

M&G (Lux) Conservative Allocation Fund EUR Class A – Accumulation shares



Quarterly Fund Review as at 31 December 2021

Fund manager(s) – Craig Moran, Steven Andrew
For investment professionals only

Highlights

- The biggest theme in financial markets in the final quarter of 2021 was the marked resilience of most equity markets, despite the threat of the Omicron variant of COVID-19.
- The fund produced a slightly positive return during the quarter, with long-dated US government bonds and equities the main drivers of return.
- We reduced our exposure to US Treasuries following the flattening of the yield curve.

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.

Investments in bonds are affected by interest rates, inflation and credit ratings. It is possible that bond issuers will not pay interest or return the capital. All of these events can reduce the value of bonds held by the fund.

The fund may use derivatives to profit from an expected rise or fall in the value of an asset. Should the asset's value vary in an unexpected way, the fund will incur a loss. The fund's use of derivatives may be extensive and exceed the value of its assets (leverage). This has the effect of magnifying the size of losses and gains, resulting in greater fluctuations in the value of the fund.

The fund is exposed to different currencies. Derivatives are used to minimise, but may not always eliminate, the impact of movements in currency exchange rates.

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.

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 allows for the extensive use of derivatives.

Performance is stated in the share class currency, which may differ from your domestic currency. As a result, the return may rise or fall due to currency movements.

Fund performance

	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.
■ Euro A Accumulation	0,2%	1,8%	1,8%	2,5%	1,0%
■ Sector	1,2%	3,8%	3,8%	4,1%	1,8%
■ Quartile ranking	4	4	4	4	4

Single year performance (5 years)

	2021	2020	2019	2018	2017
■ Euro A Accumulation	1,8%	-1,6%	7,5%	-7,7%	5,8%
■ Sector	3,9%	1,5%	7,5%	-4,9%	2,1%
■ Quartile ranking	4	4	3	4	1

Past performance is not a guide to future performance.

Sector= Morningstar EUR Cautious Allocation - Global sector

The fund is actively managed and has no benchmark. Investors can assess the performance of the fund by its objective to provide a total return of 3-6% per annum over any three-year period.

Fund performance prior to 16 January 2018 is that of the M&G Prudent Allocation Fund (a UK-authorised OEIC) which merged into this fund on 16 March 2018. Tax rates and charges may differ.

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

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Portfolio construction (%)

	Net allocation range	Neutrality
Equity	0-35	20,0
Fixed income	0-100	70,0
Other	0-20	10,0
Currency	Min 60% euro (or hedged to euro)	

Leverage and volatility

	Fund
Gross leverage	1,0x
Net leverage	0,7x
Volatility	8,9%

VaR analysis (%)

	Fund
1 month 99% VaR	4,0

Largest exposures (excluding cash, %)

	Fund
US equity	5,5
US fixed	4,1
S&P500 index future	4,1
Topix index future	4,0
US Government	3,5
UK equity	3,1
Greencoat UK Wind Plc	2,1
Ireland equity	2,1
Ibex 35 index future	2,1
Germany Government	-3,7

Currency breakdown (%)

	Fund
Euro	80,9
US dollar	8,4
Turkish lira	3,3
Mexican peso	2,7
South African rand	2,1
Chilean peso	2,0
Indonesian rupiah	1,9
Hong Kong dollar	1,1
Brazilian real	1,1
Other	-3,5

Asset breakdown (%)

	Long exposure	Short exposure	Net exposure
Equity	25,5	0,0	25,5
UK	3,1	0,0	3,1
Europe	5,2	0,0	5,2
North America	9,9	0,0	9,9
Japan	4,0	0,0	4,0
Asia Pacific ex Japan	3,2	0,0	3,2
Global	0,0	0,0	0,0
Emerging markets	0,0	0,0	0,0
Government	28,0	-18,1	9,9
UK	0,0	-0,7	-0,7
Europe	1,0	-3,9	-2,9
North America	17,3	-13,5	3,8
Japan	0,0	0,0	0,0
Other Developed Markets	0,0	0,0	0,0
Emerging markets	9,7	0,0	9,7
Corporate	20,2	0,0	20,2
Investment grade bonds	13,5	0,0	13,5
High yield bonds	6,7	0,0	6,7
Convertible bonds	2,0	0,0	2,0
Infrastructure	7,3	0,0	7,3
Property	0,0	0,0	0,0
Other	0,0	0,0	0,0
Residual Cash	0,0	0,0	35,0

Commentary

The biggest theme in financial markets in the final quarter of 2021 was the marked resilience of most equity markets, despite the threat of the Omicron variant of COVID-19. With investor sentiment having been positive for the first part of the period, bolstered by robust corporate earnings and relaxations of travel restrictions, the discovery of the new strain, feared to be more infectious and resistant to existing vaccines, caused a sharp sell-off. However, when it appeared that Omicron may not be as lethal as feared, investors' appetite for risk quickly returned and many stockmarkets finished the quarter with healthy gains.

