

M&G Dividend Fund Sterling Class I – Income shares

Monthly Fund Review as at 30 September 2020

For investment professionals only



Highlights

- The fund paid a final distribution on 31 August 2020 for the 2019/2020 year. As a result of the omission and delay of dividends across the UK market, the fund had to cut its annual distribution by -17%. We were able to deliver a slightly smaller cut than the market's -18%. The reduction would have been lower if it had not been for two companies delaying their results, which meant their dividend payments slipped into the fund's next financial year. For the 2020/2021 year, we are looking at delivering income growth within a range of -5% to +5%.
- Fund activity continues to focus on mitigating the impact of dividend cuts as far as possible, without damaging the fund's total return credentials.
- The yield on the fund's Sterling Class 'I' (Income) shares at the end of September was 5.66%, a 24% premium to the average yield of the FTSE All-Share Index of 4.56% (before the full impact of this year's dividend reductions is felt). 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.

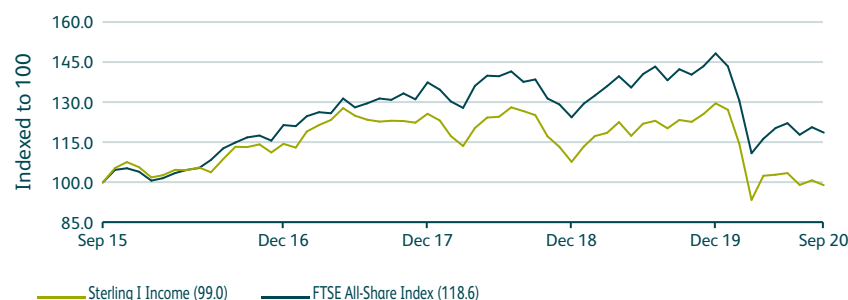
The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.

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 I Income	20.3%	-14.3%	9.8%	8.2%	8.1%
■ FTSE All-Share Index	19.2%	-9.5%	13.1%	16.8%	1.0%
■ Sector	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 I Income	-1.8%	-4.3%	-23.5%	-19.7%	-7.0%	-0.2%
■ FTSE All-Share Index	-1.7%	-2.9%	-19.9%	-16.6%	-3.2%	3.5%
■ Sector	-2.3%	-3.2%	-22.9%	-17.4%	-5.2%	1.0%

Past performance is not a guide to future performance.

Performance comparison: The benchmark is a target which the fund seeks to outperform. The index has been chosen as the fund's target 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 income objective and does not constrain the fund's portfolio construction.

The fund is actively managed. The fund 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.

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

Performance charts © 2020 Morningstar Inc., All Rights Reserved. The information contained within: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Key information

Fund manager(s)	Michael Stiasny
Fund manager tenure from	28 February 1919
Deputy fund manager(s)	James Taylor
ISIN	GB00B6T64N15
Launch date of fund	06 May 1964
Launch of share class	03 August 2012
Fund size (millions)	£ 913.41
Benchmark(s)	FTSE All-Share Index
Benchmark type	Target
Sector	IA UK Equity Income sector
Number of companies	83
Historic yield	5.66%
Index yield (FTSE All-Share Index)	4.51%
Portfolio turnover over 12 months	0.00%
VaR	19.09%
Payment dates	Feb, May, Aug, Nov
Ex-dividend dates	Jan, Apr, Jul, Oct

Charges

Maximum entry charge	0.00%
Ongoing charge	0.68%

Risk characteristics

As at 30/09/2020	Fund
Alpha (%)	-2.88
Information ratio	-0.90
Sharpe Ratio	-0.44
Historic tracking error (%)	3.52
Beta	1.02
Standard deviation (%)	27.28
Forecast tracking error (active risk, %)	4.41
Active share (%)	65.83

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.

