M&G (Lux) Global Dividend Fund
Euro Class A – Accumulation shares

Quarterly Fund Review as at 31 December 2020

Fund manager(s) – Stuart Rhodes

For investment professionals only

Highlights

- The fund outperformed the MSCI ACWI Net Return Index and delivered its best quarter of relative performance since the strategy was launched in 2008.
- Stock selection was the key driver of excess return with the strongest contributions from materials (Methanex, Trinseo) and consumer staples (Imperial Brands). Standard Life Aberdeen (financials) also participated in the value rotation, while Pandora (consumer discretionary) continued to benefit from progress in operating performance.
- Gibson Energy led the detractors, while Roche and Bristol Myers Squibb underperformed in healthcare as defensive stocks were out of favour.
- Sector allocation detracted, not helped by the overweight in consumer staples. The overweight positions in energy and materials added value.
- We bought ABB (industrials) in 'assets' as we recycled some of the profits from the rally in extreme value. We completed the sale of Richemont (consumer discretionary) in 'rapid growth'. The number of holdings remained at 41.
- Bristol Myers Squibb and Visa delivered dividend growth in the typical 5-15% range. Trinseo reduced its dividend to prioritise debt reduction following an acquisition. A dividend cut should never be taken lightly, but the stock remains a core holding given the company's long-term commitment to dividends.

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 holds a small number of investments, and therefore a fall in the value of a single investment may have a greater impact than if it held a larger number of investments.

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).

Things you should know

The fund invests mainly in company shares and is therefore likely to experience larger price fluctuations than funds that invest in bonds and/or cash.

Performance is stated in the share class currency, which may differ from your domestic currency. As a result, the return may rise or fall due to currency movements.

Fund performance

	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.
Euro A Accumulation	17,9%	3,7%	3,7%	5,5%	8,7%
Benchmark	9,9%	6,7%	6,7%	9,5%	9,9%
Sector	8,6%	-3,8%	-3,8%	3,5%	4,6%
Quartile ranking	1	1	1	1	1

Single year performance (5 years)

	2020	2019	2018	2017	2016
Euro A Accumulation	3,7%	24,1%	-8,7%	8,4%	19,3%
Benchmark	6,7%	28,9%	-4,5%	9,5%	11,7%
Sector	-3,5%	23,8%	-6,9%	4,7%	8,6%
Quartile ranking	1	2	3	1	1

Past performance is not a guide to future performance.

Benchmark= MSCI ACWI Net Return Index

Sector= Morningstar Global Equity Income sector

The benchmark is a comparator against which the fund's performance can be measured. It is a net return index which includes dividends after the deduction of withholding taxes. 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 20 September 2018 is that of the EUR Class A Accumulation of the M&G Global Dividend Fund (a UK-authorised OEIC), which merged into this fund on 7 December 2018. Tax rates and charges may differ. Benchmark prior to 31 December 2011 is the FTSE World Index. From 1 January 2012 to 19 September 2018, it is the MSCI ACWI Index. All stated as Gross Return. Thereafter the benchmark is the MSCI ACWI Net Return Index.

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

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Largest positive contributors 3 months %

	Relative weight	Absolute return	Contribution
Methanex	7,6	89,3	4,4
Trinseo	5,1	102,1	3,3
Pandora	2,5	55,0	0,9

Largest positive contributors YTD %

	Relative weight	Absolute return	Contribution
Pandora	2,3	166,2	2,0
Trinseo	3,8	45,3	1,8
Methanex	5,5	22,6	1,7

Largest negative contributors 3 months %

	Relative weight	Absolute return	Contribution
Gibson Energy	6,6	1,1	-1,0
Roche Holding	3,3	1,9	-0,4
Tesla	-0,7	64,5	-0,3

Largest negative contributors YTD %

	Relative weight	Absolute return	Contribution
Gibson Energy	7,3	-16,9	-2,6
Apple	-3,3	81,8	-1,6
Imperial Brands	6,7	-6,1	-1,5

Source: M&G and BlackRock Solutions®, preliminary data. Performance contribution includes both stocks held and not held relative to the fund's comparative index.

