Quarterly Review

M&G (Lux) Global Dividend Fund

First quarter 2019

Fund manager – Stuart Rhodes

FOR INVESTMENT PROFESSIONALS ONLY

M&G INVESTMENTS

Summary

- The fund delivered a positive return and outperformed the MSCI ACWI Net Return Index as stock selection added value across a variety of sectors.
- We bought shares in **Constellation Brands** in consumer staples and sold the holdings in **Novo Nordisk** (healthcare) and **Compass Group** (consumer discretionary).
- The reporting season saw continued dividend growth across the portfolio with the majority in the 5-15% range, including **Union Pacific, Roche** and **Arthur J Gallagher. ASML** was responsible for the largest dividend increase with a 50% hike.

Main risks associated with this fund:

For any past performance shown, please note that past performance is not a guide to future performance.

The value and income from the fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.

The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.

The fund holds a small number of investments, and therefore a fall in the value of a single investment may have a greater impact than if it held a larger number of investments.

Investing in emerging markets involves a greater risk of loss due to greater political, tax, economic, foreign exchange, liquidity and regulatory risks, among other factors. There may be difficulties in buying, selling, safekeeping or valuing investments in such countries.

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.

Important information

On 7 December 2018 the non-sterling assets of the M&G Global Dividend Fund, a UK-authorised OEIC which launched on 18 July 2008, merged into the M&G (Lux) Global Dividend Fund, a Luxembourg-authorised SICAV, which launched on 18 September 2018. The SICAV is run by the same fund manager, applying the same investment strategy, as the UK-authorised OEIC.

GDIF-Q1-2019

Quarterly, YTD and calendar year performance (5 years)

	3 months %	YTD %	2018 %	2017 %	2016 %	2015 %	2014 %
Euro A	15.0	15.0	-8.7	8.4	19.3	-2.3	9.2
Index	14.2	14.2	-4.5	9.5	11.7	9.3	19.2
Sector	12.1	12.1	-6.4	4.2	8.0	9.1	16.7

Please note, not all share classes are necessarily available in all jurisdictions.

Past performance is not a guide to future performance.

Source: Morningstar Inc., as at 31 March 2019, EUR A class shares, income reinvested, price-to-price basis.

Fund performance prior to 20 September 2018 is that of the EUR A class share of the M&G Global Dividend Fund, a UK-authorised OEIC, which merged into this fund on 7 December 2018. Tax rates and charges may differ.

	3 months %	YTD %	2018 %	2017 %	2016 %	2015 %	2014 %
US Dollar A	12.8	12.8	-12.8	23.1	15.7	-12.4	-3.6
Index	12.2	12.2	-9.1	24.6	8.5	-1.8	4.7
Sector	10.1	10.1	-10.9	18.6	4.9	-2.1	2.5

Source: Morningstar Inc., as at 31 March 2019, USD A class shares, income reinvested, price-to-price basis.

Fund performance prior to 20 September 2018 is that of the USD A class share of the M&G Global Dividend Fund, a UK-authorised OEIC, which merged into this fund on 7 December 2018. Tax rates and charges may differ.

Index: MSCI ACWI Net Return Index. The Comparative index shown is Net Return from 20 September 2018 and Gross Return prior to this date. Net Return indices include dividends after the deduction of withholding taxes.

Sector: Morningstar Global Equity Income.

