Monthly Fund Review

28 February 2017

M&G Global Select Fund

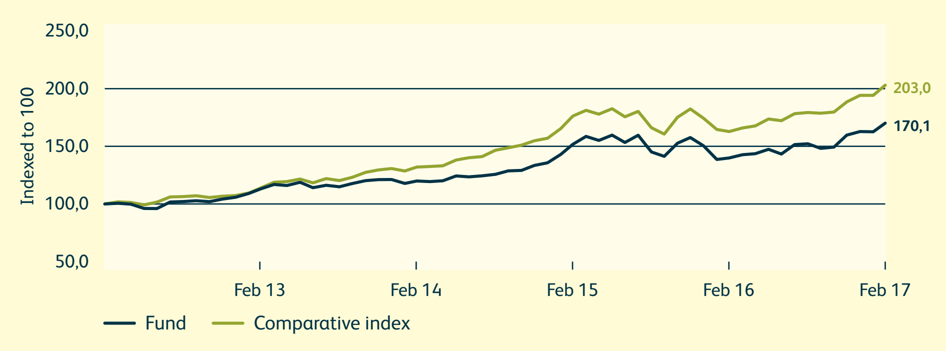
M&G INVESTMENTS

Euro Class A

Summary

- The fund delivered positive returns, outperforming the MSCI World Index in US dollar terms, while performing in line with the index in euro terms and underperforming in sterling.
- Stockpicking within the energy and consumer discretionary sectors was supportive, while selection among healthcare and industrials weighed on performance.
- The fund manager added one new holding during the month, Unilever, while exiting the positions in Adient and British American Tobacco.

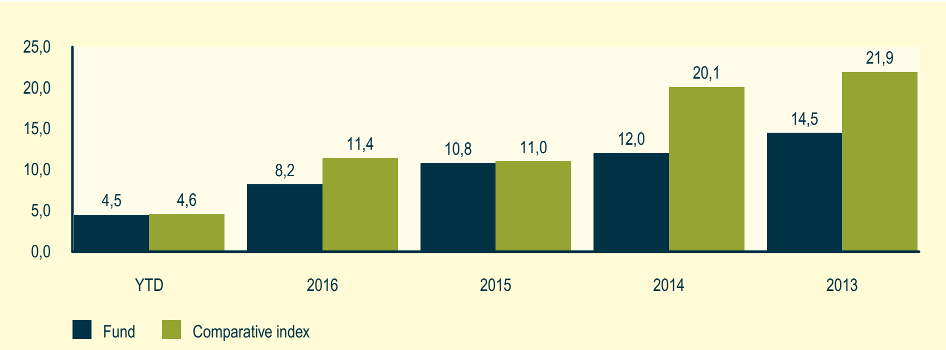
Performance over 5 years



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	Since tenure (%) p.a.	Since inception (%) p.a.
Fund	+4,6	+6,5	+4,5	+21,6	+12,4	+11,2	+12,8	+7,0
Index	+4,6	+7,7	+4,6	+24,7	+15,5	+15,2	+14,9	N/A
Sector	+4,3	+6,9	+4,4	+19,5	+12,0	+12,1	+11,7	+7,0
Ranking	90/261	171/256	109/261	92/243	88/182	102/148	78/189	1/1
Quartile ranking	2	3	2	2	2	3	2	1

Annual performance (%)



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. There is no guarantee the fund objective will be achieved and you may not get back the original amount you invested.

On 1 January 2016 the fund's comparative index changed from MSCI AC World to MSCI World Index, which is more representative of the fund's investment universe. Please note the index returns shown for all time periods are those of the MSCI World Index.

Please note that returns titled 'since inception' are calculated from 31 December 1971, rather than the fund's official launch date. This is the earliest date that performance data is available from Morningstar for this share class.

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.

Key information

Fund manager	John William Olsen
Fund manager tenure from	1 July 2014
Deputy fund manager	Kasper Mikkelsen
Launch date	19 December 1967
Launch of share class	28 November 2001
Fund size (millions)	€783,25
Fund type	OEIC, incorporated in the UK
Comparative index	MSCI World Index
Comparative sector	Morningstar Global Large-Cap Blend Equity sector
Number of companies	32
Historic yield (Acc)	0.23 %
Historic yield (Inc)	1.88 %
Portfolio turnover over 12 months	19,5 %
Share type	Acc & Inc
Ongoing charge	1,92 %

The historic yield reflects distributions declared over the past 12 months as a percentage of the share price, as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions. The fund's charging policy has recently changed and, rather than being decided at fund level, certain charges are now deducted from income for accumulation share classes and from capital for income share classes. These charges include the annual management charge, administration fee and share class hedging fee (for hedged share classes). To ensure that yields quoted are representative of the fund's charging policy, for some share classes an estimated historic yield is shown. This is based on the historic yield, but adjusted for the impact of the new charging policy. This adjustment will be applied until distributions have been declared for a full year after the changes, from which time the historic yield will again be on the same basis as the distributions. For the fund's Euro Class A income shares, the policy of deducting certain charges from capital has the effect of increasing distribution(s) for the year by 1,89 % and constraining capital performance to an equivalent extent.