Country breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Relative weight
US	37,7	42,2	4,5	56,8	-14,6
Canada	18,1	19,1	1,0	2,5	16,6
UK	14,0	13,9	-0,1	3,8	10,1
Switzerland	6,4	8,2	1,8	2,7	5,4
Denmark	4,9	4,9	0,0	0,7	4,2
Italy	2,1	2,3	0,2	0,6	1,8
Japan	3,1	2,2	-1,0	6,8	-4,6
Taiwan	0,0	1,8	1,8	1,7	0,1
Other	8,4	4,5	-3,9	24,5	-20,0
Cash	-0,3	0,9	1,2	0,0	0,9

Industry breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Relative weight
Materials	15,9	18,9	3,0	4,8	14,1
Consumer staples	18,0	17,9	0,0	7,3	10,6
Health care	16,6	17,5	0,9	11,7	5,8
Information technology	15,8	13,7	-2,1	21,5	-7,8
Financials	12,0	10,8	-1,1	13,2	-2,4
Energy	12,1	10,4	-1,7	3,0	7,4
Consumer discretionary	5,5	5,0	-0,5	12,7	-7,7
Utilities	3,8	3,6	-0,2	3,0	0,6
Industrials	0,7	1,4	0,7	9,5	-8,1
Communication services	0,0	0,0	0,0	9,2	-9,2
Real Estate	0,0	0,0	0,0	2,5	-2,5
Other	0,0	0,0	0,0	1,7	-1,7
Cash and near cash	-0,3	0,9	1,2	0,0	0,9

Capitalisation breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Relative weight
Mega cap (> $50bn)	42,7	44,8	2,1	60,9	-16,0
Large cap ($10 - $50bn)	23,4	20,0	-3,4	32,4	-12,5
Mid cap ($2 - $10bn)	22,9	27,2	4,4	6,7	20,5
Small cap (< $2bn)	11,3	7,1	-4,2	0,0	7,1
Cash	-0,3	0,9	1,2	0,0	0,9

Largest holdings (%)

	Fund	Index	Relative weight
Methanex	8,8	0,0	8,8
Imperial Brands	7,3	0,0	7,3
Gibson Energy	6,0	0,0	6,0
Trinseo	5,8	0,0	5,8
Keyera	4,4	0,0	4,4
Standard Life Aberdeen	4,2	0,0	4,2
Roche	4,1	0,4	3,7
Microsoft	3,9	2,7	1,2
Novartis	3,2	0,4	2,9
Amcor	3,1	0,0	3,1

Largest overweights (%)

	Fund	Index	Relative weight
Methanex	8,8	0,0	8,8
Imperial Brands	7,3	0,0	7,3
Gibson Energy	6,0	0,0	6,0
Trinseo	5,8	0,0	5,8
Keyera	4,4	0,0	4,4
Standard Life Aberdeen	4,2	0,0	4,2
Roche	4,1	0,4	3,7
Amcor	3,1	0,0	3,1
Novartis	3,2	0,4	2,9
Bristol-Myers Squibb	2,8	0,2	2,5

Largest underweights (%)

	Fund	Index	Relative weight
Apple	0,0	3,8	-3,8
Amazon	0,0	2,3	-2,3
Alphabet	0,0	1,8	-1,8
Facebook	0,0	1,1	-1,1
Tesla	0,0	0,9	-0,9
Alibaba Group Holding	0,0	0,7	-0,7
Tencent Holdings	0,0	0,7	-0,7
Johnson & Johnson	0,0	0,7	-0,7
Samsung Electronics	0,0	0,7	-0,7
JP Morgan	0,0	0,7	-0,7

Market review

Global equities extended their rally as news of effective vaccines prompted a dramatic change in market sentiment. A striking rotation into value ensued as investors contemplated a world returning to normal following the devastating effects of Covid-19. The MSCI ACWI Index rose to an all-time high, led by emerging markets and Asia Pacific ex Japan. Europe and Japan also outperformed. The US was the notable laggard despite the major indices reaching new peaks as the weakness of the US dollar pegged back returns.

