

M&G (Lux) Global Emerging Markets Fund USD Class CI – Accumulation shares



Quarterly Fund Review as at 31 December 2021

Fund manager(s) – Michael Bourke

For investment professionals only

Highlights

- The fund declined in the fourth quarter and was behind its benchmark index. Some of our US-listed Chinese stocks including Alibaba hurt relative performance, while energy and technology holdings added value.
- Emerging market equities ended the year on a disappointing note as worries about interest rate rises in the US and the Omicron coronavirus variant weighed on sentiment. They lagged developed market stocks by a wide margin.
- We invested in three new holdings: Raizen, a Brazilian ethanol producer, Naspers, a South African technology firm, and Chinese drugs maker Zai Lab. NTPC, Koc and Banco Santander Mexico left the portfolio.

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.

This promotion relates to the acquisition of units or shares in a fund and not in a given underlying asset such as property.

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 (%)	5 years (%)
				p.a.	p.a.
■ US Dollar CI Accumulation	-2.3%	3.8%	3.8%	10.4%	7.8%
■ Benchmark	-1.3%	-2.5%	-2.5%	10.9%	10.0%
■ Sector	-1.8%	-2.4%	-2.4%	10.8%	9.0%
■ Quartile ranking	3	1	1	3	3

Single year performance (5 years)

	2021	2020	2019	2018	2017
■ US Dollar CI Accumulation	3.8%	4.7%	24.0%	-16.5%	29.2%
■ Benchmark	-2.5%	18.3%	18.4%	-14.3%	37.8%
■ Sector	-2.4%	17.7%	18.9%	-16.5%	35.2%
■ Quartile ranking	1	4	1	3	4

Past performance is not a guide to future performance.

Benchmark= MSCI Emerging Markets Net Return Index

Sector= Morningstar Global Emerging Markets Equity sector

The benchmark is a comparator against which the fund's performance can be measured. It is a net return index which includes dividends after the deduction of withholding taxes. 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 investment 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.

Fund performance prior to 26 October 2018 is that of the USD Class CI Accumulation of the M&G Global Emerging Markets Fund (a UK-authorized OEIC), which merged into this fund on 26 October 2018. Tax rates and charges may differ.

Benchmark is Gross Return prior to 26 October 2018 and Net Return after this date.

Source: Morningstar, Inc and M&G, as at 31 December 2021. Returns are calculated on a price to price basis with income reinvested. Benchmark returns stated in USD terms.

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Largest positive contributors 3 months (%) by issuer

	Rel. weight	Absolute return	Contribution
Silicon Motion Technology	1.4	39.0	0.5
Kosmos Energy	1.8	17.3	0.4
First Quantum Minerals	1.3	29.7	0.3

Largest detractors 3 months (%) by issuer

	Rel. weight	Absolute return	Contribution
Hollysys Automation Technologies	2.5	-31.8	-1.0
Taiwan Semiconductor Manufacturing	-5.3	7.0	-0.4
Autohome	0.9	-37.0	-0.4

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 (%) by issuer

	Rel. weight	Absolute return	Contribution
Silicon Motion Technology	1.6	101.8	1.3
Kosmos Energy	1.7	47.1	1.1
Nk Lukoil Pao	2.3	41.1	0.9

Largest detractors YTD (%) by issuer

	Rel. weight	Absolute return	Contribution
Taiwan Semiconductor Manufacturing	-4.9	18.2	-0.9
Ping An Insurance Group Co Of China	1.7	-39.0	-0.8
Greatview Aseptic Packaging	2.0	-31.1	-0.7

Country breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Rel. weight
China / Hong Kong	29.3	28.6	-0.7	32.6	-4.0
South Korea	15.9	17.1	1.2	12.8	4.3
Taiwan	6.4	7.4	1.0	15.8	-8.4
Brazil	5.7	7.1	1.4	3.9	3.2
South Africa	6.4	7.0	0.6	3.0	4.0
Russia	8.4	6.9	-1.5	3.2	3.7
Mexico	6.7	5.8	-1.0	2.0	3.7
Indonesia	5.3	5.0	-0.4	1.4	3.5
Other	14.8	13.7	-1.1	25.2	-11.5
Cash	1.0	1.5	0.5	0.0	1.5

Industry breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Rel. weight
Financials	31.7	30.9	-0.9	19.4	11.5
Information technology	19.0	20.4	1.4	22.7	-2.2
Consumer discretionary	8.7	9.5	0.7	13.5	-4.1
Energy	9.0	8.6	-0.4	5.6	3.1
Industrials	8.3	6.2	-2.1	5.1	1.1
Materials	5.8	5.9	0.1	8.5	-2.6
Communication services	4.3	4.9	0.6	10.7	-5.8
Consumer staples	4.3	4.4	0.1	5.9	-1.5
Real Estate	3.4	4.0	0.6	2.0	2.1
Utilities	3.2	2.0	-1.1	2.4	-0.3
Health care	1.2	1.6	0.4	4.2	-2.7
Other	0.0	0.0	0.0	0.1	-0.1
Cash and near cash	1.0	1.5	0.5	0.0	1.5