Performance attribution and positioning

Largest positive contributors 3 months			
Stock	Relative weight %	Absolute return %	Contribution %
Gibson Energy	6.1	27.1	0.9
Methanex	8.2	18.6	0.4
Keyera	2.2	26.2	0.3

Largest positive contributors YTD			
Stock	Relative weight %	Absolute return %	Contribution %
Gibson Energy	6.1	27.1	0.9
Methanex	8.2	18.6	0.4
Keyera	2.2	26.2	0.3

Largest negative contributors 3 months			
Stock	Relative weight %	Absolute return %	Contribution %
Trinseo	4.7	-0.3	-0.6
Unitedhealth Group	2.8	-0.6	-0.4
Imperial Logistics	1.2	-10.6	-0.3

Largest negative contributors YTD			
Stock	Relative weight %	Absolute return %	Contribution %
Trinseo	4.7	-0.3	-0.6
Unitedhealth Group	2.8	-0.6	-0.4
Imperial Logistics	1.2	-10.6	-0.3

Source: Factset, investment returns calculated in sterling, as at 31 March 2019, preliminary data. Performance contribution includes both stocks held and not held, and weighting shown is relative to MSCI ACWI Index.

Largest overweights (%)			
	Fund	Index	Relative
Methanex	8.3	0.0	8.3
Gibson Energy	6.6	0.0	6.6
Imperial Brands	5.9	0.1	5.8
Trinseo	4.5	0.0	4.5
Arthur J Gallagher	3.9	0.0	3.9
Roche	3.6	0.4	3.2
Amcor	2.9	0.0	2.9
Novartis	3.1	0.5	2.7
Unitedhealth Group	3.2	0.5	2.6
Broadcom Inc	2.8	0.3	2.5

Largest underweights (%)			
	Fund	Index	Relative
Apple	0.0	2.0	-2.0
Amazon	0.0	1.6	-1.6
Alphabet	0.0	1.6	-1.6
Facebook	0.0	0.9	-0.9
Exxon Mobil	0.0	0.8	-0.8
Nestle	0.0	0.6	-0.6
Tencent	0.0	0.6	-0.6
Royal Dutch Shell	0.0	0.6	-0.6
Berkshire Hathaway	0.0	0.6	-0.6
Procter & Gamble	0.0	0.6	-0.6

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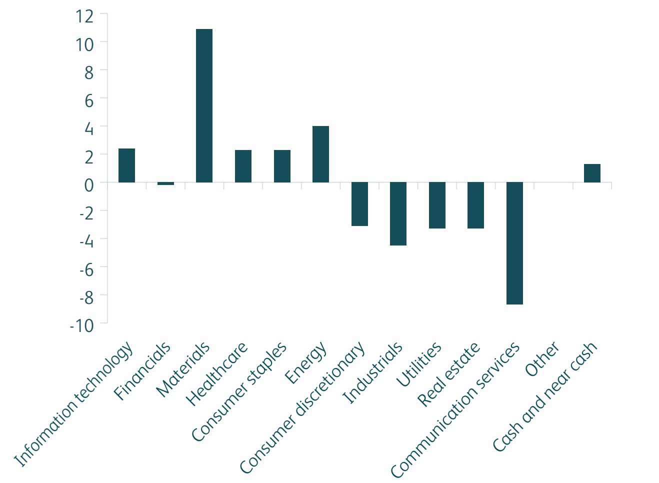
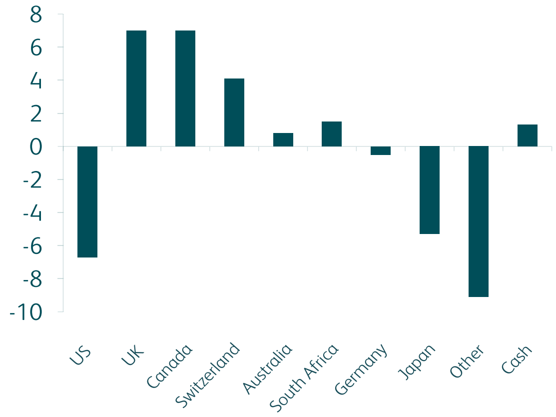
Industry breakdown (%)	Fund (start)	Fund (end)	Change	Index (end)	Relative
Information technology	19.1	18.1	-0.9	15.7	2.4
Financials	18.8	16.4	-2.4	16.6	-0.2
Materials	14.0	15.7	1.7	4.8	10.9
Healthcare	15.9	13.9	-1.9	11.7	2.3
Consumer staples	8.0	10.6	2.7	8.4	2.3
Energy	9.0	10.3	1.3	6.3	4.0
Consumer discretionary	7.1	7.7	0.6	10.7	-3.1
Industrials	6.2	6.0	-0.3	10.4	-4.5
Utilities	0.0	0.0	0.0	3.3	-3.3
Real estate	0.0	0.0	0.0	3.3	-3.3
Communication services	0.0	0.0	0.0	8.7	-8.7
Other	1.3	0.0	-1.3	0.0	0.0
Cash and near cash	0.6	1.3	0.7	0.0	1.3