Fund ratings

Overall Morningstar rating	★★★★
Morningstar Analyst rating	Neutral

Source of Morningstar ratings: Morningstar, as at 31 January 2017

Ratings should not be taken as a recommendation.

Industry breakdown (%)

	Fund	Index	Relative weight
Financials	24,7	17,9	6,7
Healthcare	23,8	12,3	11,5
Information technology	13,1	15,2	-2,1
Industrials	12,7	11,2	1,5
Consumer discretionary	11,5	12,3	-0,7
Consumer staples	9,3	9,8	-0,6
Materials	2,3	5,1	-2,8
Energy	2,2	6,5	-4,3
Real estate	0,0	3,2	-3,2
Telecommunications	0,0	3,2	-3,2
Utilities	0,0	3,3	-3,3
Cash and near cash	0,6	0,0	0,6

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Risk characteristics

As at 31/01/17	
Alpha:	-1,49
Information ratio:	-0,43
Sharpe ratio:	1,59
Historic tracking error:	3,01
Beta:	0,96
Standard deviation:	12,62
Forecast tracking error (active risk):	3,60
Active share	93,50

Alpha: Portfolio return less comparative index return, annualised. **Information ratio:** Risk-adjusted relative return, measured as the ratio of active return (difference between portfolio return and index return), divided by tracking error (standard deviation of active returns). **Sharpe ratio:** Risk-adjusted absolute return, measured as the ratio of portfolio excess return (difference between mean portfolio return and the risk-free rate) divided by the standard deviation of portfolio returns. **Historic tracking error:** Measure of the actual deviation of portfolio returns from comparative index returns. These four risk measures are calculated using realised, rolling, three-year fund returns. **Beta:** Forecast sensitivity of portfolio returns to the comparative index. **Standard deviation:** Forecast absolute volatility of portfolio returns. **Forecast tracking error (active risk):** Forecast standard deviation of a portfolio's returns relative to its comparative index. **Active share:** Sum of overweight and underweight positions within the portfolio away from the comparative index, divided by two. These four risk measures are calculated with reference to the returns of underlying securities portfolios, not fund returns. Numbers are based on four years of daily data using a 3-6 month horizon.

Largest holdings (%)

	Fund	Index	Relative weight
Unitedhealth Group	6,1	0,4	5,7
Becton Dickinson	6,0	0,1	5,9
Novo Nordisk	4,5	0,2	4,3
Nestle	4,3	0,7	3,6
Microsoft	3,9	1,3	2,6
AIG	3,9	0,2	3,7
Tokio Marine	3,9	0,1	3,8
WH Smith	3,9	0,0	3,9
Graco	3,9	0,0	3,9
Bank of New York Mellon	3,8	0,1	3,7

Largest overweights (%)

	Fund	Index	Relative weight
Becton Dickinson	6,0	0,1	5,9
Unitedhealth Group	6,1	0,4	5,7
Novo Nordisk	4,5	0,2	4,3
WH Smith	3,9	0,0	3,9
Graco	3,9	0,0	3,9
Tokio Marine	3,9	0,1	3,8
AIG	3,9	0,2	3,7
Bank of New York Mellon	3,8	0,1	3,7
Discover Financial Services	3,7	0,1	3,7
Nestle	4,3	0,7	3,6

Largest underweights (%)

	Fund	Index	Relative weight
Apple	0,0	2,1	-2,1
Amazon	0,0	1,0	-1,0
Exxon Mobil	0,0	1,0	-1,0
Johnson & Johnson	0,0	0,9	-0,9
JP Morgan	0,0	0,9	-0,9
Facebook	0,0	0,9	-0,9
Wells Fargo	0,0	0,8	-0,8
General Electric	0,0	0,8	-0,8
AT&T	0,0	0,7	-0,7
Bank of America	0,0	0,7	-0,7

Country breakdown (%)

	Fund	Index	Relative weight
US	61,4	60,7	0,7
UK	10,2	6,5	3,7
Germany	5,9	3,3	2,6
Netherlands	5,2	1,2	3,9
Denmark	4,5	0,6	3,9
Switzerland	4,3	3,2	1,1
Japan	3,9	8,7	-4,9
Israel	2,3	0,2	2,2
Other	1,8	15,6	-13,8
Cash and near cash	0,6	0,0	0,6

Capitalisation breakdown (%)

	Fund	Index	Relative weight
Mega cap (> $50bn)	51,3	51,5	-0,2
Large cap ($10 - $50bn)	31,1	36,3	-5,3
Mid cap ($2 - $10bn)	17,1	11,9	5,1
Small cap (< $2bn)	0,0	0,2	-0,2
Cash	0,6	0,0	0,6

Performance review

Developed market equities delivered positive returns in February, as investors appeared confident that US President Donald Trump would be able to introduce his pro-growth policies, including tax cuts and increased infrastructure spending. US stockmarkets hit a series of record highs, taking other markets along for the ride – this included European equities, which resumed their upward momentum following a pause in January.

