

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

Quarterly Fund Review as at 30 September 2020



Fund manager(s) – Alex Araujo  
For investment professionals only

## Highlights

- The fund delivered a positive return but lagged the MSCI ACWI Index. Not owning Apple and Tesla provided the biggest drag on relative performance in a market characterised by narrowness of leadership.
- ONEOK led the detractors among the fund's holdings in a weak energy sector.
- Weyerhaeuser (real estate) and Starpharma (healthcare) made the biggest positive contributions. Infineon added value in a strong technology sector.
- Sector allocation detracted, not helped by the overweight in energy.
- We added Martin Marietta (materials) to the portfolio and sold our legacy holding in Honeywell (industrials). The number of active investments rose to 60 after Siemens Energy was spun out of Siemens.

## 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.

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.

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	0.4%	1.3%	1.6%	7.4%	14.3%
■ Benchmark	3.5%	4.3%	5.8%	8.9%	14.4%
■ Sector	4.1%	4.7%	6.8%	8.1%	12.9%
Quartile ranking	4	3	3	3	2

## Single year performance (5 years)

	2019	2018	2017	2016	2015
■ Sterling I Accumulation	27.1%	-9.4%	15.9%	32.9%	-2.2%
■ Benchmark	22.4%	-3.3%	11.6%	31.9%	2.6%
■ Sector	22.0%	-5.7%	13.9%	23.9%	2.8%
Quartile ranking	1	4	2	1	4

**Past performance is not a guide to future performance.**

Benchmark= MSCI ACWI Index

Sector= IA Global sector

**Performance comparison:** The fund is actively managed. 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 target benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction.

**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
Weyerhaeuser Company	2.3	21.4	0.4
Starpharma	1.2	32.7	0.3
Air Products And Chemicals	2.0	18.4	0.3

## Largest positive contributors YTD %

	Relative weight	Absolute return	Contribution
Franco Nevada	2.4	38.4	0.8
Shimano	2.5	22.8	0.6
Infineon Technologies	2.1	28.6	0.5

## Largest negative contributors 3 months %

	Relative weight	Absolute return	Contribution
Apple	-3.7	21.6	-0.6
Oneok	1.9	-23.2	-0.6
CVS Health	2.1	-13.5	-0.4

## Largest negative contributors YTD %

	Relative weight	Absolute return	Contribution
Prairiesky Royalty	3.4	-44.3	-2.1
Apple	-3.2	62.8	-1.5
Oneok	2.1	-62.5	-1.5

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

## Country breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Relative weight
US	41.2	41.9	0.7	57.4	-15.5
Canada	11.2	11.2	0.0	2.5	8.6
UK	5.2	5.4	0.1	4.1	1.3
Germany	4.8	5.4	0.6	2.5	2.8
Japan	4.7	4.4	-0.3	6.9	-2.5
Switzerland	3.9	3.7	-0.2	2.8	0.9
Australia	3.2	3.6	0.4	1.8	1.8
Hong Kong	3.7	3.3	-0.4	1.0	2.3
Other	21.1	20.1	-1.0	21.0	-0.9
Cash	1.0	1.1	0.1	0.0	1.1

## Industry breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Relative weight
Financials	14.1	13.5	-0.6	12.4	1.1
Industrials	14.4	13.4	-1.0	9.4	4.0
Information technology	13.1	13.1	0.0	21.5	-8.4
Health care	10.9	10.8	-0.1	12.4	-1.6
Real Estate	8.8	9.1	0.3	2.6	6.5
Energy	9.0	8.4	-0.5	2.8	5.6
Utilities	8.0	8.2	0.2	3.1	5.1
Materials	5.4	6.8	1.4	4.7	2.1
Consumer discretionary	6.7	6.4	-0.4	12.7	-6.4
Communication services	5.5	5.7	0.2	9.3	-3.6
Consumer staples	3.2	3.4	0.1	7.9	-4.5
Other	0.0	0.3	0.3	1.1	-0.8
Cash and near cash	1.0	1.1	0.1	0.0	1.1

## Capitalisation breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Relative weight
Mega cap (> \$50bn)	46.3	45.3	-1.0	59.5	-14.2
Large cap (\$10 - \$50bn)	43.8	43.8	0.0	32.1	11.7
Mid cap (\$2 - \$10bn)	4.5	5.2	0.7	8.4	-3.2
Small cap (< \$2bn)	4.4	4.7	0.3	0.1	4.5
Cash	1.0	1.1	0.1	0.0	1.1

## Largest holdings (%)

	Fund	Index	Relative weight
First Republic Bank	3.3	0.0	3.3
Prairiesky Royalty	3.2	0.0	3.2
Microsoft	2.9	2.9	0.0
Infineon Technologies	2.7	0.1	2.6
Samsung Electronics	2.6	0.5	2.0
Toyota	2.4	0.3	2.2
Weyerhaeuser Company	2.4	0.0	2.4
Siemens	2.4	0.2	2.2
Franco Nevada	2.4	0.1	2.3
Comcast	2.2	0.4	1.8

