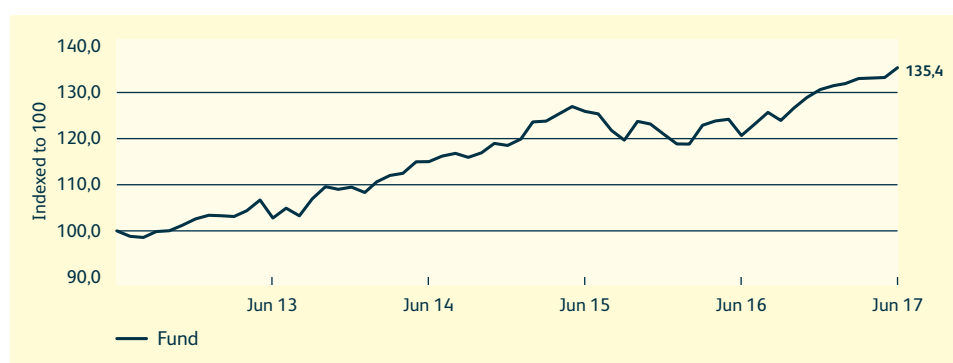


Euro Class T-H

Summary

- Both equity and bond themes in the portfolio made meaningful positive contributions to return in June.
- Toward the end of the month, short exposure to developed market government bonds was increased from 50 % to 100 % of the fund.
- Exposure to the fund's currency carry basket was also reduced mid-month, while long equity exposure was modestly increased.

Performance over 5 years



The fund may be very concentrated at times which could result in greater fluctuations in the fund's short-term performance.

The fund allows for the extensive use of derivatives.

Key information

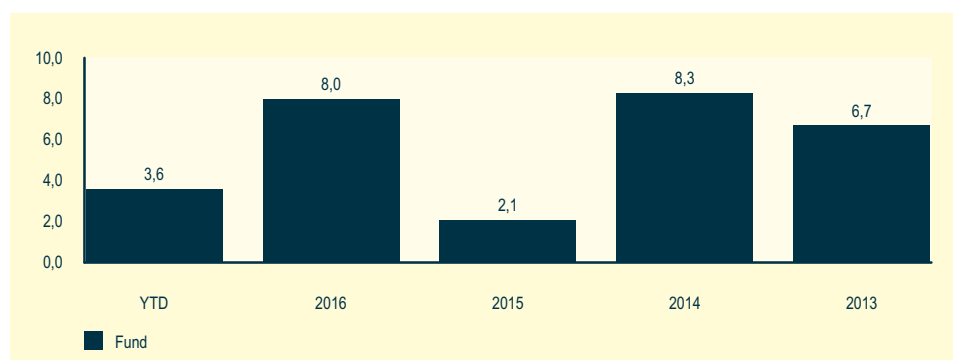
Fund managers	David Fishwick & Eric Lonergan
Fund manager tenure from	4 June 2010
Launch date	3 June 2010
Launch of share class	3 June 2010
Fund size (millions)	€284,17
Fund type	OEIC, incorporated in the UK
Average credit rating of fixed interest holdings	AA
Share type	Accumulation
Ongoing charge	0,95 %
Performance fee*	20,00 %

M&G Episode Macro Fund monthly total returns in euro terms

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	-	-	-	-	-	-3,7	1,5	-2,2	4,2	-0,4	1,8	1,9	3,3
2011	-0,5	1,2	0,6	1,3	0,0	-1,0	1,0	-5,2	-3,6	5,6	0,3	0,6	-0,1
2012	2,0	1,3	1,2	-1,8	-8,9	-1,9	-1,2	-0,2	1,3	0,2	1,2	1,4	-5,9
2013	0,8	-0,1	-0,2	1,2	2,2	-3,7	2,1	-1,6	3,6	2,5	-0,5	0,4	6,7
2014	-1,1	2,1	1,2	0,4	2,2	0,0	1,0	0,5	-0,7	0,8	1,7	-0,4	8,3
2015	1,2	3,1	0,1	1,3	1,3	-0,8	-0,4	-2,9	-1,7	3,4	-0,5	-1,8	2,1
2016	-1,8	0,0	3,4	0,8	0,3	-2,8	2,1	2,1	-1,4	2,2	1,8	1,3	8,0
2017	0,6	0,3	0,8	0,1	0,1	1,6	-	-	-	-	-	-	3,6

* On all positive returns above the hurdle and above the high water mark (HWM). The HWM is the highest level that a fund's NAV (net asset value) has reached at the end of any 12-month accounting period. In this context, a hurdle is a value to surpass before the performance fee can be levied. Each day, the hurdle will increase (or decrease) by the hurdle rate (three-month LIBOR for the currency in which the relevant share class is denominated).