In this environment, some of the more defensive areas of the market that had sold off in previous months, including healthcare, consumer staples and utilities, performed well – information technology also outpaced the wider market, helped by well-received results from Apple. Energy was the biggest laggard for the month, despite the oil price ending the month higher, closely followed by materials, which consolidated January's strong rally.

Against this background, the fund delivered positive returns, outperforming the MSCI World Index in US dollar terms, while performing in line with the index in euro terms and underperforming in sterling. The fund's overweight in healthcare and underweight in energy were supportive of relative returns, as was stockpicking within the energy and consumer discretionary sectors. Conversely, selection among healthcare and industrials weighed on performance.

At a stock level, the fund's largest contributor was luxury jeweller **Tiffany**. The company reached a deal with activist investors to appoint three independent directors to its board, who would help oversee the search for a new chief executive (CEO Fredric Cumenal left the company at the beginning of the month). Investors anticipated that the new board members would help to accelerate Tiffany's modernisation, including enhancing the customer experience, increasing the rate of new product introductions, optimising the store network, and improving business operations and processes.

Addiction cessation drug maker **Indivior** buoyed returns as well, having published solid results that were largely in line with expectations, pleasing investors. The company has seen good revenue growth, largely driven by a pick-up in the US, given government initiatives to improve access to and funding for addiction treatment. There has also been steady and improving demand for Indivior's film product, despite the availability of generic tablet form alternatives.

Meanwhile, shares in Anglo-Dutch consumer goods giant **Unilever** had been supressed for some time, providing the opportunity for Fund Manager John William Olsen to invest in the company in February. Unilever's share price subsequently rose sharply on news that competitor Kraft Heinz was seeking a £115 billion bid for the company. Unilever rejected the bid, while upgrading its profit margin expectations for the year, and announcing a 'comprehensive review of options' to improve value for shareholders.

Elsewhere, engineering simulation software developer **Ansys** reported quarterly numbers that beat expectations, including the signing of eight new enterprise-wide licenses (ELAs) for the period – ELAs facilitate increased penetration of Ansys' products within its customer base. The company has also been undergoing restructuring, reprioritising investment in sales and marketing, new products, and infrastructure initiatives.

On the downside, the month's main laggard was US retailer operator **L Brands**. Its shares declined after the company reported a drop in same-store sales, with the outlook for 2017 falling below expectations. Underperformance was primarily driven by Victoria's Secret, which has felt pressure on sales in light of the weaker store traffic seen throughout US retail, as well as reduced profit margins in light of discounting.

Shares in US efficiency specialist **Johnson Controls** declined as well, after the company published guidance for the second quarter that disappointed some investors. This was despite publishing above-expectation first-quarter numbers and reiterating its solid guidance for the full year (benefits of the integration of Tyco, acquired last year, are expected to come through in the second half of 2017).

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Not holding shares in Apple, which rose strongly on good results, also dragged on relative returns. Other detractors included multinational pharmaceutical company **Novo Nordisk**, which has remained out of favour in light of pricing pressure in the US, and UK-listed Bank **Standard Chartered**. Standard's share price fell on news that it was not paying a dividend despite returning to profit.

Key changes

John William closed two positions during the month, starting with automotive seating and interiors business **Adient**, a small position that had been spun off from Johnson Controls last year. He also exited the holding in cigarette maker **British American Tobacco**, in light of tougher regulations, new technologies – including 'vaping' – leading to increased competition and uncertainty, and a belief that tobacco companies were increasingly unlikely to produce the same level returns as they have in the past.

As mentioned above, John William replaced BAT with another consumer business, Unilever, a high-quality producer of household and beauty products as well as food and beverages. Unilever is very long term, making strategic acquisitions over time to grow and diversify its business, and is stakeholder, not just shareholder, focused. The company is now, in light of the attempted bid by Kraft, looking at shorter-term optimisations in the business, and John William believes we will see ongoing improvement in cashflow conversion and margins. He has watched the stock for some time, waiting for the right entry point to provide a suitable margin of safety, and believes that that patience has now paid off.

Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A Inc	GB00BK6MB281	MGGGEAI LN	1,75 %	1,92 %	€ 1.000	€ 75
Euro A Acc	GB0030938145	MGIGEAA LN	1,75 %	1,92 %	€1.000	€75
Euro B Acc	GB00BDCQM882	MGGSBAE LN	2,25 %	2,41 % *	€1.000	€75
Euro C Inc	GB00BK6MB398	MGGGECI LN	0,75 %	0,92 %	€ 500.000	€ 50.000
Euro C Acc	GB0030938251	MGIGECA LN	0,75 %	0,92 %	€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 (including research costs). They are based on expenses for the period ending 31 August 2016.

* 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

Cash and near cash may be held on deposit and/or in the Northern Trust Cash Funds (a range of collective investment schemes) and/or in short-dated government bonds.

Source of performance data: Morningstar, Inc., as at 28 February 2017, 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 28 February 2017 unless indicated otherwise.

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