

M&G (Lux) Dynamic Allocation Fund Euro Class A – Accumulation shares

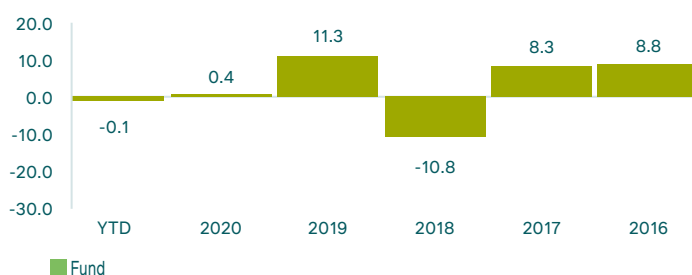
Monthly Fund Review as at 31 January 2021

For investment professionals only

Highlights

- Global equities fell slightly in aggregate during the month owing to growing concern over new coronavirus variants, and delays to the US aid package.
- The fund produced a flat return, with gains from equities and alternative investments roughly equal to losses from government bond positions.
- We scaled back equity exposure after a period of very strong price performance.

Annual performance (%)



Performance over 5 years



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
					p.a.	p.a.
Euro A Accumulation	-0,1%	11,5%	-0,1%	2,0%	-0,9%	4,3%
Sector	0,6%	7,8%	0,6%	2,7%	1,2%	3,1%

Past performance is not a guide to future performance.

The fund is actively managed and has no benchmark. Investors can assess the performance of the fund by its objective to provide a total return of 5-10% per annum over any three-year period.

Fund performance prior to 16 January 2018 is that of the EUR Class A Accumulation of the M&G Dynamic Allocation Fund (a UK-authorized OEIC) which merged into this fund on 16 March 2018. Tax rates and charges may differ.

Source: Morningstar, Inc and M&G, as at 31 January 2021. Returns are calculated on a price to price basis with income reinvested.

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Key information

Fund manager(s)	Juan Nevado, Craig Moran
Fund manager tenure from	21 January 2011
Deputy fund manager(s)	David Fishwick
ISIN	LU1582988058
Launch date of fund	16 January 2018
Launch of share class	16 January 2018
Fund size (millions)	€ 3.415,88
Fund type	SICAV
Sector	Morningstar EUR Flexible Allocation - Global sector
Number of holdings	265
Average credit rating	A
Modified duration (years)	5,66
VaR	7,34%

'Manager tenure' includes the period when managing an equivalent UK-authorized OEIC. Please see 'Important information' at the end of this document for further details.

Charges

Maximum entry charge	4,00%
Ongoing charge	1,93%

Things you should know

The fund allows for the extensive use of derivatives.

Fund ratings

Overall Morningstar rating	★★★
Source of Morningstar ratings: Morningstar, as at 31 January 2021	
Ratings should not be taken as a recommendation.	

Portfolio construction (%)

	Net allocation range	Neutrality
Equity	20-60	40,0
Fixed income	0-80	50,0
Other	0-20	10,0
Currency	Min 30% euro or euro hedged	

Largest exposures (excluding cash, %)

	Fund
US Government 30Y	23,5
US Equity	5,8
Topix index future	5,1
US Fixed	3,5
FTSE 100 index future	3,5
S&P500 emini index future	3,1
Dax index future	2,6
Mexico Government 20Y	2,5
Kosp12 index future	2,4
UK Swaps Other	-4,4

Asset breakdown (%)

