

M&G (Lux) Global Convertibles Fund Euro Class A-H – Accumulation shares



Monthly Fund Review as at 31 August 2020

For investment professionals only

Highlights

- August was a positive month for most risk assets, with investors encouraged by better economic data and signs of progress in the search for a vaccine against Covid-19. Rallies in the equity markets were reflected in convertibles.
- The fund rose, despite weakness in the US dollar, with the advance driven by holdings in Europe and the US, particularly in the consumer services and technology sectors.
- We continued to purchase interesting new convertibles, making room for the additions by primarily reducing exposure to holdings that had performed well.

Annual performance (%)



Performance over 5 years



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.
■ Euro A-H Accumulation	1.9%	8.4%	6.6%	8.2%	0.7%	1.7%
■ Refinitiv Global Focus Convertible Bond Hedged EUR Index	2.5%	8.9%	10.7%	15.6%	5.0%	4.2%
■ Sector	2.5%	8.6%	7.0%	10.1%	3.2%	2.8%

Past performance is not a guide to future performance. The benchmark is a comparator against which the fund's performance can be measured. The index has been chosen as the fund's benchmark as it 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 investments to buy, hold and sell in the fund. The fund's holdings may deviate significantly from the benchmark's constituents. Fund performance prior to 9 November 2018 is that of the EUR Class A-H Accumulation of the M&G Global Convertibles Fund (a UK-authorized OEIC), which merged into this fund on 7 December 2018. Tax rates and charges may differ.

Source: Morningstar, Inc and M&G, as at 31 August 2020. Returns are calculated on a price to price basis with income reinvested. Benchmark returns stated in EUR terms.

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Key information

Fund manager(s)	Léonard Vinville
Fund manager tenure from	13 July 2007
Deputy fund manager(s)	David Romani, Yannis Karachalios
ISIN	LU1670708509
Launch date of fund	09 November 2018
Launch of share class	09 November 2018
Fund size (millions)	€ 467.03
Fund type	SICAV
Benchmark	Refinitiv Global Focus Convertible Bond Hedged EUR Index
Sector	Morningstar Convertible Bond - Global, EUR Hedged sector
Number of holdings	104
Average credit rating	BBB+
Modified duration (years)	2.11
VaR	12.98%
Average coupon	0.73
Delta	0.62
Convexity	3.5%
Points over bond floor to maturity	20.3%
Elasticity	49.6%
Expected life	3.5

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	1.74%

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 August 2020

Ratings should not be taken as a recommendation.

Industry breakdown (%)

	Fund
Technology	32.7
Consumer services	20.1
Health care	13.6
Industrials	9.0
Financials	7.3
Consumer goods	5.5
Basic materials	4.0
Telecommunications	2.5
Utilities	1.5
Oil & gas	1.4
Other	0.0
Cash	2.3

Largest holdings (%)

	Fund
JP Morgan	4.6
Booking Holdings	2.9
Palo Alto Networks	2.5
Akamai Technologies	2.4
Proofpoint	2.4
Zalando	2.4
Vinci	2.2
Southwest Airlines	2.1
Jazz Investments I	2.1
Chegg	1.9

Country breakdown (%)

	Fund
US	56.3
Germany	6.5
France	5.4
China	4.1
Netherlands	3.2
UK	3.1
Switzerland	2.8
Spain	2.5
Other	13.9
Cash	2.3

Credit rating breakdown (%)

	Net exposure
AAA	0.0
AA	3.7
A	12.5
BBB	9.2
BB	3.8
B	1.0
CCC	0.0
CC	0.0
C	0.0
D	0.0
No rating	69.8

Currency breakdown (%)

	Fund
US dollar	68.9
Euro	18.6
Japanese yen	5.9
Hong Kong dollar	3.4
British pound	1.5
Swiss franc	0.7
Canadian dollar	0.5
Australian dollar	0.5
Singapore dollar	0.0

Commentary

August was a positive month for most risk assets, which were supported by the release of better economic data. Purchasing managers' surveys from the US and China showed that manufacturing activity had continued to expand solidly, raising hopes of a quicker global recovery than previously anticipated. Ongoing fiscal and monetary support around the world also helped, as did further steps towards a vaccine or treatment for Covid-19. However, this optimism was tempered by a steady rise in the number of virus cases and lingering trade tension between the US and China.

Equity markets had another strong month, particularly in the US, where the S&P 500 exceeded the heights reached in February, while the Nasdaq continued its steep advance. Other markets to deliver robust gains included Japan, Germany and the UK's mid-cap index. However, the exporter-heavy FTSE 100 lagged as sterling strengthened.

The convertibles market also delivered gains, boosted by rising share prices, and the 'risk-on' attitude was reflected in fixed income markets, where mainstream government bond markets declined. High yield credit outperformed investment grade in both Europe and the US. The fund rose, despite the headwind of weakness in the US dollar and Japanese yen relative to the euro, which weighed on the returns of convertibles denominated in those currencies. This meant that the fund's hedged share classes performed better than unhedged share classes.

The fund's advance was led by holdings of convertibles from Europe and the US, particularly those in the consumer services and technology sectors. Hopes that a vaccine or treatment for COVID-19 might soon be available led to a recovery in travel and leisure stocks, while internet groups continue to benefit from the trend towards consumers spending more time at home.

In the travel sector, a position in a convertible from Southwest Airlines generated the largest positive contribution. Airlines benefited from more potential financial support from the government, as well as optimism about a vaccine, and Southwest announced a modest improvement in booking trends. Russian internet group Yandex was another good performer, with the shares rising on news that the company would be included in MSCI emerging markets indices. Investors also reacted positively to the launch of a new app that combines several services, including taxi ordering and car sharing. Meanwhile, US software group Hubspot rose after releasing better-than-expected results and a positive trading outlook.