Capitalisation breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Rel. weight
Mega cap (> \$50bn)	30.2	33.0	2.8	45.4	-12.4
Large cap (\$10 - \$50bn)	23.8	22.6	-1.2	35.2	-12.6
Mid cap (\$2 - \$10bn)	30.1	29.0	-1.2	19.2	9.8
Small cap (< \$2bn)	14.9	14.0	-0.9	0.2	13.8
Cash	1.0	1.5	0.5	0.0	1.5

Largest holdings (%)

	Fund	Index	Rel. weight
Samsung Electronics	7.7	4.6	3.1
Alibaba Group Holding	3.5	2.9	0.5
Bradesco	2.7	0.3	2.4
Baidu	2.7	0.5	2.1
NK Lukoil PAO	2.6	0.5	2.2
Ping AN Insurance Group of China	2.5	0.6	1.8
Hana Financial Group	2.3	0.1	2.2
Shinhan Financial	2.3	0.2	2.1
HON HAI Precision Industry	2.3	0.6	1.7
Samsung Fire & Marine Insurance	2.3	0.1	2.2

Largest overweights (%)

	Fund	Index	Rel. weight
Samsung Electronics	7.7	4.6	3.1
Bradesco	2.7	0.3	2.4
Fibra UNO Administracion	2.2	0.0	2.2
SA de CV			
Samsung Fire & Marine Insurance	2.3	0.1	2.2
NK Lukoil PAO	2.6	0.5	2.2
Hana Financial Group	2.3	0.1	2.2
Baidu	2.7	0.5	2.1
CCR	2.2	0.0	2.1
Shinhan Financial	2.3	0.2	2.1
Ping AN Insurance Group of China	2.5	0.6	1.8

Largest underweights (%)

	Fund	Index	Rel. weight
Taiwan Semiconductor	1.5	7.0	-5.5
Tencent Holdings	0.0	4.3	-4.3
Meituan Dianping	0.0	1.5	-1.5
Reliance Industries	0.0	1.2	-1.2
Infosys	0.0	1.1	-1.1
Mediatek	0.0	0.8	-0.8
Jd.com	0.0	0.8	-0.8
Housing Development Finance Corporation	0.0	0.8	-0.8
Vale	0.0	0.7	-0.7
Gazprom PAO	0.0	0.7	-0.7

Performance

Emerging market equities fell in the fourth quarter and lagged developed market stocks by a wide margin. Concerns about the US Federal Reserve's plans to tighten monetary policy and the impact of the highly transmissible Omicron coronavirus variant weighed on investor sentiment.

China was one of the weakest markets, as investors worried about the health of its property market, ongoing regulatory changes and US-China tensions. Turkey's stockmarket fell as interest rates were cut despite soaring inflation. Brazil and Russia lagged the broader market too.

On the other hand, stockmarkets in Indonesia and the Philippines rose amid optimism about the reopening of their economies. Mexico and Taiwan advanced as well.

At the sector level, information technology was the standout performer, supported by gains from semiconductor stocks. In contrast, consumer discretionary, healthcare and real estate stocks fell sharply.

Against this background, the fund declined and was marginally behind the MSCI Emerging Markets Net Return Index. Our holdings in US-listed Chinese companies Alibaba, Autohome, and Hollysys Automation Technologies were among the leading detractors as they were hurt by discussions about plans to remove Chinese companies from US stock exchanges.

Hollysys, which provides control systems for the power and railway industries, also fell on the news that Hollysys had changed its auditor and its Annual Report would be delayed. We have engaged with the company to understand these developments and continue to monitor the situation carefully.

Alibaba's share price came under pressure too when the company cut its forecast for revenue growth driven by weaker consumer spending and increasing competition. Autohome, a Chinese online vehicle sales firm, has also been hurt by the consumer slowdown in China and disappointing car sales. We believe this is a short-term headwind and Autohome has attractive prospects, particular given the rapidly growing electric vehicle market in China.

As geopolitical concerns related to Ukraine weighed on Russia's stockmarket, our holdings in financial group Sberbank and food retailer X5 detracted from relative returns. We remain comfortable with the positions.

In contrast, technology holdings Silicon Motion Technology, Samsung Electronics and SK Hynix made positive contributions. Taiwan's Silicon Motion, a developer of NAND flash controllers used in memory chips, has benefited from the current global shortage of semiconductors and in December it announced a US\$200m share repurchase plan as a way of returning excess capital to shareholders. SK Hynix similarly benefited from the global semiconductor shortage. After weakness earlier in the year, South Korean tech giant Samsung recovered in the fourth quarter as investors have become more optimistic about the outlook for memory chip prices. US-listed oil & gas firm Kosmos Energy added value as well as the stock recovered from volatility in the previous quarter.

