

M&G Pan European Dividend Fund - Euro Class A

Monthly Fund Review as at 31 December 2017

For investment professionals only



Highlights

- The fund's returns were positive, but marginally behind the MSCI Europe Index as a result of market timing differences.
- Golar LNG, Methanex and BP added value in a market led higher by materials and energy, although DS Smith gave back November's gains.
- There were no new purchases or complete sales during the month, but the fund manager added to a number of existing holdings, including British American Tobacco.

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.

The fund holds a relatively small number of investments and, as a result, may experience larger price rises and falls than a fund which holds a larger number of investments.

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	13,2%	-4,3%	18,2%	5,5%	20,2%

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	+0,6	+0,6	+13,2	+13,2	+8,6	+10,2	+10,5	+6,7
Index	+0,8	+0,7	+10,9	+10,9	+7,6	+10,0	+10,3	+6,8
Sector	+0,4	+0,4	+7,9	+7,9	+5,2	+8,2	+8,4	+5,3
Ranking	10/28	10/28	1/28	1/28	1/26	4/23	3/22	3/13
Quartile ranking	2	2	1	1	1	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 18 July 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	Phil Cliff
Fund manager tenure from	2 April 2012
Deputy fund managers	Sam Ford
Launch date	18 July 2008
Launch of share class	18 July 2008
Fund size (millions)	€191,54
Fund type	OEIC, incorporated in the UK
Comparative index	MSCI Europe
Comparative sector	Morningstar Europe Equity-Income sector
Number of companies	38
Historic yield (Acc)	2,61%
Historic yield (Inc)	3,89%
Share type	Acc & Inc
Ongoing charge	1,68%

The historic yield reflects distributions declared over the past 12 months as a percentage of the share price, as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions. The fund's charging policy has recently changed and, rather than being decided at fund level, certain charges are now deducted from income for accumulation share classes and from capital for income share classes. These charges include the annual management charge, administration fee and share class hedging fee (for hedged share classes). To ensure that yields quoted are representative of the fund's charging policy, for some share classes an estimated historic yield is shown. This is based on the historic yield, but adjusted for the impact of the new charging policy. This adjustment will be applied until distributions have been declared for a full year after the changes, from which time the historic yield will again be on the same basis as the distributions. For the fund's Euro Class A income shares, the policy of deducting certain charges from capital has the effect of increasing distribution(s) for the year by 1,68% and constraining capital performance to an equivalent extent.

Fund ratings

Overall Morningstar rating **★★★★**
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 (%)	3,23
Information ratio	0,69
Sharpe ratio	1,34
Historic tracking error (%)	4,22
Beta	0,90
Standard deviation (%)	8,33
Forecast tracking error (active risk, %)	3,22
Active share	86,85

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
Industrials	25,0	13,2	11,8
Consumer discretionary	19,1	10,5	8,6
Financials	18,3	21,0	-2,7
Healthcare	12,0	12,2	-0,2
Consumer staples	9,5	13,7	-4,2
Materials	7,9	8,4	-0,4
Energy	4,8	7,4	-2,5
Real estate	2,7	1,4	1,3
Information technology	1,8	5,0	-3,2
Telecommunications	0,0	3,8	-3,8
Utilities	0,0	3,6	-3,6
Cash and near cash	-1,1	0,0	-1,1

Largest holdings (%)

	Fund	Index	Relative weight
BAT	4,6	1,6	3,0
Siemens	3,9	1,1	2,8
Roche	3,8	1,9	1,9
Erste Group Bank	3,5	0,1	3,4
Essentra	3,5	0,0	3,5
Bureau Veritas	3,4	0,1	3,4
Sampo	3,4	0,3	3,2
BP	3,2	1,5	1,8
Volkerwessels	3,2	0,0	3,2
Legrand	3,1	0,2	2,8

Largest overweights (%)

	Fund	Index	Relative weight
Essentra	3,5	0,0	3,5
Erste Group Bank	3,5	0,1	3,4
Bureau Veritas	3,4	0,1	3,4
Volkerwessels	3,2	0,0	3,2
Sampo	3,4	0,3	3,2
BAT	4,6	1,6	3,0
IMI	3,0	0,1	2,9
DS Smith	2,9	0,0	2,9
Legrand	3,1	0,2	2,8
Siemens	3,9	1,1	2,8

Largest underweights (%)

