

M&G (Lux) Dynamic Allocation Fund USD Class A-H – Accumulation shares



Quarterly Fund Review as at 31 March 2024

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Marketing Communication - for investment professionals only

Highlights

- Buoyed by subsiding inflationary pressures and robust economic data, the first quarter of 2024 concluded with solid gains for global equity markets. It was a different story for bonds, however, as investors pushed back the timing of interest rate cuts.
- The fund rose over the quarter, with the biggest contributor to performance being exposure to equities.
- Early in the quarter, we increased the fund's exposure to Chinese equities, by adding to holdings in China H-shares and Hong Kong equities.

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.

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 hedging process seeks to minimise, but cannot eliminate, the effect of movements in exchange rates on the performance of the hedged share class. Hedging also limits the ability to gain from favourable movements in exchange rates.

Investing in this fund means acquiring units or shares in a fund, and not in a given underlying asset such as building or shares of a company, as these are only the underlying assets owned by the fund.

Further risk factors that apply to the fund can be found in the fund's Prospectus.

Things you should know

The fund allows for the extensive use of derivatives.

Past performance is not a guide to future performance.

Fund performance (10 years)

	3 months (%)	YTD to QTR end	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	10 years (%) p.a.
■ US Dollar A-H Accumulation	2.6%	2.6%	2.6%	9.1%	5.4%	5.3%	-
■ Sector	3.1%	3.1%	3.1%	10.0%	1.4%	3.8%	-
■ Quartile ranking	3	3	3	3	1	2	-

Single year performance (10 years)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
■ US Dollar A-H Accumulation	9.5%	-0.7%	4.7%	1.7%	14.7%	-8.2%	10.6%	9.7%	-	-
■ Sector	10.6%	-13.3%	7.9%	7.3%	13.8%	-7.5%	11.2%	1.5%	-	-
■ Quartile ranking	3	1	3	4	2	3	2	1	-	-

Sector= Morningstar USD Flexible Allocation 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 5-10% per annum over any three-year period.

Fund performance prior to 16 January 2018 is that of the USD Class A-H Accumulation of the M&G Dynamic Allocation Fund (a UK-authorized 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 March 2024. Returns are calculated on a price to price basis with income reinvested.

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Asset breakdown (%)

	Long exposure	Short exposure	Net exposure
Equity	45.8	-7.3	38.5
UK	6.0	0.0	6.0
Europe	10.3	0.0	10.3
North America	6.4	-7.3	-1.0
Japan	6.7	0.0	6.7
Asia Pacific ex Japan	4.4	0.0	4.4
Other Developed Markets	0.0	0.0	0.0
Emerging markets	12.1	0.0	12.1
Equity options (nominal)	0.0	0.0	0.0
Government bonds	36.6	-2.9	33.8
UK	7.9	-0.3	7.6
Europe	1.2	-1.7	-0.5
North America	13.5	-0.9	12.7
Japan	0.0	0.0	0.0
Asia Pacific ex Japan	0.0	0.0	0.0
Other Developed Markets	0.0	0.0	0.0
Emerging markets	14.0	0.0	14.0
Corporate bonds	10.9	0.0	10.9
Investment grade bonds	7.7	0.0	7.7
High yield bonds	3.2	0.0	3.2
Convertible bonds	2.0	0.0	2.0
Bond options (nominal)	0.0	0.0	0.0
Infrastructure	4.1	0.0	4.1
Property	0.0	0.0	0.0
Other	0.0	0.0	0.0
Cash			10.7

Currency breakdown (%)

	Fund
Euro	72.4
US dollar	11.7
Hong Kong dollar	3.5
Mexican peso	3.1
Brazilian real	3.0
South African rand	2.8
Japanese yen	2.7
British pound	2.5
Korean won	2.3
Other	-4.1

Largest exposures (excluding cash, %)

	Fund
US Government 30Y	12.1
US Equity	6.4
FTSE 100 INDEX JUN 24 EQUITY INDEX FUTURE	6.0
UK Government 10Y	4.8
DAX INDEX JUN 24 EQUITY INDEX FUTURE	4.5
China Equity	4.5
KOSPI2 INDEX JUN 24 EQUITY INDEX FUTURE	4.4
Japan Equity	3.6
TOPIX INDEX JUN 24 EQUITY INDEX FUTURE	3.1
S&P500 EMINI JUN 24 EQUITY INDEX FUTURE	-7.3

Portfolio construction (%)

	Net allocation range	Neutrality
Equity	20-60	40.0
Fixed income	0-80	50.0
Other	0-20	10.0
Currency	Min 30% euro or euro hedged	

Commentary

Buoyed by subsiding inflationary pressures, robust economic data and the prospect of rate cuts, the first quarter of 2024 concluded with solid gains for global equity markets. It was a different story for bonds, however. The rally in bond markets at the end of 2023 faded in the first quarter as investors pushed back the timing of interest rate cuts by central banks.

