

For investment professionals only

M&G Global Target Return Fund

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June 2018



M&G Global Target Return Fund

Risks associated with this fund

The value of investments and the income from them will fluctuate. This will cause the fund price to fall as well as rise. These fluctuations may be more extreme in periods of market disruption and other exceptional events. There is no guarantee the fund objective will be achieved and you may not get back the original amount you invested.

The fund may use derivatives to gain exposure to investments exceeding the value of the fund (leverage). This may cause greater changes in the fund's price and increase the risk of loss.

The fund may use derivatives with the aim of profiting from a rise or a fall in the value of an asset (for example, a company's bonds). However, if the asset's value varies in a different manner, the fund may incur a loss.

Some transactions the fund makes, such as placing cash on deposit, require the use of other financial institutions (for example, banks). If one of these institutions defaults on their obligations or becomes insolvent, the fund may incur a loss.

A more detailed description of the risk factors that apply to the fund can be found in the fund's Prospectus.

For any performance shown, please note that past performance is not a guide to future performance.

It is also important to note that:

The Fund allows for the extensive use of derivatives.

Agenda

➤ Fund proposition

➤ Philosophy & process

➤ Market views

➤ Fund positioning

➤ Performance and risk

M&G Global Target Return Fund

Introduction

Macro-driven,
multi-asset fund
with flexibility to
be long or short



An explicit aim
to mitigate short
term risk



Use a common
philosophy and
approach with the
rest of the team



Not a market-
neutral fund



Not a multi-
strategy
fund

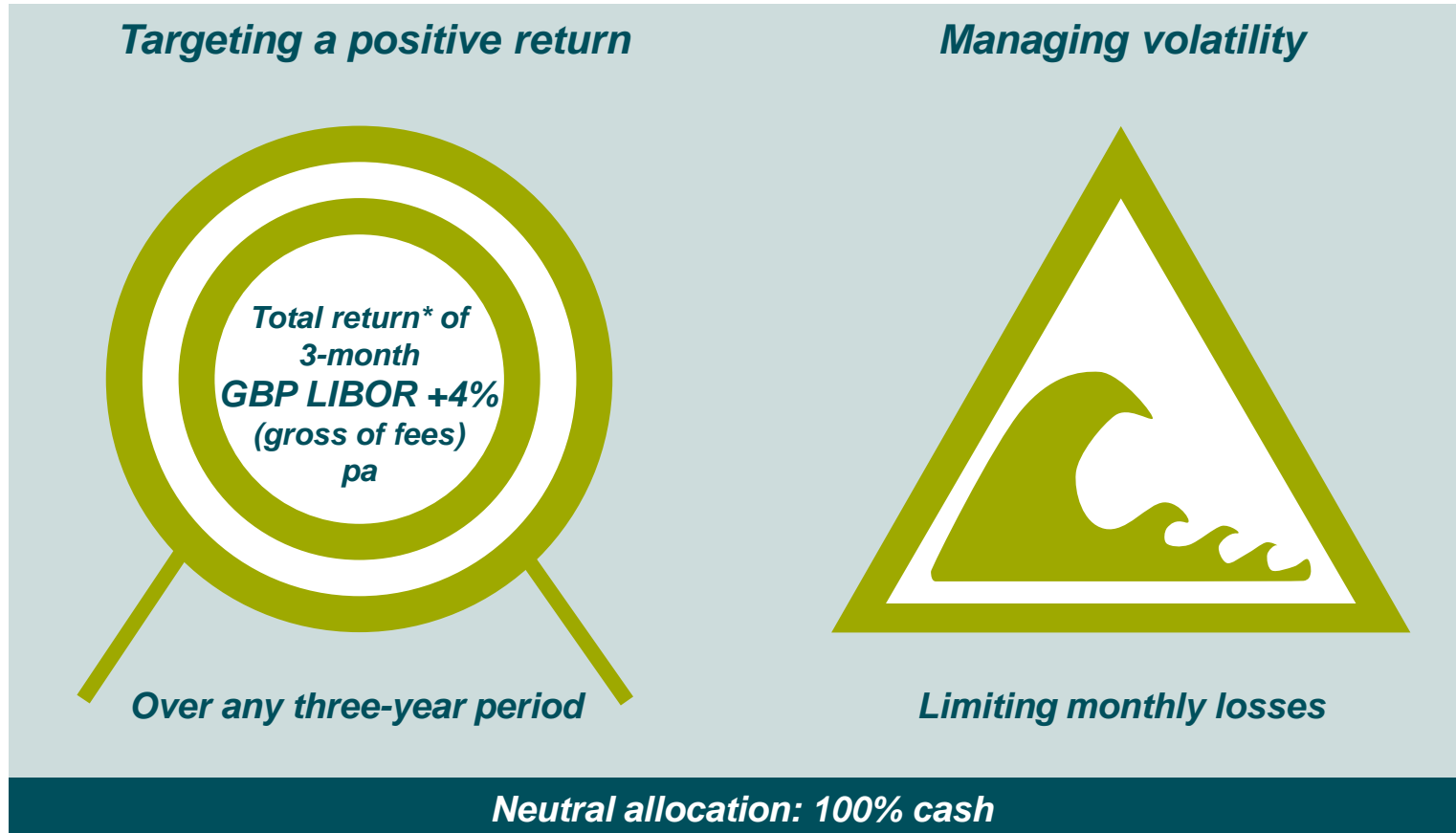


Not targeting
specific
correlations
nor constant
volatility



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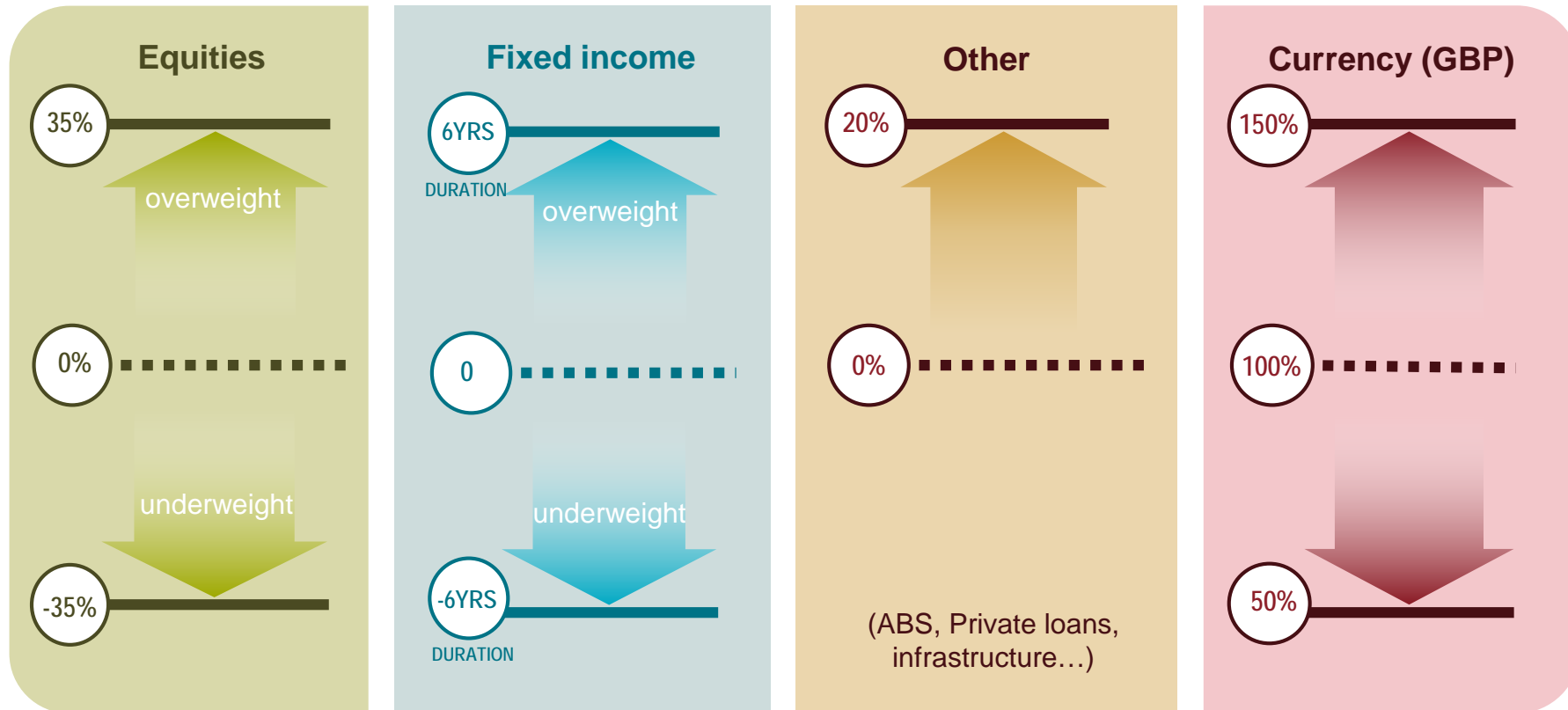
Proposition



