

M&G Dividend Fund Sterling Class I – Accumulation shares



Monthly Fund Review as at 30 September 2019

For investment professionals only

Highlights

- The fund ended September slightly behind the market, primarily due to a negative price swing. Otherwise, stock selection added value while sector allocation had a broadly neutral effect.
- Cineworld was added to the portfolio during the month on yield and valuation grounds, as earnings are expected to be supported by audience retention. Greene King was sold post the bid for the pub group.
- The yield on the fund's Sterling 'I' class (Income) shares on 30 September 2019 was 5.17% (net of income tax and fees). This represents a meaningful 23% premium over the yield of the FTSE All-Share Index of 4.21%.

The 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.

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)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---------------------------|--------|-------|-------|------|------|
| ■ Sterling I Accumulation | -14.3% | 9.8% | 8.3% | 8.1% | 1.2% |
| ■ FTSE All-Share Index | -9.5% | 13.1% | 16.8% | 1.0% | 1.2% |
| ■ IA UK Equity Income | -10.5% | 11.5% | 8.9% | 6.1% | 3.2% |

Performance over 5 years



Fund performance

| | 1 month (%) | 3 months (%) | YTD (%) | 1 year (%) | 3 years (%) p.a. | 5 years (%) p.a. |
|---------------------------|-------------|--------------|---------|------------|---------------------|---------------------|
| ■ Sterling I Accumulation | 2.6% | 1.1% | 14.6% | -1.4% | 2.9% | 4.8% |
| ■ FTSE All-Share Index | 3.0% | 1.3% | 14.4% | 2.7% | 6.8% | 6.8% |
| ■ IA UK Equity Income | 3.4% | 1.1% | 12.1% | -0.1% | 4.6% | 5.7% |

Past performance is not a guide to future performance.

Performance comparison: The fund is actively managed. The benchmark is a target which the fund seeks to outperform. The index has been chosen as the fund's target benchmark as it best reflects the scope of the fund's investment policy. The target benchmark is used solely to measure the fund's performance and income objective and does not constrain the fund's portfolio construction.

Source: Morningstar, Inc and M&G, as at 30 September 2019. Returns are calculated on a price to price basis with income reinvested. Benchmark returns stated in GBP terms.

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Key information

| | |
|--|----------------------------|
| Fund manager | Michael Stiasny |
| Fund manager tenure from | 28 February 2019 |
| Deputy fund manager | James Taylor |
| ISIN | GB00B7BX4821 |
| Launch date of fund | 06 May 1964 |
| Launch of share class | 03 August 2012 |
| Fund size (millions) | £ 1,143.08 |
| Benchmark | FTSE All-Share Index |
| Benchmark type | Target |
| Sector | IA UK Equity Income sector |
| Number of companies | 78 |
| Historic yield | 4.09% |
| Index yield (FTSE All-Share Index) | 4.21% |
| Portfolio turnover over 12 months (%) | 28.48 |
| Average coupon | 0.00 |
| Payment dates | Feb, Aug |
| Ex-dividend dates | Jan, Jul |

Charges

| | |
|-----------------------|-------|
| Entry charge | 0.00% |
| Ongoing charge | 0.68% |

Risk characteristics

| As at 30/09/2019 | Fund |
|--|-------|
| Alpha (%) | -3.35 |
| Information ratio | -0.77 |
| Sharpe Ratio | 0.27 |
| Historic tracking error (%) | 4.16 |
| Beta | 0.92 |
| Standard deviation (%) | 10.72 |
| Forecast tracking error (active risk, %) | 2.67 |
| Active share (%) | 60.96 |

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.

Fund ratings

| | |
|---------------------------------------|------------|
| Overall Morningstar rating | ★★ |
| Defaqto Rating | 3 Diamonds |
| Financial Express Crown Rating | |

Source of Morningstar ratings: Morningstar, as at 30 September 2019

Source: Defaqto, as at 30 September 2019

Source: Financial Express

Ratings should not be taken as a recommendation.

