony Finding
Fund manager tenure from	21 January 2011
Deputy fund manager	Craig Moran
Launch date	3 December 2009
Launch of share class	3 December 2009
Fund size (millions)	€7.534,80
Fund type	OEIC, incorporated in the UK
Comparative sector	Morningstar EUR Flexible Allocation - Global sector
Historic yield (Acc)	0,00%
Historic yield (Inc)	1,31%
Duration of Fixed Income portion (years)	-3,1
Average credit rating of fixed interest holdings	A
Share type	Acc & Inc
Ongoing charge	1,91%

The historic yield reflects distributions declared over the past 12 months as a percentage of the share price, as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions. The fund's charging policy has recently changed and, rather than being decided at fund level, certain charges are now deducted from income for accumulation share classes and from capital for income share classes. These charges include the annual management charge, administration fee and share class hedging fee (for hedged share classes). To ensure that yields quoted are representative of the fund's charging policy, for some share classes an estimated historic yield is shown. This is based on the historic yield, but adjusted for the impact of the new charging policy. This adjustment will be applied until distributions have been declared for a full year after the changes, from which time the historic yield will again be on the same basis as the distributions. For the fund's Euro Class A income shares, the policy of deducting certain charges from capital has the effect of increasing distribution(s) for the year by 1,89% and constraining capital performance to an equivalent extent.

Fund ratings

Overall Morningstar rating **★★★★**
 Source of Morningstar ratings: Morningstar, as at 31 January 2018
 Ratings should not be taken as a recommendation.

VaR analysis (%)

	Fund
1 month 99% VaR	2,84

VaR numbers are calculated using Algorithmics Software employing RiskMetrics methodology.

Portfolio construction (%)

	Allocation range	Neutrality
Equity	20-60	40
Fixed income	0-80	50
Other	0-20	10
Currency	Min 30% euro or euro hedged	

Other: Comprises mainly real estate-related securities and convertibles. Please note these guidelines are subject to change.

Asset breakdown (%)

	Long exposure	Short exposure	Net exposure
Equity	54,6	-10,1	44,5
UK	6,8	0,0	6,8
Europe	17,2	0,0	17,2
US	12,9	-10,1	2,7
Japan	8,1	0,0	8,1
Asia Pacific ex Japan	5,9	0,0	5,9
Global equity funds	0,0	0,0	0,0
Other	3,7	0,0	3,7
Global bond funds	0,5	0,0	0,5
Government bonds	25,2	-38,7	-13,5
UK	0,0	-8,0	-8,0
Europe	10,6	-20,9	-10,3
US	4,0	-7,6	-3,6
Japan	0,0	-2,2	-2,2
Asia Pacific ex Japan	1,0	0,0	1,0
Other	9,6	0,0	9,6
Corporate bonds	4,1	-4,4	-0,3
Investment grade	3,8	0,0	3,8
High yield	0,3	-4,4	-4,1
Convertible bonds	2,1	0,0	2,1
Property funds	0,0	0,0	0,0
Residual Cash			66,8

The residual cash (net exposure) figure includes cash-at-bank and cash equivalents, as well as cash required to back long and short exposures resulting from the use of derivatives. The residual cash should be considered in conjunction with the overall positioning of the portfolio (including gross exposure) for a true reflection of risk.

Largest exposures (excluding cash, %)

	Net exposure
Kospi Index future	5,6
Topix Index future	5,2
Portuguese government 2Y	4,6
FTSE 100 Index future	4,6
DAX Index future	4,5
German government 20Y	-4,7
French government 10Y	-5,1
US government 30Y	-7,6
German government 5Y	-8,1
S&P 500 Index future	-10,1

Currency breakdown (%)

	Net exposure
Euro	93,1
US dollar	4,5
Japanese yen	3,6
Mexican peso	3,5
Turkish lira	3,3
British pound	2,1
Singapore dollar	-3,0
Taiwan dollar	-4,1
Chinese renminbi	-6,1
Other	3,1

The fund's neutral currency positioning is 100% in euros. Deviations from this figure, therefore, represent long/short exposure.

Leverage and volatility

	Fund
Net leverage	0,3x
Gross leverage	1,4x
Volatility	7,67%

Net leverage is the sum of all net notional exposures, excluding cash, divided by NAV. Gross leverage is the sum of all gross notional exposure, excluding cash, divided by NAV. Volatility is three-year annualised volatility calculated monthly, as at 28 February 2018, sourced from Morningstar.

