

# M&G Global Emerging Markets Fund Sterling Class I – Accumulation shares

Quarterly Fund Review as at 30 September 2020



Fund manager(s) – Michael Bourke  
For investment professionals only

## Highlights

- The fund declined in the third quarter and lagged its benchmark, the MSCI Emerging Markets Index. The portfolio's underweight in China and weakness among energy stocks held back relative returns.
- Emerging market equities continued to rebound in the quarter and were ahead of developed market stocks.
- We invested in three new holdings: Brazilian utility Eletrobras, Chinese recruitment firm 51job and South African miner Sibanye-Stillwater. The stakes in Barloworld and Catcher Technology were sold.

## 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.

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 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.

## Fund performance

	3 months	YTD	1 year	3 years p.a.	5 years p.a.
■ Sterling I Accumulation	-1.9%	-18.0%	-16.8%	-2.5%	8.2%
■ MSCI Emerging Markets Index	4.8%	1.5%	5.7%	4.1%	12.9%
■ Sector	4.2%	-1.7%	1.7%	2.1%	11.5%
Quartile ranking	4	4	4	4	4

## Single year performance (5 years)

	2019	2018	2017	2016	2015
■ Sterling I Accumulation	19.5%	-11.8%	17.6%	40.3%	-10.7%
■ MSCI Emerging Markets Index	14.3%	-8.9%	25.8%	33.1%	-9.7%
■ Sector	15.8%	-11.5%	24.5%	31.6%	-9.3%
Quartile ranking	2	3	4	1	3

Past performance is not a guide to future performance.

Benchmark= MSCI Emerging Markets Index

Sector= IA Global Emerging Markets sector

**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 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 with income reinvested.

Benchmark returns stated in GBP terms.

**Performance © 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.

## Largest positive contributors 3 months %

	Relative weight	Absolute return	Contribution
Hyundai Motor	0.8	79.2	0.4
Tencent	-6.2	-1.9	0.4
First Pacific	1.1	40.3	0.3

## Largest negative contributors 3 months %

	Relative weight	Absolute return	Contribution
Alibaba Group	-7.8	30.3	-1.7
Kosmos Energy	1.4	-44.4	-0.8
Lukoil	1.9	-28.6	-0.7

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

## Largest positive contributors YTD %

	Relative weight	Absolute return	Contribution
China Lesso	0.7	14.4	0.7
China Construction Bank	-0.6	-2.9	0.6
Delta Electronics	2.2	36.0	0.6

## Largest negative contributors YTD %

	Relative weight	Absolute return	Contribution
Alibaba Group	-6.9	42.0	-2.2
Kosmos Energy	1.5	-82.7	-2.0
Tencent	-5.6	40.7	-1.7

## Country breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Relative weight
China / Hong Kong	27.2	28.4	1.1	42.0	-13.6
South Korea	16.4	17.3	0.9	12.1	5.2
Russia	9.4	9.1	-0.2	2.6	6.5
Taiwan	8.6	8.9	0.2	12.7	-3.9
Mexico	8.3	8.8	0.5	1.6	7.1
South Africa	4.3	5.0	0.6	3.5	1.5
Brazil	4.7	4.7	0.0	4.6	0.2
India	0.0	2.7	2.7	8.2	-5.6
Other	14.2	12.4	-1.8	12.7	-0.3
Cash	3.4	2.9	-0.6	0.0	2.9

## Industry breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Relative weight
Financials	35.6	33.0	-2.5	17.0	16.1
Information technology	21.8	22.7	0.9	18.2	4.5
Materials	7.6	8.9	1.3	6.6	2.3
Energy	9.6	8.8	-0.8	5.4	3.4
Industrials	6.9	6.8	-0.1	4.2	2.6
Communication services	5.2	5.1	-0.1	12.5	-7.4
Consumer discretionary	3.3	4.2	0.9	19.8	-15.6
Real Estate	2.4	2.6	0.2	2.2	0.4
Utilities	1.8	2.3	0.5	1.9	0.4
Consumer staples	1.7	2.0	0.3	5.7	-3.7
Health care	0.7	0.7	-0.1	4.0	-3.3
Other	0.0	0.0	0.0	2.6	-2.6
Cash and near cash	3.4	2.9	-0.6	0.0	2.9

## Currency breakdown (%)

	Fund	Index	Relative weight
Hong Kong dollar	22.3	22.6	-0.3
US dollar	21.1	15.1	6.0
Korean won	17.5	12.1	5.4
Mexican peso	8.2	1.6	6.5
Taiwan dollar	7.4	12.8	-5.3
South African rand	5.7	3.5	2.2
Brazilian real	4.7	4.6	0.2
Indian rupee	2.7	8.2	-5.5
Indonesian rupiah	2.2	1.2	1.0
Other	8.1	18.2	-10.1

## Largest overweights (%)

	Fund	Index	Relative weight
Samsung Electronics	9.2	4.3	4.9
Greatview Aseptic Packaging	2.8	0.0	2.8
Delta Electronics	2.8	0.2	2.6
Hana Financial Group	2.7	0.1	2.6
Baidu	3.1	0.5	2.6
Sberbank of Russia PJSC	2.8	0.5	2.3
Shinhan Financial	2.5	0.2	2.3
Cnooc	2.6	0.3	2.3
Mexichem SAB de CV	2.2	0.0	2.2
Alfa SAB de CV	2.1	0.0	2.1

