M&G (Lux) Income Allocation Fund
EUR Class CI – Accumulation shares

M&G Investments

Quarterly Fund Review as at 31 December 2021

Fund manager(s) – Steven Andrew

For investment professionals only

Highlights

- Many stockmarkets generated healthy positive returns in the final quarter of 2021, despite the discovery of a new, potentially more dangerous variant of coronavirus. Bond markets were affected by growing hawkishness of central banks and their performance was more muted.
- The fund rose, with the allocation to equities making the largest positive contribution, although our US Treasuries also added value.
- The only trading activity was to diversify our equity exposure after the good performance of bank holdings.

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 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.
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 may lose as much as or more than the amount invested.
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).

Fund performance

	3 months	YTD	1 year	3 years p.a.	5 years p.a.
Euro CI Accumulation	3,3%	11,9%	11,9%	8,9%	5,3%
Sector	2,9%	9,2%	9,2%	7,9%	4,1%
Quartile ranking	2	2	2	2	2

Single year performance (5 years)

	2021	2020	2019	2018	2017
Euro CI Accumulation	11,9%	-1,5%	17,3%	-7,9%	8,6%
Sector	9,4%	2,4%	12,5%	-6,9%	4,4%
Quartile ranking	2	4	1	3	1

Past performance is not a guide to future performance.

Sector= Morningstar EUR Moderate 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 growing level of income and capital growth of 2-4% per annum, both measured over any three-year period.

Fund performance prior to 16 January 2018 is that of the M&G Income 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. Benchmark returns stated in EUR terms.

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Portfolio construction (%)

	Net allocation range	Neutrality
Equity	Oct-50	30,0
Fixed income	40-80	60,0
Other	0-20	10,0
Currency	Min 70% euro or euro hedged	

Leverage and volatility

	Fund
Leverage	0,9x
Volatility	11,0%

Largest exposures (excl. cash, %)

	Fund
US Government 30Y	16,9
US equity	16,2
Japan equity	7,2
UK equity	3,7
France equity	3,5
US fixed	3,1
Brazil Government 2Y	2,6
Portugal Government 30Y	2,5
South Africa Government 15Y	2,5
Supranational fixed	2,5

Currency breakdown (%)

	Fund
Euro	71,8
Japanese yen	4,9
US dollar	4,1
Brazilian real	2,6
South African rand	2,5
Indonesian rupiah	2,5
Mexican peso	2,5
Chilean peso	1,9
Colombian peso	1,7
Other	5,4

Asset breakdown (%)

	Fund
Equity	**43,5**
UK	4,4
Europe	9,0
North America	18,3
Japan	7,2
Asia Pacific ex Japan	4,6
Global	0,0
Emerging markets	0,0
Government	33,6
UK	0,0
Europe	2,5
North America	16,9
Japan	0,0
Other Developed Markets	0,0
Emerging markets	14,2
Corporate	12,2
Investment grade bonds	3,5
High yield bonds	8,7
Convertible bonds	**0,0**
Infrastructure	**0,7**
Property	**0,0**
Other	**0,0**
Cash	**9,9**

Distributed income by calendar year (cents per share)

2016	33,4
2017	32,8
2018	33,6
2019	36,6
2020	28,5
2021	26,9
12-month historic yield - Net (as at 31 December 2021)	**2,9%**

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Commentary

The biggest theme in financial markets in the final quarter of 2021 was probably the marked resilience of most equity markets despite the threat of the Omicron variant of the coronavirus. 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 over 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 than 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 lending rate. Credit markets were broadly flat, while emerging market government bonds weakened over the period.

Turning to commodities, the oil price suffered as the prospects for economic recovery appeared more uncertain, although precious metals, such as silver and gold, rallied. Copper also rose.

In the currency markets, the euro fell relative to sterling, which was boosted by higher UK interest rates, and the US dollar, although it rose against the yen. 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 generated a positive return over the three months, with the allocation to equities delivering most value, although our holdings of US Treasuries also made a valuable contribution.

The equities that delivered the biggest returns were principally from North America, particularly our general holdings and technology stocks in the US. Europe was also reasonably strong, led by the UK and France, although Germany and Spain lagged. In Asia, positions in China and Taiwan rose modestly, but Hong Kong and Japan declined.

Our long-dated government bonds from the US demonstrated good diversification properties in November, when concern about the Omicron variant led to a risk-off environment. Rallies in the US bond market, which were compounded by a stronger US dollar, offset weakness in our equities.

Elsewhere, the allocation to credit made a small positive return, mainly due to US dollar strength, while our emerging market government bonds were, on aggregate, little changed over the review period. Bonds from Peru and Mexico rose while those from Brazil and Colombia declined.

The largest detractor to performance was our hedging activity. Since at least 70% of the fund has to be held in, or hedged back to, the euro, we missed out on some of the strength in the US dollar and sterling.

Portfolio activity

The only material change to the portfolio took place in October when, following the strong outperformance of bank equity, we felt it prudent to diversify our equity exposure. We trimmed our holdings of financial stocks in the US and Europe and reinvested in the US and Asia, mainly in technology and healthcare businesses. We thought these areas looked attractive after a period of relative underperformance. The changes did not alter our overall allocation to equities, which we would describe as moderately pro-risk.

Sometimes deciding to take no action and leave positions much as they are is an active decision in itself and 2021 was a year where that was largely the case.

Outlook

While there are many factors that may upset what seems to be a relatively sanguine market environment, such as new variants of coronavirus, geopolitical tension, rising interest rates, a rising cost of living and elections in various countries, we do not currently see any overriding reason to change our balance of risk.

We would describe our current positioning as moderately pro-risk, in the expectation that the global economy continues to recover. Accordingly, we have a modest bias towards equities, diversified across regions and sectors. Although we trimmed exposure to banks, we retain a sizeable position in financial stocks, since we feel that they are likely to perform well against a background of rising interest rates.

We also recognise the risks to our base case, so hold a meaningful amount of long-dated government bonds and cash. In our opinion, these should offer potential diversification in the event that growth stalls while giving us the ability to respond to any potential investment opportunities that may arise.

We are also prepared to take tactical action by adjusting our positioning when valuations change or when we identify what we see as attractively yielding opportunities, such as among emerging market bonds.

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.

ESG Metrics

	Weighted Average Carbon Intensity	Coverage by portfolio weight (%)
Euro CI Accumulation	62,62	47,06%
Benchmark	0,00	0,00%

Source: MSCI

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). The WACI metric does not include carbon intensity data attributable to government bond securities. 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) have been included for information purposes only.

Important information

On 16 March 2018, the M&G Income Allocation Fund, a UK-authorised OEIC, which launched on 7 November 2013, merged into the M&G (Lux) Income Allocation Fund, a Luxembourg-authorised SICAV, which launched on 16 January 2018. The SICAV is run by the same fund manager, applying the same investment strategy, as the UK-authorised OEIC.

The M&G (Lux) Income 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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