Industry breakdown (%)

| | Fund |
|------------------------|------|
| Financials | 30.9 |
| Consumer services | 14.6 |
| Consumer goods | 13.5 |
| Oil & gas | 10.3 |
| Health care | 9.0 |
| Industrials | 7.6 |
| Basic materials | 5.8 |
| Utilities | 3.9 |
| Communication services | 2.5 |
| Technology | 1.5 |
| Cash and near cash | 0.3 |

Largest holdings (%)

| | Fund |
|----------------------|------|
| BP | 6.7 |
| Astrazeneca | 4.7 |
| BAT | 4.1 |
| Imperial Brands | 3.8 |
| HSBC | 3.8 |
| Rio Tinto | 3.7 |
| Lloyds Banking Group | 2.7 |
| Royal Dutch Shell | 2.7 |
| Glaxosmithkline | 2.7 |
| GVC Holdings | 2.6 |

Commentary

The fund's relative performance was held back by a negative price swing (-67 basis points) and timing differences between its midday pricing and market close at the beginning and end of the month (-35 basis points). Otherwise, stock selection was positive while sector allocation was broadly neutral.

At the stock level, the fund's mid-cap holdings were the main source of added value, especially general industrials, travel & leisure and media companies. At a sector level, however, a positive contribution from overweighting insurers and underweighting beverages was offset by overweighting tobacco and underweighting banks. Insurers and banks responded positively to equity market gains and rising bond yields, while investors eschewed the more defensive beverages sector, which is dominated by Diageo, and the tobacco sector was held back by a poor showing from Imperial Brands – after adding value in August.

The main individual contributors included Ladbroke's Coral owner GVC, soft drinks manufacturer Britvic, auto insurers Hastings and Sabre Insurance, plus satellite operator SES. GVC continued to bask in half-year results that were better than expected. Britvic, which is on an attractive valuation, defied the negative trend in the beverages sector assisted by two broker upgrades. Hastings and Sabre are highly geared into the auto insurance cycle as they have low overheads and investors have become more optimistic about improving premiums. Meanwhile, the market became increasingly confident that SES would benefit from an imminent decision by the FCC (US Federal Communications Commission) regarding a c-band spectrum auction.

The only detractor of note was FTSE 100 company Imperial Brands, which reported weak results in Australia and a poor performance in the US following increased regulatory scrutiny of its next generation vaping products. We took the opportunity to add to the fund's holding on a yield in excess of 11%.

By and large, equity markets managed to register a modest recovery in September after August's sell-off, with the S&P 500 closing the month not far off its July all-time high. In another relatively robust month for the domestic market, the UK led the major regional markets in sterling terms, but lagged Europe and Japan in local currency terms.

Equity markets were supported by a new round of central bank support measures. The ECB and the Federal Reserve announced new stimulus packages, including interest rate cuts, although the Bank of England stayed its hand. In addition, better-than-expected data releases indicated that concerns about a US recession were overdone. Signs of easing tensions between the US and China helped sentiment, until the month end when an impeachment inquiry was launched against Donald Trump and news emerged that the White House was considering delisting Chinese companies.

There was a sharp snapback from oversold levels by value stocks in September, as the decade-old growth/momentum trade has looked increasingly stretched. The correction was prompted by a steepening US Treasury yield curve.

Mid-month witnessed attacks on two Saudi oil facilities, temporarily halting production of more than half of Saudi Arabia's oil exports. Brent crude spiked up by 20% to US\$71, before falling back to US\$61 amidst reassurances that there would not be a supply shock.

In the UK, the Government suffered a series of defeats in Parliament, including on two motions to hold a snap general election, and the expulsion of 21 MPs from the Conservative Party. They had supported a new law requiring the Government to seek a Brexit extension until January 2020 unless Parliament agreed a deal by 19 October. The prime minister responded by proroguing Parliament for five weeks, a decision that was subsequently overturned on appeal by the Supreme Court.

The market reaction to these unfolding events was reflected in a slightly stronger pound, but not before falling to a 34-year low against the dollar of US\$1.1961, only to subsequently stage a recovery above US\$1.248, supported by improved prospects for avoiding a no-deal Brexit. The FTSE 100 and FTSE 250 indices, meanwhile, performed in line with the FTSE All-Share, the former supported by strong gains from High Yield and the latter by ongoing corporate activity. UK sector moves mostly reflected a more cyclical bias as value stocks outperformed.

