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

Monthly Fund Review as at 30 September 2019

For investment professionals only

Highlights

- Investors seemed willing to believe that a trade deal might be agreed and that central banks will provide sufficient support, enabling most stockmarkets to recover from August's falls. On the other hand, developed market government bonds declined.
- The fund rose, with most value being added by the allocation to equities.
- Having reduced exposure to long-dated US Treasuries in August, we took advantage of price falls to rebuild the position.

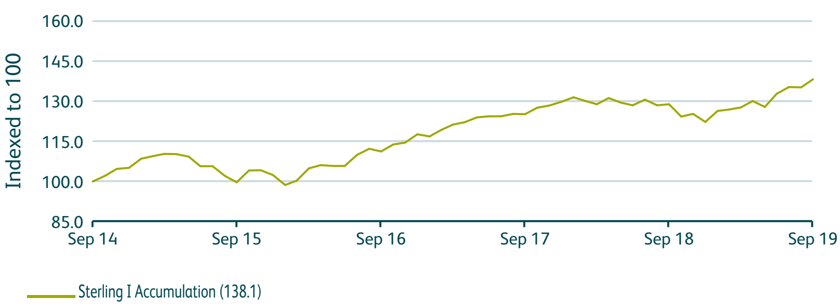
The main risks associated with this fund

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 is exposed to different currencies. Derivatives are used to minimise, but may not always eliminate, the impact of movements in currency exchange rates.
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	-5.8%	10.3%	14.9%	-2.6%	13.7%
IA Mixed Investment 20-60% Shares	-5.1%	7.2%	10.4%	1.2%	4.8%

Performance over 5 years



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.
Sterling I Accumulation	2.2%	4.0%	13.0%	7.2%	7.5%	6.7%
IA Mixed Investment 20-60% Shares	0.7%	1.8%	10.1%	4.1%	4.3%	5.0%

Past performance is not a guide to future performance.

Performance comparison: The fund is actively managed and it has no benchmark. Investors can assess the performance of the fund by its objective to provide a growing level of income and capital growth of 2-4% per annum, both measured over any three-year period.

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.

Key information

Fund manager	Steven Andrew
Fund manager tenure from	11 November 2010
Deputy fund manager	Maria Municchi
ISIN	GB00B4QHRP64
Launch date of fund	11 November 2010
Launch of share class	03 August 2012
Fund size (millions)	£ 949.89
Benchmark	None
Benchmark type	N/A
Sector	IA Mixed Investment 20-60% Shares sector
Number of companies	108
Historic yield	2.64%
Average credit rating	A
Modified duration (years)	5.25
Portfolio turnover over 12 months (%)	0.00
VaR	4.13
Average coupon	2.02
Payment dates	Monthly
Ex-dividend dates	Monthly

Charges

Entry charge	0.00%
Ongoing charge	0.80%

Things you should know

The fund allows for the extensive use of derivatives.

Fund ratings

Morningstar Analyst rating	Neutral
Overall Morningstar rating	★★★★
Financial Express Crown Rating	FE Crown Fund Rating ♛♛♛♛♛
Fundhouse Rating	Tier 2
Squaremile rating	A

Source of Morningstar ratings: Morningstar, as at 30 September 2019
Source: Financial Express
Source: Fund House
Source: Squaremile

Ratings should not be taken as a recommendation.

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Portfolio construction (%)

	Net allocation range	Neutrality
Currency	Min 70% sterling or sterling hedged	
Equity	20-50	30.0
Fixed income	40-80	60.0
Other	0-20	10.0

Leverage and volatility

	Fund
Leverage	1.0x
Volatility	5.9%

Largest exposures (excl. cash, %)

	Fund
Japan equity	13.5
Us equity	13.0
US Government 20Y	11.9
Italy Government 30Y	5.2
US Government 30Y	4.6
Spain equity	3.8
Italy equity	3.2
M&G Property Portfolio	3.0
Brazil Government 5Y	3.0
Mexico Government 20Y	3.0

Currency breakdown (%)

	Fund
British pound	74.5
US dollar	4.5
Brazilian real	3.3
Mexican peso	3.0
Japanese yen	2.9
South African rand	2.9
Indonesian rupiah	2.1
Colombian peso	1.9
Hong Kong dollar	1.2
Other	3.7

Asset breakdown (%)

