Monthly Fund Review

30 April 2017

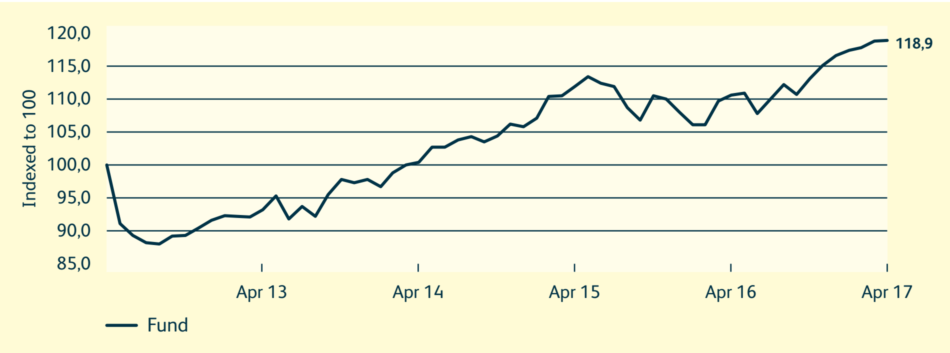
M&G Episode Macro Fund

Euro Class T-H

Summary

- Fund returns were flat over April. Gains from long equity exposures were largely offset by losses arising from short government bond positions.
- There were no changes to the portfolio during the month.
- After month-end, exposure to US and UK banking sector equities was increased.

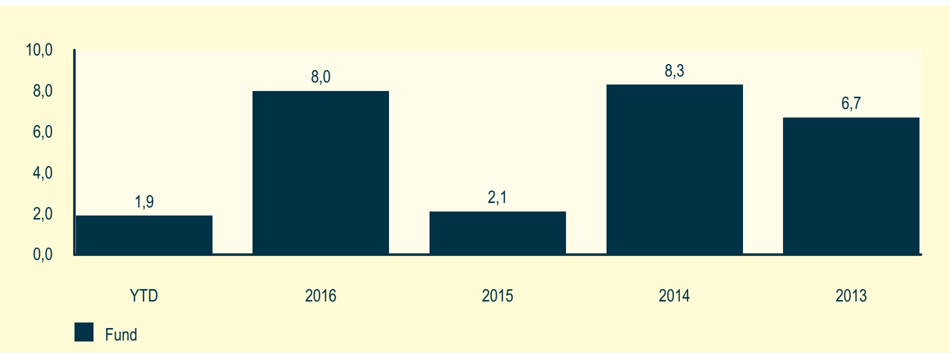
Performance over 5 years



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	-	-	-	-	-	-	-	-	1,9

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.

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)	€273,26
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 %

* 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).

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

170511161343 G1 A1 MAEP EUR TH EN PE 3 0000

VaR analysis (%)

	Fund
1 month 99 % VaR	3,6

VaR numbers are calculated using Algorithmics Software employing RiskMetrics methodology.

Asset breakdown (%)

	Long exposure	Short exposure	Net exposure
Equity	**31,8**	**0,0**	**31,8**
UK	1,0	0,0	1,0
Europe	7,9	0,0	7,9
US	4,4	0,0	4,4
Japan	2,4	0,0	2,4
Asia Pacific ex Japan	16,1	0,0	16,1
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**	**-46,3**	**-46,3**
UK	0,0	-14,3	-14,3
Europe	0,0	-13,9	-13,9
US	0,0	-18,1	-18,1
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	90,5
Mexican peso	7,7
Turkish lira	7,6
Korean won	3,7
South African rand	2,9
Australian dollar	-2,9
Euro	-3,0
Swiss franc	-4,6
Czech Republic koruna	-4,7
Other	2,9

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	-0,1x
Gross leverage	0,8x
Volatility	5,51 %

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 April 2017, sourced from Morningstar.

Performance highlights

The fund was flat in April as gains from long equity exposures were offset by losses arising from short government bond positions. With most asset price movements being relatively muted over recent weeks, there were no changes to the portfolio during the month. However, shortly after month-end there was an increase in long exposure to US and UK bank shares from 5 % to 15 %, bringing total equity exposure in the fund to 41.5 %.

The relative calm of markets in recent weeks continued in April, albeit with modest gains from the portfolio's long equity positions. The most significant positive contributor was a position in Korean equities, while European positions also preformed relatively strongly. The only modest detractors from returns within the fund's equity allocation were positions in Chinese shares listed in Hong Kong and the fund's basket of US and UK banks.

