

M&G European Strategic Value Fund - Euro Class A

Monthly Fund Review as at 31 December 2017

For investment professionals only



Highlights

- European equities rose in December to extend their gains for the year. Value as a style underperformed.
- The fund was behind the MSCI Europe Index, with stock selection in information technology detracting. However, stock selection in consumer discretionary added value.
- Fund Manager Richard Halle added to a number of existing holdings, including Kosmos Energy, an oil & gas exploration company, and Chemring, a UK defence firm.

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.

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	10,7%	3,5%	10,0%	6,6%	26,1%

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	+0,5	+2,0	+10,7	+10,7	+8,0	+11,1	+5,6	+5,6
Index	+0,8	+0,7	+10,9	+10,9	+7,6	+10,0	+5,1	+5,1
MSCI Europe Value Index	+0,6	+0,2	+9,0	+9,0	+6,1	+9,2	#N/A	#N/A
Sector	+0,6	+0,0	+9,3	+9,3	+7,5	+10,0	+4,1	+4,1
Ranking	13/28	5/28	9/28	9/28	11/26	6/25	3/19	3/19
Quartile ranking	2	1	2	2	2	1	1	1

Past performance is not a guide to future performance.

On 1 January 2012, the fund's comparative index changed.

Past performance shown from 1 February 2008 to 31 December 2011 is the FTSE World Europe Index. Past performance shown from 01 January 2012 is the MSCI Europe Index.

Things you should know

The fund invests mainly in company shares and is therefore more likely to be subject to sudden and large falls in value than funds that invest in bonds and/or cash. As a result, you could lose the total value of your initial investment.

Key information

Fund manager	Richard Halle
Fund manager tenure from	1 February 2008
Deputy fund manager	Daniel White
Launch date	1 February 2008
Launch of share class	1 February 2008
Fund size (millions)	€2.597,05
Fund type	OEIC, incorporated in the UK
Comparative index	MSCI Europe
Comparative sector	Morningstar Europe Large-Cap Value Equity sector
Number of companies	89
Historic yield (Acc)	1,05%
Portfolio turnover over 12 months	21,7%
Share type	Accumulation
Ongoing charge	1,66%

The historic yield reflects distributions declared over the past twelve months as a percentage of the mid-market price, as at the date shown above. It does not include any preliminary charge and investors may be subject to tax on their distributions.

Fund ratings

Overall Morningstar rating ★★★★
Morningstar Analyst rating Bronze

Source of Morningstar ratings: Morningstar, as at 30 November 2017

Ratings should not be taken as a recommendation.

Risk characteristics

As at 30/11/17	
Alpha (%)	2,57
Information ratio	0,72
Sharpe ratio	1,35
Historic tracking error (%)	3,23
Beta	0,92
Standard deviation (%)	8,47
Forecast tracking error (active risk, %)	2,74
Active share	80,93

Alpha: Portfolio return less comparative index return, annualised.

Information ratio: Risk-adjusted relative return, measured as the ratio of active return (difference between portfolio return and index return), divided by tracking error (standard deviation of active returns).

Sharpe ratio: Risk-adjusted absolute return, measured as the ratio of portfolio excess return (difference between mean portfolio return and the risk-free rate) divided by the standard deviation of portfolio returns.

Historic tracking error: Measure of the actual deviation of portfolio returns from comparative index returns. These four risk measures are calculated using realised, rolling, three-year fund returns.

Beta: Forecast sensitivity of portfolio returns to the comparative index. **Standard deviation:** Forecast absolute volatility of portfolio returns.

Forecast tracking error (active risk): Forecast standard deviation of a portfolio's returns relative to its comparative index. **Active share:** Sum of overweight and underweight positions within the portfolio away from the comparative index, divided by two. These four risk measures are calculated with reference to the returns of underlying securities portfolios, not fund returns. Numbers are based on four years of daily data using a 3-6 month horizon.

Industry breakdown (%)

	Fund	Index	Relative weight
Financials	16,8	21,0	-4,1
Industrials	13,8	13,2	0,6
Consumer discretionary	12,5	10,5	2,0
Energy	11,8	7,4	4,5
Healthcare	9,8	12,2	-2,4
Consumer staples	7,8	13,7	-5,9
Materials	6,6	8,4	-1,8
Telecommunications	4,3	3,8	0,5
Information technology	4,2	5,0	-0,8
Real estate	2,9	1,4	1,6
Utilities	2,9	3,6	-0,6
Other	0,8	0,0	0,8
Cash and near cash	5,6	0,0	5,6

Largest holdings (%)

	Fund	Index	Relative weight
Novartis	3,1	2,0	1,2
BP	3,1	1,5	1,6
Royal Dutch Shell	2,4	2,9	-0,5
Volkswagen	2,3	0,5	1,8
Total	1,9	1,4	0,6
AstraZeneca	1,9	0,9	1,0
Bank of Ireland Group	1,7	0,1	1,6
Securitas	1,7	0,1	1,6
Lloyds Banking Group	1,7	0,7	1,0
J Sainsbury	1,7	0,1	1,6

Largest overweights (%)

