

M&G Episode Income Fund Sterling Class I – Income shares



Monthly Fund Review as at 30 September 2020

For investment professionals only

Highlights

- A variety of worrying factors, including a resurgence of coronavirus cases, led to weakness in the price of risk assets in September. Equities and credit declined while core government bonds rose.
- The fund fell, with the allocation to equities costing most value. Strength in the US dollar, yen and euro was a tailwind.
- We increased risk in the portfolio, both by adding equity and high yield exposure and by reducing holdings of government bonds.

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.

Investments in bonds are affected by interest rates, inflation and credit ratings. It is possible that bond issuers will not pay interest or return the capital. All of these events can reduce the value of bonds held by the fund.

The fund is exposed to different currencies. Derivatives are used to minimise, but may not always eliminate, the impact of movements in currency exchange rates.

Investing in emerging markets involves a greater risk of loss as there may be difficulties in buying, selling, safekeeping or valuing investments in such countries.

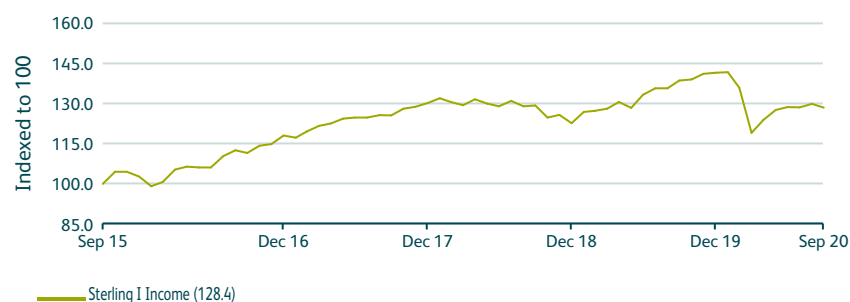
The fund may use derivatives to profit from an expected rise or fall in the value of an asset. Should the asset's value vary in an unexpected way, the fund may lose as much as or more than the amount invested.

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	15.3%	-5.8%	10.3%	14.9%	-2.6%
■ Sector	12.1%	-5.1%	7.2%	10.4%	1.2%

Performance over 5 years



Fund performance

	1 month	3 months	YTD	1 year	3 years p.a.	5 years p.a.
■ Sterling I Income	-1.1%	-0.2%	-9.2%	-7.3%	0.8%	5.1%
■ Sector	-0.5%	1.3%	-3.0%	-1.2%	1.8%	4.7%

Past performance is not a guide to future performance.

Performance comparison: The fund is actively managed and it has no benchmark. Investors can assess the performance of the fund by its objective to provide a growing level of income and capital growth of 2-4% per annum, both measured over any three-year period.

Source: Morningstar, Inc and M&G, as at 30 September 2020. Returns are calculated on a price to price basis.

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Key information

Fund manager(s)	Steven Andrew
Fund manager tenure from	11 November 2010
Deputy fund manager(s)	Maria Municchi
ISIN	GB00B7FSJ224
Launch date of fund	11 November 2010
Launch of share class	03 August 2012
Fund size (millions)	£ 786.62
Benchmark(s)	None
Benchmark type	N/A
Sector	IA Mixed Investment 20-60% Shares sector
Number of holdings	124
Historic yield	3.45%
Average credit rating	A
Modified duration (years)	5.13
VaR	11.09%
Payment dates	Monthly
Ex-dividend dates	Monthly

Charges

Maximum entry charge	0.00%
Ongoing charge	0.80%

Things you should know

The fund allows for the extensive use of derivatives.

Fund ratings

Morningstar Analyst rating	Neutral
Overall Morningstar rating	★★★
The Adviser Centre rating	Recommended
Distribution Technology Rating	5 - Low Medium Risk
Financial Express Crown Rating	
Fund Calibre Rating	Yes
Squaremile rating	A
Source of Morningstar ratings: Morningstar, as at 30 September 2020	
Source: Adviser Centre	
Source: Distribution Technology, as at 30 September 2020	
Source: Financial Express	
Source: FundCalibre	
Source: Squaremile	

Ratings should not be taken as a recommendation.

Portfolio construction (%)

	Net allocation range	Neutrality
Equity	20-50	30.0
Fixed income	40-80	60.0
Other	0-20	10.0
Currency	Min 70% sterling or sterling hedged	

Largest exposures (excl. cash, %)

	Fund
US equity	17.7
US Government 30Y	16.3
Japan equity	11.4
UK equity	3.2
M&G Property Portfolio	3.1
US fixed	3.1
Colombia Government 5Y	3.0
South Africa Government 15Y	2.8
Brazil Government 2Y	2.8
France equity	2.8

Asset breakdown (%)

	Fund
Equity	48.2
UK	2.8
Europe	10.4
North America	19.9
Japan	11.4
Asia Pacific ex Japan	3.1
Global	0.0
Emerging markets	0.5
Government	32.3
UK	0.0
Europe	0.0
North America	18.5
Japan	0.0
Other Developed Markets	0.0
Emerging markets	13.7
Corporate	12.6
Investment grade	2.9
High yield	9.7
Convertible bonds	0.0
Infrastructure	0.5
Property	3.1
Other	0.0
Cash	3.3