Annual performance (%)



Past performance is not a guide to future performance.

The value of investments and the income from them will fluctuate. This will cause the fund price to fall as well as rise. There is no guarantee the fund objective will be achieved and you may not get back the original amount you invested.

The fund may invest more than 35 % in securities issued by any one or more of the governments listed in the fund prospectus. Such exposure may be combined with the use of derivatives in pursuit of the fund objective. It is currently envisaged that the fund's exposure to such securities may exceed 35 % in the governments of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, New Zealand, Singapore, Sweden, Switzerland, UK, USA although these may vary subject only to those listed in the prospectus.

UCITS HAVE NO GUARANTEED RETURN AND PAST PERFORMANCE IS NOT A GUIDE TO FUTURE PERFORMANCE

VaR analysis (%)

	Fund
1 month 99% VaR	4,5

VaR numbers are calculated using Algorithmics Software employing RiskMetrics methodology.

Asset breakdown (%)

	Long exposure	Short exposure	Net exposure
Equity	46,1	0,0	46,1
UK	2,3	0,0	2,3
Europe	10,0	0,0	10,0
US	13,0	0,0	13,0
Japan	4,9	0,0	4,9
Asia Pacific ex Japan	16,0	0,0	16,0
Global equity funds	0,0	0,0	0,0
Other	0,0	0,0	0,0
Global bond funds	0,0	0,0	0,0
Government bonds	0,0	-97,0	-97,0
UK	0,0	-34,2	-34,2
Europe	0,0	-33,7	-33,7
US	0,0	-29,1	-29,1
Japan	0,0	0,0	0,0
Asia Pacific ex Japan	0,0	0,0	0,0
Other	0,0	0,0	0,0
Corporate bonds	0,0	0,0	0,0
Investment grade	0,0	0,0	0,0
High yield	0,0	0,0	0,0
Convertible bonds	0,0	0,0	0,0
Property funds	0,0	0,0	0,0

The fund will comprise a high proportion of cash and near cash, as the fund will typically achieve exposures through derivative strategies. As a result, cash and near cash have been excluded from the asset breakdown table to provide a more accurate indication of the fund's actual investment exposure.

Currency breakdown (%)

	Net exposure
US dollar	93,0
Korean won	3,5
Turkish lira	3,0
Mexican peso	3,0
South African rand	2,7
Singapore dollar	-2,6
Euro	-2,7
Australian dollar	-2,7
Swiss franc	-3,0
Other	5,8

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

Leverage and volatility

	Fund
Net leverage	-0,5x
Gross leverage	1,4x
Volatility	5,45%

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 30 June 2017, sourced from Morningstar.

Performance highlights

A meaningful shift in tactical capital away from currencies and in favour of a short government bond theme made a material positive contribution to returns in June. Increasing short bond exposure prior to the large sell-off at month-end proved positive

and meant that both long equity and short bond themes drove the fund's performance over the month. Currency positions were a modest detractor overall.

The fund approach is built upon a combination of longer term, value-led 'episodic' opportunities (such as a preference for selected global equity over mainstream government bonds), and tactical capital employed in response to shorter term volatility. Active scaling of exposure to the Mexican peso and Turkish lira over the past 12 months is an excellent example of how these two elements combine. In the case of Mexico, exposure had been added as part of the fund's broader carry basket in October 2016. However, following 'episodic' price action around Donald Trump's US election campaign, signs of market myopia and over-emphasis on a single story prompted the addition of significant further capital in January this year.

Such idiosyncratic episodes not only provide the opportunity for enhanced return, but also diversification. The unwinding of episodes often results in price behaviour that differs from broader market dynamics, and this proved to be the case for both the Mexican peso and Turkish lira. At the same time, the potential for higher yielding currencies to benefit from falling US bond yields offered attractive properties given the short rate bias elsewhere in the portfolio. These forces all came into play in 2017, and the peso and lira positions have accounted for a significant portion of fund performance so far this year.

This strong performance served to reduce the attractiveness of the trades, prompting the removal of the additional exposure mid-month (each position reduced from 7.5% to 3%). As part of the general currency rebalancing, short exposure to the Czech koruna of -4.75% was closed and short exposure to the Swiss franc was reduced from -4.75% to -3%. This served to scale back the portfolio's exposure to the carry basket.