The value rotation saw cyclical sectors lead the markets higher: energy, financials, materials and industrials outperformed. Technology was marginally ahead of the index due to the strength of semiconductors and hardware. Defensive stocks struggled to keep up with the rising market. Utilities and real estate underperformed, with consumer staples and healthcare bringing up the rear.

Performance commentary

The fund generated a positive return during the fourth quarter and outperformed the MSCI ACWI Net Return Index. The magnitude of the outperformance was the largest since the strategy was launched in 2008. Stock selection added value across a variety of sectors, with the strongest contribution from materials and consumer staples.

The fund's exposure to extreme value dominated the list of positive contributors. Methanex and Trinseo in the materials sector were the biggest beneficiaries of the market's rotation into value. Methanex shares returned more than 80%, while Trinseo doubled. Imperial Brands bucked the trend in a weak consumer staples sector and ended the quarter with a double-digit return. Standard Life Aberdeen (financials) and Keyera (energy) also outperformed.

Pandora shares extended their excellent run as operating performance continued to show progress. The Danish jewellery company announced in December that it expects full-year results to exceed previous guidance. The stock more than doubled in 2020 and topped the list of positive contributors during the year.

Tokyo Electron and KLA participated in the semiconductor rally, while Ørsted, the world leader in offshore wind power, benefited from a favourable reporting season. All three stocks reached record highs.

Gibson Energy led the detractors after the shares drifted lower in a rising market. We continue to believe that the stock is attractively valued on a dividend yield of more than 6%. We strongly believe that our midstream energy holdings offer attractive long-term prospects, driven by their exposure to some of the most prolific basins in North America.

Roche and Bristol Myers Squibb underperformed in healthcare as defensive stocks were out of favour. Danone and PepsiCo performed similarly in consumer staples.

Lowe's, the US home improvement retailer, succumbed to profit-taking after the stock delivered strong gains in the earlier part of the year. Operating performance was consistently ahead of market expectations during the period of lockdown, but the company's fourth-quarter outlook was hampered by higher costs. The long-term investment case remains intact and the stock remains a core holding.

Not owning Tesla also held back relative performance. This 'new economy' stock does not pay a dividend and is therefore ineligible for our dividend growth approach.

Sector allocation detracted, not helped by the overweight in consumer staples. The overweight positions in energy and materials added value.

Calendar-year performance

The fund generated a positive return in 2020 but trailed the MSCI ACWI Net Return Index. Sector allocation accounted for the shortfall, with the overweight in energy providing the biggest drag on performance.

Stock selection added value with strong contributions from materials (Trinseo, Methanex) and financials (Arthur J Gallagher). Pandora and Lowe's delivered significant gains in consumer discretionary after better-than-expected results. Tokyo Electron and Microsoft outperformed in a buoyant technology sector.

Gibson Energy and Keyera underperformed in a weak energy sector. Not owning Apple, Amazon.com and Tesla also weighed heavily on relative performance. Imperial Brands and Danone lagged in consumer staples.

Portfolio activity

There was one new purchase during the quarter, which was matched by one sale – a level of turnover consistent with our typical time horizon of three to five years.

We initiated a holding in ABB, the industrial conglomerate with businesses in electrification, robotics, automation and motion. The company is pursuing a strategy of value creation by focusing on activities with exposure to structural growth trends, while assessing long-term stability and profitability. The company is committed to a rising and sustainable dividend, as well as buying back 10% of its shares outstanding following the sale of its Power Grids business. The stock offers what we see as an attractive dividend yield of more than 3%.

Profit-taking in extreme value situations including Methanex, Imperial Brands and Standard Life Aberdeen provided the source of cash. We also reduced Tokyo Electron and KLA in semiconductors as well as Martin Marietta in materials. We continued to trim Pandora into strength.

We completed the sale of Richemont, the Swiss luxury goods company, as the shares recovered from their lows in March.

