M&G Equities Investment Fund for Charities (Charifund) Sterling Class A – Income units

Monthly Fund Review as at 30 June 2020

For investment professionals only

Highlights

- We have held the first-half distribution at 33p, the same level as this stage last year. However, Charifund's distribution will be reduced in 2020, for only the fourth time in its 60-year history, in the wake of the widespread lockdown-driven dividend cuts across the UK market. Initial forecasts indicate a 20% to 30% reduction before the utilisation of reserves.
- Fund activity continues to focus on mitigating the impact of dividend cuts as far as possible without damaging the fund's total return credentials.
- Charifund yielded 6.46% at the end of June, a 39% premium to the average yield of the FTSE All-Share Index of 4.66%, before the reductions in dividends. We expect to retain a yield premium advantage as we manage the fund's income generation going forward.

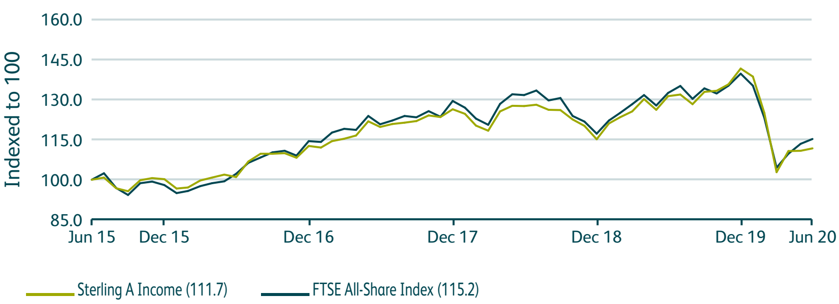
The main risks associated with this fund

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 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).

Single year performance (5 years)

	2019	2018	2017	2016	2015
Sterling A Income	23.0%	-8.9%	12.1%	12.4%	4.5%
FTSE All-Share Index	19.2%	-9.5%	13.1%	16.8%	1.0%
IA UK Equity Income	20.1%	-10.5%	11.5%	8.9%	6.1%

Performance over 5 years



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.
Sterling A Income	0.9%	8.7%	-21.0%	-14.8%	-2.3%	2.2%
FTSE All-Share Index	1.5%	10.2%	-17.5%	-13.0%	-1.6%	2.9%
IA UK Equity Income	0.9%	11.0%	-20.4%	-13.7%	-3.7%	0.9%

Past performance is not a guide to future performance.

Performance comparison: The fund is actively managed. The benchmarks are targets which the fund seeks to outperform. The indices have been chosen as the fund's target benchmarks as they best reflect the scope of the fund's investment policy. The target benchmarks are used solely to measure the fund's performance and income objective and do not constrain the fund's portfolio construction.

Source: Morningstar, Inc and M&G, as at 30 June 2020. Returns are calculated on a price to price basis. Benchmark returns stated in GBP terms.

Key information

Fund manager	Michael Stiasny
Fund manager tenure from	01 November 2016
Deputy fund manager	Elina Symon
ISIN	GB0005494629
Launch date of fund	01 March 1960
Fund size (millions)	£ 875.36
Benchmark	FTSE All-Share Index
Benchmark type	Target
Sector	IA UK Equity Income sector
Number of companies	106
Historic yield	6.46%
Index yield (FTSE All-Share Index)	4.66%
Portfolio turnover over 12 months (%)	13.24
VaR	20.74%
Payment dates	Feb, May, Aug, Dec
Ex-dividend dates	Feb, May, Aug, Nov

Charges

Maximum entry charge	0.00%
Ongoing charge	0.45%

Quarterly income (%)

	Rate	Payment dates
Interim	19.50p	31/08/2019
Final	30.50p	13/12/2019
Interim	14.00p	29/02/2020
Interim	19.00p	29/05/2020

Fund ratings

Overall Morningstar rating	★★★★
Financial Express Crown Rating	

Source of Morningstar ratings: Morningstar, as at 30 June 2020
Source: Financial Express

Ratings should not be taken as a recommendation.

