

# M&G (Lux) European Strategic Value Fund EUR Class A – Accumulation shares



Quarterly Fund Review as at 31 December 2021

Fund manager(s) – Richard Halle  
For investment professionals only

## Highlights

- The fund rose in the fourth quarter but trailed the benchmark index. Weakness among financials and industrials, notably Swedish security business Securitas, outweighed gains by utilities holdings.
- European equities ended the year on a positive note, with robust gains in the fourth quarter. Value as a style continued to underperform the broader market, although there was a reversal in December.
- We invested in UK energy provider Centrica and Johnson Matthey, a UK chemicals company. Oil & gas firm Kosmos Energy and music label Universal Music 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.

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 (%) p.a.	5 years (%) p.a.
■ Euro A Accumulation	4.0%	25.4%	25.4%	11.1%	5.4%
■ Benchmark	7.7%	25.1%	25.1%	15.1%	8.7%
■ Sector	5.3%	22.7%	22.7%	11.2%	5.2%
Quartile ranking	3	2	2	3	2

## Single year performance (5 years)

	2021	2020	2019	2018	2017
■ Euro A Accumulation	25.4%	-8.3%	19.3%	-14.4%	10.7%
■ Benchmark	25.1%	-3.3%	26.0%	-10.1%	10.9%
■ Sector	22.8%	-7.8%	20.8%	-14.4%	9.3%
Quartile ranking	2	3	3	2	2

Past performance is not a guide to future performance.

Benchmark= MSCI Europe Net Return Index

Sector= Morningstar Europe Large-Cap Value 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 20 September 2018 is that of the EUR Class A Accumulation of the M&G European Strategic Value Fund (a UK-authorized OEIC), which merged into this fund on 7 December 2018. Tax rates and charges may differ.

Benchmark prior to 31 December 2011 is the FTSE World Europe. From 1 January 2012 to 19 September 2018, it is the MSCI Europe Index, all stated as Gross Return. From 20 September 2018, the benchmark is the MSCI Europe Net Return Index.

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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### Largest positive contributors 3 months (%) by issuer

	Rel. weight	Absolute return	Contribution
Hornbach Holding Ag	3.1	18.1	0.3
Glaxosmithkline	2.5	18.7	0.3
Tesco	2.3	18.6	0.2

### Largest detractors 3 months (%) by issuer

	Rel. weight	Absolute return	Contribution
Securitas	2.5	-11.4	-0.5
Nestle	-3.4	18.0	-0.3
Buzzi Unicem	1.8	-3.9	-0.2

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
Hornbach Holding Ag	2.7	71.4	1.3
Spire Healthcare	1.6	71.6	0.8
Nokia	0.9	91.1	0.7

### Largest detractors YTD (%) by issuer

	Rel. weight	Absolute return	Contribution
Asml	-2.7	78.6	-1.1
Securitas	2.2	-5.8	-0.9
Novo Nordisk	-1.4	74.8	-0.6

### Country breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Rel. weight
UK	30.9	32.8	1.9	18.4	14.4
France	12.6	12.3	-0.3	16.2	-3.9
Germany	10.9	10.2	-0.7	13.2	-3.0
Switzerland	4.5	5.6	1.2	15.7	-10.0
Ireland	5.0	4.9	0.0	0.8	4.1
Finland	4.4	4.6	0.1	1.9	2.7
Belgium	4.3	3.8	-0.5	1.2	2.6
Netherlands	5.8	3.8	-1.9	8.5	-4.6
Other	19.1	18.9	-0.3	24.0	-5.1
Cash	2.4	3.0	0.5	0.0	2.9

### Industry breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Rel. weight
Health care	15.7	17.1	1.5	14.7	2.4
Financials	18.3	16.1	-2.2	15.7	0.4
Industrials	12.8	13.3	0.5	15.4	-2.1
Consumer staples	10.1	10.3	0.2	12.8	-2.4
Energy	10.4	9.8	-0.7	4.5	5.2
Materials	9.2	9.6	0.5	7.9	1.7
Consumer discretionary	9.1	8.4	-0.7	11.4	-3.0
Information technology	5.0	5.3	0.4	8.5	-3.2
Utilities	3.6	4.8	1.2	4.2	0.6
Communication services	3.4	2.3	-1.2	3.5	-1.3
Real Estate	0.0	0.0	0.0	1.2	-1.2
Other	0.0	0.0	0.0	0.1	-0.1
Cash and near cash	2.4	3.0	0.5	0.0	2.9

### Capitalisation breakdown (%)

	Fund (Start)	Fund (End)	Change	Index	Rel. weight
> €50 billion	21.0	23.2	2.2	52.1	-28.9
€25 - €50 billion	16.7	17.9	1.1	23.3	-5.4
€5 - €25 billion	29.9	25.0	-4.8	24.4	0.6
€2.5 - €5 billion	10.4	12.1	1.7	0.2	11.9
< €2.5 billion	19.6	18.9	-0.7	0.0	18.9
Cash and near cash	2.4	3.0	0.5	0.0	2.9

### Largest holdings (%)

	Fund	Index	Rel. weight
Glaxosmithkline	3.5	1.0	2.6
Novartis	3.5	1.7	1.8
Total	3.5	1.1	2.4
Hornbach Holding AG & Kgaa	3.4	0.0	3.4
UCB	2.8	0.1	2.6
Astrazeneca	2.7	1.6	1.1
BP	2.7	0.8	1.9
Tesco	2.7	0.3	2.4
UPM-Kymmene	2.7	0.2	2.5
Aperam	2.6	0.0	2.6

