

M&G Episode Allocation Fund Sterling Class I – Accumulation shares



Monthly Fund Review as at 30 September 2019

For investment professionals only

Highlights

- Markets regained much of the ground lost in previous months, despite the fact that little seems to have changed at a fundamental level.
- The market reversal was positive for the fund's performance, particularly in equities.
- We did not make any changes to the portfolio in September as we believe that the fund is well-positioned for the current environment.

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 may use derivatives to profit from an expected rise or fall in the value of an asset. Should the asset's value vary in an unexpected way, the fund may lose as much as or more than the amount invested.

The fund invests in other funds, which are subject to the risks associated with the type of assets held in those funds.

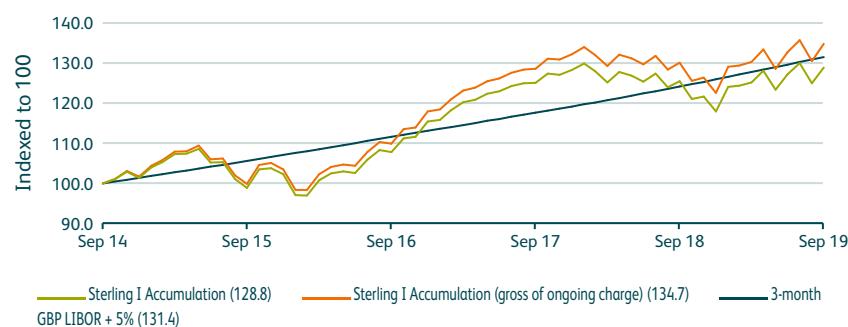
The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.

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	-8.0%	11.1%	12.9%	0.8%	7.8%
■ Sterling I Accumulation (gross of ongoing charge)	-7.3%	12.0%	13.9%	1.9%	8.9%
■ 3-month GBP LIBOR + 5%	5.7%	5.3%	5.6%	5.6%	5.6%

Performance over 5 years



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
					p.a.	p.a.
■ Sterling I Accumulation	3.2%	1.4%	9.2%	2.7%	6.1%	5.2%
■ Sterling I Accumulation (gross of ongoing charge)	3.3%	1.6%	9.9%	3.6%	7.0%	6.1%
■ 3-month GBP LIBOR + 5%	0.5%	1.4%	4.4%	5.9%	5.6%	5.6%

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 achieve. The rate has been chosen as the fund's target benchmark as it is an achievable performance target given the fund's investment policy. The target benchmark is used solely to measure the fund's performance 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.

The past performance shown here is both gross returns (before the Ongoing Charge Figure is taken) in line with the objective of the fund and net returns (after the Ongoing Charge Figure has been taken) to illustrate how charges affected the performance. Investors should note that the net return is what they would receive and is therefore the more relevant figure.

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Key information

Fund manager	Tony Finding, Juan Nevado
Fund manager tenure from	21 January 2011
Deputy fund manager	Craig Moran
ISIN	GB00B73RVW51
Launch date of fund	16 February 2007
Launch of share class	03 August 2012
Fund size (millions)	£ 552.47
Benchmark	3-month GBP LIBOR + 5%
Benchmark type	Target
Sector	IA Mixed Investment 20-60% Shares sector
Number of companies	28
Historic yield	1.96%
Average credit rating	A-
Modified duration (years)	1.36
Portfolio turnover over 12 months (%)	0.00
Average coupon	1.21
Payment dates	Mar, Jun, Sep, Dec
Ex-dividend dates	Feb, May, Aug, Nov

Charges

Entry charge	0.00%
Ongoing charge	0.80%

Things you should know

The fund allows for the extensive use of derivatives.

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.

Portfolio construction (%)

	Net allocation range	Neutrality
Currency	Min 30% sterling or sterling hedged	
Equity	20-60	40.0
Fixed income	30-75	50.0
Other	0-20	10.0

Largest exposures (excl. cash, %)

	Fund
Topix Index future	10.0
M&G Property Portfolio	6.9
M&G Recovery Fund	5.0
Mexican government 30Y	5.0
Us equity	4.2
FTSE 100 Index future	4.0
DAX Index future	3.9
iShares Core MSCI World UCITS ETF	3.4
South African government 20Y	3.0
Kospi Index future	2.9

Asset breakdown (%)