The best returns came from the broad S&P 500 Index in the US, although France and Switzerland were not far behind. Other winners included the Nasdaq and Italy. The improvement was not universal, however, with Hong Kong and China declining as they felt the pressure of a regulatory crackdown on major technology firms, slowing economic growth and a debt crisis in the property sector. Emerging markets in general were also weak, particularly Turkey, Eastern Europe and Latin America. Japan declined in the quarter too, with its stockmarket being particularly badly affected by the rise of the Omicron strain.

In terms of sectors, technology continued to lead the way, followed by utilities and consumer goods. By contrast, the communications services sector declined and financials lagged.

Fixed income markets were fairly subdued during the quarter, under pressure from rising inflation and central banks becoming increasingly hawkish. Although bond prices rose when risk appetite disappeared in late November, it soon returned and, over the three months as a whole, most mainstream government bonds were little changed. However, it was notable that longer-dated and index-linked bonds performed better than shorter-dated bonds. UK gilts performed well, generating a positive return despite the Bank of England becoming the first major central bank to increase its interest rate. Credit markets were broadly flat, while emerging market government bonds weakened in the period.

In the currency markets, higher UK interest rates boosted sterling, which rose against most other currencies, while the yen declined. Many emerging market currencies declined, especially the Turkish lira -- which collapsed as interest rates were cut despite soaring inflation -- but also the South African rand.

The fund produced a slightly positive return during the quarter. The main drivers of returns were long-dated US government bonds and equities. For equities, the exposure to the US and to the banking sector drove the largest share of gains, followed by Europe. Alternative investments and credit funds also contributed. The main detractor during this period was the equity allocation to Asia ex Japan, with a smaller loss from Japan.

Portfolio activity

We reduced our long 30-year US Treasury holding and cut the short exposure to US five-year bonds following a flattening of the yield curve. The effect was to remove some of the capital in this trade, while duration remained broadly unchanged. We believed it was prudent to take profits on the basis that the unexpected fall in US 30-year yields, having worked in the portfolio's favour, easily had the potential to go against it, while the fall in yields diminished the long-dated bond's scope for diversification.

We also added to our holding of broadly diversified local currency emerging market government bonds from South Africa, Brazil, Mexico, Chile and Indonesia. This followed their recent sell-off and the widening of spreads in relation to mainstream government bonds, as we believed they offered attractive medium-term returns. We funded this these out of Australian government bonds, which in our view offer significantly less attractive risk properties than the US Treasuries, while delivering lower yields than emerging market government bonds.

Outlook

As we enter 2022, our stance remains largely unchanged. We will continue to closely evaluate price movements in markets, while holding a range of relatively riskier assets in view of our belief in an ongoing global recovery, while gaining diversification via exposure to long-dated US Treasuries in case of growth shocks.



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 (%)
Euro A Accumulation	224,32	26,66%
Benchmark	0,00	0,00%

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 16 March 2018, the M&G Prudent Allocation Fund, a UK-authorised OEIC, which launched on 23 April 2015, merged into the M&G (Lux) Conservative Allocation Fund, a Luxembourg-authorised SICAV, which launched on 16 January 2018. The SICAV is run by the same fund managers, applying the same investment strategy, as the UK-authorised OEIC.

The M&G (Lux) Conservative Allocation Fund is a sub-fund of M&G (Lux) Investment Funds 1.

Where a security has not been rated by Standard & Poor's, Fitch or Moody's, we may use M&G's internal credit rating. Based on a comparison of all available ratings for each security, the most conservative rating (S&P, Fitch, Moody's or M&G's internal rating) is taken into consideration. The ratings so identified are then expressed or converted into M&G's ratings format to obtain uniform information for all securities in the portfolio.

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