Activity and positioning

We invested in three new holdings in the quarter. We think Brazilian fuel distributor and sugar producer Raizen could be a long-term winner from the energy transition. We also started a position in South African technology business Naspers, which indirectly owns a stake in Chinese internet firm Tencent. Worries about China's regulatory crackdown on Tencent have put pressure on Naspers' share price. However, we believe that the stock has declined further than is warranted. Chinese drugs maker Zai Lab was the final newcomer. With a market-leading position in China and key partnerships with developed market firms, we think Zai Lab is well placed to benefit from increased demand for treatments in China, driven in part by the ageing population.

We also added to our existing positions in Alibaba, Autohome and Baidu, a Chinese internet search firm. Over the course of 2021, we have increased our allocation to China, as we believe the weakness in the country's stockmarket has created some attractive long-term opportunities.

In contrast, we sold our remaining shares in Indian utility company NTPC, which has performed well as investors have welcomed its plans for new renewable projects. We also closed the position in Turkish conglomerate Koc, while Mexican financial Banco Santander Mexico left the portfolio as it was taken over by its parent company Banco Santander.

We also reduced our position in Hollysys, given the uncertainty about the firm's change of auditor. In addition, we took some profits in energy stocks Kosmos Energy and Lukoil, a Russian oil firm, as well as Mexican conglomerate Alfa and Mexican lender Banorte following share-price gains. Some of the proceeds from these sales were recycled into existing holdings Banco Bradesco, a Brazilian lender, and Credicorp, a Peruvian bank.

In terms of positioning, the portfolio remains focused on the cheaper countries and sectors. Brazil, Mexico and South Korea are among the biggest overweights, relative to the benchmark, although we have reduced our allocation to Mexico recently. In contrast, India and Taiwan are the largest underweights. Despite investing in Chinese holdings lately, China remains a below-index position, albeit less than 12 months ago.

At the sector level, financials, industrials and energy are the largest overweights, whereas communication services, consumer discretionary and healthcare are the biggest below-index positions.

Outlook

2021 proved to be a disappointing year for emerging market equities. While developed markets such as the US and Europe climbed to record highs, worries about China's wide-ranging regulatory crackdown and the health of its property sector, combined with the prospect of rates rises in the US, curbed investors' enthusiasm for emerging market stocks.

Despite lacklustre returns for the overall asset class, we remain positive on the prospects of recovery in EM equity over the course of 2022. The reflationary environment alongside economic recovery and reopening in less vaccinated geographies are likely to be key drivers of performance, in our view. We also believe that overseas investors' concerns about developments in China are overly pessimistic. However, despite this optimism, a cautious approach to stock selection in the region is essential for long-term equity investors, in our opinion.

We continue to think there is much more to emerging markets than China, despite the country's dominance of the benchmark index and news headlines. In our view, the current valuation dispersion between different markets offers attractive opportunities for discerning stockpickers who are prepared to follow the value to out-of-favour areas.

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.

Climate metrics

	Weighted Average Carbon Intensity	Coverage by portfolio weight (%)
US Dollar CI Accumulation	204.78	93.68%
Benchmark	328.84	99.39%

Source: MSCI

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.

Explanation of our climate metrics

The Weighted Average Carbon Intensity (WACI) is the metric used to report our funds' carbon emissions. It is a measure of how much CO₂ is being emitted per US\$ million of sales by each company that the fund invests in. This can be used to determine the likely effect a company is having on the environment. It can also help to compare the impact different companies have on the environment, and to compare companies against the broad market or the financial benchmark for the fund. However, this metric does not take into account the difference in carbon characteristics among sectors.

The WACI metric is one of many greenhouse gas emissions data points, each offering a different aspect of analysis on climate impact. M&G have selected this metric as it is applicable to multi-asset, equity and fixed income funds and it is aligned to the recommendations from the Taskforce for Climate Related Financial Disclosures (TCFD). It has also been chosen to align with M&G's groupwide target of transparency when it comes to the disclosure of climate emissions.

At M&G we currently use MSCI as our main third-party data provider for carbon intensity data as we consider its coverage to be the broadest of the current providers. As with any mass data collection, there are methodology limitations; this also applies to MSCI. We make every effort to check its data and are currently building our own tools which will use a variety of data sources to gather and map the carbon emissions of our funds.

For the avoidance of doubt, this fund is not managed to a carbon emission objective and, the benchmark WACI (should funds have a benchmark) has been included for information purposes only.

Important information

On 26 October 2018, the non-sterling assets of the M&G Global Emerging Markets Fund, a UK-authorised OEIC, which launched on 5 February 2009, merged into the M&G (Lux) Global Emerging Markets Fund, a Luxembourg-authorised SICAV, which launched on 26 October 2018. The SICAV is run by the same fund manager, applying the same investment strategy, as the UK-authorised OEIC.

Past performance of the fund and index includes recoverable withholding tax which may not be applicable to the SICAV.

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

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