Leverage and volatility

	Fund
Leverage	1.0x
Volatility	9.8%

Currency breakdown (%)

	Fund
British pound	72.3
Japanese yen	4.6
US dollar	4.5
Brazilian real	3.0
Colombian peso	3.0
South African rand	2.9
Indonesian rupiah	2.4
Mexican peso	2.0
Hong Kong dollar	1.3
Other	4.0

Commentary

Following a succession of positive months for risk assets since the pandemic-induced sell-off in March, a number of worrying factors led to weakness in September. A resurgence in the number of coronavirus infections led to the re-imposition of restrictions on travel and social gathering in parts of the US, UK and Europe, causing concern that the economic recovery might falter. In the US, there was growing uncertainty over the presidential election as well as the lack of agreement on further economic support. Investors also had to contend with the possibility of a no-deal Brexit, ongoing tension between the US and China and the high valuation of technology stocks. Economic indicators were mixed, with robust Purchasing Managers' Indices data offset by higher unemployment.

Most equity markets declined in local terms, with technology stocks in the US leading the way. The biggest fallers included Hong Kong, China, the Nasdaq and other US markets. Among the few markets to rise was Japan, where the new prime minister was seen as likely to continue his predecessor's policies.

Fixed income markets had a better month as investors became more cautious. Mainstream government bonds rallied, led by bonds from Italy, followed by gilts and bunds. Corporate bonds declined slightly, with investment grade credit holding up better than high yield. Strength in the yen, US dollar and euro relative to the euro boosted returns from Japanese, US and European assets to sterling-based investors.

The fund fell, despite the lift from currency movements, which was partly offset by our hedging activities. Since we have to keep at least 70% of the fund in, or hedged back to, sterling, our hedging meant that we missed out on some of the strength in other currencies. Declines were led by equity positions, particularly shares in European banks. As well as continuing to be affected by low interest rates and the expectation that loan defaults are likely to rise, the sector was hit by allegations that a number of large banks (none of which are held in the fund) had been involved in money laundering. US stocks also cost some performance, although the effect was reduced by the stronger dollar.

While contributions from holdings of credit and emerging market government bonds were fairly flat, mainstream government bonds added value. Our long-dated US Treasuries rose modestly in price but, once again, the strong currency had a positive effect. Italian government bonds again rose sharply. The agreement of an EU Recovery Plan has helped them to outperform bunds and other peripheral European sovereign debt over the summer.

Our close analysis of recent economic data leads us to believe that investors' worst fears for global economic activity, and therefore corporate earnings, now seem less likely to materialise. The huge levels of support given by governments and central banks appear to be having a positive effect, as we are seeing from purchasing managers' surveys and retail sales.

Also, the fact that investors now have a better understanding of the risks being faced by the economy, such as the implications of a rise in virus cases or further lockdowns, means that, in our opinion, the risk of panic-selling now seems less than when we were still learning about the virus.

Key changes

In our view, the range of possible outcomes has become less skewed to the downside than at the beginning of summer. In the belief that equities have significant upside potential, we decided that price movements in September represented a tactical opportunity to add risk to the portfolio.

We added to our US equity exposure, increasing our holdings of banks and introducing new positions in Visa, Texas Instruments and Procter & Gamble to boost diversification. We think these positions should provide a robust and growing dividend stream. We also increased our holding of US high yield credit, raising the bias towards risk and also giving us more scope to adjust the portfolio in response to future price changes. As part of this more aggressive stance, we scaled back our fixed income exposure. We sold our remaining Italian government bonds after their very good run and reduced the holding of US Treasuries, although we still have a meaningful position. We also sold our Polish government bonds, as their yield had fallen.

Following good performance, the weighting of our Mexican government bonds had risen above 3%; we therefore switched some exposure into Brazilian bonds.

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	GB00B48VC629	MGIMAAA LN	GBP	11/11/2010	1.30%*	2.01%	£500	£100
Sterling A Inc	GB00B4054K09	MGIMAAI LN	GBP	11/11/2010	1.30%*	3.60%	£500	£100
Sterling I Acc	GB00B4QHRP64	MGIMAIA LN	GBP	03/08/2012	0.80%*	2.42%	£500,000	£10,000
Sterling I Inc	GB00B7FSJ224	MGIMAI LN	GBP	03/08/2012	0.80%*	3.45%	£500,000	£10,000
Sterling R Acc	GB00B7P09066	MGIMARA LN	GBP	03/08/2012	1.05%*	2.22%	£500	£100
Sterling R Inc	GB00B7JL3W55	MGIMARI LN	GBP	03/08/2012	1.05%*	3.52%	£500	£100
Sterling X Acc	GB00B435DP50	MGIMAXA LN	GBP	11/11/2010	1.30%*	2.02%	£500	£100
Sterling X Inc	GB00B3ZMYD21	MGIMAXI LN	GBP	11/11/2010	1.30%*	3.60%	£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.

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 Episode Income Fund is a sub-fund of M&G Investment Funds (11).

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