Bond yields rose in January and February before recovering somewhat in March when the US Federal Reserve (Fed) confirmed that it expected to cut rates three times this year. The 10-year US Treasury yield ended the quarter at 4.2%, up from 3.9% at the end of 2023. UK gilt yields were up slightly, along with those of European sovereigns and Japanese government bonds.

Equity markets started the year with an impressive rally. The US stockmarket registered its best first quarter in five years, driven partly by the continued appetite for artificial intelligence-related stocks. Weakness of the yen helped fuel a surge in Japanese equities, with the Nikkei 225 closing above 40,000 for the first time. European equities also posted solid gains. UK equities made a positive start to the year, although they trailed other regions. Emerging market equities registered more modest returns, held back by weakness in China and Latin America. At the global sector level, technology stocks were the clear outperformer, closely followed by communication services, energy and financials.

The fund rose over the quarter, with the biggest contributor to performance being exposure to equities. Holdings in European, Japanese and bank shares performed particularly strongly. Conversely, a short position in the S&P 500 Index held back returns. Holdings in US Treasuries and UK gilts also hurt performance. But within fixed income, holdings in corporate bonds were beneficial. Cash positions also aided performance.

Portfolio activity

In January, we increased the fund's exposure to Chinese equities, by adding to holdings in China H-shares and Hong Kong equities. Very negative investor sentiment had driven valuations to historically attractive levels, which were not necessarily justified by fundamentals in our view.

Later in the quarter, we carried out a small amount of rebalancing within our Japanese equity basket to bring it more into line with desired exposure of around 6.5%.

Outlook

The consensus outlook for 2024 was broadly one of slowing global growth supporting further disinflation. Versus this, the strength of US growth and US earnings have surprised the market and supported strong equity returns. In turn, this has fostered further risk seeking behaviour in equities and corporate credit and somewhat skittish risk aversion in government bonds.

Central banks seem broadly comfortable with the path of inflation but don't want to cut while growth remains strong. Bond markets now appear to have priced in a significant portion of this and offers attractive real yields and potential diversification if growth falters. In the near term, any stubborn inflation data will likely drive continued volatility in yields.

Equity valuations look demanding in places (most notably the US) but not detached from earnings. We continue to prefer areas with lower valuations and a higher margin of safety. Europe has been a standout performer year-to-date but continues to look attractive on a global basis. Tactically, we continue to hold Hong Kong/China equity positions that were added to, in late January.

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 A-H Accumulation	102.56	87.55%
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.

Fund description

The fund is a dynamically managed portfolio invested in a range of assets around the world, with the aim of delivering a total return (combined income and capital growth) of 5-10% on average per year over any three-year period, while applying environmental, social and governance (ESG) criteria. The fund manager follows a highly flexible investment approach, with the freedom to invest in different types of assets. The approach combines in-depth research to determine the value of assets over the medium to long term, with analysis of investors' emotional reaction to events to identify investment opportunities. Companies that are deemed to be in breach of the UN Global Compact principles and/or involved in industries like tobacco, controversial weapons, unconventional oil and gas extraction, gambling and thermal coal are excluded. The fund manager considers principal adverse impacts on sustainability factors when investing. The fund gains access to assets directly and indirectly through derivatives. 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.

Important information

With effect from November 2023, we are reporting using our internal accounting book of record (ABOR) moving away from the investment book of record (IBOR) used for reporting up to October 2023.

On 16 March 2018, the M&G Dynamic Allocation Fund, a UK-authorised OEIC, which launched on 3 December 2009, merged into the M&G (Lux) Dynamic 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 fund's neutral currency positioning is 100% in euros. Deviations from this figure, therefore, represent long/short exposure.

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

SFDR Article Classification: Article 8 fund. The decision to invest in this fund should be based on all objectives and characteristics and not solely its non-financial objectives and characteristics.

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Glossary

This glossary provides an explanation of terms used in this factsheet and in our literature.

Accumulation shares: A type of share where distributions are automatically reinvested and reflected in the value of the shares.

Asset allocation: Allocating a portfolio's assets according to risk tolerance and investment goals.

Asset-backed securities: Bonds (fixed income securities) backed by assets that produce cashflows, such as mortgage loans, credit card receivables and auto loans.