There is no guarantee that the fund will achieve a positive return over three years, or any other period, and investors may not get back the original amount they invested.

M&G Global Target Return Fund

Proposition



M&G Global Target Return Fund

Proposition

| Risk management triggers | | |
|--|--|--|
| 1-month, 99% VaR: 6% maximum | 1-month loss tolerance: 3% in normal to stressed market conditions* | Expected volatility: 3%-7% pa |
| Potential portfolio loss based on statistical analysis of historical price trends and volatilities | Tolerance for potential loss over a 21-day period | 1-year volatility calculated using monthly returns |

Agenda

Fund proposition

Philosophy & process

Market views

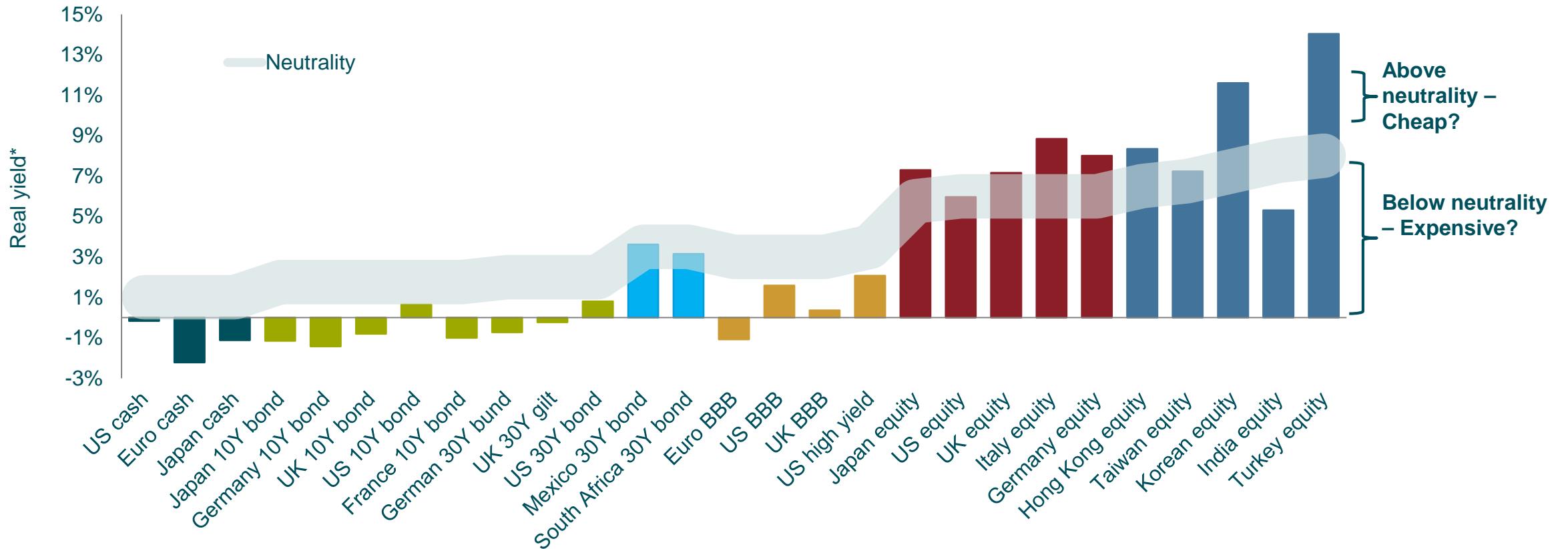
Fund positioning

Performance and risk

Strategic assessment

Valuation framework: the starting point

Sample of assets, showing real yield against an assessment of neutrality



Driver of long-term asset allocation decisions

Neutrality is the positioning of the fund if all assets were trading at their 'fair value'. This can be thought of as a strategic asset allocation. In an ideal world, when all assets were trading at their 'fair value', then neutrality would be how a fund was positioned, given its strategy and risk profile. However, assets seldom trade at fair value, so the actual allocation of each fund may not match the neutral position.



What is an 'episode'?

A different perspective on inefficiency

Episodes: where prices move for non-fundamental reasons

Characteristics:

- Rapid price action
- Focus on a single story
- Price move is inconsistent with factual newsflow

Volatility in practice: trade example

Mexican peso



- ✓ Valuation indicators
- ✓ Rapid price action
- ✓ Behavioural influences are evident
- ✓ Focus on a single story
- ✓ Price move inconsistent with facts

Our edge is in understanding the emotional sources of volatility



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There will be surprises!

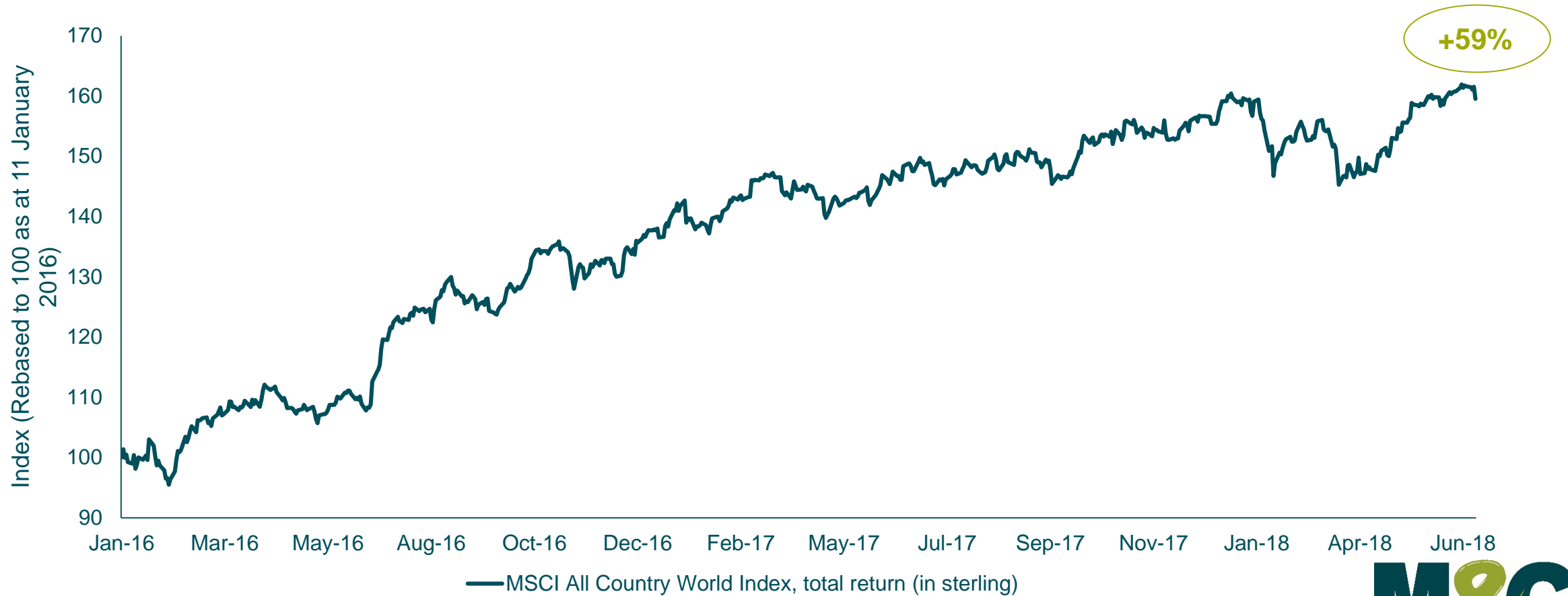
US NFIB* Small Business Optimism Index

“Finally, there is the question of uncertainty and confidence...In no election in my lifetime has a major party candidate for president been so dangerous for the economy” Lawrence Summers, June 2016**