The decline in developed government bond yields – which had partly supported the spot performance of long currency positions – had further driven these bonds into unattractive territory. This was in spite of macro data which has continued to be strong in an absolute sense. Against this background, the partial retracement in intermediate maturity government bond yields in the US and the UK appeared to leave these assets vulnerable, and tactical exposure to the short theme was added in the final week of the month. Ten-year US Treasury exposure was increased from -20% to -30%, 10-year gilts from -15% to -35%, and 10-year bunds were increased from -10% to 30%. This served to increase total short bond exposure in the fund from 50% to 100%. A short position in long-dated German government bonds of 5% was unchanged.

This move proved almost immediately beneficial as these bonds weakened on the back of central bank language that was interpreted as 'hawkish,' the last few days of the month accounting for the bulk of the return generated from this theme overall.

It remains to be seen how far rising bond yields will pressure equity valuations. However, the fund's basket of equities is deliberately constructed so as to seek attractively valued areas of the market that could also prove resilient to rising rates. In June, a meaningful position in the US banking sector responded strongly to a rising rate environment, resembling previous such phases over the last couple of years and generating around 1% for the fund. Exposure to Asian markets such as Korea, Thailand, Singapore, China and Taiwan, which make up over half of the fund's non-bank equity weighting also proved resilient. These markets have not been major beneficiaries of the low rate environment and may well be resilient to rising rates should global growth remain robust. The only change to the equity portfolio in June was a modest increase via a new 2.5% position in the German Dax Index and an increase in exposure to Japan's Topix from 2.5% to 5%.

Outlook

The last 12 months have been extremely fertile for the strategy. Market fears of a recession and a capitulation in belief in the possibility of a global recovery in the early half of 2016 set up a period of strong returns to backing the fund's longer term value signals, but also created a legacy of periodic shorter-term volatility. This volatility, for example, after the UK Brexit vote and the US election, created opportunities to generate returns from the tactical element of the approach. June's move to increase short bond exposure is a further illustration of this.

Increasing these short bond positions was not a forecast of central bank rhetoric or upcoming macro data, but another example of the allocation of tactical capital in response to price moves. It reflected an observation that recent yield declines represented a shift in market perceptions of likely monetary policy and the riskiness of developed market government bonds, which was inconsistent with improving economic fundamentals.

Much has been made of recent macro data being 'disappointing' as reflected in weaker economic surprise indices. However, this fails to acknowledge that these surprise indicators tend to be mean reverting. After a period in which economic data has been much stronger than expectations, such as that in the second half of last year and first quarter of 2017, it is common for analysts' expectations to be revised upwards, leaving

them more vulnerable to disappointment. This may be the case even if data in an absolute sense is still encouraging, as is the case at present. As such, to place emphasis on the disappointment, rather than the numbers themselves, seemed overly myopic.

The language of central banks toward the end of the month was actually relatively muted, and the resultant bond sell-off simply revealed how vulnerable low yields had become. However, it is notable that there has been a change of emphasis; not only Mario Draghi, but also the central banks of England, Sweden and Australia have acknowledged that a synchronised global upswing is at least part of the probability distribution. This was all but unthinkable for much of the first half of 2016 and in itself reveals how rapidly attitudes can shift.

It remains to be seen whether recent moves represent the start of more prolonged weakness. The speed of the move makes the case for the removal of the tactical capital applied, but the decision will be based on subjective assessments of the nature of price action, in particular with regards to how prices respond to newsflow, and whether there are signs of shifting investor attitudes. It is, however, notable that, as with the period of bond weakness after the US election, investors are being reminded that even past safe havens can be dangerous when the price is wrong. Moreover, after a five-year period in which the opportunity cost of seeking safety in Treasuries at the expense of equities has been extremely high, government bonds could be just as vulnerable to a change in investor preferences as any move by central banks.

Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro B-H Acc	GB00B4RGN439	MGMEBHE LN	2,25 %	2,47 %	€1000	€75
Euro S-H Acc	GB00B5LHB564	MGMESHE LN	1,75 %	1,97 %	€1.000	€75
Euro T-H Acc	GB00B5LHW198	MGMETHE LN	0,75 %	0,95 %	€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 31 December 2016.

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 30 June 2017, Euro Class T-H 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 30 June 2017 unless indicated otherwise.

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The Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários, the "CMVM") has received a passporting notification under Directive 2009/65/EC of the European Parliament and of the Council and the Commission Regulation (EU) 584/2010 enabling the fund to be distributed to the public in Portugal. M&G International Limited is duly passported into Portugal to provide certain investment services in such jurisdiction on a cross-border basis and is registered for such purposes with the CMVM and is therefore authorised to conduct the marketing (comercialização) of funds in Portugal.

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