M&G Dynamic Allocation Fund - Euro Class A

Monthly Fund Review as at 31 December 2017

For investment professionals only

Highlights

- Most equity markets continued to perform strongly in December, led by Asia and the emerging markets, while European stockmarkets were on the whole flat or slightly down.
- The fund posted a positive performance, most of which came from the fund's equity positions in Asia, Japan, the UK and emerging markets, which more than offset losses from the European equity holdings.
- New bond and currency positions in South Africa and Turkey were established to take advantage of a temporary fall in prices.

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.

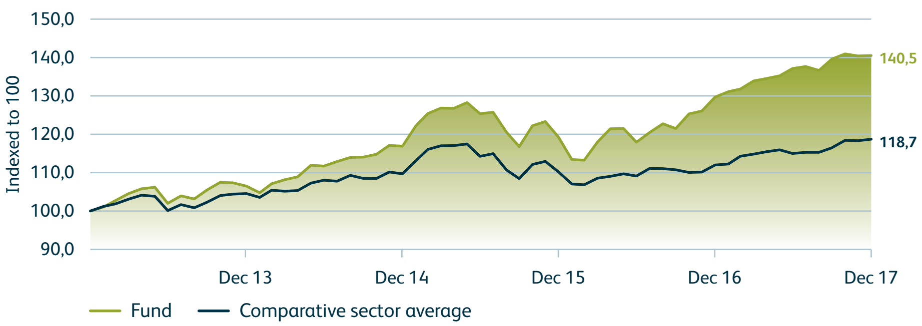
Changes in currency exchange rates will affect the value of your investment.

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 December)

From To	01.01.17 31.12.17	01.01.16 31.12.16	01.01.15 31.12.15	01.01.14 31.12.14	01.01.13 31.12.13
Euro A Acc	8,3%	8,8%	2,0%	9,8%	6,5%

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	+0,1	+0,7	+8,3	+8,3	+6,3	+7,0	+6,5	+6,5
Sector	+0,3	+1,9	+6,0	+6,0	+2,8	+4,3	+4,0	+4,7
Ranking	77/104	82/104	24/99	24/99	8/80	10/58	8/44	10/38
Quartile ranking	3	4	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)	€7.295,51
Fund type	OEIC, incorporated in the UK
Comparative sector	Morningstar EUR Flexible Allocation - Global sector
Historic yield (Acc)	0,03%
Historic yield (Inc)	1,58%
Duration of Fixed Income portion (years)	-3,5
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 30 November 2017

Ratings should not be taken as a recommendation.

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VaR analysis (%)

	Fund
1 month 99% VaR	2,6

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	**51,7**	**-9,4**	**42,2**
UK	6,8	0,0	6,8
Europe	15,4	0,0	15,4
US	9,9	-9,4	0,5
Japan	7,9	0,0	7,9
Asia Pacific ex Japan	8,0	0,0	8,0
Global equity funds	0,0	0,0	0,0
Other	3,6	0,0	3,6
Global bond funds	**0,5**	**0,0**	**0,5**
Government bonds	**23,6**	**-48,0**	**-24,4**
UK	0,0	-7,5	-7,5
Europe	6,8	-12,2	-5,4
US	5,6	-26,3	-20,8
Japan	0,0	-2,0	-2,0
Asia Pacific ex Japan	1,0	0,0	1,0
Other	10,2	0,0	10,2
Corporate bonds	**2,5**	**0,0**	**4,0**
Investment grade	2,2	0,0	3,7
High yield	0,3	0,0	0,3
Convertible bonds	**1,9**	**0,0**	**1,9**
Property funds	**0,0**	**0,0**	**0,0**
Residual cash			**75,8**

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
Portuguese government 2Y	4,8
Kospi Index future	4,5
Topix Index future	4,4
FTSE 100 Index future	4,0
German government 20Y	-4,5
French government 10Y	-4,9
US government 30Y	-4,9
S&P 500 Index future	-9,4
US government 10Y	-9,7
US government 5Y	-9,9

Currency breakdown (%)

	Net exposure
Euro	92,8
Japanese yen	4,6
Mexican peso	3,6
British pound	3,6
Turkish lira	3,1
Polish zloty	2,0
Singapore dollar	-2,8
Taiwan dollar	-3,8
Chinese renminbi	-5,9
Other	2,8

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	0,2x
Gross leverage	1,4x
Volatility	7,94%

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 31 December 2017, sourced from Morningstar.