	Fund	Index	Relative weight
Royal Dutch Shell	0,0	2,9	-2,9
Nestle	0,0	2,8	-2,8
HSBC	0,0	2,2	-2,2
Unilever	0,0	1,7	-1,7
Total	0,0	1,4	-1,4
SAP	0,0	1,2	-1,2
Banco Santander	0,0	1,1	-1,1
Allianz	0,0	1,1	-1,1
Bayer	0,0	1,1	-1,1
BASF	0,0	1,1	-1,1

Country breakdown (%)

	Fund	Index	Relative weight
UK	35,6	28,0	7,6
Finland	9,0	1,5	7,5
Germany	8,3	15,5	-7,2
Sweden	7,6	4,2	3,4
Switzerland	6,7	12,6	-6,0
France	6,5	16,2	-9,7
Netherlands	6,1	5,5	0,6
Denmark	5,7	2,9	2,9
Other	15,5	13,6	1,9
Cash and near cash	-1,1	0,0	-1,1

Capitalisation breakdown (%)

	Fund	Index	Relative weight
> €50 billion	28,9	46,9	-18,1
€25 - €50 billion	9,7	19,4	-9,7
€5 - €25 billion	28,7	29,9	-1,2
€2.5 - €5 billion	16,3	3,5	12,8
< €2.5 billion	17,5	0,2	17,3
Cash	-1,1	0,0	-1,1

Commentary

European equities ended 2017 on a positive footing, with the MSCI Europe Index generating solid gains in December. Materials and energy were the best-performing sectors as commodity prices rose, while real estate and consumer discretionary were the only other outperformers of note. Meanwhile, utilities led the detractors after a profit warning from Innogy dragged down its parent company RWE.

Against this background, the fund's returns were positive, but marginally behind the MSCI Europe Index as a result of market timing differences. The fund is priced at midday in London, in contrast to the index, which is priced at the end of the trading day.

Golar LNG, Methanex and BP were prominent among the top 10 contributors in a positive environment for commodity-related businesses. The value they added, however, was partially offset by the fund's zero exposure to Rio Tinto, BHP Billiton and Glencore, all of which returned more than 10% during the month.

Danish jewellery company Pandora continued to rally from distressed levels. The shares are more than 20% higher compared to their November low, after it emerged that short positions in the stock had been reduced and the chief executive's comments that the market was ignoring the company's operational progress. The fund manager continues to believe that the stock is significantly undervalued.

Stock selection was positive in financials where NewRiver REIT and Banca IFIS added value, closely followed by Hiscox and Sampo in insurance. Industrials benefited from the strong performance of IMI and Kone, while AstraZeneca and Novo Nordisk bucked the negative trend in an underperforming healthcare sector.

Turning to the detractors, DS Smith gave back November's gains despite reporting a solid set of half-year results. The packaging company remains optimistic about the opportunities for growth, both in Europe and North America, and the shares look attractively valued on a dividend yield of 3%. The stock remains a core holding.

CTS Eventim also had a difficult month after being the top performer in November. The German regulator banned the ticketing company from signing exclusive contracts with promoters and box offices, a decision which the company is seeking to overturn. NOS, the Portuguese media group which returned 11% last month, also succumbed to profit-taking.

Key changes

There were no new purchases or complete sales during the month, but the fund manager added to the holding in British American Tobacco in order to narrow a large underweight in consumer staples. He continues to struggle with valuations in many parts of the sector, particularly food and beverages, which continue to look expensive.

The fund manager also bought more shares in Countryside Properties, a UK housebuilder and urban regeneration specialist, and NewRiver REIT, a real estate investor focusing on the UK retail and leisure sector. Both companies reported results in November which showed continued growth in their business models. The fund manager also added to the position in Legrand, a French industrials group, which raised its full-year target last month.

The number of holdings remained at 38, consistent with the fund manager's aim of providing a concentrated portfolio of best ideas.

Dividend announcements

DS Smith reported a 7% increase in its interim dividend, consistent with its policy of progressive payments.

Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A Acc	GB00B39R4H73	MGPEAAE LN	1,50%	1,68%	€1.000	€75
Euro A Inc	GB00B955DL47	MGPEAIN LN	1,50%	1,68%	€1.000	€75
Euro B Inc	GB00BDCQMN38	MGPEEBA LN	2,00%	2,18%	€1.000	€75
Euro B Acc	GB00BDCQN633	MGPEBAE LN	2,00%	2,18%	€1.000	€75
Euro C Acc	GB00B39R4J97	MGPECAE LN	0,75%	0,93%	€500.000	€50.000
Euro C Inc	GB00BK6MBZ10	MGPECIE LN	0,75%	0,93%	€ 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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