

For investment professionals only



M&G Episode Allocation Fund

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M&G Episode Allocation Fund

Risks associated with this fund

The value of investments and the income from them will rise and fall. This will cause the fund price, as well as any income paid by the fund, to fall as well as rise. There is no guarantee the fund will achieve its objective, and you may not get back the amount you originally invested.

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.

The fund invests in other funds, and there is a risk that the value of the assets held by those funds is not always reflected in the funds' reported values. The fund manager will not have control over the management of those funds or the pricing of the assets they hold.

Changes in currency exchange rates will affect the value of your investment.

The fund will invest in emerging markets which are generally smaller, more sensitive to economic and political factors, and where investments are less easily bought and sold. In exceptional circumstances, the fund may encounter difficulties when selling or collecting income from these investments, which could cause the fund to incur a loss. In extreme circumstances, it could lead to the temporary suspension of dealing in shares in the fund.

Where market conditions make it hard to sell the fund's investments at a fair price to meet customers' sale requests, we may temporarily suspend dealing in the fund's shares.

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

- Today's environment
- The economic backdrop
- Opportunities and positioning

US equity climbs a wall of worry

MSCI USA Index and MSCI AC World ex-US Index price



Why is the market worried?

Main fears focused outside the US

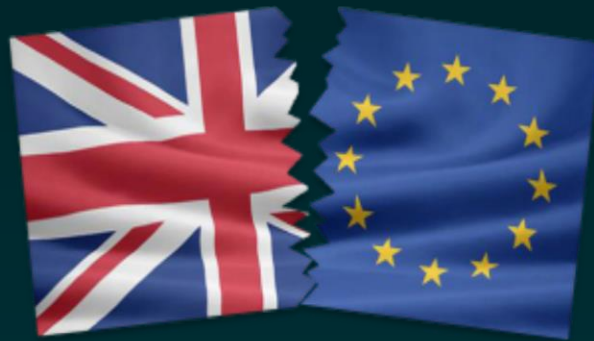
Tariffs



Emerging markets



Brexit



Italy



Repricing of cash is critical for all assets

But doesn't make headlines

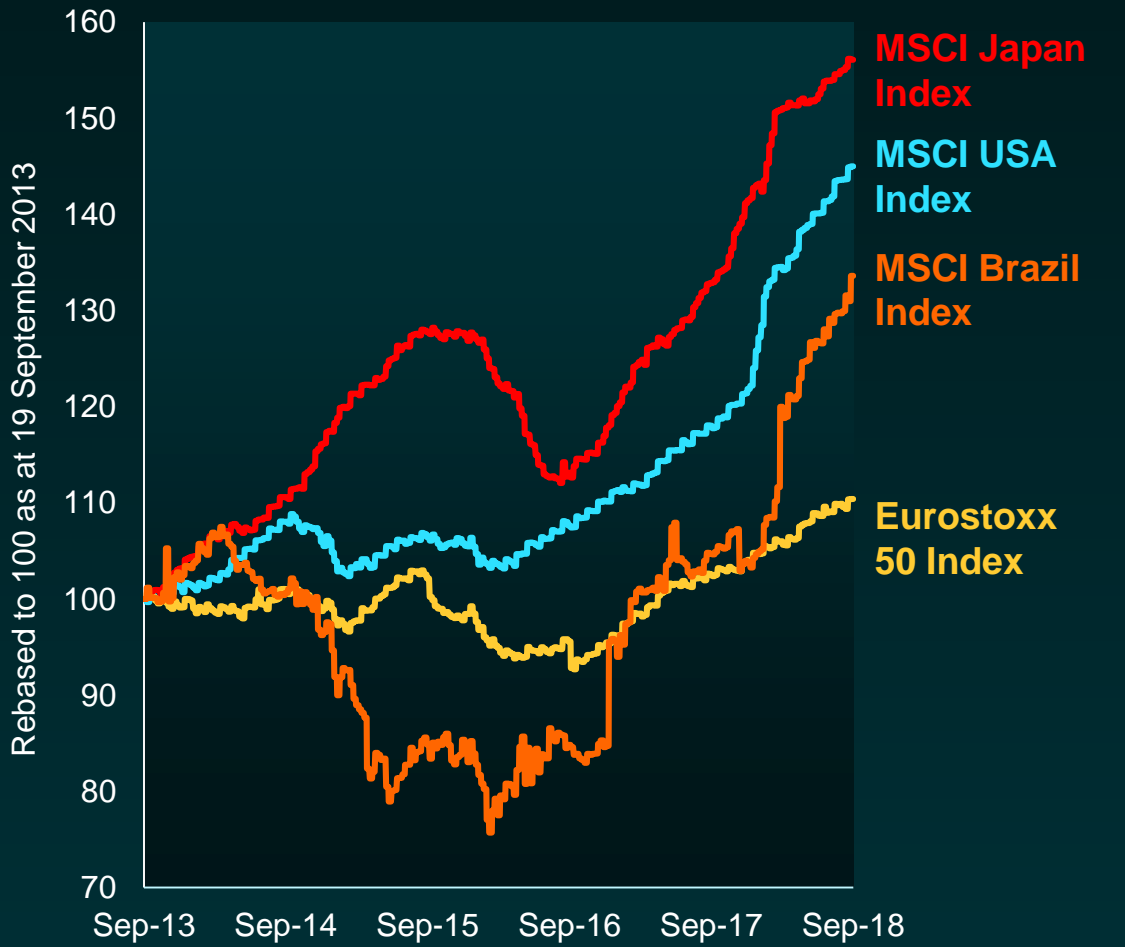
US 2-year Treasury yield



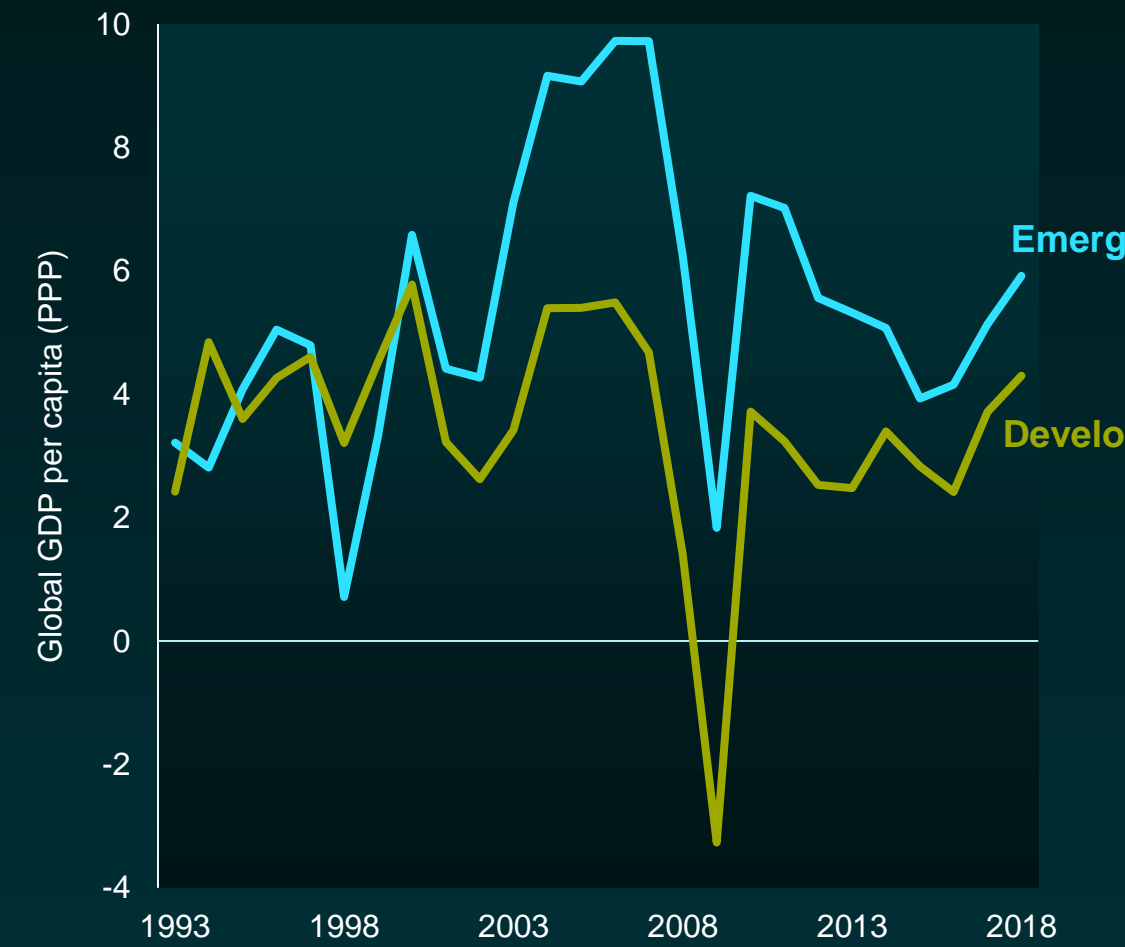
Bonds a source of risk in 2018

Earnings and economic fundamentals are encouraging

Forward earnings



Global GDP per capita (PPP)



