

# M&G (Lux) Episode Macro Fund USD Class S – Accumulation shares

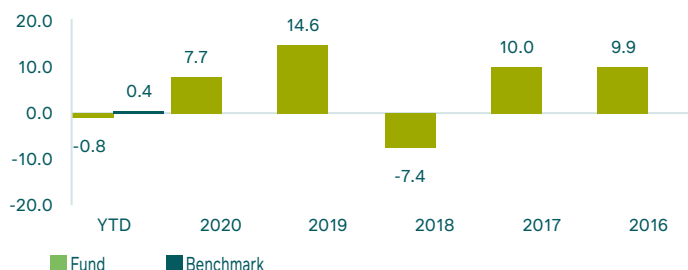
Monthly Fund Review as at 31 January 2021

For investment professionals only

## Highlights

- There were negative returns in January from long US Treasury and currency positions.
- Losses were partially offset by gains from the fund's equity basket.
- There were no changes to the portfolio during the month.

## Annual performance (%)



## Performance over 5 years



## Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%)	5 years (%)
					p.a.	p.a.
US Dollar S Accumulation	-0.8%	10.6%	-0.8%	7.9%	3.2%	6.9%
3-month USD LIBOR + 4%	0.4%	1.1%	0.4%	4.6%	5.8%	5.5%

**Past performance is not a guide to future performance.** The benchmark is a target which the fund seeks to achieve. The rate has been chosen as the fund's benchmark as it is an achievable performance target and best reflects the scope of the fund's investment policy. The benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction.

The fund is actively managed. The investment manager has complete freedom in choosing which assets to buy, hold and sell in the fund.

Fund performance prior to 26 October 2018 is that of the USD Class S Accumulation of the M&G Episode Macro Fund (a UK-authorized OEIC), which merged into this fund on 26 October 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. Benchmark returns stated in USD terms.

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## Key information

Fund manager(s)	David Fishwick, Eric Lonergan
Fund manager tenure from	04 June 2010
ISIN	LU1670713921
Launch date of fund	26 October 2018
Launch of share class	26 October 2018
Fund size (millions)	\$ 388.81
Fund type	SICAV
Benchmark	3-month USD LIBOR + 4 - 8%
Sector	Morningstar Alt - Global Macro sector
Number of holdings	6
Average credit rating	A
Modified duration (years)	5.35
VaR	4.94%

\*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	2.04%

## Leverage and volatility

	Fund
Gross leverage	0.5x
Net leverage	0.5x
Volatility	11.4%

## Things you should know

The fund may invest more than 35% in securities issued by any one or more of the governments listed in the fund prospectus. Such exposure may be combined with the use of derivatives in pursuit of the fund objective. It is currently envisaged that the fund's exposure to such securities may exceed 35% in the governments of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, New Zealand, Singapore, Sweden, Switzerland, UK, USA although these may vary subject only to those listed in the prospectus.

The fund may be very concentrated at times which could result in greater fluctuations in the fund's short-term performance.

The fund allows for the extensive use of derivatives.

## Asset breakdown (%)

	Long exposure	Short exposure	Net exposure
<b>Equity</b>	<b>21.7</b>	<b>0.0</b>	<b>21.7</b>
UK	0.4	0.0	0.4
Europe	5.1	0.0	5.1
North America	4.7	0.0	4.7
Japan	0.0	0.0	0.0
Asia Pacific ex Japan	11.5	0.0	11.5
Global	0.0	0.0	0.0
Emerging markets	0.0	0.0	0.0
<b>Government bonds</b>	<b>27.2</b>	<b>0.0</b>	<b>27.2</b>
UK	0.0	0.0	0.0
Europe	0.0	0.0	0.0
North America	27.2	0.0	27.2
Japan	0.0	0.0	0.0
Other Developed Markets	0.0	0.0	0.0
Emerging markets	0.0	0.0	0.0
<b>Corporate bonds</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Investment grade corporate bonds	0.0	0.0	0.0
High yield corporate bonds	0.0	0.0	0.0
<b>Convertible bonds</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Infrastructure	0.0	0.0	0.0
Property	0.0	0.0	0.0
Other	0.0	0.0	0.0