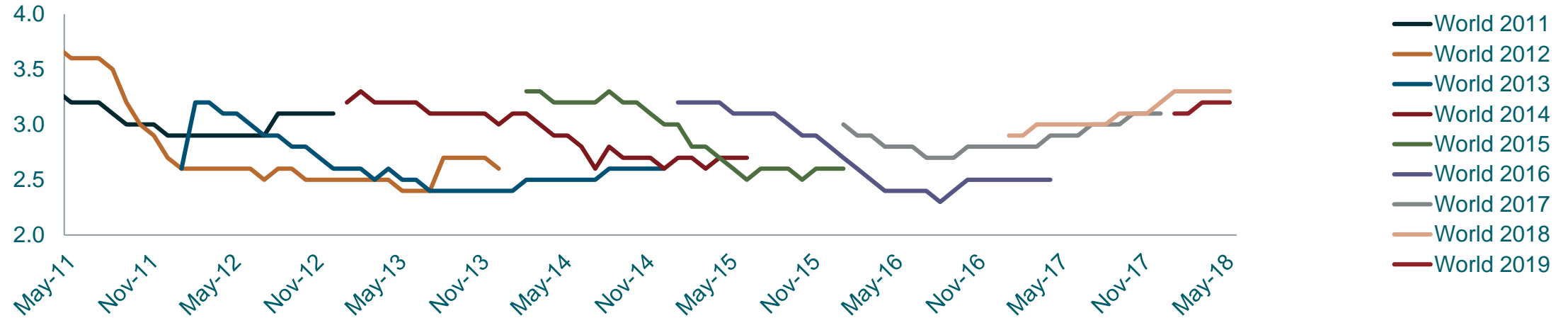
Expert advice...