Industry breakdown (%)

	Fund	Index	Relative weight
Financials	34.7	25.2	9.5
Health care	14.8	11.4	3.4
Utilities	10.5	3.6	7.0
Oil & gas	9.5	8.4	1.1
Basic materials	6.6	8.4	-1.8
Industrials	5.8	12.1	-6.3
Consumer services	5.6	11.8	-6.2
Telecommunications	5.2	2.4	2.8
Consumer goods	4.5	15.7	-11.1
Technology	1.0	1.1	0.0
Other	0.7	0.0	0.7
Cash and near cash	1.1	0.0	1.1

Largest holdings (%)

	Fund	Index	Relative weight
Astrazeneca	5.4	5.7	-0.2
Glaxosmithkline	4.9	4.2	0.8
Rio Tinto	4.6	2.5	2.0
BP	4.2	3.1	1.1
Vodafone Group	3.4	1.8	1.6
National Grid	3.2	1.8	1.5
Aviva	2.4	0.6	1.8
Royal Dutch Shell	2.3	5.1	-2.7
SSE	2.3	0.7	1.6
HSBC	2.3	4.0	-1.7

Capitalisation breakdown (%)

	Fund	Index	Relative weight
Large	54.0	80.8	-26.7
Medium	13.0	16.0	-3.0
Small	8.8	3.2	5.7
Preference shares	5.4	0.0	5.4
Non-FTSE All-Share	17.6	0.0	17.6
Cash and near cash	1.1	0.0	1.1

Largest overweights (%)

	Fund	Index	Relative weight
General Accident	2.3	0.0	2.3
Rio Tinto	4.6	2.5	2.0
Abbvie	2.0	0.0	2.0
United Utilities Group	2.2	0.3	1.9
Aviva	2.4	0.6	1.8
Pennon Group	1.9	0.2	1.7
Total	1.7	0.0	1.7
Vodafone Group	3.4	1.8	1.6
SSE	2.3	0.7	1.6
National Grid	3.2	1.8	1.5

Largest underweights (%)

	Fund	Index	Relative weight
BAT	0.0	3.6	-3.6
Diageo	0.0	3.2	-3.2
Royal Dutch Shell	2.3	5.1	-2.7
Reckitt Benckiser	0.0	2.4	-2.4
Relx	0.0	1.8	-1.8
HSBC	2.3	4.0	-1.7
Prudential	0.0	1.6	-1.6
Unilever	0.9	2.4	-1.6
London Stock Exchange Group	0.0	1.4	-1.4
Experian	0.0	1.3	-1.3

Commentary

Timing differences between the fund's midday pricing and market close at the start and end of the month cost 78 basis points in June, putting the fund behind the broad market index and in line with the IA peer group in an otherwise positive month. Notably, there was a positive contribution from sector allocation. This was mainly due to overweighting utilities, where dividends have been maintained and they have generally announced decent results, and by maintaining a zero position in beverages, along with the tobacco restriction as consumer staples underperformed. In addition, Charifund's overseas holdings added value, assisted by a favourable currency tailwind.

Stock selection made a negative contribution, however, particularly within the fund's mid and small-cap holdings in housebuilders, financials and industrials, although some value was added back through its positions in larger companies.

The main detractors at the stock level included two mid-caps, rail and coach operator Go-Ahead, plus payment services firm PayPoint, and a small-cap, closed-book life insurance consolidator Chesnara. The former were hit by the impact of the pandemic, while the latter came off in a more cyclical market. Within larger companies, not holding mining groups Glencore and Anglo American acted as a drag on the fund's performance.

Conversely, the principal individual contributors were a mix of more cyclical FTSE 100 and overseas stocks. These included miner Rio Tinto, insurers Legal & General and Aviva, as well as US pharmaceutical manufacturer AbbVie and pan-African property company Grit Real Estate. In addition, the FTSE 100 utility SSE outperformed as the company maintained its dividend.