In the 'stay-at-home' area of the market, convertibles from UK online grocer Ocado and German online fashion retailer Zalando both performed well, with Ocado about to ally with Marks & Spencer and Zalando seeing an increase in the brands using its service.

On the other hand, a convertible from US laser and optical components maker II-VI declined after reporting disappointing financial results, while Chinese online entertainment provider iQiyi fell when the US Securities and Exchange Commission began to investigate the group's accounts.

The healthcare sector lagged the broader market and convertibles from cancer diagnosis group Exact Sciences and pharmaceutical developer BioMarin, both from the US, detracted. Investors were concerned about a decline in revenue for Exact Sciences' colorectal cancer test during the pandemic, and the US drug regulator did not approve BioMarin's gene therapy for haemophilia.

In terms of performance relative to the benchmark, the fund suffered through not owing convertibles from US software group Workday, which is experiencing strong demand for its work-from-home applications, and cruise company Royal Caribbean, which signalled it is seeing strong pent-up demand.

Key changes

New convertibles continued to be launched throughout the traditional holiday period, mainly in the US, where more than US\$10 billion was raised.

We participated in several launches, since we believed they were valuable investment opportunities, offering exposure to interesting companies on attractive terms. Many are issued at healthy discounts to their theoretical value, in some cases looking better value than existing convertibles from the same issuer.

For example, the largest purchase was a newly issued convertible from US online education provider Chegg, which replaced an existing holding that has generated much value for the fund. Similarly, a new convertible from US oil services provider Helix Energy Solutions was added to the portfolio, while an existing holding was sold back to the issuer.

We also bought a bond issued by Archer Daniels Midland (ADM), a group with a robust credit rating, that converts into part of its stake in Singapore-based agricultural business Wilmar. Other purchases included traditional convertibles from US online marketplace Etsy, Israel-based software group Nice and US online education provider K12.

We added to our position in a convertible from Zalando, a company which we believe offers an interesting long-term investment opportunity and whose convertibles are cheaply valued in credit terms. We also started a holding in another convertible from the same group. Among the convertibles sold to make room for the new additions were bonds from Asian internet group Sea, French drinks group Remy Cointreau and Chinese property group Country Garden, all of which had risen substantially in price. We also sold a convertible from iQiyi, due to possible accounting issues and the threat of its shares being delisted in the US, and another from US software group Guidewire, where we had low conviction on the valuation and growth of the company.

Finally, convertibles from US medical software developer Tabula Rasa and Spanish pharmaceutical developer Almirall were sold as their equity sensitivity had fallen below the desired range.

Fund codes and charges

Share class	ISIN	Bloomberg	Currency	Launch date of fund	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A Acc	LU1670708335	MGGCEAA LX	EUR	09/11/2018	1.72%	€1,000	€75
Euro A Inc	LU1670708418	MGGCEUA LX	EUR	09/11/2018	1.72%	€1,000	€75
Euro A-H Acc	LU1670708509	MGCEAHA LX	EUR	09/11/2018	1.74%	€1,000	€75
Euro A-H Inc	LU1670708681	MGCEAHD LX	EUR	09/11/2018	1.74%	€1,000	€75
Euro B Acc	LU1670708764	MGGCEBA LX	EUR	09/11/2018	2.22%	€1,000	€75
Euro B Inc	LU1670708848	MGGCEBD LX	EUR	09/11/2018	2.22%	€1,000	€75
Euro B-H Acc	LU1670708921	MGGEBHA LX	EUR	09/11/2018	2.24%	€1,000	€75
Euro B-H Inc	LU1670709069	MGGEBHD LX	EUR	09/11/2018	2.24%	€1,000	€75
Euro C Acc	LU1670709143	MGGCECA LX	EUR	09/11/2018	0.97%	€500,000	€50,000
Euro C Inc	LU1670709226	MGGCECD LX	EUR	09/11/2018	0.98%	€500,000	€50,000
Euro C-H Acc	LU1670709499	MGGCECH LX	EUR	09/11/2018	0.99%	€500,000	€50,000
Euro C-H Inc	LU1670709572	MGGCECHD LX	EUR	09/11/2018	0.99%	€500,000	€50,000
Euro CI Acc	LU1797811749	MGGECIA LX	EUR	19/11/2018	0.93%	€500,000	€50,000
Euro CI-H Acc	LU1797812044	MGGCIHA LX	EUR	19/11/2018	0.95%	€500,000	€50,000

The ongoing charge figures disclosed above include direct costs to the fund, such as the annual management charge (AMC), administration charge and custodian charge, but do not include portfolio transaction costs. They are based on expenses for the period ending 31 March 2020. 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.

ESG Integrated funds



Funds that integrate financially material ESG data into the risk management and decision-making process, as well as our company-wide exclusions (cluster munitions and anti-personnel mines). Some strategies may have some additional ESG exclusions.

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 9 November 2018, the non-sterling assets of the M&G Global Convertibles Fund, a UK-authorized OEIC, merged into the M&G (Lux) Global Convertibles Fund, a Luxembourg-authorized SICAV, which launched on 9 November 2018. The SICAV is run by the same fund manager, applying the same investment strategy, as the UK-authorized OEIC.

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

The Morningstar Overall Rating based on the fund's Euro Class A-H shares. Copyright © 2020 Morningstar UK Limited. All Rights Reserved. Ratings should not be taken as recommendation.

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