Weights relative to index (%)



Country breakdown (%)	Fund (start)	Fund (end)	Change	Index (end)	Relative
US	49.8	48.6	-1.2	55.3	-6.7
UK	11.7	12.2	0.5	5.2	7.0
Canada	8.8	10.0	1.2	3.0	7.0
Switzerland	7.1	6.7	-0.4	2.6	4.1
Australia	2.7	2.9	0.2	2.1	0.8
South Africa	2.5	2.2	-0.3	0.7	1.5
Germany	0.0	2.1	2.1	2.6	-0.5
Japan	0.0	1.9	1.9	7.2	-5.3
Other	16.8	12.1	-4.7	21.1	-9.1
Cash	0.6	1.3	0.7	0.0	1.3

Weights relative to index (%)



Capitalisation breakdown (%)	Fund (start)	Fund (end)	Change	Index (end)	Relative
Mega cap (> $50bn)	49.1	44.4	-4.7	53.2	-8.8
Large cap ($10 - $50bn)	23.5	23.7	0.2	36.7	-13.0
Mid cap ($2 - $10bn)	14.5	23.7	9.2	9.8	13.9
Small cap (< $2bn)	12.4	7.0	-5.4	0.1	6.8
Cash	0.6	1.3	0.7	0.0	1.3

Weights relative to index (%)

Source of all portfolio data: M&G, as at 31 March 2019. Index: MSCI ACWI.

Market review

Global equities recovered strongly and recouped most of their losses from the fourth quarter of 2018. The MSCI ACWI Index recorded its best quarter since 2010, with the US driving the gains. The NASDAQ Composite Index returned 17% in US dollars. Asia Pacific ex Japan rallied as China outperformed, but still failed to keep up with the MSCI ACWI Index. Japan stood out among the laggards, while emerging markets were held back by Latin America and emerging Europe. Developed Europe underperformed as Germany made little progress.

Looking at sectors, technology led the markets higher as Apple shares rose 20% in US dollars. Energy and industrials outperformed as cyclicals were back in favour, although financials, particularly banks, struggled in the face of an inverting yield curve. Defensive areas such as healthcare and utilities trailed the rising market.

Performance commentary

The fund delivered a positive return and outperformed the MSCI ACWI Net Return Index. Stock selection was the key driver of excess return and added value across a broad range of sectors, most notably in energy.

Gibson Energy, **Keyera** and **Pembina Pipeline** were among the top positive contributors in a resurgent energy sector. Shares in methanol producer **Methanex** also rallied sharply. All four companies reported record results for 2018 and the valuations remain attractive.

The share prices of **Tokyo Electron**, **Cisco Systems**, **Broadcom** and **Lam Research** ended the quarter meaningfully higher as technology stocks propelled the markets again. The outperformance was backed by solid fundamentals. Cisco's revenue guidance was well received by investors and Broadcom's results were ahead of expectations.

Imperial Brands added value in consumer staples. The UK tobacco company provided an encouraging trading update and remains on track to meet its guidance for the full year.

Trinseo was the leading detractor during the quarter as the stock made little headway in the market rally. The US materials company specialising in plastics, latex binders and synthetic rubber has been reeling from a series of disappointments as the operating environment deteriorated in the fourth quarter. We believe the valuation is distressed and we added to the holding on weakness.