## Credit rating breakdown (%)

	Net exposure
AAA	0.0
AA	27.2
A	0.0
BBB	0.0
BB	0.0
B	0.0
CCC	0.0
CC	0.0
C	0.0
D	0.0
No rating	0.0

## Commentary

There was divergent performance from the portfolio's key themes in January. The main source of weakness was long exposure to long-dated US Treasuries, where yields increased at the start of the month. While it has frequently been hard to draw clear links between asset price moves and news flow of late, the yield move appeared to be a response to increased expectations for fiscal expansion in the US following Democrat control of the Senate and the language of the new administration.

After the strong gains at the end of 2020, equity markets around the world delivered mixed returns in January. Developed markets were generally weaker and Asia stronger, which proved beneficial to the fund given recent rebalancing and scaling of position sizes. For the portfolio, as part of reducing aggregate exposure to 20% in December, the equity basket was more balanced in favour of markets like Korea and China, and gains from these positions more than offset losses elsewhere. There have been no changes to the equity basket since that move in December.

Weakness in emerging market currencies resulted in a negative return from the fund's currency basket in January. In some cases this appeared to reflect the impact of rising US yields, for example in the South African rand and Brazilian real, though weakness in other currencies like the Mexican peso and Russian ruble appeared more independent.

## Key changes

There were no changes during January to the portfolio, which remains relatively neutrally positioned so as to be able to respond meaningfully to tactical episodes that may emerge.

We continue to believe that given prevailing valuations, the tactical element of the approach will be key to driving positive returns in the period ahead, just as it was in 2020. To deliver this, an emphasis upon capital management in periods in which short term episodic behaviour is less evident will be more important than in past phases when valuations provided a more significant tailwind.

Part of this less aggressive positioning today is an assessment of both the absolute value and diversification potential of long Treasury exposures. At present the 'bear case' for Treasuries seems to be becoming more dominant, and it is not unusual for the episode strategy to back themes that go against the consensus. Importantly, the position must be considered both in its own right and in the context of other themes in the portfolio. Rising yields associated with a recovering economy can be consistent with strong overall portfolio returns, and an environment in which Treasuries can offer diversification in the event of any challenges to long equity or emerging market currency themes.

The challenge to this scenario would be sustained, unexpected inflation shocks (though again equity markets may well be one of the better assets to deal with such a scenario). Policy stimulus and the change in administration in the US has brought the focus of market commentary back to this inflation backdrop. However, we would be very wary of forecasting; the Episode philosophy rests upon avoiding trying to predict fundamentals, instead focusing on the odds implied by asset pricing. We believe that we can expect measured inflation to pick up in the near term simply as a result of base effects from the depression of a year ago. Nevertheless, the experience of the last 30 years has been one of benign inflation conditions around the world. This has come in spite of previous bouts of policy stimulus, ultra-low rates, and periodic doubling in the price of oil and other commodity prices.

## Fund codes and charges

Share class	ISIN	Bloomberg	Currency	Share class launch date	Ongoing charge	Historic yield	Minimum initial investment	Minimum top up investment
USD S Acc	LU1670713921	MGEPMUS LX	USD	26/10/2018	2.04%*	-	\$50,000	\$5,000
USD T Acc	LU1670714069	MGEMUTA LX	USD	26/10/2018	1.04%*	-	\$500,000	\$50,000
USD TI Acc	LU1797816466	MGLEUTI LX	USD	06/11/2018	1.00%*	-	\$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. The audit fees and custody transaction charges are borne by M&G until the fund size increases to above 200 million euros. 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.

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.

## 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 26 October 2018 the non-sterling assets of the M&G Episode Macro Fund, a UK-authorised OEIC which launched on 3 June 2010, merged into the M&G (Lux) Episode Macro Fund, a Luxembourg-authorised SICAV, which launched on 26 October 2018. The SICAV is run by the same fund managers, applying the same investment strategy, as the UK-authorised OEIC.**

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

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