## Largest overweights (%)

	Fund	Index	Relative weight
First Republic Bank	3.3	0.0	3.3
Prairiesky Royalty	3.2	0.0	3.2
Infineon Technologies	2.7	0.1	2.6
Weyerhaeuser Company	2.4	0.0	2.4
Franco Nevada	2.4	0.1	2.3
Siemens	2.4	0.2	2.2
Toyota	2.4	0.3	2.2
Republic Services	2.2	0.0	2.1
Manulife Financial	2.2	0.1	2.1
Transurban Group	2.1	0.1	2.1

## Largest underweights (%)

	Fund	Index	Relative weight
Apple	0.0	3.9	-3.9
Amazon	0.0	2.6	-2.6
Alphabet	0.0	1.7	-1.7
Facebook	0.0	1.2	-1.2
Alibaba Group Holding	0.0	1.1	-1.1
Taiwan Semiconductor	0.0	0.7	-0.7
Nestle	0.0	0.7	-0.7
Procter & Gamble	0.0	0.7	-0.7
Nvidia Corporation	0.0	0.6	-0.6
Tesla	0.0	0.6	-0.6

Global equities extended their rally, with the MSCI ACWI Index reaching a peak in early September before giving back some of the gains towards the end of the quarter as popular momentum stocks lost their lustre. The US outperformed, with the S&P 500 Index and the NASDAQ Composite climbing to all-time highs. Emerging markets and Asia Pacific ex Japan delivered returns which were ahead of the MSCI ACWI Index, but Japan fell short. Europe was the notable laggard as the UK weighed on returns from the region once more.

Consumer discretionary was the top-performing sector after Amazon.com ended the quarter with a 14% gain in US dollars, while technology benefited from Apple's 27% surge. Cyclical sectors delivered mixed results, with materials and industrials outperforming in contrast to the weakness in energy and financials. Defensive stocks were left behind in a rising market, resulting in the underperformance of consumer staples, healthcare and utilities.

The fund generated a positive return during the third quarter, but trailed the MSCI ACWI Index in a market where narrowness of leadership was the dominant feature. Not owning Apple and Tesla provided a significant headwind against this peculiar backdrop. Both stocks command high multiples and we see growth opportunities which are more attractively valued elsewhere. We remain true to our mantra of 'themes grounded in reality'.

ONEOK led the detractors among the fund's holdings, having performed strongly in the second quarter. The midstream energy company, which owns and operates pipelines and processing facilities, belongs to the 'infrastructure' theme under the sub-theme of 'providing for life's essentials'. Negative sentiment weighed on the energy sector once more, but ONEOK's fundamentals remained resilient: the US company remained cash-generative and continued to pay dividends. We added to the holding on weakness. We continue to have confidence in the long-term growth prospects of our energy infrastructure holdings due to their highly contracted revenues and exposure to some of the most prolific basins in North America.

Despite the pressure on ONEOK's share price, stock selection added value in energy overall due to the fund's zero exposure to Exxon Mobil. We continue to avoid the oil majors because of long-term growth concerns.

Transportation infrastructure was another area under pressure in the 'infrastructure' theme. Ferrovial and Vinci, which own and operate a collection of high-quality assets in toll roads and airports, reported tough trading conditions in the immediate aftermath of COVID-19, but both companies highlighted an improving trend, particularly in toll roads as travel restrictions were eased. We continue to take a favourable view from a long-term perspective owing to the companies' expertise in developing and expanding critical infrastructure networks to support economic growth. Both companies are part of 'the multi-trillion-dollar shortfall' sub-theme.

Nokia was another holding that reversed the strong gains from the previous quarter. We continue to believe that the telecoms equipment manufacturer is a long-term beneficiary of structural growth trends, including 5G deployment. The Finnish company belongs to the 'innovation' theme under 'cloud and connectivity'.

CVS Health was the leading laggard in the 'demographics' theme as defensive stocks were out of favour. In our view, the fundamentals remained intact, however, as the US healthcare company reported better-than-expected results and raised its guidance for the year. The long-term investment case, befitting of the 'living longer, healthier and smarter' sub-theme, remains unchanged.

Turning to the positive contributors, Weyerhaeuser, the world's largest private owner of timberlands, added the most value. Shares of the US company, which is classified as a real estate investment trust (REIT), rose 27% after reporting better-than-expected results. Air Products and Chemicals, the industrial gases company, and Ørsted, the world leader in offshore wind power generation, also delivered double-digit returns. All three companies are core holdings in the 'environment' theme under 'the road to zero carbon'.

Starpharma Holdings was the standout performer in the 'demographics' theme. The healthcare stock, part of the 'living longer, healthier and smarter' sub-theme, jumped more than 30% on optimism about the company's new product pipeline, including a nasal spray to prevent the transmission of COVID-19. The Australian company maintains a strong financial position and remains well placed for long-term growth. We trimmed the holding to manage the weighting in the portfolio. Comcast also added value in the 'demographics' theme. The US media conglomerate belongs to 'the 21st century urbanite' sub-theme.