In response to the underperformance of the US banking sector over recent months in spite of very encouraging earnings news, the fund managers took the opportunity to rebuild a position which had been scaled back in November. As well as being attractive in its own right, this theme offers the potential for portfolio diversification should rising bond yields around the world begin to put pressure on equity valuations.

With regard to government bond yields, short exposures to the US, UK and Germany detracted from returns, driven primarily by a short position in 10-year US Treasuries. Despite some market commentary suggesting that this is indicative of a loss of faith in the 'reflation trade', there is little to read into more recent developments. Treasury yields have been relatively range bound since December last year.

There were very slight gains from the fund's currency basket, primarily due to the relatively strong appreciation of the Turkish lira against the low-yielding short positions in the fund. The long lira position had been increased from 3 % to 7.6 % in the middle of January and has since recovered from that 'episode'. However, despite the recovery in spot rates, the positive carry on offer from this position remains elevated and the fund retains its long position. The main detractor from returns came from short exposure to the Czech koruna, which has modestly appreciated since a cap on the currency by the national bank was removed at the start of April.

As we have frequently highlighted in past reports, the fund's currency carry theme need not be correlated with the fund's long equity and short fixed income themes. As has been demonstrated so far in 2017, not only do currencies which have just faced 'episodic' behaviour offer the potential to behave independently as these episodes unwind (for example, in the fund's positions in the Turkish lira and Mexican peso), but falling rate expectations could also prove beneficial for the theme; suggesting possible diversification against losses from short government bond positions.

Outlook

During April, some equity weakness early in the month was interpreted as a waning of faith in the 'reflation trade', while positive performance in the second half was attributed to the removal of tail risk after the first round of the French election. Irrespective of the validity of either of these narratives, price movements have ultimately been modest at best.

More significant in recent weeks has been the strength of the earnings announcements around the world. Calendar year 2017 is on track to see growth in earnings per share across all major regions, something which has only happened seven times since 1990 and not since 2010. This in itself should not be cause to become overexcited: recovery is from a low base in many instances, and although many sectors are participating, the role of commodity prices is significant. What is more interesting from a behavioural standpoint is the extent to which market commentary has tended to overlook these developments in favour of scepticism about the nature of recent equity performance and a belief that some form of a setback is imminent.

A key challenge for investors today is in the assessment of whether many global equity markets look 'expensive' because simplistic valuation metrics are stretched relative to their long-term histories, or 'cheap' because prospective returns suggest significant outperformance over many fixed income assets. The fund managers have long been of the view that market fear of volatility and scepticism over long-term growth prospects suggest that better odds are on offer for backing the latter thesis, particularly as part of a portfolio which is able to directly target the relativity between equities and bonds by shorting areas of the government bond market. From this perspective, the lack of market fervour around strong earnings news is encouraging.

However, with less of a margin of safety in some parts of the equity market, selectivity and a close observation of earnings dynamics will be essential. The forces which have driven strong performance of almost all assets over the past five years look less likely to provide a tailwind from here, and more active portfolio management, including the flexibility to respond to short-term volatility, will be important tools for the generation of returns.

170511161343 G1 A1 MAEP EUR TH EN PE 3 0000

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 April 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 April 2017 unless indicated otherwise.