	Long exposure	Short exposure	Net exposure
Equity	35,4	0,0	35,4
UK	6,4	0,0	6,4
Europe	7,2	0,0	7,2
North America	9,5	0,0	9,5
Japan	5,5	0,0	5,5
Asia Pacific ex Japan	6,1	0,0	6,1
Global	0,0	0,0	0,0
Emerging markets	0,8	0,0	0,8
Government bonds	40,0	-4,4	35,6
UK	0,0	-4,4	-4,4
Europe	0,0	0,0	0,0
North America	23,5	0,0	23,5
Japan	0,0	0,0	0,0
Other Developed Markets	5,0	0,0	5,0
Emerging markets	11,5	0,0	11,5
Corporate bonds	9,9	0,0	9,9
Investment grade corporate bonds	6,4	0,0	6,4
High yield corporate bonds	3,5	0,0	3,5
Convertible bonds	2,0	0,0	2,0
Infrastructure	2,3	0,0	2,3
Property	0,0	0,0	0,0
Other	0,0	0,0	0,0
Residual cash	0,0	0,0	14,7

VaR analysis (%)

	Fund
1 month 99% VaR	7,3

Currency breakdown (%)

	Fund
Euro	83,2
British pound	5,3
US dollar	5,1
Mexican peso	3,9
Japanese yen	2,9
Hong Kong dollar	1,6
Indonesian rupiah	1,6
Korean won	1,0
Turkish lira	0,2
Other	-4,7

Commentary

Sentiment was boosted in January by the Democrat party effectively gaining control of the Senate, raising hopes that President Joe Biden would be able to gain approval for his economic stimulus plan. However, growing concern over new coronavirus variants, problems with the rollout of vaccines, and halting progress in agreeing the aid package, later caused share prices to fall.

Taking the month as a whole, global equities fell slightly. Although the stockmarkets of Hong Kong and China - together with the Nasdaq - rose, European markets, particularly Spain, Italy and France, declined, as did broader US indices.

The possibility of a US\$1.9 trillion economic support package raised some concern about inflation and weighed on US government bonds, with weakness reflected in other sovereign debt markets, such as bonds from peripheral Europe, the UK and emerging markets.

Investment grade credit declined modestly, although high yield bonds rose slightly in price. In the currency markets, sterling strengthened relative to other currencies, while the yen declined, along with many emerging currencies.

The fund produced a flat return during the month, with gains from equities and alternative investments roughly equal to losses from government bond positions. The largest contributors for equities were Asia ex Japan and the 'basket' of mining stocks, followed by the healthcare basket. Exposure to Europe was the largest detractor, followed by the basket of banking stocks. US Treasuries were the largest detractor from the government bond holdings, in line with weakness in the sector. However, the short position in gilts contributed as UK bond yields rose.

Our holdings of non-mainstream government bonds detracted. For corporate bonds, a small gain from emerging markets was cancelled out by a loss from BBB bonds. Exposure to credit indices was flat, as was the small convertibles holding. Currencies detracted during the month.

Key changes

We scaled back equity exposure from 40% to 35% after a period of very strong price performance, reducing exposure to the UK mining sector and to US, Japanese and Korean indices. For fixed income, we scaled back credit exposure after a significant tightening in spreads, by closing the position in European investment grade spreads and trimming the US BBB basket. We also sold the US 30-year TIPS after the strong rise in inflation expectations, making it preferable just to own the nominal bond. Although we were disappointed that the position in US Treasuries detracted, we continue to like this position for its potential diversification properties against an adverse shift in sentiment or change to the fundamentals.

These changes mean an overall reduction in risk assets and an increase in cash levels - and therefore the ability to respond tactically. In our view, the recent rise in investor confidence decreases potential upside and leaves the portfolio vulnerable to sudden changes in sentiment. The fund now has greater scope to respond to a negative change in sentiment, whilst still being positioned to participate in upside. However, we believe that investor optimism around long-term recovery is supported by the economic data and the scope of policy support. We are therefore comfortable retaining modest exposure to equities, in particular to non-US markets and cyclical sectors.

In terms of the rapid changes to inflation expectations, our view is that inflation is unlikely to be an issue in the short term. This is despite stronger economic growth expectations and pressure from monetary and fiscal plans and the potential lifting of inflation caps outside of the US. This is because growth and demand remain weak, albeit improving, while slack in the labour market is likely to limit wage growth. We therefore remain positioned for a gradual rise in inflation.