“RBS cries 'sell everything' as deflationary crisis nears”, 11 January 2016*

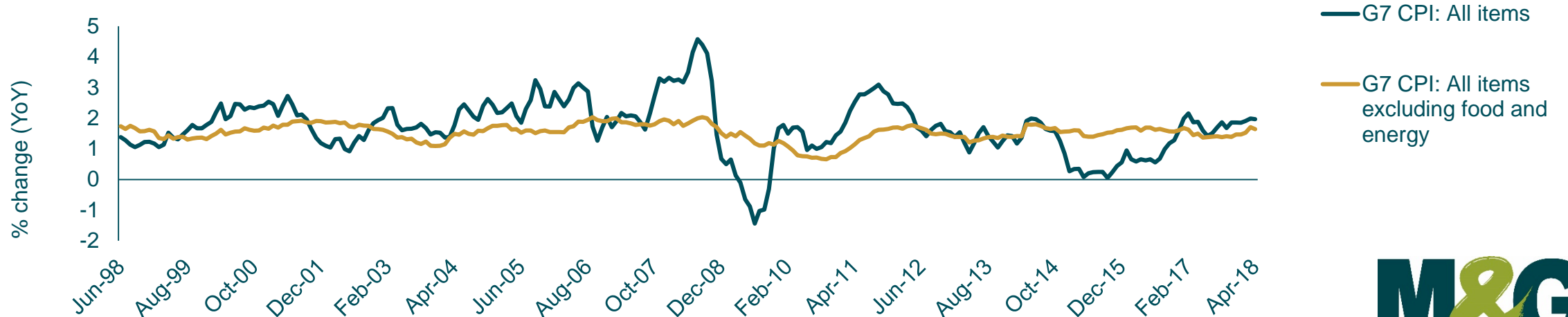


Global GDP and inflation

Global GDP



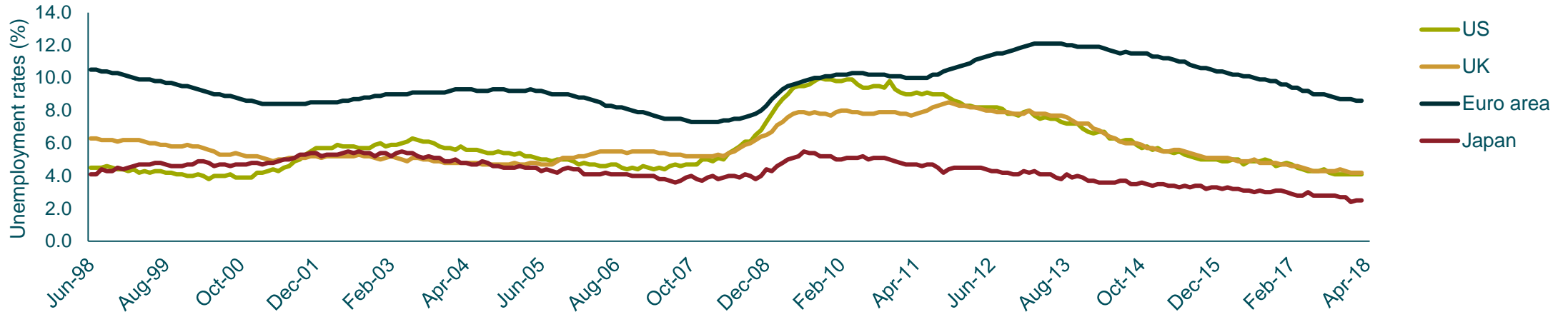
G7 Inflation*



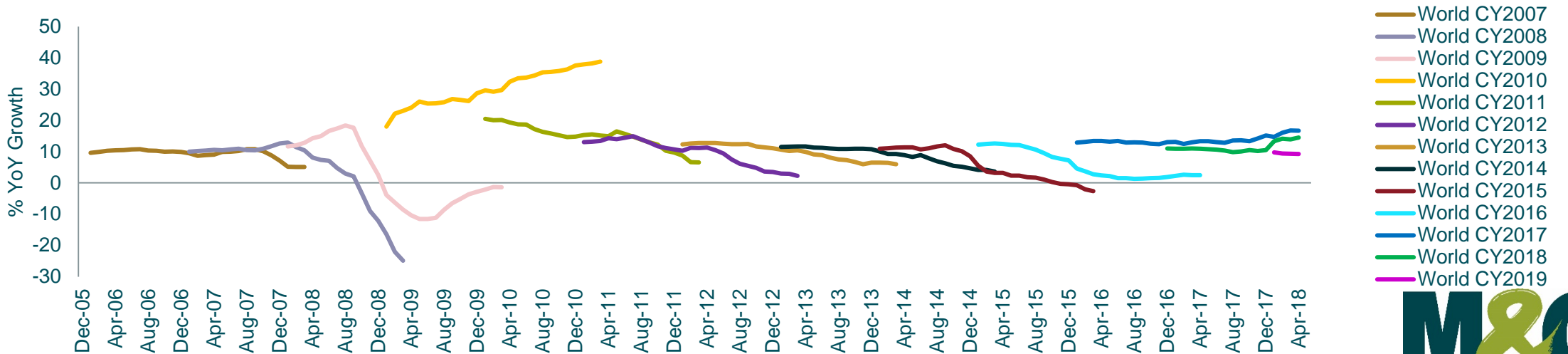
Fundamental data

Continues to be supportive

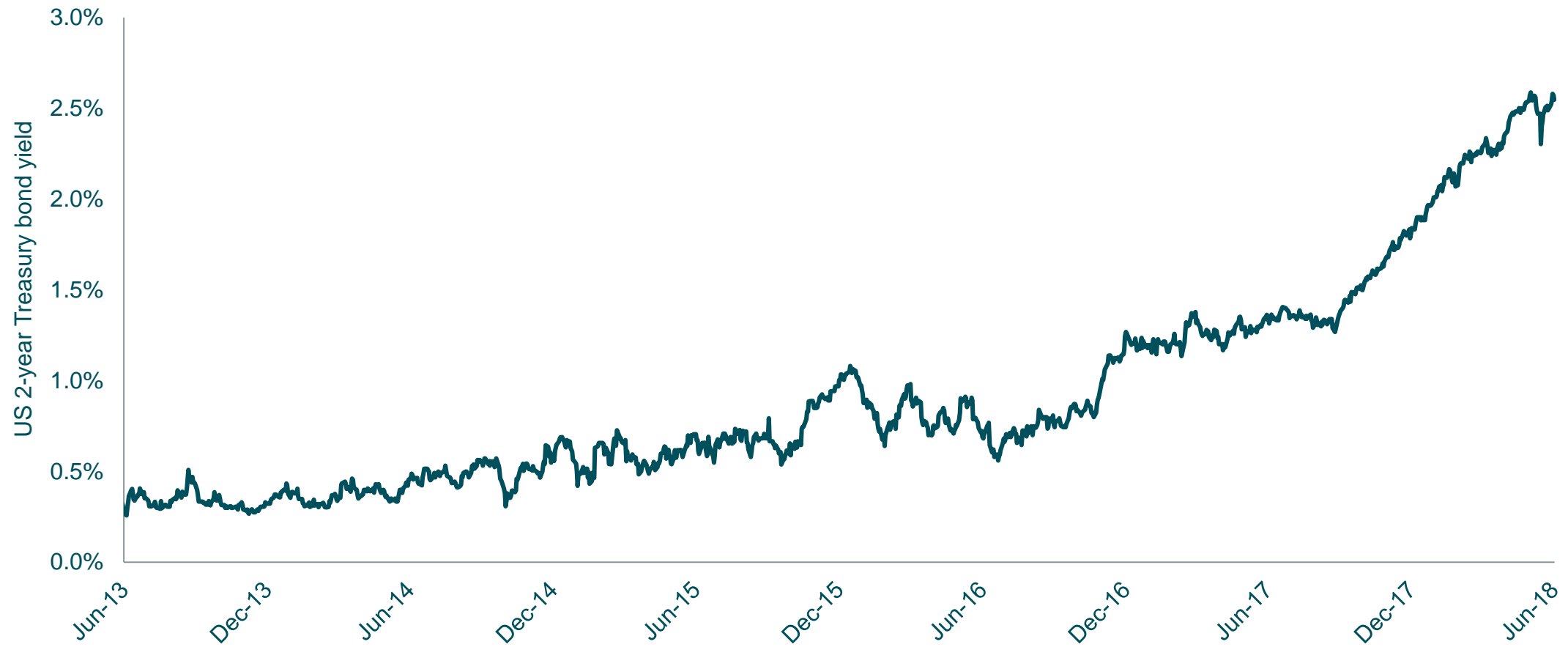
Unemployment rates



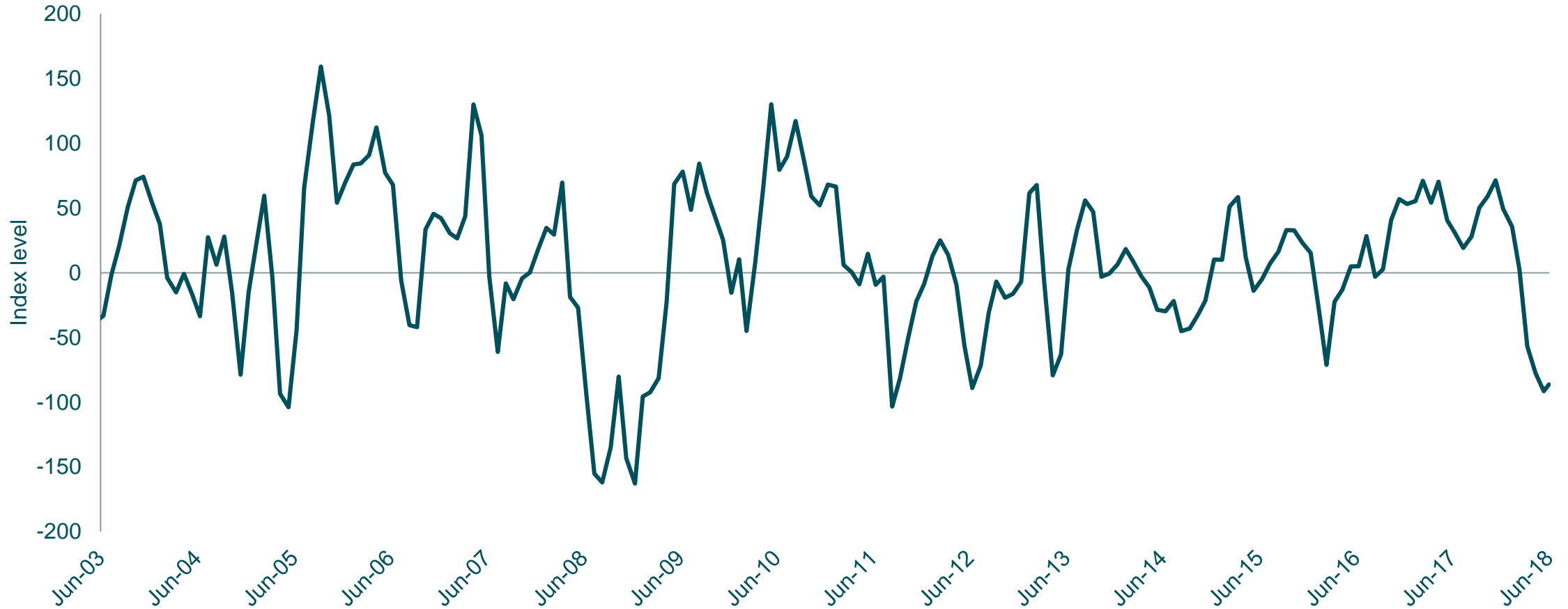
Corporate earnings' growth expectations*



