M&G Global Select Fund
Sterling Class I – Accumulation shares

Quarterly Fund Review as at 30 September 2020

Fund manager(s) – John William Olsen

For investment professionals only

Highlights

- The fund delivered positive returns for the period, but finished behind its benchmark, the MSCI World Index.
- Underperformance was driven by stock selection, particularly within the consumer discretionary, information technology and communication services sectors.
- There were no new holdings or complete sales during the quarter.

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.

Fund performance

	3 months	YTD	1 year	3 years p.a.	5 years p.a.
Sterling I Accumulation	0.6%	0.8%	4.9%	9.2%	13.1%
Benchmark	3.3%	4.6%	5.8%	9.7%	14.6%
Sector	4.1%	4.7%	6.8%	8.1%	12.9%
Quartile ranking	4	3	3	2	2

Single year performance (5 years)

	2019	2018	2017	2016	2015
Sterling I Accumulation	28.9%	-6.9%	12.5%	27.6%	5.7%
Benchmark	23.4%	-2.5%	12.4%	29.0%	3.8%
Sector	22.0%	-5.7%	13.9%	23.9%	2.8%
Quartile ranking	1	3	3	2	2

Past performance is not a guide to future performance.

Benchmark= MSCI World Index

Sector= IA Global sector

Performance comparison: The benchmark is a target which the fund seeks to outperform. 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 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.

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Largest positive contributors 3 months %

	Relative weight	Absolute return	Contribution
Alk Abello	2.9	18.3	0.4
Graco	2.2	22.5	0.4
Ball Corporation	3.3	14.5	0.3

Largest positive contributors YTD %

	Relative weight	Absolute return	Contribution
Microsoft	3.7	37.3	1.1
Tencent	3.2	40.7	0.9
Manhattan Associates	4.9	22.7	0.8

Largest negative contributors 3 months %

	Relative weight	Absolute return	Contribution
Apple	-4.2	21.6	-0.7
WHSmith	3.7	-13.1	-0.7
Tiffany	3.5	-8.8	-0.4

Largest negative contributors YTD %

	Relative weight	Absolute return	Contribution
WHSmith	4.6	-62.7	-5.2
Apple	-3.6	62.8	-1.7
Amazon	-2.5	74.6	-1.2

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

Industry breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Relative weight
Information technology	19.6	19.5	-0.2	21.9	-2.4
Health care	17.5	17.8	0.3	13.6	4.2
Industrials	13.7	14.7	1.1	10.1	4.6
Financials	13.8	13.3	-0.6	11.8	1.4
Communication services	10.3	10.0	-0.3	8.8	1.2
Consumer staples	9.0	9.4	0.4	8.2	1.2
Consumer discretionary	7.6	6.7	-0.9	11.7	-5.0
Materials	6.1	6.7	0.6	4.4	2.3
Energy	0.7	0.5	-0.2	2.5	-2.0
Utilities	0.0	0.0	0.0	3.2	-3.2
Real Estate	0.0	0.0	0.0	2.7	-2.7
Other	0.0	0.0	0.0	0.9	-0.9
Cash and near cash	1.6	1.4	-0.2	0.0	1.4

Country breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Relative weight
US	57.8	57.5	-0.3	65.5	-8.0
UK	12.9	12.8	-0.1	4.6	8.2
Denmark	8.2	8.4	0.3	0.8	7.7
Switzerland	5.6	5.9	0.4	3.3	2.7
France	4.3	4.6	0.3	3.2	1.4
China	3.6	3.5	-0.1	0.1	3.5
Japan	3.0	2.8	-0.1	7.9	-5.0
India	1.8	1.7	-0.1	0.0	1.7
Other	1.2	1.2	0.0	14.7	-13.5
Cash	1.6	1.4	-0.2	0.0	1.4

Capitalisation breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Relative weight
Mega cap (> $50bn)	52.3	52.6	0.3	61.9	-9.3
Large cap ($10 - $50bn)	28.1	30.8	2.7	31.6	-0.8
Mid cap ($2 - $10bn)	13.7	11.5	-2.2	6.5	5.1
Small cap (< $2bn)	4.3	3.7	-0.6	0.0	3.7
Cash	1.6	1.4	-0.2	0.0	1.4

Largest holdings (%)

	Fund	Index	Relative weight
Microsoft	7.0	3.4	3.6
Unitedhealth Group	6.3	0.7	5.6
Manhattan Associates	5.5	0.0	5.5
Schneider Electric	4.6	0.2	4.4
Novo Nordisk	4.2	0.3	3.9
Becton Dickinson	4.2	0.1	4.0
Alphabet	4.0	2.0	2.1
Visa	3.6	0.7	2.9
Ball	3.6	0.1	3.5
Tencent Holdings	3.5	0.0	3.5

Largest overweights (%)