The value of investments will fluctuate, which will cause fund prices to fall as well as rise and investors may not get back the original amount invested. **For Investment Professionals and Institutional Investors only. Not for onward distribution. No other persons should rely on any information contained within. For Switzerland: Distribution of this document in or from Switzerland is not permissible with the exception of the distribution to Qualified Investors according to the Swiss Collective Investment Schemes Act, the Swiss Collective Investment Schemes Ordinance and the respective Circular issued by the Swiss supervisory authority ("Qualified Investors"). Supplied for the use by the initial recipient (provided it is a Qualified Investor) only.** In Spain the M&G Investment Funds are registered for public distribution under Art. 15 of Act 35/2003 on Collective Investment Schemes as follows: M&G Investment Funds (1) reg. no 390, M&G Investment Funds (2) reg. no 601, M&G Investment Funds (3) reg. no 391, M&G Investment Funds (5) reg. no 972, M&G Investment Funds (7) reg. no 541, M&G Investment Funds (9) reg. no 930, M&G Investment Funds (12) reg. no 1415, M&G Investment Funds (14) reg. no 1243, M&G Global Dividend Fund reg. no 713, M&G Dynamic Allocation Fund reg. no 843, M&G Global Macro Bond Fund reg. no 1056 and M&G Optimal Income Fund reg. no 522, M&G (Lux) Investment Funds 1 reg. no 1551. The collective investment schemes referred to in this document (the "Schemes") are open-ended investment companies with variable capital, incorporated in England and Wales in respect of M&G Investment Funds and in Luxembourg in respect of M&G (Lux) Investment Funds. In the Netherlands, all funds referred to are registered with the Dutch regulator, the AFM. This information is not an offer or solicitation of an offer for the purchase of investment shares in one of the Funds referred to herein. Purchases of a Fund should be based on the current Prospectus. The Instrument of Incorporation, Prospectus, Key Investor Information Document, annual or interim Investment Report and Financial Statements, are available free of charge, in paper form, from the ACD: M&G Securities Limited, Laurence Pountney Hill, London, EC4R 0HH, GB; or one of the following - M&G International Investments Limited, German branch, mainBuilding, Taunusanlage 19, 60325 Frankfurt am Main; the Austrian paying agent: Société Générale Vienna Branch, Zweigniederlassung Wien Prinz Eugen-Strasse, 8-10/5/Top 11 A-1040 Wien, Austria; the Luxembourg paying agent: Société Générale Bank & Trust SA, Centre operational 28-32, place de la Gare L-1616 Luxembourg; the Danish paying agent: Nordea Bank Danmark A/S Issuer Services, Securities Services, Hermes Hus, Helgeshøj Allé 33, Postbox 850, DK-0900, Copenhagen C, Denmark; Allfunds Bank, Calle Estafeta, No 6 Complejo Plaza de la Fuente, La Moraleja, 28109, Alcobendas, Madrid, Spain; M&G International Investments Limited, the French branch; the French centralising agent of the Fund: RBC Investors Services Bank, France; or the Swedish paying agent: Nordea Bank AB (publ), Smålandsgatan 17, 105 71 Stockholm, Sweden, or the Irish facilities agent: Société Générale SA, Dublin Branch, 3rd Floor IFSC House – The IFSC Dublin 1, Ireland. For Switzerland, please refer to M&G International Investments Switzerland AG, Talstrasse 66, 8001 Zurich or Société Générale, Paris, Zurich Branch, Talacker 50, P.O. Box 5070, 8021 Zurich, which acts as the Swiss representative of the Schemes (the "Swiss Representative") and acts as their Swiss paying agent. For Italy, they can also be obtained on the website: www.mandgitalia.it. For Germany and Austria, copies of the Instrument of incorporation, annual or interim Investment Report, Financial Statements and Prospectus are available in English and the Prospectus and Key Investor Information Document/s are available in German. For Greece, they are available in English, except the Key Investor Information Document/s which is available in Greek, from the Greek Representative: Eurobank Ergasias S.A. 8, Othonos Street, 10557 Athens. **Before subscribing you should read the Prospectus,** which includes investment risks relating to these funds. The information contained herein is not a substitute for independent advice.In Switzerland, this financial promotion is issued by M&G International Investments Switzerland AG, authorised and regulated by the Swiss Federal Financial Market Supervisory Authority. Elsewhere, it is issued by M&G International Investments Ltd. Registered Office: Laurence Pountney Hill, London EC4R 0HH, authorised and regulated by the Financial Conduct Authority in the UK. Registered in England No. 4134655 and has a branch located in France, 6 rue Lamennais 34, Paris 75008, registered on the Trade Register of Paris, No. 499 832 400 and a branch in Spain, with corporate domicile at Plaza de Colón 2, Torre II, Planta 14, 28046, Madrid, registered with the Commercial Registry of Madrid under Volume 32.573, sheet 30, page M-586297, inscription 1, CIF W8264591B and registered with the CNMV under the number 79. 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.

Contact M&G

Austria
www.mandg.at

Belgium
www.mandg.be

Denmark
www.mandg.dk

Finland
www.mandg.fi

France
www.mandg.fr

Germany
www.mandg.de

Greece
www.mandg.gr

Ireland
www.mandg-investments.ie

Italy
www.mandgitalia.it

Luxembourg
www.mandg.lu

Netherlands
www.mandg.nl

Norway
www.mandg.no

Portugal
www.mandg.pt

Spain
www.mandg.es

Sweden
www.mandg.se

Switzerland
www.mandg.ch

170511161343 G1 A1 MAEP EUR TH EN PE 3 0000