

M&G (Lux) Global Target Return Fund - Euro Class A

Monthly Fund Review as at 30 June 2018

For investment professionals only



Highlights

- The fund experienced a challenging month, primarily due to its emerging market positions.
- Within emerging markets, equity, fixed income and currencies detracted from performance. Losses were partially offset by long US dollar exposure.
- Portfolio activity included reducing net equity exposure with a view to protecting against potential stockmarket volatility.

Risks associated with this fund

For any past performance shown, please note that past performance is not a guide to future performance.

The value of investments and the income from them will fluctuate. This will cause the fund price to fall as well as rise. These fluctuations may be more extreme in periods of market disruption and other exceptional events. There is no guarantee the fund objective will be achieved and you may not get back the original amount you invested.

The fund may take short positions through the use of derivatives. Short positions reflect an investment view that the price of the underlying asset is expected to fall in value. Accordingly, if this view is incorrect and the asset rises in value, the short position will cause the fund to incur a loss.

Derivatives may be used to generate exposure to investments exceeding the net asset value of the fund, thereby exposing the fund to a higher degree of risk. As a result of increased market exposure, the size of any positive or negative movement in markets will have a relatively larger effect on the net asset value of the fund. The additional exposure will however be limited to such an extent as to not materially increase the price fluctuations of the fund, in comparison to equivalent funds that do not use derivatives in this way.

Currency exchange rate will impact 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)

	2017	2016	2015	2014	2013
Euro A Acc	2,6%	n/a	n/a	n/a	n/a

Performance since launch



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	Manager tenure (%) p.a.	Since launch (%) p.a.
Fund	-0,7	-1,4	-1,1	-0,7	N/A	N/A	+0,9	+0,9
3-month EURIBOR + 4%	+0,3	+0,9	+1,8	+3,7	+3,7	+3,9	+3,7	+3,7

The fund targets a combined income and capital growth of at least three-month EURIBOR plus 4% a year over any three-year period, before any charges and in any market condition. There is no guarantee that the fund will achieve a positive return over any period. Investors may not get back the original amount they invested.

Past performance is not a guide to future performance.

Things you should know

The fund allows for the extensive use of derivatives.

Key information

Fund manager	Tristan Hanson
Fund manager tenure from	21 December 2016
Deputy fund manager	Eric Lonergan
Launch date	21 December 2016
Launch of share class	21 December 2016
Fund size (millions)	€122,56
Fund type	Luxembourg SICAV
Reference rate	3-month EURIBOR
Comparative sector	Morningstar Alternative-Multistrategy sector
Modified duration (years)	-2,8
Average credit rating of fixed interest holdings	A
Share type	Accumulation
Ongoing charge	1,50 %

VaR analysis (%)

	Fund
1 month 99% VaR	1,62

Portfolio construction (%)

	Allocation range	Neutrality
Equity	+/-35	0
Fixed income	+/-6 years duration	0
Other	0-20	0
Currency	50-150 in euro	

Other: Comprises mainly property, infrastructure, convertibles and private loans. Please note these guidelines are subject to change.

Asset breakdown (%)

	Long exposure	Short exposure	Net exposure
Equity	19,2	-5,1	14,1
UK	1,8	0,0	1,8
Europe	7,6	0,0	7,6
US	1,6	-5,1	-3,5
Japan	3,0	0,0	3,0
Asia Pacific ex Japan	4,3	0,0	4,3
Other	1,0	0,0	1,0
Equity options (nominal)	0,4	0,0	0,4
Government bonds	10,6	-30,1	-19,5
UK	0,0	-6,6	-6,6
Europe	4,8	-17,9	-13,1
US	0,0	0,0	0,0
Japan	0,0	-5,6	-5,6
Asia Pacific ex Japan	1,9	0,0	1,9
Other	3,9	0,0	3,9
Corporate bonds	3,5	0,0	3,5
Investment grade	3,5	0,0	3,5
High yield	0,0	0,0	0,0
Bond options (nominal)	0,0	0,0	0,0
CDS	0,0	-33,5	-33,5
Other	0,5	0,0	0,5
Convertible bonds	0,0	0,0	0,0
Property funds/Infrastructure	0,0	0,0	0,0
Private loans	0,0	0,0	0,0
OTHER	0,5	0,0	0,5

Equity options (nominal): The total value of all the equity options held in the fund expressed as a percentage of net asset value (NAV). **Bond options (nominal):** The total value of all the bond options held in the fund expressed as a percentage of net asset value (NAV). **Private loans:** A loan provided by a non-bank lender, generally at a specific interest rate and for a pre-determined length of time.