Commentary

Most equity markets continued to perform strongly in December, led by Asia and the emerging markets. European stockmarkets were a notable exception and were on the whole flat or slightly down. Owing to various geopolitical tensions, market volatility slightly increased. Bond markets experienced greater divergence in returns, with US Treasuries flattening as the Fed raised interest rates again. Meanwhile, European bonds sold off increasingly steeply towards the long end of the curve, while several emerging bond markets – notably Turkey and South Africa – rallied strongly. Spreads in peripheral Europe widened with the return of concern over political issues in Spain and Italy. Within currency markets, the Mexican peso lost notable ground, while the Chinese renminbi appreciated.

The fund managers believe that plenty of compelling opportunities are still to be found as the global economy maintains its pace of growth. Nonetheless, investors retain a certain amount of pessimism about the macroeconomic outlook, allowing the fund managers to take advantage of the still-elevated equity risk premium, where their focus remains. In the team's opinion, there is still considerable value in selected pockets of equity markets. Indeed, the strength of earnings in some areas, particularly Asian and emerging markets, means that these have actually become cheaper.

Within fixed income, the fund managers still see some value in credit and more in selected emerging markets. Although the latter can exhibit higher volatility, the fund managers believe they could be a good source of returns given potential improvement in the political background. They regularly find elevated levels of yield in these markets, which appear to offer enough compensation for the risk being assumed. Conversely, most Western government bond yields and cash rates remain areas they wish to avoid. This has been particularly true of UK gilts as Brexit negotiations unfold. The team believes that investors' dogged focus on these assets stems from undue pessimism and short-sightedness in relation to the UK economy.

Based on where the fund managers see value, the fund continues to be long of equities, focusing on Asia, Europe, selected sectors and emerging markets, as well as credit and government bonds from certain emerging markets. It remains short of various developed market government bonds, particularly in Europe, the UK and Japan.

The fund posted a positive performance, most of which came from the fund's equity positions in Asia, Japan, UK and emerging markets, which more than offset losses from the European equity holdings.

Within fixed income, short positions in Western government bonds generally benefited the fund, with the exception of UK gilts, which continued to rally during December. Among the emerging market bond holdings, weakness in Mexico stemming from concerns about the upcoming elections dragged on performance. However, the impact was mitigated by gains from new positions in South African and Turkish government bonds, and by a corresponding reduction in exposure to Mexico.

Currency positioning cost performance during the month. Mirroring the dynamic seen in the fund's fixed income positioning, this was largely due to a fall in the Mexican peso, but offset by the subsequent gains made in new holdings in the Turkish lira and South African rand. Losses also came from short positions in Asian currencies such as the Chinese renminbi and Australian dollar. However, the fund managers are comfortable with their long-term assessment of these currencies. Exposure to convertibles detracted slightly.

In terms of fixed income, the fund broadly benefited from the flattening of the US yield curve, as the bulk of the shorts are at the front end of the curve (which sold off) and the long BBB-rated bonds and TIPS are at the long end of the curve (which rallied). Other Western government bond holdings were little changed overall despite the month's volatility.

Key changes

As alluded to above, at the beginning of the month, positions of 1.5% each were established in South African and Turkish 10-year bonds and currency. Political concern in both countries had caused negative investor sentiment, and in Turkey, was coupled with a pick-up in inflation. For the fund managers, the lower asset prices offered sufficient compensation for the risk being taken, as well as adding further diversification to the fund. Both positions subsequently worked well, although not without volatility.

Both new positions were funded by selling down a 2% holding in 10-year Mexican government bonds and peso, when prices rose as the typical market noise died down for a while. The fund managers still believe that Mexico represents one of the more attractive fixed income and currency markets globally, from a currency and real yield perspective, albeit one that will continue to be highly sensitive to changes in sentiment. They are therefore likely to increase the fund's exposure again in future.

The fund's Argentinian government bond holdings (0.5% in both 5-year and 10-year bonds) were also sold, following a material tightening of spreads.

The year as a whole was notable for lower macroeconomic and financial asset volatility than investors had become accustomed to. This led to a generally favourable set of outcomes for financial markets, and in turn for the strategy, which was positioned broadly pro-growth. Should 2018 see an increase in volatility, the fund managers are prepared to exploit this.

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Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A Inc	GB00B96BHM03	MGDABIE LN	1,75%	1,91%	€1.000	€75
Euro A Acc	GB00B56H1S45	MGGDAAA LN	1,75%	1,91%	€1.000	€75
Euro B Acc	GB00B8DC9129	MGDABAE LN	2,25%	2,41%	€1.000	€75
Euro C Acc	GB00B56D9Q63	MGGDACA LN	0,75%	0,92%	€500.000	€50.000
Euro C Inc	GB00BK6MCH03	MGDAECI 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 31 December 2017, 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 31 December 2017 unless indicated otherwise.

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