We continued to build our positions in the recent purchases of Novo Nordisk and Takeda Pharmaceutical in healthcare, as well as Coca-Cola in consumer staples. We also added to Roche and Novartis on weakness. These defensive stocks provide reliable growth in an environment of ongoing uncertainty.

The number of holdings remained at 41, compared to our historic range of 40-50.

Fund positioning

The fund's exposure to 'quality' was lower at 41.6%, compared to 42.2% at the end of September. The defensive part of the portfolio remains at the lower end of our historic range of 40-60% because of the high multiples attached to many stocks associated with safety. The exposure to 'assets' rose to 43.1% from 40.2%, due to strong performance. The fund's cyclical component remains above our historic range of 20-35%, reflecting the extreme valuation opportunities we see in a polarised market. The fund's weighting in 'rapid growth' fell to 12.3% from 14.8%. The historic range for the premium growth category is 10-20%.

Looking at sectors, materials remained the fund's largest overweight following the strong performance of Methanex and Trinseo. Energy remained an overweight position although the exposure was lower as Gibson Energy accounted for a smaller part of the portfolio. Industrials remained the largest underweight among the cyclical sectors, although the absolute weighting increased with the new purchase of ABB. The fund continues to be underweight in financials, with zero exposure to banks.

Consumer staples remained the largest overweight among the defensive sectors, followed by healthcare where the weighting increased after we added to our existing holdings. Utilities remained an overweight as we sought to capture the long-term growth in renewable energy. The fund continues to have zero exposure to the bond proxies in communication services and real estate.

The technology exposure continued to decline as we reduced our semiconductor holdings into strength. The fund remains overweight in semiconductors, but underweight in software and hardware.

Regional weightings saw North America and Europe ex UK increase to 57% and 16%, respectively. The UK remained stable at 14%. The weighting in Japan fell as we took profits in Tokyo Electron, while Asia Pacific ex Japan was lower after we reduced Amcor in Australia.

Company engagement

The assessment of environmental, social and governance (ESG) issues is an increasingly important consideration in the stock selection process and we remain committed to our longstanding practice of engaging companies on crucial aspects of corporate responsibility. We are keen to ensure that the companies in which we are invested adopt best practice to the benefit of all stakeholders, including employees, customers, shareholders and broader society.

In this respect, we are pleased that our conscious efforts to improve the ESG standard across the portfolio has been rewarded with a AAA rating from MSCI ESG. Having sold CCC rated Wells Fargo earlier in the year and more recently Samsung Electronics, which was the only remaining holding potentially in breach of United Nations Global Compact (UNGC) principles, the portfolio has zero exposure to companies classified as ESG laggards by MSCI ESG. The fund also benefited from seven upgrades during the quarter, the most prominent of which was a double upgrade for Automatic Data Processing (ADP) to AAA, the highest rating. We are pleased that the US payroll software company has been recognised for its strong privacy and data security measures, including a considered plan to address cybersecurity incidents. Standard Life Aberdeen, Tokyo Electron and Lowe's were upgraded to AA.

ESG analysis is often associated with negative screening, but we are also keen to embrace its positive aspects and its ongoing development to create a more sustainable world. With this objective in mind, we are delighted that Keyera and Gibson Energy, our holdings in energy infrastructure, reported progress during the quarter following our engagement with these companies. Keyera published its inaugural ESG report with a pledge to set emission reduction targets in 2021. We look forward to an update from the company in due course. Gibson Energy, which delivered on its promise of improving disclosure on greenhouse gas emissions in August, announced that it has been recognised by CDP (formerly Carbon Disclosure Project), a leading authority in environmental reporting, with an A- score. We continue to have similar conversations on sustainability with other holdings in the portfolio.

Dividend announcements

COVID-19 and its knock-on effect on the global economy continued to exert severe pressure on corporate cashflows and dividends. The environment remains challenging, but many of our holdings continued to deliver dividend growth in the core 5-15% range, reflecting the cash-generative qualities of the underlying businesses and their confidence in long-term growth.