US cash rates: A challenge for asset prices



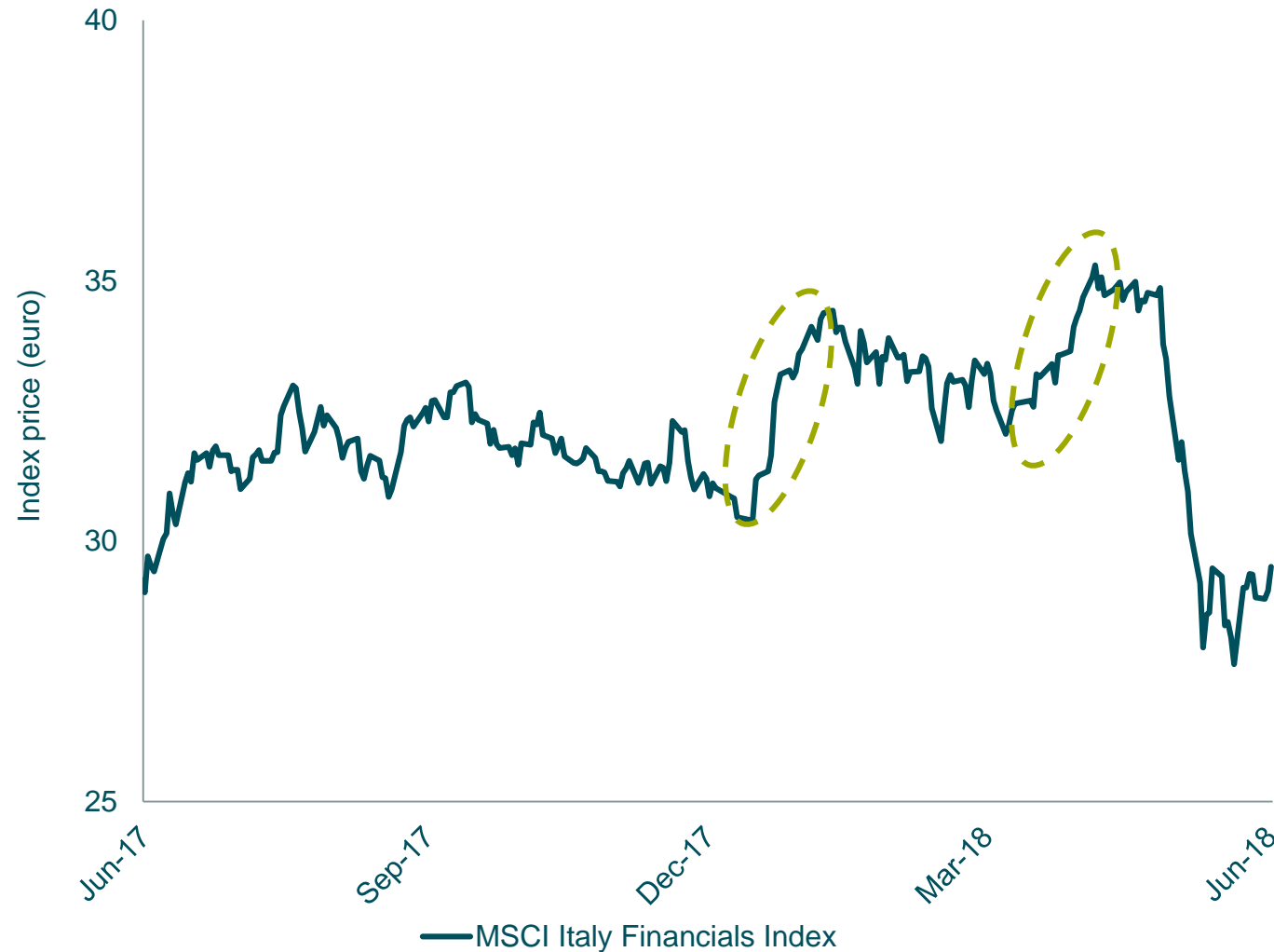
European growth sentiment has moderated



Citi Economic Surprise Index - Eurozone

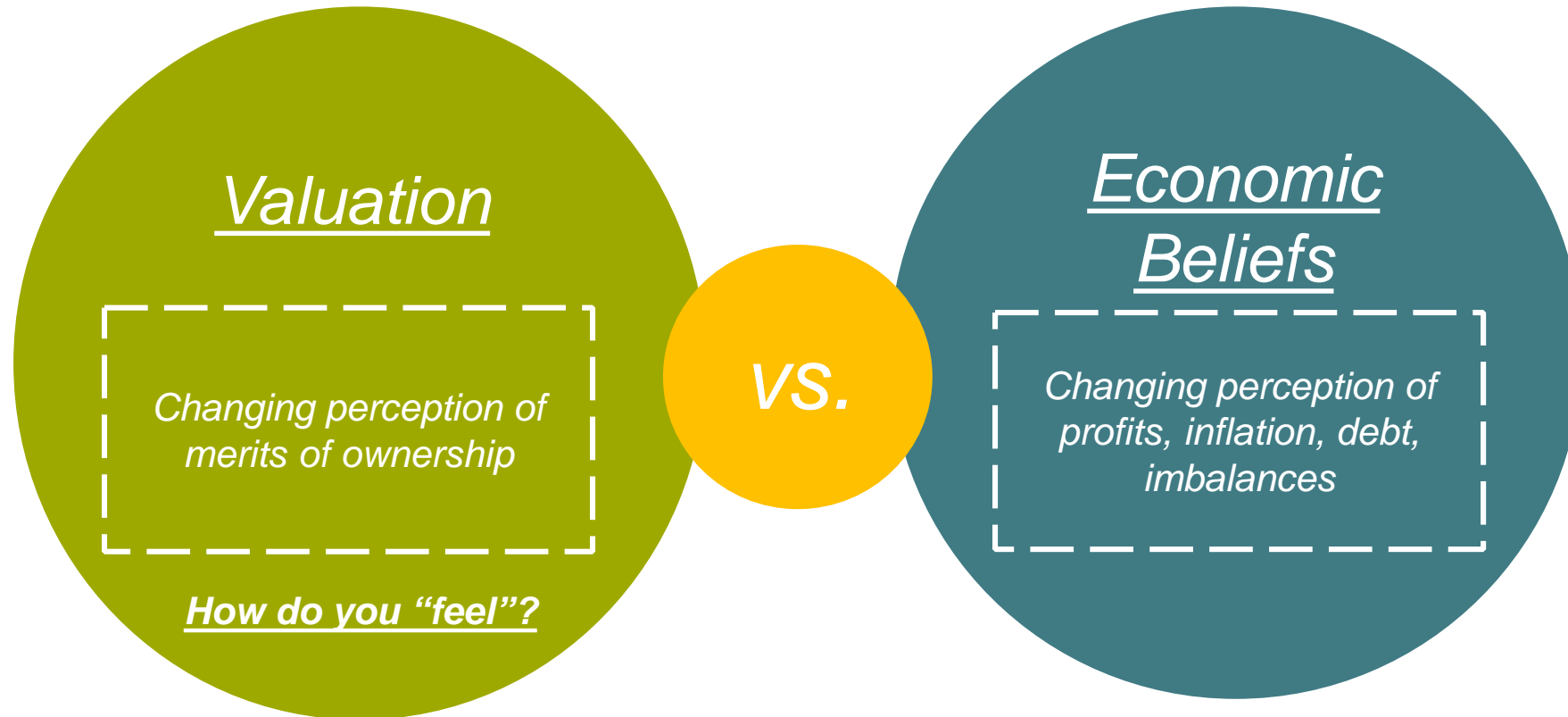
Identifying 'episodes': Italian risk premia

Better opportunity in Italian financials equity?



- ✓ Valuation indicators
- ✓ Rapid price action
- ✓ Behavioural influences are evident
- ✓ Focus on a single story
- ✓ Price move inconsistent with facts

What mistake might investors be making?



Where is the surprise?

