

M&G Global Listed Infrastructure Fund - Sterling Class I

Monthly Fund Review as at 31 December 2017

For investment professionals only



Highlights

- Companies in the 'economic' class of infrastructure added the most value, followed by those in the 'Social' segment.
- The fund manager divested the holding in Innergex Renewable Energy and initiated a position in Ørsted.
- There was dividend growth across the portfolio, led by Coresite (+23% for the year).

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.

The fund will invest in emerging markets which are generally more sensitive to economic and political factors, and where investments are less easily bought and sold. In exceptional circumstances, the fund may encounter difficulties when selling or collecting income from these investments, which could cause the fund to incur a loss. In extreme circumstances, it could lead to the temporary suspension of dealing in shares in the fund.

Further risk factors that apply to the fund can be found in the fund's Key Investor Information Document (KIID).

Things you should know

The fund invests mainly in company shares and is therefore likely to experience larger price fluctuations than funds that invest in bonds and/or cash.

Capitalisation breakdown (%)

	Fund	Index	Relative weight
Mega cap (> \$50bn)	20.7	51.8	-31.1
Large cap (\$10 - \$50bn)	33.3	34.2	-0.9
Mid cap (\$2 - \$10bn)	38.9	12.4	26.5
Small cap (< \$2bn)	6.8	1.7	5.1
Cash and near cash	0.3	0.0	0.3

Currency breakdown (%)

	Fund
US dollar	37.3
Canadian dollar	15.1
British pound	14.9
Euro	13.8
Hong Kong dollar	7.4
Australian dollar	4.2
Danish krone	2.5
Singapore dollar	2.5
Swiss franc	1.2
Other	1.0

Commentary

Holdings in the 'economic' class of infrastructure added the most value in December, followed by those in the 'social' segment. The 'evolving' class was broadly flat for the month, pausing from its outperformance in November and thereby once again demonstrating the advantages of investing across the three categories of infrastructure.

Against this background, energy infrastructure companies Gibson Energy, Enbridge and ONEOK were among the leading performers as investor sentiment in energy markets improved. Enbridge's share price gains were supported by the company's comprehensive investor day in December, and stated confidence in its dividend growth projections (10% annual growth until 2020).

Elsewhere in the 'Economic' class, Union Pacific extended its gains from December as it benefited from the market rotation within railway names and news that the Senate had passed US tax reform. Market sentiment towards transportation infrastructure companies Hopewell Highway Infrastructure and Ferrovial improved in December and the stocks recovered from recent weakness.

Unite Group, the UK's leading manager and developer of student accommodation, led the gains in the 'social' segment. The market continued to raise its expectations for the business's growth in December, buoyed in part by the company's announcement of the acquisition of an 885-bed site in Oxford.

In contrast, the share price of Edison International, the US electricity utility, fell dramatically after news broke of California wildfires encroaching on Edison's service area. In the fund manager's view, this event is typical of the market's short-sightedness, and its likely effect on long-term business performance will be much smaller than the extent of the stock's de-rating would imply. He therefore took advantage of the weakness to add to the holding.

It was a difficult month for utilities businesses in general, as buoyant market sentiment turned against this sector and its perceived defensiveness. Atmos Energy, the US natural gas distribution business, and Elia System Operator, the Belgian electricity transmission company, both struggled in this context. The fund manager added to both holdings on weakness. This decision was rewarded when Elia System Operator recovered some of its losses in the second half of the month after announcing its participation in a large EU electricity interconnector project.

Key changes

The fund manager completed the sale of the holding in Innergex Renewable Energy during the month after the company's surprise announcement of plans to take over a rival Canadian renewable energy business November. He was not convinced by the company's financial rationale for this takeover and started selling the holding as soon as it was announced.

Subsequently, the fund manager initiated a position in Ørsted, the Danish renewable energy company. Ørsted is a global leader in offshore wind, the fastest-growing form of renewable power generation, giving it tangible benefits of scale and expertise. The company's long-life offshore wind assets are governed by long-term contracts and have significant underlying growth potential – both for the project pipeline

Key information

Fund manager	Alex Araujo
Fund manager tenure from	5 October 2017
Deputy fund manager	John Weavers
Launch date	5 October 2017
Launch of share class	5 October 2017
Fund size (millions)	£7.86
Fund type	OEIC, incorporated in the UK
Comparative index	MSCI All Countries World Index
Comparative sector	IA Global sector
Number of companies	43
Portfolio turnover over 12 months	n/a
Share type	Acc & Inc
Payment dates	Feb, May, Aug, Nov
Ex-dividend dates	Jan, Apr, Jul, Oct
Ongoing charge	0.94%

Industry breakdown (%)

	Fund
Utilities	31.5
Transport	20.7
Energy	15.2
Communications	9.8
Education	6.6
Health	5.8
Transactional	4.8
Royalty	5.4
Cash and near cash	0.3

Largest holdings (%)

	Fund	Index	Relative weight
Vinci	3.9	0.1	3.8
Ferrovial	3.5	0.0	3.5
CK Infrastructure	3.5	0.0	3.4
Keyera	3.4	0.0	3.4
Atmos Energy	3.4	0.0	3.3
National Grid	3.3	0.1	3.2
Gibson Energy	3.3	0.0	3.3
Oneok	3.0	0.0	2.9
John Laing Infrastructure Fund	3.0	0.0	3.0
Union Pacific	2.9	0.2	2.7

Country breakdown (%)

	Fund	Index	Relative weight
US	37.3	52.5	-15.2
Canada	15.1	3.1	11.9
UK	14.6	5.8	8.8
Hong Kong	7.4	3.7	3.7
Spain	5.7	1.1	4.6
Australia	4.2	2.3	2.0
France	3.9	3.4	0.5
Belgium	2.9	0.4	2.6
Other	8.6	27.8	-19.2
Cash and near cash	0.3	0.0	0.3

and for financial returns – which the fund manager does not think is fully reflected in the stock's valuation. The market's mispricing of long-term option value in infrastructure businesses is a phenomenon that we observe frequently, often providing attractive buying opportunities.

In addition to adding to Edison International, Atmos Energy and Elia System Operator on weakness, the fund also participated in an entitlement offering by Transurban, the Australian toll road company. The equity placing was associated with the industry-leading company announcing finalised terms on the Westgate Tunnel project in Melbourne, a significant infrastructure growth project for the Transurban. The long-life concession, which runs until the year 2045, includes a healthy 4.25% per annum toll growth over its first 10 years of operation. The fund currently has 43 holdings. The weighting in the 'economic' infrastructure class stands at 67%, the weighting of the 'social' sphere 12%, and the weighting of the 'evolving' segment 20%.

Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Sterling A Acc	GB00BF00RC53	MGLIGAA LN	0.95%	1.14% *	£500	£100
Sterling A Inc	GB00BF00RB47	MGLIGAI LN	0.95%	1.14% *	£500	£100
Sterling I Acc	GB00BF00R928	MGLIGIA LN	0.75%	0.94% *	£500,000	£10,000
Sterling I Inc	GB00BF00R811	MGLIGII LN	0.75%	0.94% *	£500,000	£10,000
Sterling L Acc	GB00BF00R696	MGLIGLA LN	0.50%	0.69% *	£20,000,000	£50,000
Sterling L Inc	GB00BF00R704	MGLIGLI LN	0.50%	0.69% *	£20,000,000	£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 27 July 2017.

* The ongoing charge figure shown here is an estimate. The Fund's annual report for each financial year will include details of the exact charges made.

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.

All statistics from M&G internal sources, as at 31 December 2017 unless indicated otherwise.

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