Benchmark (Constraint): The portfolio must replicate the securities contained in the benchmark and their weights. The benchmark can be an index or a sector. Depending on the fund's mandate, the managers can replicate the positions directly or via derivatives, which are instruments whose value is derived from that of an underlying security or pool of securities.

Benchmark (Target): A benchmark, such as an index or sector, which the fund managers aim to match or exceed. The managers have freedom in choosing the securities and strategy by which they do so.

Benchmark: Measure, such as an index or sector, against which a portfolio's performance is judged.

Benchmark (Comparator): The fund managers choose the benchmark, which may be an index or a sector, as a comparator for the fund's performance, but they do not have to replicate its composition. The benchmark is not used for any other purpose, such as, for example, to serve as a reference when setting performance fees.

Bond: A loan in the form of a security, usually issued by a government or company. It normally pays a fixed rate of interest (also known as a coupon) over a given time period, at the end of which the initial amount borrowed is repaid.

Cash equivalents: Deposits or investments with similar characteristics to cash.

Consumer prices index (CPI): An index used to measure inflation, or the rate at which prices for a basket of goods and services bought by households change.

The contents of the basket are meant to be representative of products and services consumers typically spend money on, and are updated regularly.

Convertible bonds: Fixed income securities (bonds) that can be exchanged for predetermined amounts of company shares at certain times during their life.

Corporate bonds: Fixed income securities issued by a company. They are also known as bonds and can offer higher interest payments than bonds issued by governments as they are often considered more risky. Also referred to by investors as "credit."

Coupon: The interest paid by the government or company that has raised a loan by selling bonds. It is usually a fixed amount, calculated as a percentage of the total loan and paid out at regular intervals.

Credit default swap (CDS): An insurance-like contract that allows an investor to transfer the default risk of a bond to another investor. The buyer of the CDS pays regular premiums to the seller, who has to reimburse the buyer in the event of the underlying bond defaulting. A CDS is a type of derivative – a financial instrument whose value and price is dependent on the underlying asset.

Credit rating agency: A company that analyses the financial strength of issuers of fixed income securities (bonds) and attaches a rating to their debt. Examples include Standard & Poor's, Moody's and Fitch.

Derivatives: Financial instruments whose value and price depend on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or directly between two parties (over the counter).

Distribution yield: The amount that is expected to be distributed by the fund over the next 12 months expressed as a percentage of the share price as at a certain date. It is based on the expected gross income from the current portfolio calculated in accordance with the fund's distribution policies less the ongoing charges where they are deducted from income.

Dividend yield: Annual income distributed by a company as a percentage of its share price as at a certain date.

Duration: A measure of the sensitivity of a fixed income security (bond) or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

Emerging economy or market: Country in the process of catching up with developed economies, with rapid growth and increasing industrialisation. Investments in emerging markets are generally considered to be riskier than those in developed markets.

Equities: Shares of ownership in a company. They offer investors participation in the company's potential profits, but also the risk of losing all their investment if the company goes bankrupt.

Ex-dividend, ex-distribution or xd date: The date on which declared distributions officially belong to underlying investors. On the XD date, the stock's price usually falls by the amount of the dividend, reflecting the payout.

Exposure: The proportion of a fund invested in a particular share/fixed income security/index, sector/region, usually expressed as a percentage of the overall fund.

Fixed income security: A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid. Also referred to as a bond.

Floating rate notes (FRNs): Securities whose interest (income) payments are periodically adjusted depending on the change in a reference interest rate.

Gilts: Fixed income securities issued by the UK government. They are called gilts because they used to be issued on gilt-edged paper.

Government bonds: Loans issued in the form of fixed income securities by governments. They normally pay a fixed rate of interest over a given time period,

at the end of which the initial investment is repaid.

Hard currency (bonds): Fixed income securities (bonds) denominated in a highly traded, relatively stable international currency, rather than in the bond issuer's local currency. Bonds issued in a more stable hard currency, such as the US dollar, can be more attractive to investors where there are concerns that the local currency could lose value over time, eroding the value of bonds and their income.

Hedging: A method of reducing unnecessary or unintended risk.

High yield bonds: Loans taken out in the form of fixed income securities issued by companies with a low credit rating from a recognised credit rating agency. They are considered to be at higher risk of default than better-quality, higher-rated fixed income securities, but they have the potential for higher rewards. Default means that a bond issuer is unable to meet interest payments or repay the initial amount borrowed at the end of a security's life.

Historic yield: The historic yield reflects distributions declared over the past 12 months as a percentage of the share price as at the date shown.