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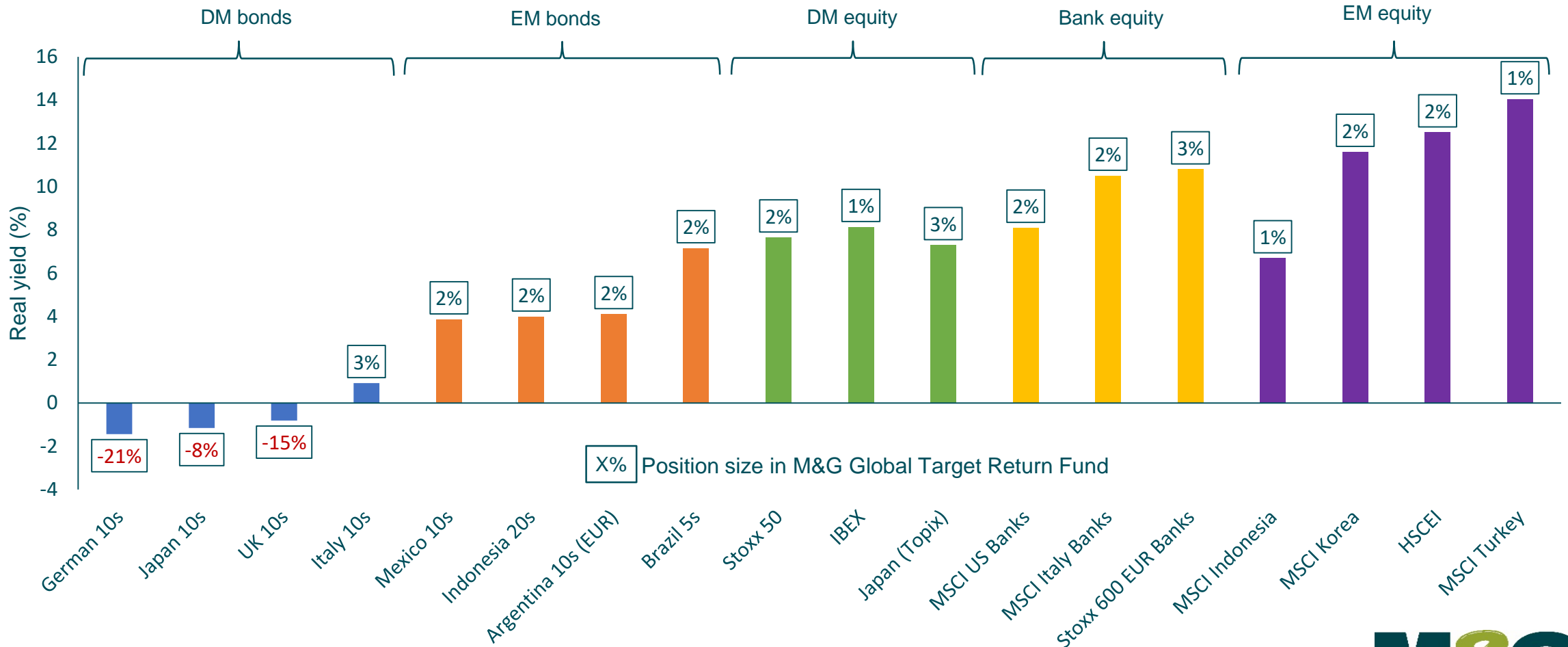
Fund positioning

Performance and risk

M&G Global Target Return Fund

Portfolio: Attractive real yields

Fund positions: Real yields

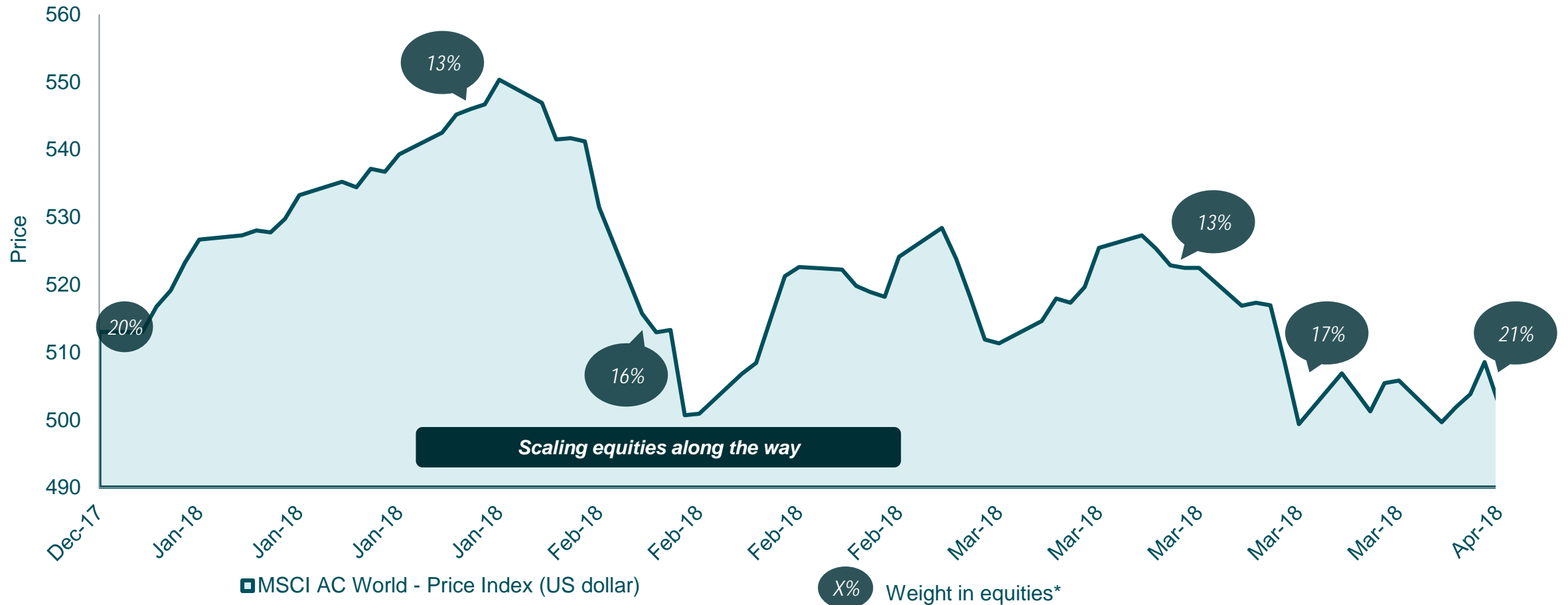


Past performance is not a guide to future performance



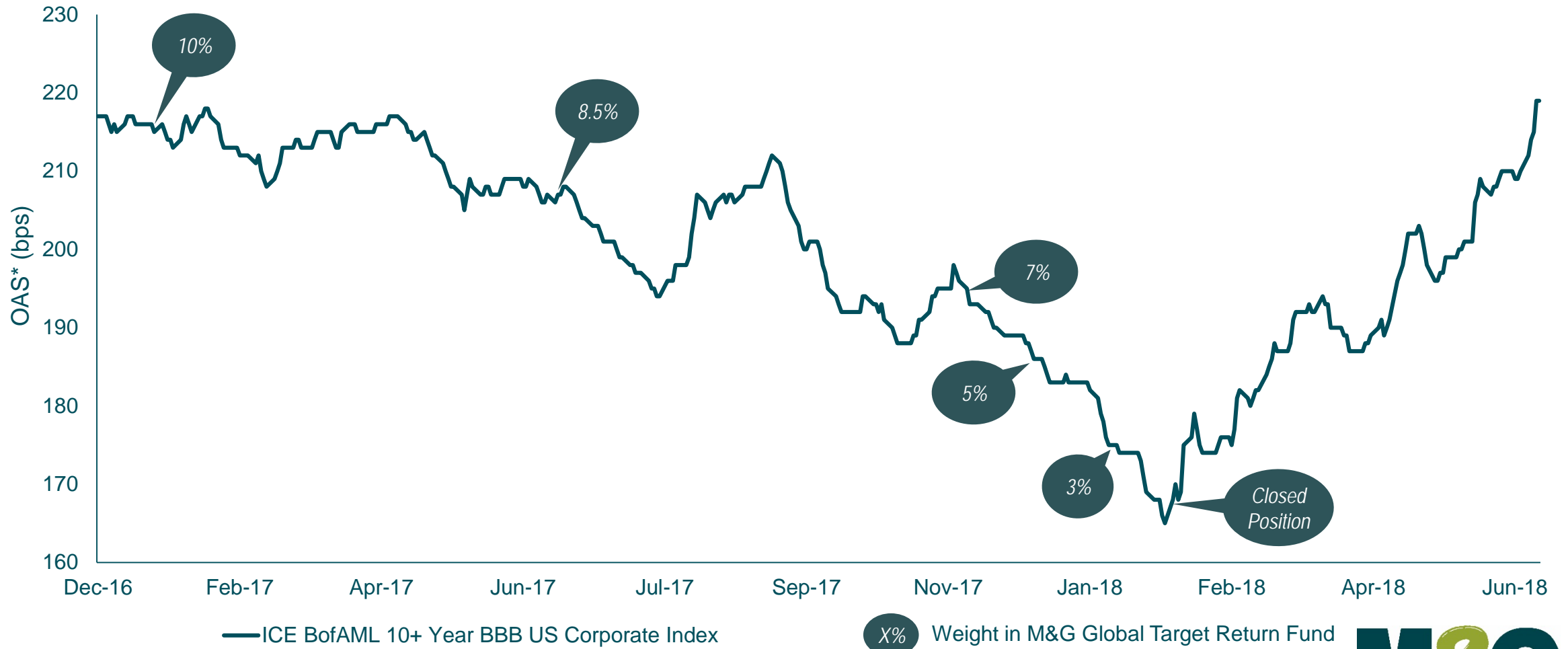
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Position scaling: Equities