	Fund	Index	Relative weight
Unitedhealth Group	6.3	0.7	5.6
Manhattan Associates	5.5	0.0	5.5
Schneider Electric	4.6	0.2	4.4
Becton Dickinson	4.2	0.1	4.0
Novo Nordisk	4.2	0.3	3.9
Microsoft	7.0	3.4	3.6
Ball	3.6	0.1	3.5
Tencent Holdings	3.5	0.0	3.5
WH Smith	3.4	0.0	3.4
Tiffany & CO.	3.4	0.0	3.3

Largest underweights (%)

	Fund	Index	Relative weight
Apple	0.0	4.5	-4.5
Amazon	0.0	3.0	-3.0
Facebook	0.0	1.4	-1.4
Johnson & Johnson	0.0	0.9	-0.9
Procter & Gamble	0.0	0.8	-0.8
Nvidia Corporation	0.0	0.7	-0.7
Tesla	0.0	0.7	-0.7
Mastercard	0.0	0.7	-0.7
Home Depot	0.0	0.7	-0.7
Berkshire Hathaway	0.0	0.7	-0.7

Commentary

Global markets delivered positive returns in the third quarter of 2020, although the strong gains witnessed for the first two months of the period were reined in as we moved through September.

As we entered the quarter, investors were presented with mixed signals. Sentiment was supported by significant economic stimulus programmes by many central banks – including the agreement of a €750 billion Recovery Fund by the EU, aimed at those economies hardest hit by the pandemic – together with some indications that economic activity was rebounding. This included another large rise in US job numbers and improving factory activity and industrial production. However, the mood was dampened by more concerning news, including a resurgence in the number of COVID-19 cases around the world, particularly in the US, UK and Australia, and a return of tension between the US and China.

As we moved through the period, many markets fully recovered from March's downturn to reach record highs. Sentiment was supported by good quarterly results, particularly within the tech sector, and some positive economic data, as well as by hopes for further stimulus measures and the potential for a COVID-19 vaccine. In saying that, sources of investor strife remained, as heightened tension between the US and China soured the mood. Beijing sanctioned a number of US citizens in response to similar measures from Washington, while US President Trump put Chinese tech groups in the crosshairs. European stocks suffered amid the introduction of tighter travel restrictions, particularly from the UK, as this added to concerns that a rise in coronavirus cases across Europe could stifle economic recovery if further widespread lockdowns became necessary. This had a particularly negative impact on the travel sector.

As we moved into September, momentum from earlier in the period stalled. European equities, which fell to a three-month low during the month, were particularly hard hit, with sentiment most deeply affected by a resurgence of COVID-19 infections across the region, sparking worries about the economic recovery, while uncertainty over the agreement of a Brexit trade deal also dampened the mood. Elsewhere, worries included growing uncertainty about the US Presidential election, a lack of agreement on further economic support in light of the pandemic and the high valuations of some technology companies.

Against this background, given ongoing weakness in the oil price and uncertainty over demand, energy was the worst-performing sector for the period by a long-shot, while financials were dragged down by concerns about low interest rates and the economic outlook. Other laggards included real estate, healthcare and utilities. On the upside, more cyclical sectors stood out for the quarter, including consumer discretionary, information technology, materials and industrials – although the very strong performance that we had seen from technology in previous months faded as we moved through the end of the quarter.

The fund delivered positive returns for the period, but finished behind its benchmark, the MSCI World Index. Underperformance was driven by stock selection, particularly within the consumer discretionary, information technology and communication services sectors.

At a stock level, the largest detractor to relative returns was a stock we do not own, US tech giant Apple. The company delivered very strong performance and saw its market cap move through the US$2 trillion mark. Making up over 4% of the MSCI World Index, this led to a meaningful drag on relative performance.

Of the stocks we do own, the biggest laggard was UK retailer WH Smith. The company was hit hard by pandemic-related lockdowns and travel restrictions in both its high street and travel operations, and since March its share price has been volatile. Having been the worst performer in July, and subsequently the best performer in August amid news of cost-saving initiatives, its shares once again fell sharply in September, as reports of new COVID-19 outbreaks led to concerns over further lockdown measures.

Another key detractor was US luxury jeweller Tiffany. In November 2019, French luxury goods company LVMH announced a US$16 billion deal to acquire the company. However, in September LVMH said that it was pulling out of the deal, citing a request by the French government to delay the deal because of the threat of US tariffs on French goods, as well as the damage caused to the luxury industry by the pandemic. In turn, Tiffany sued the luxury giant in an effort to force the deal through, with the court case now expected in January 2021.

Other laggards included medical equipment maker Becton Dickinson, supply chain systems IT specialist Manhattan Associates (both US companies) and Danish facilities management company ISS.

On the upside, stock selection within healthcare, industrials and materials was supportive, with the largest individual contributor being Danish allergy immunotherapy specialist ALK-Abelló. The company published positive results, with overall sales in the second quarter low-season in line with expectations, given the pandemic. Sublingual, home-based treatments proved resilient to the impact of COVID-19, although sales of injectable products, which are usually administered in clinics, were most affected.