Fund ratings

Overall Morningstar rating
Defaqto Rating
Financial Express Crown Rating



Source of Morningstar ratings: Morningstar, as at 30 September 2020

Source: Defaqto, as at 30 September 2020

Source: Financial Express

Ratings should not be taken as a recommendation.

Industry breakdown (%)

	Fund
Financials	29.6
Consumer goods	17.1
Health care	11.4
Consumer services	10.2
Basic materials	7.7
Utilities	7.5
Oil & gas	6.8
Industrials	5.2
Telecommunications	2.5
Technology	1.8
Cash and near cash	0.0

Largest holdings (%)

	Fund
BAT	5.6
Astrazeneca	5.3
Rio Tinto	5.2
BP	4.2
GVC Holdings	4.0
Imperial Brands	3.9
Glaxosmithkline	3.7
National Grid	3.1
Phoenix Group Holdings	2.8
DS Smith	2.1

Commentary

Along with a generally weak September for equity markets, the fund also had to contend with a negative price swing plus timing differences between its midday pricing and market close at the start and end of the month, costing 111 basis points.

Overall, while sector allocation had a broadly neutral effect, stock selection added value, albeit this was mainly concentrated within larger companies. The principal contributors included Ladbrokes Coral owner GVC which rose on the news of a bid for rival William Hill, tobacco firms BAT and Imperial Brands as investors were attracted by their yields, and packaging manufacturer DS Smith, where an increase in paper prices and indications that it would resume paying a dividend supported the shares. However, some performance was surrendered through an overweight stance in BP, which has an attractive yield despite August's dividend cut, and a lack of consumer staples (ex tobacco) companies, where valuations tend to be rich and yields generally too low.

There was also some value lost through stock selection within mid-caps, mostly reflecting the fund's positions in student accommodation provider Unite, which was affected by the reaction from universities to COVID-19 cases appearing amongst students at the start of the new term, and industrial plastic components manufacturer Essentra, which had a placing to pay down debt and buy a US packaging company. In addition, renewed lockdown concerns undermined private debt manager Intermediate Capital Group, while technology group Micro Focus, which has been demoted from the FTSE 100 this year, lagged as it continues to struggle with the integration of Hewlett Packard's software division.

Turning to markets, although the UK was unable to resist the overall negative trend, it was one of the more resilient of the major regional equity markets in local currency terms in September. However, in sterling terms it was the weakest market, in an abrupt reversal of the trend of the past two months. The main drivers were a rise in COVID-19 cases, sparking fears of a second lockdown, and a sharp fall in sterling in early September on renewed concerns, after a rapid deterioration in trade talks, that the country could end the Brexit transition period on WTO terms.

The currency trend was reflected in the outperformance of the FTSE 100 in September, with defensive areas of the market that have maintained their dividends attracting support, such as consumer staples, pharmaceuticals and utilities. However, retailers were also resilient, reflecting retail sales back at pre-pandemic levels, along with industrials which were supported by a continued recovery in manufacturing. The energy sector was particularly weak, held back by oversupply and an oil price generally below production costs. Financials was another underperforming area, primarily because banks were undermined by the emergence of a money-laundering scandal involving HSBC, the sector's biggest stock. Nevertheless, there is some light appearing in the sector as banking group Close Brothers and insurer Aviva have indicated that they will be resuming dividend payments in the near future. Technology stocks also lagged, although they are a relatively small segment of the UK market, mainly reflecting weak performances from Micro Focus and price comparison website Moneysupermarket.com.

Key changes

Two new holdings introduced to the fund in September were online trading platform IG Group and the merchant bank Close Brothers. IG Group benefits from heightened levels of market volatility and is supported by strong cashflow and an attractive dividend, underpinned by a significant increase in earnings this year. Close Brothers is a non-mainstream bank which has signalled that it will resume paying a dividend after it was cut for the first time in 35 years earlier this year. A cautiously managed institution, historically, Close Brothers has been very successful in raising and deploying capital at the correct point in the economic cycle.