Key changes

Cineworld was the one new holding in September. The FTSE 250 company became the second-largest cinema chain in the world by screens last year when it took over US rival Regal Entertainment. Cineworld's shares were acquired on a high yield as the market has been concerned about next year's film line-up and capital investment requirements to compete with their theatrical peers and the likes of Netflix and Amazon Prime. However, we believe that audience numbers will stay firm.

Brewer and pub operator Greene King was the one sale, post the bid by a Hong Kong-based investment group, which saw the share price rise by more than 50% in August. Elsewhere, positions were reduced in holdings that had performed well and yields had declined, including Assura, Compass, AstraZeneca, RELX, Unilever and Kone. In addition, we realised some profits in flexible workspace provider IWG, as it has more than doubled this year, and as a precaution in view of the negative publicity that WeWork's failed IPO (market flotation) has attracted.

Conversely, we increased the fund's position in Marston's to replace the departing Greene King, built up holdings in Chesnara, Paypoint and National Grid, and added to Micro Focus following a profit warning.

Distribution Prospects

Over the 12 months ending 1 July 2019 we have distributed income of 59.71p per Sterling Class 'I' (Income) share. This represents an increase of 5.1% compared with the corresponding period in 2018. We are aiming for a further modest increase in the distribution over the fund's next financial year, at least matching inflation as measured by the Retail Prices Index, which in August was 2.6%.

Fund codes and charges

| Share class | ISIN | Bloomberg | Currency | Share class launch date | Ongoing charge | Historic yield | Minimum initial investment | Minimum top up investment |
|----------------|--------------|------------|----------|-------------------------|----------------|----------------|----------------------------|---------------------------|
| Sterling A Acc | GB0031286197 | MGSDVDA LN | GBP | 06/05/1964 | 1.18%* | 3.38% | £500 | £100 |
| Sterling A Inc | GB0031286080 | MGSDVDI LN | GBP | 06/05/1964 | 1.18%* | 5.19% | £500 | £100 |
| Sterling I Acc | GB00B7BX4821 | MGDVSIA LN | GBP | 03/08/2012 | 0.68%* | 4.09% | £500,000 | £10,000 |
| Sterling I Inc | GB00B6T64N15 | MGDVSII LN | GBP | 03/08/2012 | 0.68%* | 5.17% | £500,000 | £10,000 |
| Sterling R Acc | GB00B6Z2JG16 | MGDVSRA LN | GBP | 03/08/2012 | 0.93%* | 3.85% | £500 | £100 |
| Sterling R Inc | GB00B72RGV03 | MGDVSRI LN | GBP | 03/08/2012 | 0.93%* | 5.17% | £500 | £100 |
| Sterling X Acc | GB0031958514 | MGDVDXA LN | GBP | 01/10/2002 | 1.18%* | 3.38% | £500 | £100 |
| Sterling X Inc | GB0031958407 | MGDVDXI LN | GBP | 01/10/2002 | 1.18%* | 5.19% | £500 | £100 |

Any ongoing charge figure with * indicates an estimate. The ongoing charge figure may vary from year to year and excludes portfolio transaction costs. The charges are mostly, if not exclusively, the Annual Charge which may be discounted depending on the size of the fund. For further details, please see the fund's Key Investor Information Document (KIID). The fund's annual report for each financial year will include details on the exact charges made.

Please go to www.mandg.co.uk/literature to view the Costs and charges illustration which contains information on the costs and charges applicable to your chosen fund and share class.

Please see the Important Information for Investors document and the relevant Key Investor Information Document for more information on the risks associated with this fund and which share classes are available for which product and which investor type.

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.

The M&G Dividend Fund is a sub-fund of M&G Investment Funds (3).

The Morningstar Overall Rating based on the fund's Sterling Class I shares. Copyright © 2019 Morningstar UK Limited. All Rights Reserved. Ratings should not be taken as recommendation.

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