Leverage and volatility

	Fund
Gross leverage	1,0x
Net leverage	0,9x
Volatility	13,1%

Fund codes and charges

Share class	ISIN	Bloomberg	Currency	Share class launch date	Ongoing charge	Historic yield	Minimum initial investment	Minimum top up investment
Euro A Acc	LU1582988058	MGDAAEA LX	EUR	16/01/2018	1,93%*	-	€1.000	€75
Euro A Inc	LU1582988132	MGDAEED LX	EUR	16/01/2018	1,93%*	1,66%	€1.000	€75
Euro B Acc	LU1582988306	MGDABEA LX	EUR	16/01/2018	2,43%*	-	€1.000	€75
Euro C Acc	LU1582988488	MGDACEA LX	EUR	16/01/2018	0,93%*	-	€500.000	€50.000
Euro C Inc	LU1582988645	MGDAGED LX	EUR	16/01/2018	0,93%*	1,65%	€500.000	€50.000
Euro CI Acc	LU1582988561	MGDCIEA LX	EUR	16/01/2018	0,89%*	-	€500.000	€50.000

The above ongoing charge figure is an estimate of the charges because of a change to the charging structure with effect from 1st October 2020.

The ongoing charge figure may vary from year to year and excludes portfolio transaction costs. Given the size of the fund, the Administration Charge which is included in the OCF has been discounted. The fund's annual report for each financial year will include details on the exact charges made. Any ongoing charge figure with * indicates an estimate. The fund's annual report for each financial year will include details of the exact charges. Please note that not all of the share classes listed above might be available in your country.

Approach to responsible investment

	Yes	No	N/A
ESG integration		✓	
Additional ESG specifications		✓	
Exclusions	✓		
Cluster munitions & anti personnel landmines	✓		
Other exclusions or restrictions		✓	
Voting			✓
Engagement			✓

Please see glossary for further explanation of these terms.

ESG Standard Glossary

Additional ESG specifications: In the context of M&G, these are funds managed with an explicit ESG objective, outcome or in accordance with specific ESG criteria, and will have a number of minimum exclusions in place.

Engagement: Interaction with company management on various financial and non-financial, including ESG, issues. Engagement allows investors to better understand how a company is undertaking its operations and how it is interacting with its stakeholders, as well as advising on and influencing company behaviour and disclosures where appropriate.

ESG integration: Describes the explicit and systematic inclusion of Environmental, Social and Governance factors in investment analysis and investment decisions. It underpins a responsible investment approach, and allows investors to

better manage risk and generate sustainable, long-term returns.

Exclusions: The exclusion or restriction of investments based on the sector in which they operate, the products or services they provide or for other specific criteria, i.e. they are deemed to be in breach of the United Nations Global Compact principles on human rights, labour the environment and anti-corruption.

Voting: As the partial owners of a company, shareholders have the right to vote on resolutions put forward at a company's annual general meeting. These resolutions include the re-election of directors, executive remuneration and business strategy, among others, and may include resolutions put forward by shareholders.

Important information

On 16 March 2018, the M&G Dynamic Allocation Fund, a UK-authorized OEIC, which launched on 3 December 2009, merged into the M&G (Lux) Dynamic Allocation Fund, a Luxembourg-authorized SICAV, which launched on 16 January 2018. The SICAV is run by the same fund managers, applying the same investment strategy, as the UK-authorized OEIC.

The fund's neutral currency positioning is 100% in euros. Deviations from this figure, therefore, represent long/short exposure.

The M&G (Lux) Dynamic Allocation Fund is a sub-fund of M&G (Lux) Investment Funds 1.

The Morningstar Overall Rating based on the fund's Euro Class A shares. Copyright © 2021 Morningstar UK Limited. All Rights Reserved. Ratings should not be taken as recommendation.

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