Turning to markets, UK equities made more of a sideways move in June, after spending the previous two months staging a recovery from March's pandemic-driven sell-off, to complete a solid second quarter, albeit still significantly in negative territory for the year to date. Despite a record-breaking contraction in GDP numbers, investors seemed to prefer to focus on the potential economic recovery as the Purchasing Managers' Index suggested that manufacturing activity was improving amidst the easing of lockdown restrictions.

However, the UK was a relative laggard compared to the other major regional markets, constrained by the collapse in dividend income, concerns about the post-Brexit landscape, sterling weakness, particularly against the euro, and the impact of a low oil price on the energy sector, despite staging a recovery to US$40 per barrel from below US$10 in April. A resurgence in the number of new virus infections abroad acted as a further brake on sentiment.

There was an attempt at a rally from oversold levels by value stocks, prompted by a spike in sovereign bond yields early in June but, as the pressure on bond yields remains downward, this proved to be another false dawn for a market sector that has underperformed for the past decade as investors have time and again preferred the certainty offered by growth stocks, ignoring extreme valuation differentials.

Against this background, smaller companies outperformed, reflecting their sensitivity to a recovery in the domestic economy. Meanwhile, larger companies led mid-caps, assisted by the currency trend and a strong performance from financials, utilities and miners, which have benefited from a pick-up in commodity prices, especially iron ore and copper.

Key changes

Fund activity during this period of market volatility continues to be focused on mitigating the impact of widespread dividend cuts without damaging the fund's total return credentials. We are seeking to strike the right balance between companies with a good chance of maintaining their dividend, those which present valuation opportunities and those that will recover post the crisis and potentially reinstate their dividends at high levels in future (with a particular view to the yield prospects for 2021).

Accordingly, we introduced one new holding in June, housebuilder Countryside Properties. This represented part of a process of switching out of two weaker rivals, Bellway and Vistry. All three housebuilders have cancelled their dividends, but Countryside is more attractively valued after this year's market upset and a higher quality business, in our view, with a long order book of customers.

In other activity, we took the opportunity presented by weak share prices and where we were confident dividends would be reinstated, to add to fund positions in advertising group WPP, commercial property company NewRiver REIT and insurer Aviva.

Conversely, we continued to reduce the fund's exposure to companies where yields were too low, such as drugmaker AstraZeneca which has outperformed, and also where dividends have been cancelled or reduced and we lacked confidence they would recover sufficiently. The latter included oil major Royal Dutch Shell, commercial property company British Land and events business Informa.

Distribution prospects

We have paid out the majority of the income earned so far in 2020 with a second-quarter distribution on 31 May of 19p, bringing Charifund's first-half distribution to 33p, unchanged from the same period in 2019.

Please bear in mind, though, that as a result of the omission of dividends across the UK market, Charifund will have to cut its yearly distribution for 2019/20 for only the fourth time in its 60-year history. We are, however, hopeful that the fund will still be able to deliver a smaller cut than the market, due to the management of income over the course of the fund's financial year.

It should be noted that the fund's financial year ends on 31 October 2020, which means we had banked dividend income for four months ahead of the start of the coronavirus crisis; however, there is an increasingly narrow base of dividend-paying companies left in the market which brings additional challenges.

We are beginning to think about what 2021 might look like for income. The spectrum of possible outcomes is still very wide. It is entirely possible that many companies simply refrain from paying any dividends for much of the rest of calendar year 2020 and possibly beyond; although equally we might end up in a situation where companies not only pay the dividends due in the second half of 2020, but also make additional payments to compensate for dividends passed at this stage of the crisis.

Finally, despite the setbacks so far in 2020, we would like to emphasise that we remain convinced of the longer term opportunity presented by higher yielding equities.

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Fund codes and charges

Unit class	ISIN	Bloomberg	Currency	Ongoing charge	Historic yield	Minimum initial investment	Minimum top up investment
Sterling A Acc	GB0005497416	MGSCHRA LN	GBP	0.45%*	6.25%	1 unit	1 unit
Sterling A Inc	GB0005494629	MGSCHRI LN	GBP	0.45%*	6.46%	1 unit	1 unit

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

The M&G Equities Investment Fund for Charities (Charifund) is a FCA authorised Unit Trust.

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