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Position scaling: Corporate bonds (long-dated BBBs)



Source: Bloomberg, 20 June 2018. *Option-adjusted spread over US 10-year Treasuries.



Portfolio themes

Identifying opportunities

| Upside participation | Diversified income | Protection | Rate protection | 'China' protection |
|-------------------------------------|-------------------------------------|-------------------------------------|-----------------------|----------------------------------|
| Diversified global equity exposures | Infrastructure | Credit default: Developed corporate | Short G7 govt. bonds | Credit default: Asian sovereigns |
| Targeted equity sectors | EM govt. debt (hard/local currency) | | Banking sector equity | Short Asian currencies |
| Currency carry | Asset backed securities | | | |

Current asset allocation

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| Fixed income – developed market govt bonds | Theme | Weight (%) | Theme | Weight (%) |
|--|---------------|------------|-----------------|--------------|
| | Italy 10-year | 3.0 | Japan 30-year | -2.0 |
| | | | German 10-year | -3.0 |
| | | | UK 10-year | -3.0 |
| | | | Japan 10-year | -3.0 |
| | | | UK 30-year swap | -4.0 |
| | | | German 30-year | -5.0 |
| | | | German 5-year | -10.0 |
| | Total | 3.0 | Total | -30.0 |

| Equities | Theme | Weight (%) | Theme | Weight (%) |
|----------|-------------------|-------------|-------|------------|
| | US / Europe banks | 6.9 | | |
| | Asia ex-Japan | 5.0 | | |
| | European indices | 3.0 | | |
| | Japan | 3.0 | | |
| | Turkey | 1.0 | | |
| | Total | 18.9 | | |

| Fixed income - credit (including EM credit) | Theme | Weight (%) | Theme | Weight (%) |
|---|-------------------|------------|----------------|--------------|
| | M&G European Loan | 3.5 | US CDX HY | -2.0 |
| | Argentina 15-year | 1.2 | Chile CDS | -8.0 |
| | Argentina 10-year | 0.8 | Philippine CDS | -8.0 |
| | | | China CDS | -8.0 |
| | | | Korea CDS | -8.0 |
| | Total | 5.5 | Total | -34.0 |

| Alternatives | Theme | Weight (%) |
|--------------|--------------------|------------|
| | UK infrastructure | 2.5 |
| | ABS | 0.7 |
| | REITS | 0.5 |
| | Alternative credit | 0.5 |
| | Total | 4.2 |

| Fixed income – EM local | Theme | Weight (%) |
|-------------------------|--------------------|------------|
| | Mexican 10-year | 2.0 |
| | Indonesian 20-year | 2.0 |
| | Brazilian 5-year | 2.0 |
| | Total | 6.0 |

| FX | Theme | Weight (%) | Theme | Weight (%) |
|----|-------|------------|-------|------------|
| | GBP | 100 | KRW | -1 |
| | USD | 15 | SGD | -2 |
| | TRY | 3 | THB | -2 |
| | IDR | 3 | AUD | -2 |
| | MXN | 2 | CNH | -2 |
| | RUB | 2 | EUR | -3 |
| | BRL | 2 | MYR | -3 |
| | JPY | 2 | TWD | -4 |
| | | | HKD | -10 |

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Performance in sterling

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| | 01.06.17 to 31.05.18 | 01.06.16 to 31.05.17 | 01.06.15 to 31.05.16 | 01.06.14 to 31.05.15 | 01.06.13 to 31.05.14 |
|-------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| M&G Global Target Return Fund | 2.7% | - | - | - | - |

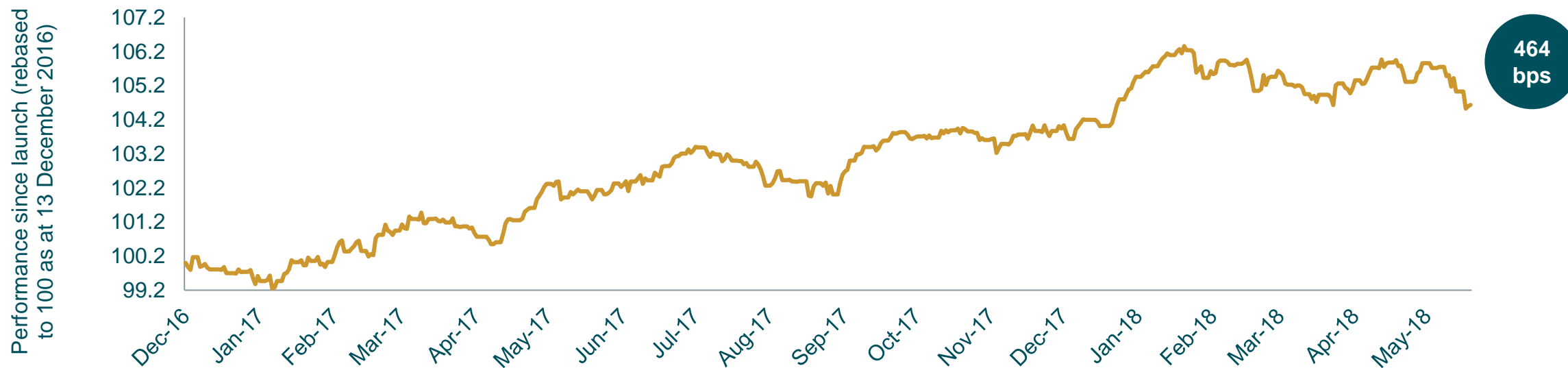
Past performance is not a guide to future performance



M&G Global Target Return Fund

Performance

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| Monthly returns (%) | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD | Since inception** |
|---------------------|-----|------|------|-----|------|-----|-----|------|-----|-----|-----|-------|-----|-------------------|
| 2016 | | | | | | | | | | | | -0.3* | | |
| 2017 | 0.2 | 0.3 | 0.9 | 0.1 | 0.8 | 1.0 | 0.2 | -0.7 | 1.3 | 0.2 | 0.2 | 0.0 | 4.3 | |
| 2018 | 2.0 | -0.4 | -0.8 | 1.0 | -1.2 | | | | | | | | 0.6 | 3.2 |

Past performance is not a guide to future performance

Source: Morningstar Inc., 31 May 2018, sterling I class shares, accumulation shares, price-to-price and income share class.

