

Highlights

- The fund delivered a positive return in December.
- Equity positions were the main positive contributors during the month. Currency positions were modestly positive and short government bond positions modestly negative.
- There were no changes to the portfolio.

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.

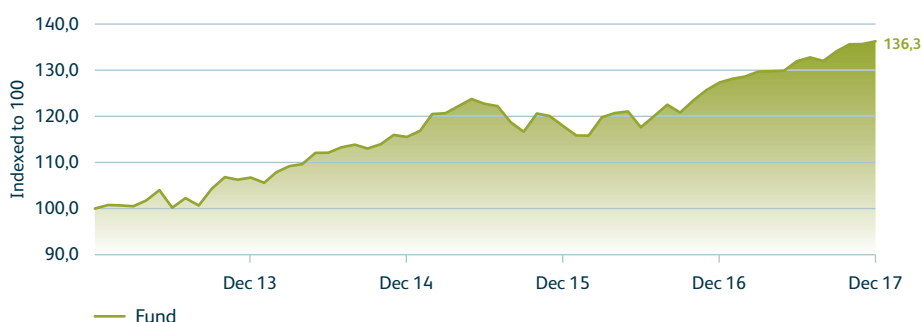
Changes in currency exchange rates will affect the value of your investment.

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 T-H Acc	7,0%	8,0%	2,1%	8,3%	6,7%

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

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 Launch date	4 June 2010
Launch date	3 June 2010
Launch of share class	3 June 2010
Fund size (millions)	€331,50
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	3,3

VaR numbers are calculated using Algorithmics Software employing RiskMetrics methodology.

Asset breakdown (%)

	Long exposure	Short exposure	Net exposure
Equity	48,3	0,0	48,3
UK	2,5	0,0	2,5
Europe	14,9	0,0	14,9
US	12,3	0,0	12,3
Japan	4,9	0,0	4,9
Asia Pacific ex Japan	13,8	0,0	13,8
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	-58,4	-58,4
UK	0,0	-19,6	-19,6
Europe	0,0	-24,3	-24,3
US	0,0	-14,4	-14,4
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	98,9
Korean won	3,6
South African rand	3,2
Turkish lira	3,0
Czech koruna	-3,5
Taiwan dollar	-3,9
Swiss franc	-3,9
Singapore dollar	-3,9
Australian dollar	-4,0
Other	10,6

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	1,1x
Volatility	5,41%

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.

Performance highlights

Equity positions were the main positive contributors during the month, driven primarily by the fund's sector positions in banks and basic resources. Currency exposures were modestly positive and short government bond positions modestly negative.

A relatively material increase in commodity prices was supportive for a number of emerging market equities and currencies into year end. Within the fund's equity basket, a position in the basic resources sector opened in the middle of 2017 saw the largest gains, while a basket of US banking stocks also made a material positive contribution. Against a background of continued strong macro data, most other equity positions in the portfolio also generated a positive return, though there was some weakness in European markets.

Short-dated government bond yields continued to rise in the US, and there were gains from the fund's short positions in longer-dated government bonds there, and in Germany. However, these gains were more than offset by losses to short exposure to UK 10-year gilts. Improving economic data and rising short rates in the US and UK over the course of the year have yet to meaningfully pressure longer parts of the yield curve (the US curve continued to flatten in December) and the fund retains short exposure.

The main trend in currency markets was for modest US dollar weakness versus most major global currencies, including the euro. Within the fund's basket, the South African rand was particularly strong in response to the result of the ANC Presidential election alongside commodity appreciation. Long exposure to the Turkish lira also proved beneficial, though a strengthening Australian dollar resulted in negative returns from the fund's short position.

Outlook

Equity markets have performed well against a background of strong profits data, and an inflationary environment that has allowed most policy makers to remain accommodative. Market sentiment has also been on a journey from extreme pessimism in the first half of 2016 to greater comfort in the state of the world economy today. After such strong price gains, it is natural for investors to be on the lookout for the next setback. Equally, the rapid change in perception of the macro environment means that many are still sceptical about the sustainability of positive news.

There is an element of truth that 'something has to give'. However, this is not about belief that volatility has to increase just because it has been low, or that we are 'due' a recession just because the recovery has been going on for a long time. Rather, it is the crucial nature of short rates in the West that seem likely to play a defining role in the sustainable return on assets over the longer term.

That rising short rates have yet to meaningfully pressure longer-dated government bonds in the West appears to reveal that investors do not believe that higher rates can be sustained. Ultimately, however, short rates will either have to stop rising or begin to pressure the valuation of other assets. In either scenario, investors continue to be rewarded for backing selected equity markets versus developed market government bonds across the curve.

However, selectivity and portfolio construction are becoming increasingly important as selected areas of the equity market have re-rated. Within equity exposures, the fund manager has sought to avoid areas that have been major beneficiaries of the low rate environment by rebalancing in favour of cyclical parts of Asia and the US banking sector. At the same time, exposure to high-yielding currencies has been greater than it otherwise would be, based on an observation that many of these currencies offer potential diversification should falling rates harm short government bond exposures.

Critically, all trades in the portfolio are attractive in their own right. The value-led element of the approach was a key source of return in 2017, in contrast to 2016 in which tactical scaling of exposures were critical. Despite the gains from this approach serving to reduce the extent of the valuation gap between major equity and government bond markets, the value misalignment continues to look compelling from a medium-term perspective.

Two challenges to these valuation observations are a sustained fall in earnings or an unexpected and material rise in inflation. At present, the environment seems to be supportive rather than detrimental in this regard, though with the valuation of risk assets less compelling in many cases there is less margin of safety against these risks. Of course, shorter-term volatility could emerge from a range of unpredictable sources at any time, but without these forces, such volatility is likely to represent investment opportunities rather than sustained threats to longer-term returns.

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%	2,45%	€1000	€75
Euro S-H Acc	GB00B5LHB564	MGMESHE LN	1,75%	1,95%	€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 30 June 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 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 December 2017 unless indicated otherwise. **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"). 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