Income shares: A type of share where distributions (also called dividends) are paid out as cash on the payment date.

Index-linked bonds: Fixed income securities where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also referred to as inflation-linked bonds.

Investment association (IA): The UK trade body that represents fund managers. It works with investment managers, liaising with government on matters of taxation and regulation, and also aims to help investors understand the industry and the investment options available to them.

Investment grade bonds: Fixed income securities issued by a government or company with a medium or high credit rating from a recognised credit rating agency. They are considered to be at lower risk of default than those issued by issuers with lower credit ratings. Default means that a borrower is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

Leverage: When referring to a company, leverage is the level of a company's debt in relation to its assets. A company with significantly more debt than capital is considered to be leveraged. It can also refer to a fund that borrows money or uses derivatives to magnify an investment position.

Local currency bonds: Bonds denominated in the currency of the issuer's country, rather than in a highly traded international 'hard' currency, such as the US dollar.

The value of local currency bonds tends to fluctuate more than that of bonds issued in a hard currency, as these currencies tend to be less stable.

Long position (exposure): Holding a security in the expectation that its value will rise.

Maturity: The length of time until the initial amount invested in a fixed income security is due to be repaid to the holder of the security.

Modified duration: A measure of the sensitivity of a bond, or bond fund, to changes in interest rates, expressed in years. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

Near cash: Deposits or investments with similar characteristics to cash.

Net asset value (NAV): The current value of the fund's assets minus its liabilities.

Ongoing charge figure: The ongoing charge figure represents the operating costs investors can reasonably expect to pay under normal circumstances.

Open-ended investment company (OEIC): A type of managed fund whose value is directly linked to the value of the fund's underlying investments. The fund creates or cancels shares depending on whether investors want to redeem or purchase them.

Options: Financial contracts that offer the right, but not the obligation, to buy or sell an asset at a given price on or before a given date in the future.

Payment date: The date on which distributions will be paid by the fund to investors, usually the last business day of the month.

Physical assets: An item of value that has tangible existence; for example cash, equipment, inventory or real estate. Physical assets can also refer to securities, such as company shares or fixed income securities.

Property expense ratio: Property expenses are the operating expenses that relate to the management of the property assets in the portfolio. These include: insurance and rates, rent review and lease renewal costs and maintenance and repairs, but not improvements. They depend on the level of activity taking place within the fund. The Property Expense Ratio is the ratio of property expenses to the fund's net asset value.

Retail prices index (RPI): A UK inflation index that measures the rate of change of prices for a basket of goods and services in the UK, including mortgage payments and council tax.

Share class hedging: Activities undertaken in respect of hedged shares to mitigate the impact on performance of exchange rate movements between the fund's currency exposure and the investor's chosen currency.

Share class: Type of fund shares held by investors in a fund (share classes differ by levels of charge and/or by other features such as hedging against currency risk). Each M&G fund has different share classes, such as A, R and I. Each has a different level of charges and minimum investment. Details on charges and minimum investments can be found in the fund's Prospectus.

Share: An ownership stake in a company, usually in the form of a security. Also called equity. Shares offer investors participation in the company's potential profits, but also the risk of losing all their investment if the company goes bankrupt.

Short position (exposure): A way for an investor to express their view that the market might fall in value.

SICAV: In French, it stands for société d'investissement à capital variable. It is the western European version of an open-ended collective investment fund, much like

an OEIC. Common in Luxembourg, Switzerland, Italy and France, and regulated by regulators in the European Union.

Swap: A swap is a derivative contract where two parties agree to exchange separate streams of cashflows. A common type of swap is an interest rate swap, where one party swaps cashflows based on variable interest rates for those based on a fixed interest rate, to hedge against interest rate risk.

UCITS: Stands for Undertakings for Collective Investments in Transferable Securities. This is the European regulatory framework for an investment vehicle that can be marketed across the European Union and is designed to enhance the single market in financial assets while maintaining high levels of investor protection.

Underlying yield: The amount that is expected to be earned by the fund over the next 12 months expressed as a percentage of the share price as at a certain date. It is based on the expected gross income from the current portfolio calculated in accordance with the fund's accounting policies less all ongoing charges.

Unit trust: A type of managed fund whose value is directly linked to the value of the fund's underlying investments and which is structured as a trust, rather than as a company.

United Nations Global Compact: A United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies and to report on their implementation.

Valuation: The worth of an asset or company, based on the present value of the cashflows it will generate.

Yield: This refers to either the interest received from a fixed income security or to the dividends received from a share. It is usually expressed as a percentage based on the investment's costs, its current market value or its face value. Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.