## Largest underweights (%)

	Fund	Index	Relative weight
Alibaba Group Holding	0.0	8.7	-8.7
Tencent Holdings	0.0	5.9	-5.9
Taiwan Semiconductor	3.8	5.8	-2.0
Meituan Dianping	0.0	1.7	-1.7
Reliance Industries	0.0	1.4	-1.4
Naspers	0.0	1.2	-1.2
Jd.com	0.0	1.0	-1.0
China Construction Bank	0.0	1.0	-1.0
Infosys	0.0	0.7	-0.7
SK Hynix	0.0	0.6	-0.6

## Capitalisation breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Relative weight
Mega cap (> \$50bn)	25.3	23.9	-1.3	42.2	-18.2
Large cap (\$10 - \$50bn)	26.2	29.2	2.9	35.2	-6.0
Mid cap (\$2 - \$10bn)	28.8	26.4	-2.4	21.8	4.7
Small cap (< \$2bn)	16.3	17.6	1.3	0.9	16.7
Cash	3.4	2.9	-0.6	0.0	2.9

### Fund performance

Emerging market equities rose in the third quarter as they continued to bounce back from the coronavirus-driven downturn in March. However, the market rally lost momentum in September amid a resurgence in global COVID-19 cases and rising US-China tensions. They outperformed developed market stocks.

China was one of the best-performing markets as investors were encouraged by signs the country's economic recovery was gaining momentum. Stockmarkets in South Korea and Taiwan benefited from their exposure to technology stocks.

In contrast, Turkey was one of the weakest markets, dragged down by worries about the macroeconomic situation and the weakness of the lira. Brazil and Thailand were notable laggards too.

At the sector level, consumer discretionary and technology stocks rallied as the trend for online and 'new economy' stocks continued. Materials also performed well on the back of higher commodities prices. On the other hand, energy stocks declined amid concerns about demand for oil. Worries about the economic outlook and persistent low interest rates weighed on financials.

Against this background, the fund declined and lagged its benchmark, the MSCI Emerging Markets Index.

In terms of positioning, the significant underweights, relative to the benchmark, in China and India held back relative performance. In particular, not owning Chinese e-commerce firm Alibaba, which represents more than 7% of the index, cost some performance as its share price rose more than 30% during the quarter.

The portfolio's relatively large positions in energy and financials, two of the weakest areas, were also costly. As oil prices remained depressed, oil & gas producers CNOOC from China, US-based Kosmos Energy and Lukoil from Russia were among the leading detractors to fund performance.

UK-based emerging markets-focused bank Standard Chartered declined amid concerns about the impact of low interest rates on earnings and allegations that Standard Chartered and several other global banks had been involved in transferring illicit funds.

The holding in Turkish conglomerate Sabanci, which owns one of Turkey's largest banks, Akbank, detracted too. A steep fall in the value of the lira sparked concerns about inflation and companies' ability to repay US dollar-denominated debt.

On a positive note, the overweight in South Korea added value. Hyundai Motor's share price climbed to the highest level in five years as investors reacted positively to the company's plan to expand its range of electric vehicles.

South Korean tech giant Samsung Electronics gained on expectations of robust earnings, helped by sanctions on Chinese rival Huawei.

In China, paper company Nine Dragons Paper (NDP) and biotechnology company BeiGene made positive contributions. BeiGene benefited from positive sentiment towards the pharmaceutical sector and encouraging data readouts from drug trials. Meanwhile, the continual growth of online delivery and efforts to restrict plastic usage is boosting demand for NDP's products. Rising paper prices also helped NDP report robust results.

Not holding Chinese internet firm Tencent was also helpful as the large index stock paused after surging in recent months.

### Activity and positioning

The fund retains a large cyclical bias, with above-index positions in energy, financials and industrials. It has below-index positions in communication services and consumer-related areas.

From a country perspective, the portfolio has large allocations in the cheaper markets, notably Mexico, Russia and South Korea. China and India are underweights, relative to the benchmark, on valuation grounds.

During the quarter, we started a position in Brazilian hydro-electric utility Eletrobras on account of its depressed valuation and strategic shifts taking place within the company to unlock profitability.

Another new purchase was 51job, a Chinese online recruitment firm. We have followed the company for some time and, in our view, it was attractively valued, due to concerns about the employment market. Shortly after investing, the company received a takeover bid.

South African mining firm Sibanye-Stillwater also joined the portfolio. Our belief is that the shift towards full electric vehicles will be gradual, whereas the hybrid market could see substantial growth. This would boost demand for Sibanye's platinum output as hybrid vehicles use more platinum than petrol cars in their catalytic converters.

On the other hand, we sold our stakes in South African industrial equipment supplier Barloworld and Catcher Technology from Taiwan. Catcher makes casings for smartphones and iPads and the arrival of new Chinese entrants to the sector has destroyed the company's profitability.

### Outlook

---

The market's rebound from the March downturn has been impressive. However, there are signs that investors' optimism might be waning as the resurgence of COVID-19 cases around the world threatens to derail the economic recovery. There are some bright spots though, such as China and South Korea, where the crisis appears to be well contained and economic activity is gaining momentum.

Despite an uncertain outlook, we remain optimistic about the prospects of emerging markets, particularly relative to developed markets. The asset class is incredibly diverse and there is currently an enormous dispersion between markets, in terms of valuations and profitability. In our opinion, this variety should continue to generate opportunities for discerning active managers with a view on the long term.

We are particularly excited about the prospects of the fund. During the market sell-off, we invested in a number of promising stocks at prices that we think are attractive. Looking at the portfolio as a whole, it trades at a substantial discount to the broader market. In our view, the potential of many of our holdings is being severely under-appreciated by investors.

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 Global Emerging Markets Fund is a sub-fund of M&G Investment Funds (7).

**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