Infineon made the biggest contribution in a strong technology sector. The German company is part of the 'innovation' theme under 'changing face of transport' owing to the increased use of its semiconductor technology in cars.

### Year-to-date performance

The fund lagged the MSCI ACWI Index during the first nine months of 2020, with negative sector allocation responsible for the shortfall. The overweight in energy, coupled with the underweight in technology, held back performance.

PrairieSky Royalty and ONEOK led the detractors in a weak energy sector. Both stocks were hit particularly hard in March when the sector was sold off indiscriminately as the dual shock of increased supply from Saudi Arabia and lower demand in the wake of COVID-19 weighed on sentiment. We added to both stocks on weakness.

Not owning Apple and Amazon.com also provided a significant drag on relative performance. Manulife Financial and Erste Group Bank underperformed as financials drifted lower.

Stock selection added value across a variety of sectors, with the strongest contributions from real estate (Weyerhaeuser, Equinix) and materials (Franco-Nevada, Air Products and Chemicals). Shimano outperformed in consumer discretionary, while Ørsted was the shining light in utilities. Infineon and Tencent surged in a dominant technology sector.

### Portfolio activity

We made one new purchase and one complete sale during the quarter, consistent with our usual low turnover, buy-and-hold approach.

We initiated a holding in Martin Marietta Materials in the 'infrastructure' theme under 'the multi-trillion-dollar shortfall'. The US building materials company is strategically positioned in high-growth geographies benefiting from population growth as well as robust fiscal initiatives to support public infrastructure investment. The company has an exemplary track record of capital discipline for a cyclical business, with a long history of dividend growth which remains unblemished since its stockmarket listing in 1994. We believe Martin Marietta is well placed for profitable long-term growth.

The legacy holding in US industrial conglomerate Honeywell International was sold as a source of cash. We also reduced Shimano, a strong performer in the 'demographics' theme. Shares of the Japanese specialist in bicycle components reached all-time highs as travel restrictions prompted changes in consumer behaviour. Shimano belongs to the sub-theme of 'the 21st century urbanite'.

The number of active investments is now at 60 following the successful spin-off of Siemens Energy from parent company Siemens. We expect the underlying number of holdings to range between 40 and 60 over the long term.

We are retaining Siemens Energy as a long-term holding, owing to its key role in enabling the global energy transition from conventional to renewable energy. The new German company belongs to the 'environment' theme under 'the road to zero carbon'. Parent company Siemens remains in the 'infrastructure' theme under 'the multi-trillion-dollar shortfall' sub-theme.

The fund's regional weightings were little changed. North America remained the largest exposure in absolute terms, albeit an underweight relative to the MSCI ACWI Index. Europe continues to be the largest overweight relative to the benchmark.

In terms of sectors, real estate emerged as the fund's largest overweight as we continued to build our holding in Weyerhaeuser. Utilities and energy remain significant overweight positions due to our exposure to renewable energy and energy transition. Industrials remained an overweight although the weighting fell after we sold Honeywell. Materials increased with the new purchase of Martin Marietta. The exposure to financials declined as KBC Groep and Erste Group Bank fell with the weakness in banks.

'Demographics' remained the largest theme representing 37% of the portfolio, followed by 'infrastructure' and 'innovation' at 23% and 22%, respectively. 'Environment' was higher at 17% following the addition of Siemens Energy.

## Outlook

---

The strength in equity markets continues to confound the sceptics. The much touted 'V-shaped' recovery is far from guaranteed, but we have much greater conviction in the long-term trends that underpin our thematic approach. We remain undeterred in our belief that the fund's four themes – demographics, environment, infrastructure and innovation – will persist for many decades to come and that the beneficiaries of these powerful tailwinds can generate profitable growth for a variety of stakeholders, including employees, customers, shareholders and broader society.

The ability to generate cashflow is absolutely critical in our company analysis. History is littered with examples of blue sky concepts which never turned a profit. Fleeting fads and speculative manias are seldom rewarding over the long term. Persistent loss makers are usually cast aside and forgotten in the annals of history.

Valuation is another crucial aspect of our stock selection process and we believe that the opportunities presented by the market downturn will sow the seeds for future performance. We remain as optimistic as ever about the long-term prospects of the companies we are invested in and remain committed to our investment mantra: themes grounded in reality.

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 fund originally launched on 28 February 1973 (end of the initial offer period of the Fund in the UK). However, on 17 November 2000, the fund re-launched and we are choosing to use this date as the launch date for this fund. On this date the fund's name, objective, benchmark and sector changed. On 17 November 2017, the fund's name, objective, policy, and performance comparator changed.

On 17 November 2017, the fund's name, objective, policy, and performance comparator changed.

On 17 November 2017 the fund's benchmark changed from the FTSE Global Basics Composite Index to the MSCI All Country World Index. Please note the index returns shown for all time periods are those of the MSCI All Country World Index.

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

**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