M&G Episode Macro Fund - Euro Class T-H

Monthly Fund Review as at 31 March 2018

For investment professionals only

M&G INVESTMENTS

Highlights

- Negative returns came from both long equity and short developed government bond themes.
- The fund responded to price action during the month by adding exposure to both of these themes.
- Episodic price volatility of the type seen in March could provide opportunities for the strategy.

Risks associated with this fund

For any past performance shown, please note that past performance is not a guide to future performance.

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.

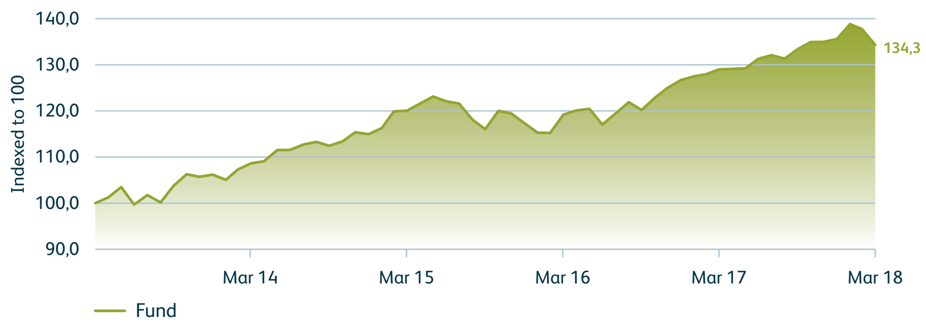
Changes in currency exchange rates will affect the value of your investment.

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 March)

From To	01.04.17 31.03.18	01.04.16 31.03.17	01.04.15 31.03.16	01.04.14 31.03.15	01.04.13 31.03.14
Euro T-H Acc	4,1%	8,2%	-0,7%	10,5%	8,6%

Performance over 5 years



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	0,6	-0,6	1,6	1,2	0,0	0,4	7,0
2018	2,4	-0,8	-2,5	-	-	-	-	-	-	-	-	-	-0,9

We are unable to give financial advice. If you are unsure about the suitability of your investment, speak to your financial adviser.

Past performance is not a guide to future performance.

Hedged share classes aim to mirror the performance of another share class. We cannot guarantee that the hedging objective will be achieved. The hedging strategy will limit holders of the hedged share class from benefiting if the hedged share class currency falls against the Euro. Please note that this fund comes with further risks that are explained in the Key Investor Information Document.

Things you should know

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.

The fund may be very concentrated at times which could result in greater fluctuations in the fund's short-term performance and sudden and large falls in value. As a result, you could lose the total value of your initial investment.

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)	€422,64
Fund type	OEIC, incorporated in the UK
Average credit rating of fixed interest holdings	AA
Share type	Accumulation
Ongoing charge	0,94%
Performance fee*	20,00 %

* 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).

Performance fees - The investment manager is entitled to receive a performance fee. Performance fees may be considered to create an incentive for the investment manager that may increase the risk profile of the fund. Please note that this fund comes with further risks that are explained in the Key Investor Information Document.

VaR analysis (%)

	Fund
1 month 99% VaR	4,33

Asset breakdown (%)

	Long exposure	Short exposure	Net exposure
Equity	**58,0**	**0,0**	**58,0**
UK	2,5	0,0	2,5
Europe	19,0	0,0	19,0
US	14,8	0,0	14,8
Japan	5,2	0,0	5,2
Asia Pacific ex Japan	16,7	0,0	16,7
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**	**-79,4**	**-79,4**
UK	0,0	-29,5	-29,5
Europe	0,0	-35,0	-35,0
US	0,0	-14,9	-14,9
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.

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Currency breakdown (%)

	Net exposure
US dollar	95,0
Korean won	3,1
Mexican peso	2,1
Indian rupee	2,0
South African rand	2,0
Brazilian real	2,0
Swiss franc	-2,0
Euro	-2,7
Taiwan dollar	-3,1
Other	1,4

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	-0,2x
Gross leverage	1,4x
Volatility	5,59%

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 March 2018, sourced from Morningstar.

Performance highlights

After a partial recovery from the weakness caused by rate pressures in February, many global equity markets saw further declines in March. Concerns about prospects for intensifying trade wars prompted equity weakness and a rally in developed market government bonds. Against this background, the portfolio declined. In response to the month's moves, total long equity exposure increased from 41.5% to 57.5% and the short bond theme from -45% to -80%.

Portfolio losses during March were relatively evenly distributed between long equity and short bond themes in the portfolio, with the return from currency exposures flat overall. The largest detractor was a meaningful position in the US banking sector. Toward the end of the month, this position was increased from 10% to 15% of the fund. At the same time, Korean equity exposure was increased from 4% to 10%, German exposure from 2.5% to 5%, and a pan-European exposure via the Eurostoxx 50 Index, from 1.5% to 4%. These changes modestly benefited the fund, while exposure to the Taiwanese index also generated a positive return. As market attention moved from US rate pressures to global growth fears, developed market government bonds rallied. The fund's short positions in German and UK government bonds were notable detractors in this environment. In response to these moves, exposure to this theme was increased: short positions in 10-year German and UK government bonds were increased from 20% to 30%. At the same time, a 15% short position in 10-year US Treasuries, which had been closed in the middle of February, was re-opened.

Returns within the fund's currency basket were mixed. The largest detractor was long exposure to the Turkish lira, which weakened relative to the fund's basket of short positions. However, long positions in the Korean won and Mexican peso generally added value against the basket. There were no changes to the portfolio's currency positions during the month.

Outlook

The year to date has demonstrated unstable correlation patterns between developed market government bonds and major equity markets. The rally in government bonds in March illustrated a return to the dynamics that have dominated since the financial crisis, as growth fears re-merged. However, against this background, yields on two-year US Treasuries and LIBOR have continued to rise and the scope for this dynamic to pressure other assets remains significant.

At higher yields, there is arguably a greater propensity for the fund's short government bond positions to rally, as we have just seen. However, with German and UK yields continuing to look deeply unattractive and US Treasuries continuing to face pressures of rising short rates and strong economic data, the vulnerability of these assets appears material. We may have less of a 'quarrel' with 10-year US Treasury valuations (as shown by the decision to close the position in February), but this vulnerability, combined with recent episodic price action, suggested a tactical opportunity had emerged.

While 'trade wars' have the potential to have a significant impact on fundamentals (perhaps most importantly on the nature of the inflationary regime within particular countries and in specific corporate sectors), the immediate price response suggests a degree of myopia and over-emphasis upon a single issue. Rapid price moves and contagion to assets not directly affected by announced tariffs are indicators of an episodic opportunity. From an equity standpoint, adding diversified exposure to markets that generate return from a range of different sources was appropriate.

Recent price action in part also reflects the recent experience of investors. Having suffered from the 're-emergence' of volatility in February and the pricing model uncertainty engendered by rising rates, it is perhaps unsurprising to see a heightened sensitivity to newsflow. The frequent changes in narrative to rationalise price moves (trade wars, softer macro data, sanctions on Russian assets) are legitimate, but also reflect a market trying to grapple with uncertainty. Against this background, the episode approach can be expected to make greater use of shorter-term tactical changes in allocations than was the case in most of 2017.

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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 B-H Acc	GB00B4RGN439	MGMEBHE LN	2,25%	2,44%	€1000	€75
Euro S-H Acc	GB00B5LHB564	MGMESHE LN	1,75%	1,94%	€1.000	€75
Euro T-H Acc	GB00B5LHW198	MGMETHE LN	0,75%	0,94%	€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 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 March 2018, 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 31 March 2018 unless indicated otherwise.

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