UnitedHealth struggled against a difficult backdrop for managed care organisations (MCOs) in the US. The industry came under pressure amid concerns about the Medicare-for-all bill, but the likelihood of the legislation becoming a reality is deemed low. We believe the shares are attractively valued and the stock remains a core holding. In the same healthcare sector, **Medtronic** underperformed after the US medical equipment company reined in expectations for earnings growth, citing higher tax rates and foreign exchange movements. We remain comfortable with the investment case.

Imperial Logistics and **Motus** drifted lower in a lacklustre South African market. Both stocks are cheap in our view and we remain comfortable with the holdings.

Not owning Apple, Facebook and Amazon.com also weighed on relative performance as technology-related stocks fuelled the market rally. Facebook and Amazon.com are non-dividend payers and are therefore ineligible for our dividend-focused approach.

Portfolio activity

We made one new purchase and two complete sales during the quarter.

We started a new holding in **Constellation Brands**, a US producer and marketer of beer, wine and spirits. The beverage company has potential to increase the penetration of its most popular products, including the Mexican beer brands Corona, Modelo and Pacifico, and is actively pursuing new avenues to drive growth in the years to come. The company is also committed to returning US$4.5 billion to shareholders over the next three years, equivalent to 14% of the current market value. We believe the stock's recent weakness is unwarranted, and the shares look attractive given the prospects for long-term growth.

We completed the sale of our holding in **Novo Nordisk**, the world leader in diabetes care. The Danish stock rose more than 30% in local currency terms since our initial purchase in February 2017 and comfortably outperformed the MSCI ACWI Net Return Index.

We sold the stake in **Compass Group** on valuation grounds. The UK-listed foodservice group returned more than 80% in sterling since our initial purchase in August 2015 and was meaningfully ahead of the comparative index during that time.

Elsewhere, we added to our existing holdings in **PepsiCo** and **Unilever**. We also took profits in **Broadcom** to manage the position size. Broadcom shares have returned almost 20% this year in US dollars.

Following these transactions, the number of holdings fell to 42. We would like to restore the number of holdings back up to our historic level of 50 over time.

Fund positioning

The fund's exposure to 'quality' slipped to 45.3% as defensives lagged a rising market. The 'quality' weighting remains towards the lower end of our historic range of 40-60%, reflecting our continued struggle with the high valuations attached to many stocks associated with safety. The exposure to 'assets', the fund's cyclical component, rose to 36.9%, helped by the strong performance of Gibson Energy, Methanex and Keyera. The cyclical exposure remains above our historic range of 20-35%, largely because of the attractive opportunities we see in the energy-related sphere. The fund's weighting in 'rapid growth' dropped to 15.3% as we reduced the large holding in Broadcom. The weighting stays around the middle of our historic range of 10-20%.

From a geographic perspective, North America continues to account for the largest part of the portfolio in absolute terms, although the weighting declined during the quarter. The UK remained the largest overweight in relative terms, the weighting moved marginally higher after we bought more shares in Unilever. The UK exposure continues to be dominated by global businesses whose financial performance will be little affected by Brexit. The fund's weighting in Europe ex UK was lower after we sold the position in Novo Nordisk. The fund's exposure to Japan increased, although it remains a large underweight relative to the MSCI ACWI Index. The weightings in Asia Pacific ex Japan and emerging markets were little changed.

Looking at sectors, consumer staples moved to an overweight position after we bought shares in Constellation Brands and added to PepsiCo and Unilever. The healthcare weighting declined following the sale of Novo Nordisk, although the sector remains an overweight. The zero exposure to communication services, which accounts for 9% of the MSCI ACWI Index, is the fund's largest underweight.

ESG engagement

The key discussions that took place during the quarter between us and the management team of the companies in which we are invested involved **Pandora**, **Imperial Brands** and **Methanex**.