Bristol Myers Squibb, the US pharmaceutical company, raised its dividend by 9% and extended its sequence of consecutive dividend increases to 12 years. Enel updated its dividend guidance as the Italian utility announced its strategic plan for 2021-2023 and outlined its vision for the next decade. Annual dividend growth is expected to be approximately 7% over the next three years, as the company steps up its commitment to the energy transition and increases its focus on renewables.

In technology, Visa boosted its dividend by around 7%. The dividend has almost doubled since we initiated the holding in December 2016 and the share price has increased by more. ADP raised its dividend for the 46th consecutive year, but at a more modest rate of 2%. The dividend remains a cornerstone of ADP's shareholder return policy, as well as an indication of its ability to navigate the current circumstances and build on its long track record of profitable growth.

However, the fund was not immune to dividend cuts. Trinseo reduced its dividend as the US materials company stated its intention to prioritise debt reduction following a $1.4 billion acquisition. A dividend cut should never be taken lightly, but we understand the company's desire to strengthen the balance sheet and retain financial flexibility. The stock remains a core holding.

We are acutely aware of the reality that dividends will continue to be tested in 2021. It was telling that in 2020 the list of holdings growing their dividends by 0-5% outstripped the list growing at 5-15% for the first time in the fund's 12-year history. Being selective will be paramount. Balance sheet strength is therefore a key consideration in our company research, to ensure that dividends are sustainable in the current climate. We take comfort from the fact that many of our holdings are carrying net cash.

We remain highly vigilant about the dividend outlook but continue to believe that the majority of our holdings can sustain dividend growth in the typical 5-15% range over the long term.

Outlook

The rollout of vaccines has brought hope about a path back to normal, which in turn has propelled stockmarkets to record highs, with value stocks benefiting from a sharp rebound. We have taken steps to manage position sizes in some of our holdings in extreme value, but we remain convinced that the undervaluation has not narrowed completely. From a valuation standpoint, we continue to have the greatest confidence in selected cyclical stocks, which continue to look attractively priced. We have not allocated more capital to our 'assets' bucket in an active manner, conscious of the fact that the fund has enough exposure to this area already.

We have been active in our search for new ideas. The change in sentiment towards growth stocks, which took a back seat during the market rotation, may provide opportunities to add new names in 'rapid growth'.

We are also acutely aware that growth is fragile in many parts of the global economy and that dividends will continue to be tested in 2021. We have therefore made a conscious effort to strengthen the fund's income stream with more reliable growth. It is not a coincidence that the recent purchases of Coca-Cola, Novo Nordisk and Takeda are all part of the defensive 'quality' category. We have continued to add to these holdings as their share prices lagged in the market rally.

As a result of these actions, we are much more comfortable about meeting the fund's objective of growing the income stream in the current financial year ending 31 March 2021. We continue to believe that the majority of our holdings can sustain dividend growth over the long term and that the fund is well-placed to build on its track record of providing a rising income stream. Income remains a key consideration in our decision-making, but not at the expense of capital. We have confidence in the long-term growth prospects of our holdings and look to the future with optimism.

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 7 December 2018 the non-sterling assets of the M&G Global Dividend Fund, a UK-authorised OEIC which launched on 18 July 2008, merged into the M&G (Lux) Global Dividend Fund, a Luxembourg-authorised SICAV, which launched on 18 September 2018. The SICAV is run by the same fund manager, applying the same investment strategy, as the UK-authorised OEIC. The past performance for the fund and the index includes recoverable withholding tax which may not be applicable to the SICAV.

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

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This information is not an offer or solicitation of an offer for the purchase of investment shares in one of the Funds referred to herein. Purchases of a Fund should be based on the current Prospectus. The Instrument of Incorporation, Prospectus, Key Investor Information Document, annual or interim Investment Report and Financial Statements, are available free of charge from the Luxembourg paying agent: Société Générale Bank & Trust SA, Centre operational 28-32, place de la Gare L-1616 Luxembourg.

Before subscribing investors should read the Prospectus, which includes a description of the investment risks relating to these funds.

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