	Long exposure	Short exposure	Net exposure
Equity	57.4	0.0	57.4
UK	9.6	0.0	9.6
Europe	13.2	0.0	13.2
US	8.5	0.0	8.5
Japan	10.0	0.0	10.0
Asia Pacific ex Japan	0.0	0.0	0.0
Global equity funds	7.1	0.0	7.1
Other	9.1	0.0	9.1
Government bonds	11.1	0.0	11.1
UK	0.0	0.0	0.0
Europe	0.0	0.0	0.0
US	1.7	0.0	1.7
Japan	0.0	0.0	0.0
Asia Pacific ex Japan	0.0	0.0	0.0
Other	9.4	0.0	9.4
Corporate bonds	4.2	0.0	4.2
Investment grade	3.3	0.0	3.3
High yield	0.9	0.0	0.9
Global bond funds	3.8	0.0	3.8
Convertible bonds	0.9	0.0	0.9
Property funds	6.9	0.0	6.9
Cash			15.6

Leverage and volatility

	Fund
Volatility	7.0%
Gross leverage	1.0x
Net leverage	1.0x

Currency breakdown (%)

	Fund
British pound	87.9
Mexican peso	5.0
South African rand	3.0
Turkish lira	2.7
Korean won	1.6
US dollar	1.5
Brazilian real	1.4
Japanese yen	0.6
Hong Kong dollar	0.1
Other	-3.8

Commentary

In September, markets regained much of the ground lost in previous months, despite a lack of changes at a fundamental level and amid enduring market pessimism about growth and geopolitics. Although global trade wars persisted, central banks showed readiness to provide support, with the Federal Reserve cutting US interest rates again, the European Central Bank announcing a stimulus package and the Bank of England hinting that UK borrowing costs could be reduced in the event of a no-deal Brexit. Investors also managed to shrug off aggressive rhetoric between the US and Iran and, later in the month, increasing odds that President Trump could face impeachment.

Equity markets outperformed developed market government bonds, with the financial sector particularly strong. Local currency-denominated emerging market government bonds rallied strongly and credit spreads for hard currency-denominated EM sovereign debt tightened. The manufacturing sector remained weak on the back of continued trade uncertainty, while unemployment and wage data held up well. The outperformance of value versus growth strategies was a key theme for investors, as was the volatility of long-dated bonds.

The market reversal was positive for the fund's performance, particularly in equities. The biggest gains for the asset class came from exposure to Europe and Japan, as well as Asia ex-Japan and the basket of banking stocks. Government bond exposure to emerging markets was also positive for performance, particularly the holding in Mexican government bonds. The fund's currency positioning provided another boost. The allocations to the M&G Property Fund and convertibles produced a flat return.

Key changes

We did not make any changes to the portfolio in September, as we believe that the fund is well-positioned for the current environment despite the current increase in volatility. The key valuation signal for us remains the attractiveness of the equity market globally – which we believe is fair to cheaply priced - versus cash and fixed income assets. The potential yield from equities (both earnings and dividend yield) currently far outweighs that from fixed income markets, particularly developed market government bond markets, where yields remain close to record lows. The fund's cash holding remains relatively high at around 14%, which we consider preferable to investing in fixed income and allows us scope to respond to pockets of volatility as and when they occur. One possible area where we could seek opportunity is the corporate credit markets. We believe that value can still be found in emerging market bonds, such as Mexico. The current backdrop of low inflation could see this theme emerge more widely in emerging markets.

As ever, we don't know what will happen next in the macroeconomy, or in the ever-changing arena of geopolitics. Our belief is that the economic fundamentals remain reasonably robust, particularly employment growth, and we think that investors might have an unduly negative view of the implications of globally low interest rates.

Rather than trying to make predictions, we will continue to pay attention to the facts of the global economy and where the odds look favourable. With a number of significant events on the horizon, such as trade discussions and Brexit negotiations, it is likely to be an interesting phase in markets, representing potential opportunities.

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	GB00B1P9ZJ26	MGCMAAC LN	GBP	16/02/2007	1.30%*	1.38%	£500	£100
Sterling A Inc	GB00B1P9ZK31	MGCMAIN LN	GBP	16/02/2007	1.30%*	2.87%	£500	£100
Sterling I Acc	GB00B73RVW51	MGCMSIA LN	GBP	03/08/2012	0.80%*	1.96%	£500,000	£10,000
Sterling I Inc	GB00B71QKV66	MGCMSII LN	GBP	03/08/2012	0.80%*	2.71%	£500,000	£10,000
Sterling R Acc	GB00B7FPWG84	MGCMSRA LN	GBP	03/08/2012	1.05%*	1.77%	£500	£100
Sterling R Inc	GB00B74F4523	MGCMSRI LN	GBP	03/08/2012	1.05%*	2.77%	£500	£100
Sterling X Acc	GB00B1P9ZL48	MGGMXAC LN	GBP	16/02/2007	1.30%*	1.38%	£500	£100
Sterling X Inc	GB00B1P9ZM54	MGCMXIN LN	GBP	16/02/2007	1.30%*	2.87%	£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

The M&G Episode Allocation Fund is a sub-fund of M&G Investment Funds (4).

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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