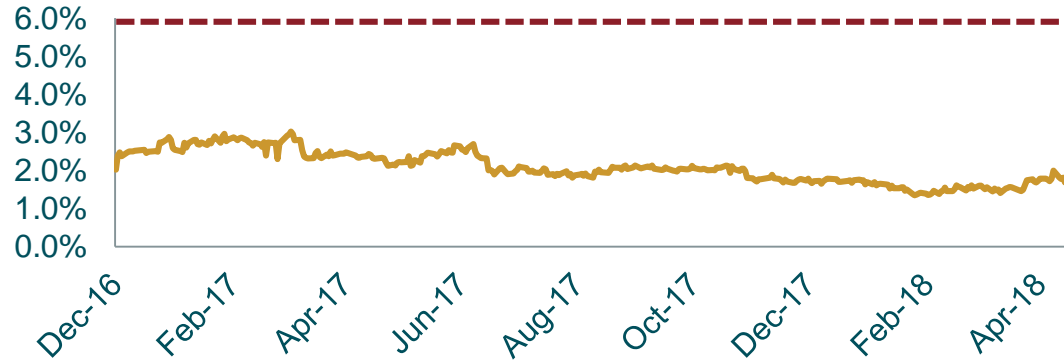
*Partial month calculated from 13 December 2016 to 31 December 2016. **13 December 2016



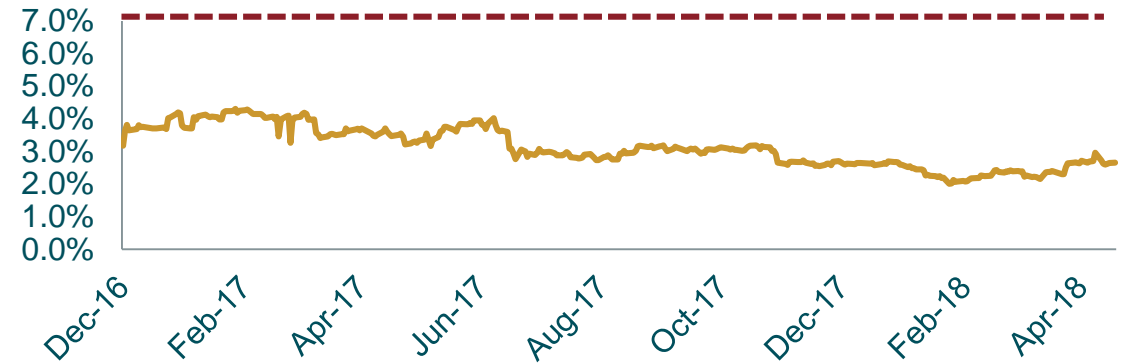
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Risk management

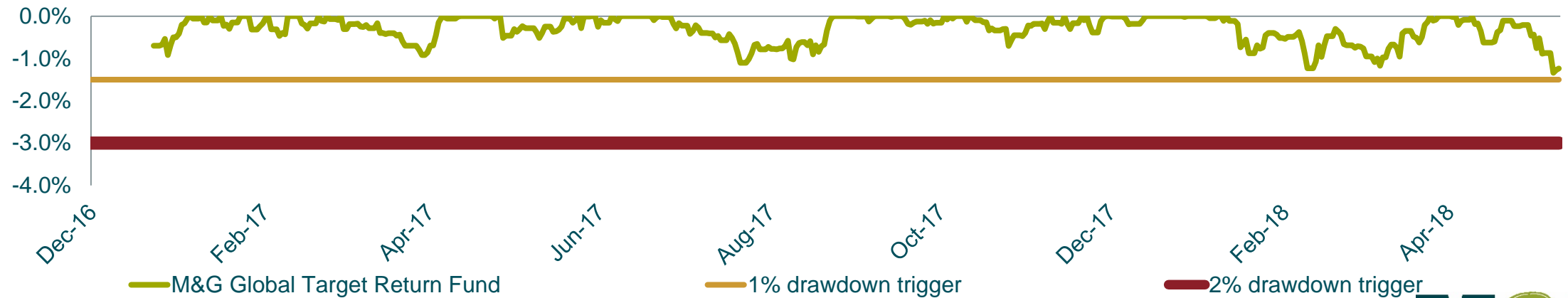
1-month, 99% VaR



Volatility



Current 1 month drawdown*



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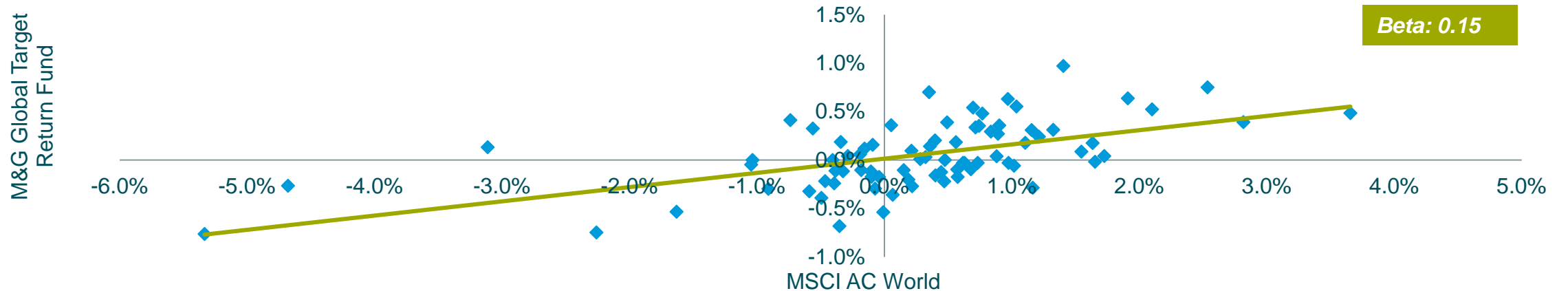
Source: M&G, Bloomberg, 31 May 2018. sterling I share class. *M&G defines 1-month current drawdown as the percentage difference between the fund's current NAV and the maximum NAV achieved by the fund over the preceding 21 business days. This differs from other drawdown measures such as maximum drawdown. We use 1-month current drawdown as an input into our risk management process.



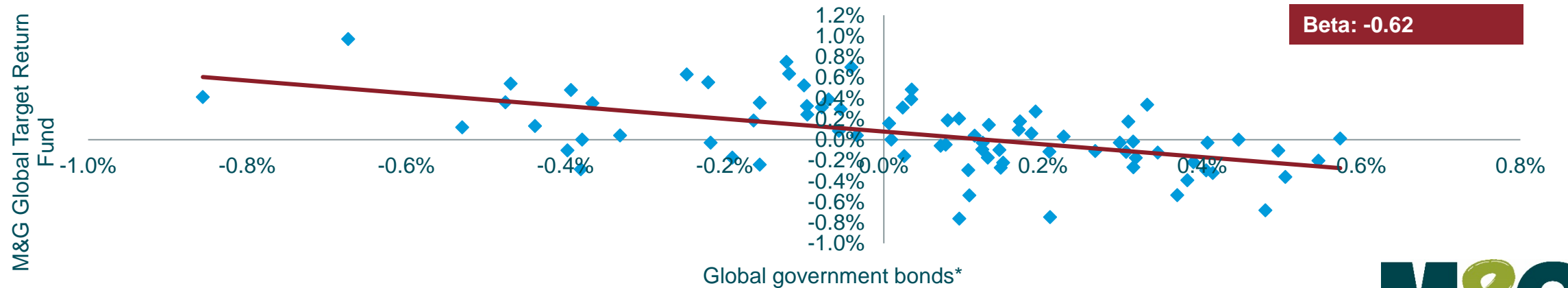
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Fund Beta

Fund beta versus equities



Fund beta versus bonds



Past performance is not a guide to future performance



Summary

M&G Global Target Return Fund

- Outcomes-based multi-asset fund
- Macro approach with flexibility to go long or short
- Rigorous and tested philosophy and process
- Disciplined risk management

Market views:

- 2016 marked a pivotal shift in regime
- Traditional 'safe assets' (bonds) look risky and a potential source of volatility
- Real yields suggest selected equity and emerging debt markets attractive
- Flexibility to go short and respond to volatility is increasingly important



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