In other activity, we supported Essentra's placing, and added to XPS Pensions Group as well as Watkins Jones, two new holdings in August. Elsewhere, to pick up yield, we increased positions in WPP and Vodafone, and built up the fund's holding in Aviva which is expected to resume dividend payments in the near future.

Conversely, we continued reducing Hastings post the cash bid, as well as BT – although the telecoms group looks cheap, it will not pay a dividend for the next two years. We also took profits in some of the fund's good performers, including GVC, DFS, Admiral and Phoenix.

Distribution prospects

The fund paid a final distribution on 31 August 2020 for the 2019/2020 year. As a result of the omission and delay of dividends across the UK market, the fund had to cut its annual distribution by -17%. We were able to deliver a slightly smaller cut than the market's -18%. However, the reduction would have been lower if it had not been for two companies delaying their results, which meant their dividend payments slipped into the fund's next financial year.

The last two months have brought a slightly better environment for dividends. Indeed, in some cases, companies have made extra payments to replace dividends cancelled earlier this year. However, we cannot become too complacent as the pandemic has not run its course; we are seeing second waves and companies will still have to react to events. Nonetheless, we are much more comfortable that the companies most at risk have now cut their payouts.

The biggest unknown is what the banks are allowed to do by the regulators around the world. We expect to know more, especially about the UK clearing banks, in the next couple of months. Another important area for income generation in the UK market is the energy companies. The drop in the oil price has led to cuts in dividends from Shell and BP. This reduces the level of risk to income the fund faces from the oil price, since the worst has now already happened. With the majority of FTSE 100 company revenues generated in US dollars, the exchange rate remains a key influence on the market's and the fund's income generation. Despite a brief resurgence in the autumn, sterling weakness continues to support the payouts from these companies.

Over the next 12 months on current estimates, we are aiming to deliver income growth within a range of -5% to +5%, and we feel comfortable about maintaining the fund's premium yield in this scenario.

Fund codes and charges

Share class	ISIN	Bloomberg	Currency	Share class launch date	Ongoing charge	Historic yield	Minimum initial investment	Minimum top up investment
Sterling A Acc	GB0031286197	MGSDVDA LN	GBP	06/05/1964	1.18%*	4.00%	£500	£100
Sterling A Inc	GB0031286080	MGSDVDI LN	GBP	06/05/1964	1.18%*	5.68%	£500	£100
Sterling I Acc	GB00B7BX4821	MGDVSIA LN	GBP	03/08/2012	0.68%*	4.60%	£500,000	£10,000
Sterling I Inc	GB00B6T64N15	MGDVSII LN	GBP	03/08/2012	0.68%*	5.66%	£500,000	£10,000
Sterling R Acc	GB00B6Z2JG16	MGDVSRA LN	GBP	03/08/2012	0.93%*	4.31%	£500	£100
Sterling R Inc	GB00B72RGV03	MGDVSRI LN	GBP	03/08/2012	0.93%*	5.67%	£500	£100
Sterling X Acc	GB0031958514	MGDVDXA LN	GBP	01/10/2002	1.18%*	4.00%	£500	£100
Sterling X Inc	GB0031958407	MGDVDXI LN	GBP	01/10/2002	1.18%*	5.68%	£500	£100

An 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.

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

The M&G Dividend Fund is a sub-fund of M&G Investment Funds (3).

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

For financial advisers only. Not for onward distribution. No other persons should rely on any information contained within. This financial promotion is issued by M&G Securities Limited which is authorised and regulated by the Financial Conduct Authority in the UK and provides ISAs and other investment products. The company's registered office is 10 Fenchurch Avenue, London EC3M 5AG. Registered in England No. 90776

Contact M&G

Private Investors
www.mandg.co.uk/investor
 0800 390 390
 Charities
www.mandg.co.uk/charities

Intermediary & Wealth
www.mandg.co.uk/adviser
 Institutional
www.mandg.co.uk/institutions

For your protection calls may be recorded or monitored.