Commentary

Volatility increased in financial markets in February, in marked contrast to the past 18 months or so. The change appeared to have been prompted by rising US rate expectations, ostensibly caused by signs of wage inflation in the US. However, the speed and extent of the movements in major equity markets seemed excessive in relation to the trigger, particularly as most other macroeconomic conditions do not seem to have changed. The fund managers' focus remains on medium-term valuation signals, in particular the equity risk premium, which continues to signal that equities are attractively valued in relation to most bonds. Within fixed income, the fund managers continue to find opportunities in selected emerging market government bonds and certain areas of the credit market.

The fund declined in February as the team's preferred equity markets, Asia Pacific ex Japan, Europe and Japan, lost ground over the month. However, a short position in the S&P 500 Index provided a welcome boost to performance during the month, despite the fact that the index continued to outperform other markets during the fall and subsequent rebound in equities. The US bank positions held up relatively well in the challenging environment, producing a flat return. This highlights the useful role they play from a portfolio construction perspective as protection against rising interest rates.

Performance in the fund's fixed income positions was mixed. Government bonds produced a flat return after taking currency movements into account. Short exposure to developed bond markets including France and Germany detracted from performance. However, this was offset by modest gains from the short positions in US Treasuries, as well as long exposure to emerging markets, in particular South Africa and Mexico. Meanwhile, corporate bond performance weighed on returns. Currency had a reasonably muted impact on performance over the month, with fluctuations fairly understated by comparison with the volatility experienced by other asset classes.

Key changes

In light of the significant price and valuation changes during February, a number of material adjustments were made to the fund.

The fund managers considered that the rapid, inconsistent moves in equity prices were at odds with the macroeconomic fundamentals, as economic indicators were unchanged – in other words, that an 'episode' was occurring. Therefore, with valuations having returned to more attractive levels, the team bought back the capital removed in January on risk/valuation grounds in the UK and across Europe and Asia, to bring the total to slightly higher than the starting point.

Significant changes were also made to fixed income positioning. Five- and 10-year US government bond yields have now risen to such an extent from the lows reached during the summer of 2016 that the fund managers consider that their risk/reward profile is now much more balanced. They therefore removed all short positions on these assets and are now neutral to modestly long. They also closed the long position in ultra-long US Treasuries (30 years) after the yield curve flattened significantly.

By contrast, the team believes that the pay-off for five-year German bond yields has become increasingly asymmetric, as yields have risen very little despite the increasingly robust economic environment, making these bonds increasingly vulnerable to a sell-off. A new short position was therefore opened in these assets. Elsewhere, some exposure to South African government bonds was removed following strong performance.

In currencies, the US dollar positioning was moved from short to modestly long, funded by reducing long sterling, euro, Japanese yen, South African rand and Indonesian rupiah positions. This reflects a revised valuation following an extended period of weakness for the currency. A small position in the South Korean won was also opened following sustained weakness in 2017.

The macroeconomic backdrop continues to improve, and profits are still being revised upwards. The fund managers believe that the period ahead very much calls for selectivity and flexibility, in order to have the best chance of delivering healthy returns with lower volatility.

Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A Acc	GB00B56H1S45	MGGDAAA LN	1,75%	1,91%	€1.000	€75
Euro A Inc	GB00B96BHM03	MGDABIE LN	1,75%	1,91%	€1.000	€75
Euro B Acc	GB00B8DC9129	MGDABAE LN	2,25%	2,41%	€1.000	€75
Euro C Inc	GB00BK6MCH03	MGDAECI LN	0,75%	0,92%	€ 500.000	€ 50.000
Euro C Acc	GB00B56D9Q63	MGGDACA LN	0,75%	0,92%	€500.000	€50.000

The ongoing charge figures disclosed above include direct costs to the fund, such as the annual management charge (AMC), administration charge and custodian charge, but does not include portfolio transaction costs. They are based on expenses for the period ending 30 September 2017.

Please note that not all of the share classes listed above might be available in your country.

Important information

The fund's physical holdings include a significant proportion of cash or cash equivalents, which are used as backing for the derivatives positions.

Source of performance data: Morningstar, Inc., as at 28 February 2018, Euro Class A shares, net income reinvested, price to price basis. Past performance is not a guide to future performance. All other statistics from M&G internal sources, as at 28 February 2018 unless indicated otherwise.

The Morningstar Overall Rating based on the fund's Euro Class A shares. Copyright © 2018 Morningstar UK Limited. All Rights Reserved. Ratings should not be taken as recommendation.

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