Pandora is a company where we have been seeking regime change, having lost confidence in the management team after a series of operational failures. We are encouraged by the appointment of a new chief executive in February and we are supportive of the company's search for a new chairman. From an operational standpoint, the Danish jewellery business delivered on its much-reduced guidance for 2018 and its plan to steer the business back on a sustainable growth path was welcomed by investors. The company also pledged to return more than 10% of its market cap to shareholders in 2019 through dividends and share buybacks – which we applaud. We continue to monitor the situation closely.

Imperial Brands is another holding where we have been frustrated with the share price performance, which reflected the market's lack of faith in the corporate strategy. We are reassured by the company's search for a new chairman, the current chairman having served on the board for more than a decade. The company also confirmed in its trading statement that its divestment programme remains on track to raise £2 billion from the sale of non-core assets. The proceeds will be used to pay down debt, a course of action which we support.

The most recent and most significant development of the quarter involves Methanex, our largest holding. We wrote to the board of directors in March to express our concerns about the sizeable financial commitments associated with the company's potential investment in a third methanol production plant in Geismar, Louisiana. We have serious concerns that the pursuit of this project without a strategic partner would pose an unacceptable financial risk for the company given the cyclical nature of the cashflows. We also believe that pursuing the project alone would remove the balance sheet flexibility for Methanex to take full advantage of the opportunity to buy back shares at a significant discount to its replacement cost.

Having made no progress after numerous private discussions over the past year, we felt that our concerns as the company's largest shareholder were not being adequately addressed. We therefore took the extraordinary step of engaging in a proxy contest and nominated four directors for election to the board. We strongly believe that Methanex and all its shareholders will benefit from a fresh voice and a new perspective which will improve decision-making on capital allocation issues and the governance that the board undertakes. Our candidates for the board, all of whom are independent of M&G and Methanex, will stand for election at the company's Annual General Meeting for shareholders which takes place in April.

Dividend announcements

The fund's holdings continued to deliver solid dividend growth from a variety of sectors and countries. The reporting season saw continued progress and we are encouraged by the dividend announcements from the companies in which we are invested. It is early days, but many have already reported dividend increases in the core 5-15% range, which is in line with previous years and a testament to the confidence in their long-term prospects. As with all past performance, investors are reminded that this is not a guide to future performance.

Company	Sector	Country	Bucket	Dividend growth
ASML	Technology	Netherlands	Rapid growth	50%
DBS Group	Financials	Singapore	Quality	29%
AIA	Financials	Hong Kong	Rapid growth	14%
St. James's Place	Financials	UK	Rapid growth	13%
Union Pacific	Industrials	US	Assets	10%
Cisco Systems	Technology	US	Quality	6%
Roche	Healthcare	Switzerland	Quality	5%
Arthur J Gallagher	Financials	US	Quality	5%
Novartis	Healthcare	Switzerland	Quality	2%

Source: M&G, as at 31 March 2019.

Financials accounted for the largest number of dividend increases during the quarter, led by **DBS Group**. The Singaporean bank enjoyed a record year for operating performance in 2018 and proposed a full-year dividend which is 29% higher than the ordinary payment in 2017. Another Asian company **AIA** raised its full-year dividend by 14%. The Hong Kong-listed insurer also announced a special dividend, reflecting the company's strong financial results and its confidence for the future.

UK wealth manager **St. James's Place** accompanied a solid set of results with a 13% dividend increase. **Arthur J Gallagher**, a US insurance brokerage, lifted its dividend by a more modest 5%. The stock is one of a handful which was part of the original portfolio of the equivalent UK-authorised OEIC (launched in July 2008) which merged into this SICAV. The dividend has risen almost 40% since July 2008 and the value of the investment has increased fourfold in US dollars.

Roche and **Novartis**, which were also bought at launch of the equivalent UK-authorised OEIC, raised their dividends by 5% and 2% respectively. The Swiss pharmaceutical companies have increased their dividends by more than 70% over 10 years and the investments have more than doubled in value during that timeframe.