Largest exposures (excluding cash, %)

	Net exposure
Italian government 10Y	3,1
British government 10Y	-3,1
British government 30Y	-4,1
German government 30Y	-5,0
NASDAQ 100 E-MINI	-5,1
Chinese government 10Y CDS	-7,9
Philippines government 5Y CDS	-7,9
Chilean government 2Y CDS	-7,9
Korean government CDS	-7,9
German government 5Y	-10,0

Currency breakdown (%)

	Net exposure
Euro	95,4
US dollar	19,9
Turkish lira	2,1
Mexican peso	2,1
Singapore dollar	-2,0
Malaysian ringgit	-2,9
Chinese renminbi	-3,0
Taiwan dollar	-4,9
Hong Kong dollar	-10,2
Other	3,7

The fund's neutral currency positioning is 100% in euros. Deviations from this figure, therefore, represent long/short exposure.

Options (%)

	Fund
Equity options valuation (delta adjusted)	-3,9
Fixed interest options valuation (delta adjusted)	0,0

Equity options valuation (delta-adjusted): The notional value of all the equity options held in the fund, taking into account the sensitivity of each option's price to changes in the underlying equity price. Notional value is the market value of an option's underlying assets at the market price. **Fixed income options valuation (delta-adjusted):** The notional value of all the fixed income options held in the fund, taking into account the sensitivity of each option's price to changes in the underlying bond price. Notional value is the market value of an option's underlying assets at the market price.

Leverage and volatility

	Fund
Net leverage	-0,3x
Gross leverage	1,0x
Volatility	3,38%

Net leverage is the sum of all net notional exposures, excluding cash, divided by NAV. Gross leverage is the sum of all gross notional exposure, excluding cash, divided by NAV. Volatility is one-year annualised volatility calculated monthly, as at 30 June 2018, sourced from Morningstar.

Commentary

The fund experienced a challenging month, as trade tensions and Italian politics continued to trigger bouts of market volatility. This resulted in increased risk aversion across Asia and Europe, with US equities and German government bonds generally outperforming other major assets.

While the fund's emerging market positions are individually modest in size, they collectively drove negative returns across asset classes in June. In equities, Chinese H shares and Korean stockmarket index exposure dragged on performance, while Indonesian government bonds also suffered from what appeared to be an emerging market 'contagion' effect. Asian currencies were generally weak.

Losses were partially offset by long exposure to the US dollar, Mexican government bonds, Italian and Spanish equities and credit default swap protection.

While market volatility in 2018 may have felt uncomfortable at times for risk averse investors, it also appears to have presented some attractive opportunities to add exposure to global equities and emerging market assets.

Our investment strategy is centred on the premise that it is impossible to forecast the outcomes of political events or their impact on markets – as such, we remain focused on assessing valuations according to fundamental drivers of returns. We feel that recent dramatic price

movements should increase the potential for selected 'out-of-favour' assets to deliver positive returns over the medium term. We therefore continue to look for such opportunities, while maintaining levels of exposure consistent with the fund's defensive mandate.

Key changes

In June, we materially reduced net equity exposure with a view to minimising portfolio volatility and drawdowns. This primarily involved adding short exposure to the S&P 500 and Nasdaq US stockmarket indices to diversify against the portfolio's long equity positions. In addition, we reduced long exposure to European equities.

In fixed income, we added modest long exposure to Italian BTPs after prices fell sharply and increased short exposure to German bunds. Spreads between Italian and German government bonds are now at considerably wide levels; however, if markets were convinced that Italy would leave the eurozone, we believe Italian yields would be far higher. This therefore appears to represent an attractive opportunity to benefit from higher returns on Italian bonds, while German yields seem to have little scope to reduce further.

At the very start of the month, we also closed a long position in US Treasuries that had provided effective protection from market volatility in May.

The portfolio remains net long of global equities and net short of 'safe-haven' government bonds from Germany and the UK, which appear significantly overvalued.

Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A Acc	LU1531594833	MGTRAEA LX	1,25%	1,50% *	€ 1.000	€ 75
Euro B Acc	LU1531594916	MGTRBEA LX	1,75%	2,00% *	€ 1.000	€ 75
Euro C Acc	LU1531595053	MGTRCEA LX	0,50%	0,75% *	€ 500.000	€ 50.000
Euro CI Acc	LU1531595137	MGTCIEA LX	0,50%	0,71% *	€ 500.000	€ 50.000

The ongoing charge figures disclosed above include direct costs to the fund, such as the annual management charge (AMC), administration charge and custodian charge, but does not include portfolio transaction costs. They are based on expenses for the period ending 11 October 2017.

* The ongoing charge figure shown here is an estimate. The Fund's annual report for each financial year will include details of the exact charges made. Please note that not all of the share classes listed above might be available in your country.

Important information

The fund's physical holdings include a significant proportion of cash or cash equivalents, which are used as backing for the derivatives positions.

Source of performance data: Morningstar, Inc., as at 30 June 2018, Euro Class A shares, net income reinvested, price to price basis. Past performance is not a guide to future performance. All other statistics from M&G internal sources, as at 30 June 2018 unless indicated otherwise.

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