	Fund	Index	Relative weight
Volkswagen	2,3	0,5	1,8
Securitas	1,7	0,1	1,6
BP	3,1	1,5	1,6
J Sainsbury	1,7	0,1	1,6
Bank of Ireland Group	1,7	0,1	1,6
Buzzi Unicem	1,5	0,0	1,5
Hornbach	1,5	0,0	1,5
Deutsche Lufthansa	1,5	0,1	1,4
Britvic	1,4	0,0	1,4
Outokumpu	1,4	0,0	1,4

Largest underweights (%)

	Fund	Index	Relative weight
Nestle	0,0	2,8	-2,8
HSBC	0,0	2,2	-2,2
Roche	0,0	1,9	-1,9
Unilever	0,0	1,7	-1,7
BAT	0,0	1,6	-1,6
SAP	0,0	1,2	-1,2
Siemens	0,0	1,1	-1,1
Banco Santander	0,0	1,1	-1,1
Allianz	0,0	1,1	-1,1
BASF	0,0	1,1	-1,1

Country breakdown (%)

	Fund	Index	Relative weight
UK	27,5	28,0	-0,5
Germany	13,8	15,5	-1,7
France	12,0	16,2	-4,3
Netherlands	7,9	5,5	2,3
Finland	7,3	1,5	5,8
Switzerland	5,5	12,6	-7,1
Ireland	3,7	0,8	2,9
Norway	3,4	1,0	2,3
Other	13,4	18,9	-5,5
Cash and near cash	5,6	0,0	5,6

Capitalisation breakdown (%)

	Fund	Index	Relative weight
> €50 billion	26,4	46,9	-20,5
€25 - €50 billion	5,6	19,4	-13,8
€5 - €25 billion	16,2	29,9	-13,7
€2.5 - €5 billion	23,7	3,5	20,2
< €2.5 billion	22,5	0,2	22,3
Cash	5,6	0,0	5,6

Commentary

European equities ended 2017 on a positive note with further gains in December. Investor sentiment was supported by the region's ongoing economic recovery, the agreement of a deal between the UK and the European Union, and the approval of tax reforms in the US. The MSCI Europe Index gained 0.8%, in euro terms, taking returns for the year to 10.9%.

In terms of sectors, energy and materials were the best-performing areas. Copper prices rose while oil prices continued to recover as a major pipeline in the North Sea was shut down. Output cuts by leading producers are also expected to help the oil market rebalance. Elsewhere, real estate outperformed, with a number of UK property firms gaining on the Brexit negotiations.

In contrast, defensive areas such as telecoms and utilities were laggards. Information technology also underperformed as investors rotated away from the sector after gains earlier in the year.

In terms of style, 'value' trailed the broader market and growth stocks. Over the whole of 2017, value was around two percentage points behind the MSCI Europe Index.

Against this backdrop, the fund delivered positive returns but lagged the MSCI Europe Index. Stock selection in information technology was negative, with the holdings in Nokia and Neopost detracting from relative performance.

Shares in Nokia, a Finnish telecom network equipment maker, continued their recent slide following the company's warning in October about challenging market conditions. The industry is experiencing weak demand as investment in new networks such as 5G is expected to be some time away.

Meanwhile, the share price of Neopost, a French mailing solutions firm, declined after the company reported disappointing results. Investors were concerned about Neopost's progress in shifting away from its declining traditional mailing business area to new digital activities.

Elsewhere, the holding in Kosmos Energy, a US oil company with assets in Africa, was a drag on relative performance as the stock fell on a disappointing exploration update. Shares in Innogy, a German energy group, also dropped after a profit warning.

On a positive note, stock selection in consumer discretionary added value. The holding in Ladbrokes Coral, a UK bookmaker, was a leading contributor as the stock rallied after the company agreed to be taken over by an online rival. The deal provided a boost to William Hill, another UK bookmaker in the portfolio, as the company's share price advanced on expectations of further consolidation in the sector.

As oil prices climbed to their highest level since 2015, a number of the fund's energy holdings made positive contributions. BP, a global oil firm, Petroleum Geo-Services, a Norwegian provider of marine seismic services to the oil industry, and Tullow Oil, a UK oil & gas explorer, all outperformed.

Key changes

There were no new holdings or complete sales during the month. However, Fund Manager Richard Halle added to several existing positions, most notably Kosmos Energy after the share price fall. In his view, Kosmos is in a healthy financial position and has some attractive oil exploration prospects. He also bought more shares in Chemring, a UK provider of defence equipment, and Next, a UK retailer.

In terms of sales, the fund manager reduced the position in Fnac Darty, a French retailer. The stock has risen after news of a purchasing agreement with a rival retailer to cut costs. He also sold some shares in Livanova, a UK medical devices firm, which has outperformed lately.

Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A Acc	GB00B28XT522	MGEUSAE LN	1,50%	1,66%	€1.000	€75
Euro C Acc	GB00B28XT639	MGEUSCA LN	0,75%	0,91%	€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 July 2017.

Please note that not all of the share classes listed above might be available in your country.

Important information

Cash and near cash may be held on deposit and/or in the Northern Trust Cash Funds (a range of collective investment schemes) and/or in short-dated government bonds.

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. The Morningstar Overall Rating based on the fund's Euro Class A shares. Copyright © 2018 Morningstar UK Limited. All Rights Reserved. Ratings should not be taken as recommendation.

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