In the US, **Union Pacific** and **Cisco Systems** supplemented their dividend announcements with new share buyback programmes. Union Pacific, the railroads company, raised its dividend by 10% from the previous quarter and sought approval to repurchase more than 20% of the stock outstanding over the next three years. Cisco Systems, the technology leader in networking, reported a 6% dividend increase and earmarked another US$15 billion for share buybacks, equivalent to more than 6% of the company's market value.

ASML, which manufactures lithography systems for the semiconductor industry, was responsible for the largest dividend increase during the quarter. The Dutch company accelerated its pace of dividend growth from last year's 17% to 50%.

Elsewhere, **Epiroc**, which provides drilling and rock excavation equipment for the mining and infrastructure industries, announced its first dividend after the company was spun off from Atlas Copco in June. **Motus**, the vehicles business which was previously part of South Africa's Imperial Holdings, also reported its maiden dividend.

We are encouraged by the dividend growth from our holdings during the current reporting season and look forward to more dividend increases as the year progresses.

Outlook

The sharp rebound in equity markets has taken many investors by surprise and the shifting sands of market leadership have left many seeking direction. It is our strong belief that short-term swings in sentiment can present excellent opportunities for long-term investors and we continue to see a variety of attractive valuations for companies with solid growth prospects.

We are pleased with the progress of our holdings in the current reporting season and we are encouraged by their robust operating performance which is manifested in continued dividend growth. Dividends should not be taken for granted. As the recent dividend cut from Kraft Heinz demonstrated, there are pitfalls to be avoided. The shock announcement from a company considered as defensive by many investors was strongly influenced by high levels of debt which needed servicing ahead of cash returns to shareholders. The burden of debt was equally influential in the dividend cuts from General Electric, Kinder Morgan and PG&E that preceded it. Balance sheet strength is a key area of focus in our fundamental analysis, especially at a time when rising interest rates will increase the cost of debt as companies refinance their debt. This is a crucial exercise to ensure that dividend growth is sustainable.

Dividends are the ultimate sign of management confidence and the dividend increases we are seeing from the fund's holdings reflects well on the long-term potential and the financial health of the companies we are invested in. We continue to believe that the combination of strong dividend growth and attractive valuation stands us in good stead to generate competitive returns over the long term.

Long-term performance

Euro A	1 year %	3 years % pa	5 years % pa	Since launch % pa (18.07.08)
M&G (Lux) Global Dividend Fund	13.3	10.6	7.7	9.6
Comparative index	12.7	11.7	11.4	10.0
Morningstar Global Equity Income sector	10.1	7.1	8.2	7.5
Fund quartile ranking in sector	2	1	3	1

Source: Morningstar Inc., as at 31 March 2019, EUR A class shares, income reinvested, price-to-price basis.

Fund performance prior to 20 September 2018 is that of the EUR A class share of the M&G Global Dividend Fund, a UK-authorised OEIC, which merged into this fund on 7 December 2018. Tax rates and charges may differ. 'Since launch' refers to the launch date of the M&G Global Dividend Fund's EUR A class share, which was 18 July 2008.

US dollar A	1 year %	3 years % pa	5 years % pa	Since launch % pa (18.07.08)
M&G (Lux) Global Dividend Fund	3.3	10.1	3.3	6.2
Comparative index	2.9	11.2	7.0	6.5
Morningstar Global Equity Income sector	0.6	6.5	3.9	4.1

Source: Morningstar Inc., as at 31 March 2019, USD A class share, income reinvested, price-to-price basis.

Fund performance prior to 20 September 2018 is that of the USD A class share of the M&G Global Dividend Fund, a UK-authorised OEIC, which merged into this fund on 7 December 2018. Tax rates and charges may differ. 'Since launch' refers to the launch date of the M&G Global Dividend Fund's USD A class share, which was 18 July 2008.

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