US metal packaging specialist Ball Corp also published strong results, driven by solid demand for environmentally favoured aluminium packaging, capacity expansion, the introduction of fresh products, acquisitions and solid backlog levels in the its aerospace segment.

Other supportive holdings included US fluid handling systems maker Graco, US efficiency specialist Johnson Controls and Swiss freight-forwarding company Kuehne + Nagel.

Engagement activity

Responsible investors can effect change by engaging with investee companies on a number of issues, not least supporting responsible corporate behaviour and long-term thinking, but also pushing companies to improve disclosure or set more testing sustainability objectives. We maintain ongoing dialogue with our investee companies, as well as companies on our watchlist of stocks that we would like to own when the timing and price are right.

As one such example from the third quarter, we spoke with global food and beverage company Nestlé on labour standards within its supply chain, particularly to understand the key issues with child labour in the cocoa supply chain. Nestlé flagged that this was an area it had been working on for 10-plus years, and that it was the first company to put child labour monitoring and a remediation system in place. Most cocoa is grown in West Africa, and Nestlé has been working with co-operatives and leveraging community liaisons to conduct surveys and identify issues. It acknowledged that this was an industry issue and companies must work together, as well as partnering with farmers, governments and NGOs to continue the drive for improvements.

In the coming months we will be further engaging with the company to better understand these issues, specifically with its in-house supply chain team.

Other engagements included those with British consumer giant Reckitt Benckiser, on human capital, and Georgian financial institution Georgia Capital on strategy, both against a backdrop of the COVID-19 pandemic.

Portfolio activity

Having added two new positions in the second quarter, Indian financial institution Housing Development Finance Corporation (HDFC) and US workwear and textile service company UniFirst, there were no new purchases or complete sales in the third quarter.

Outlook

Events like the extreme market reaction to the COVID-19 outbreak are difficult to predict, and while, from an investment viewpoint, such events can be painful in the short term, they can also create opportunities for long-term investors. We believe that investing in quality companies when they are being undervalued can help to deliver long-term benefits for our customers, as markets return to more normal levels.

In the current environment, we have seen a high level of investor 'clustering' around companies that have moved through the COVID-19 crisis and thrived – for example, some large US technology companies. As these areas of the market have attracted increasing numbers of investors, we believe there are signs of market exuberance. We think there is now an elevated risk of disappointment in highly geared cyclical stocks, and growth stocks that have become very expensive, particularly given the extraordinarily uncertain macroeconomic environment.

We have remained consistent as regards our fundamental positioning and balanced approach. We continue to divide the portfolio between 'stable growth' companies – those that have a proven track record of producing stable earnings – and 'opportunities' companies – which tend to be less predictable, but have what we believe to be significant upside potential. We think this approach provides good diversification, which should help the portfolio perform in different market conditions. We are now keeping an eye out for relative value in the stable growth part of the market, as well as in higher-quality opportunities companies.

In terms of the current fund, we remain confident in the quality of the stocks within the portfolio. As long-term investors, our focus is on the ability of our holdings to generate long-term value for the fund and for our customers, and we continue to be optimistic about their prospects.

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ESG Plus

Funds that may take a best-in-class approach, or include additional exclusions.

Approach to responsible investment

	Yes	No	N/A
ESG integration	✓		
Additional ESG specifications	✓		
Impact		✓	
Sustainability/Sustainable		✓	
Exclusions	✓		
Cluster munitions & anti personnel landmines	✓		
Other exclusions or restrictions	✓		
Voting	✓		
Engagement	✓		

Please see glossary for further explanation of these terms.

*Other exclusions or restrictions

This fund excludes:

- Controversial weapons
- Tobacco
- UN Global Compact – companies deemed to be in breach

*Thresholds may apply

ESG Range 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.
Controversial weapons:refers to chemical and biological weapons, white phosphorus, weapons and armour made from depleted uranium, nuclear weapons and nuclear weapons outside the Nuclear Non-Proliferation Treaty.
Conventional oil and gas: conventional oil and gas production – deepwater, shallow water and other onshore/offshore.
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 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.
GMO: genetically modified crops.
Impact: Investment with the purpose of generating a measurable social or environmental return, alongside a financial return.
Sustainability/Sustainable: Our sustainable funds are those where the investment universe is driven by sustainability themed considerations, which might include climate change mitigation, pollution prevention, sustainability solutions and approaches that address one or more of the UN Sustainable Development Goals (SDGs).
Tobacco: understood as those companies whose business models are based on the production, trading and distribution of tobacco.
Unconventional oil and gas: oil sands (production), shale oil, shale gas and arctic drilling.
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.
Weapons: refers to systems, components, and support systems and services.

Important information

Benchmark: On 30 September 2008, 01 January 2012 and 01 January 2016, the fund's benchmark changed.

Past performance shown from 01 November 2013 to 31 December 2015 is the MSCI All Country World Index. Past performance shown from 01 January 2016 is the MSCI World Index.

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

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