### Largest overweights (%)

	Fund	Index	Rel. weight
Hornbach Holding AG & Kgaa	3.4	0.0	3.4
UCB	2.8	0.1	2.6
Aperam	2.6	0.0	2.6
Glaxosmithkline	3.5	1.0	2.6
UPM-Kymmene	2.7	0.2	2.5
Total	3.5	1.1	2.4
Tesco	2.7	0.3	2.4
National Express Group	2.4	0.0	2.4
Securitas	2.4	0.0	2.4
Bank of Ireland Group	2.0	0.0	2.0

### Largest underweights (%)

	Fund	Index	Rel. weight
Nestle	0.0	3.5	-3.5
ASML	0.0	2.9	-2.9
LVMH	0.0	2.0	-2.0
Roche	1.0	2.7	-1.7
Novo Nordisk	0.0	1.7	-1.7
SAP	0.0	1.3	-1.3
Unilever	0.0	1.2	-1.2
Siemens	0.0	1.2	-1.2
Diageo	0.0	1.1	-1.1
HSBC	0.0	1.1	-1.1

### Performance

European equities delivered healthy returns in the fourth quarter, despite concerns about high levels of inflation and the spread of the Omicron variant of coronavirus.

From a sector perspective, investors favoured defensive areas such as consumer staples and healthcare, which are considered to be resilient in challenging economic conditions. In contrast, communication services, energy and real estate were notable laggards.

Value as an investment style lagged the broader market in the period, despite a reversal in December when investors' worries about the Omicron coronavirus variant eased and bond yields rose.

Against this background, the fund rose but was behind the benchmark MSCI Europe Net Return Index. Stock selection in several sectors detracted from relative performance, notably industrials, where Swedish security services firm Securitas was a drag on returns. The stock declined as the market was concerned about the cost of Securitas's US\$3.2bn purchase of Stanley Black & Decker's electronic security solutions business. While the price of the deal is disappointing, we think it will put Securitas in a stronger competitive position and, in our view, the company is significantly undervalued.

In financials, Irish lender Bank of Ireland and Spanish financial group CaixaBank also held back returns as they fell in a rising market. German car maker Volkswagen declined too amid concerns about competition from Tesla, a supply chain crisis and a dispute with unions. Not holding any shares in Swiss food company Nestle also held back relative returns.

In contrast, German DIY company Hornbach made a positive contribution to relative performance for the second consecutive quarter. The company has achieved robust sales throughout the COVID pandemic and the stock rose when Hornbach raised its annual earnings and sales growth guidance. A number of defensive holdings added value too, including food retailer Tesco and healthcare companies GlaxoSmithKline and Spire Healthcare. Utilities firms National Grid and Centrica also advanced amid surging energy prices.

### Activity and positioning

We invested in two new holdings and sold two stocks in the quarter. UK energy firm Centrica, which owns British Gas, has fallen in recent years on a number of concerns. However, we believe the current energy crisis in UK and Europe, which has seen many suppliers go bust, is going to put Centrica in a much stronger competitive position. We also think there could be favourable regulatory changes.

Johnson Matthey, a UK chemicals company which supplies catalytic converters, also joined the portfolio. In our view, concerns about the decline of catalytic converters (driven by the shift to electric vehicles) have been overplayed and the potential for the company to do well from the transition to hydrogen is being ignored.

In contrast, we sold our shares in US-listed oil & gas firm Kosmos Energy, as we see better opportunities elsewhere in the energy sector. Music company Universal Music Group left the portfolio too - we had received the shares when the company was spun off by Vivendi, one of the fund's holdings, and the stock's high valuation did not sit well with our value approach.

### Outlook

We remain very optimistic about the prospects of the value investment style and the fund's holdings. After a promising start to 2021, the recovery in the value investment style faded and it ended the year behind the broader market. However, in our view, there are signs that the outperformance of growth/quality stocks is coming to an end, as witnessed in the powerful shift to value in December and at the beginning of 2022.

For a sustained period, we have observed indiscriminate buying of 'concept stocks', such as firms with disruptive business models and fast-growing companies, which have driven them to elevated valuations. It appears that this momentum is fading, partly as a result of rising bond yields. As investors start to pay closer attention to underlying fundamentals, we believe it will be difficult to see how the extreme valuation discrepancy between expensive growth stocks and cheaper value stocks can be justified. We are hopeful that a greater focus on fundamentals might lead investors to revisit out-of-favour value stocks. With a diversified portfolio of lowly valued stocks, we think the fund is well placed to benefit from any improved sentiment towards value.



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	269.23	97.81%
Benchmark	122.50	99.81%

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 CO<sub>2</sub> 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

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On 7 December 2018 the non-sterling assets of the M&G European Strategic Value Fund, a UK-authorised OEIC which launched on 2 January 2008, merged into the M&G (Lux) European Strategic Value Fund, a Luxembourg-authorised SICAV, which launched on 18 September 2018. The SICAV is run by the same fund manager, applying the same investment strategy, as the UK-authorised OEIC.

**The past performance for the fund and the index includes recoverable withholding tax which may not be applicable to the SICAV.**

The M&G (Lux) European Strategic Value Fund is a sub-fund of M&G (Lux) Investment Funds 1.

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