	Long exposure	Short exposure	Net exposure
Equity			**48.3**
UK			3.0
Europe			13.3
US			13.0
Japan			13.5
Asia Pacific ex Japan			2.8
Global equity funds			0.0
Other			2.7
Government bonds			**35.2**
UK			-0.3
Europe			6.6
US			16.5
Japan			0.0
Asia Pacific ex Japan			0.1
Other			12.3
Corporate bonds			**3.7**
Investment grade			2.6
High yield			1.1
Global bond funds			**3.2**
Convertible bonds			**0.0**
Property funds			**3.0**
Cash			**6.6**

Commentary

September brought a good recovery in equity prices following August's sharp falls. Although there seemed little change in the factors that had unsettled markets, from the state of the economy to trade conflict and, of course, Brexit, investors appeared willing to believe that a trade deal might be agreed and that central banks will provide sufficient support. A trade deal remains a distant hope, but central banks are certainly doing their bit, 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.

The price falls in August may have led to investors recognising the value available in markets, with some of the most beaten-down assets rallying. This included European equities, especially banks, as well as Japanese, Korean and Brazilian shares. Indeed, there was commentary that a long-awaited rotation out of 'growth' into 'value' stocks had begun. At the same time, there was weakness in some of the more expensive assets, such as German bunds and certain technology stocks.

Despite economic data remaining mixed, investors became more embracing of risk, with equities, high yield credit and government bonds from Italy and emerging markets performing well. Conversely, developed market government bonds, most corporate bonds and gold declined.

The fund enjoyed a positive month, with holdings of equities generating the largest returns. Most value was added by European banks and Japanese shares. In the fixed income markets, although US Treasuries declined, positions in Italian and emerging market government bonds helped performance. The strength of the pound relative to the US dollar, euro and yen hampered returns from assets denominated in those currencies. However, our hedging activities (at least 70% of the fund is hedged back to sterling) meant that the effect of currency movements was diminished.

Although data from the manufacturing sector signals a slowdown in activity, other indicators, such as those from the services sector, as well as inflation, employment and housing, all appear robust. Therefore, we remain comfortable with the way the portfolio is positioned. This leads us to continue to back the equity risk premium, particularly as most Western government bonds now appear extremely overvalued.

We continue to favour banking shares in Europe, the US and Japan, in the belief that their earnings are likely to grow and that they remain undervalued. We also like government bonds from Italy and certain emerging markets. Despite their very strong performance this year, Italian bonds still provide an attractive yield spread over bunds and Portuguese government bonds, while non-mainstream government bonds should provide a degree of diversification from other assets. Finally, we retain meaningful exposure to long-dated US Treasuries, both for their reasonable level of yield and, although we do not expect it, as insurance against a possible recession.

Key changes

Having made a tactical reduction in our exposure to long-dated US Treasuries in August, after they had rallied, we took advantage of price falls in early September to rebuild our position. We also added modestly to holdings of higher-yielding government bonds from Brazil and South Africa.

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	GB00B48VC629	MGIMAAA LN	GBP	11/11/2010	1.30%*	2.10%	£500	£100
Sterling A Inc	GB00B4054K09	MGIMAAI LN	GBP	11/11/2010	1.30%*	3.45%	£500	£100
Sterling I Acc	GB00B4QHRP64	MGIMAIA LN	GBP	03/08/2012	0.80%*	2.64%	£500,000	£10,000
Sterling I Inc	GB00B7FSJ224	MGIMAII LN	GBP	03/08/2012	0.80%*	3.29%	£500,000	£10,000
Sterling R Acc	GB00B7P09066	MGIMARA LN	GBP	03/08/2012	1.05%*	2.46%	£500	£100
Sterling R Inc	GB00B7JL3W55	MGIMARI LN	GBP	03/08/2012	1.05%*	3.34%	£500	£100
Sterling X Acc	GB00B435DP50	MGIMAXA LN	GBP	11/11/2010	1.30%*	2.10%	£500	£100
Sterling X Inc	GB00B3ZMYD21	MGIMAXI LN	GBP	11/11/2010	1.30%*	3.44%	£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 may be held on deposit and/or in the Northern Trust Cash Funds, a range of collective investment schemes.

The M&G Episode Income Fund is a sub-fund of M&G Investment Funds (11).

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