But pessimism still dominates

The key opportunity today

MSCI AC World Index earnings yield and real 10-year government bond yields (US and UK)



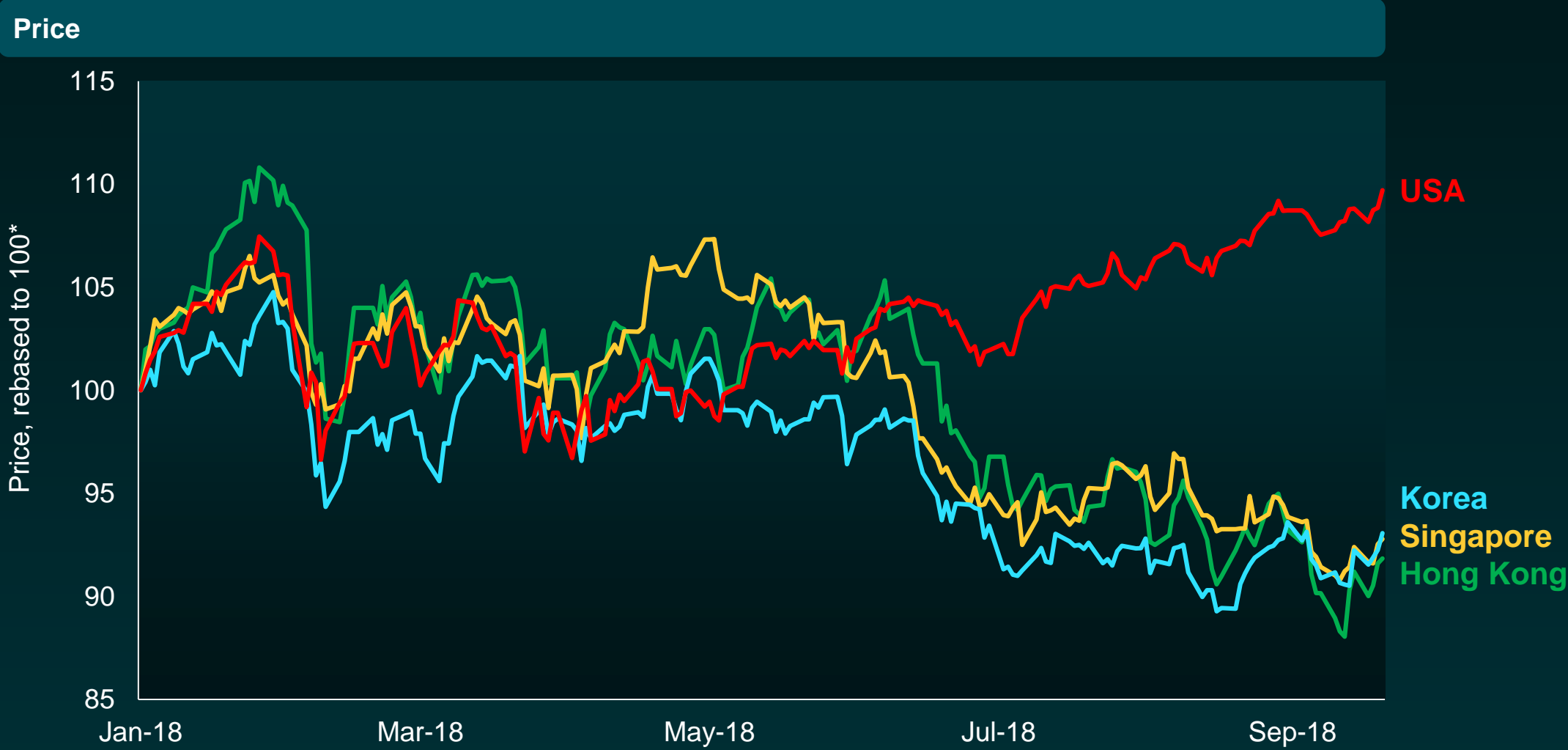
MSCI AC World EY

US 10-year
real yield

UK 10-year real
yield

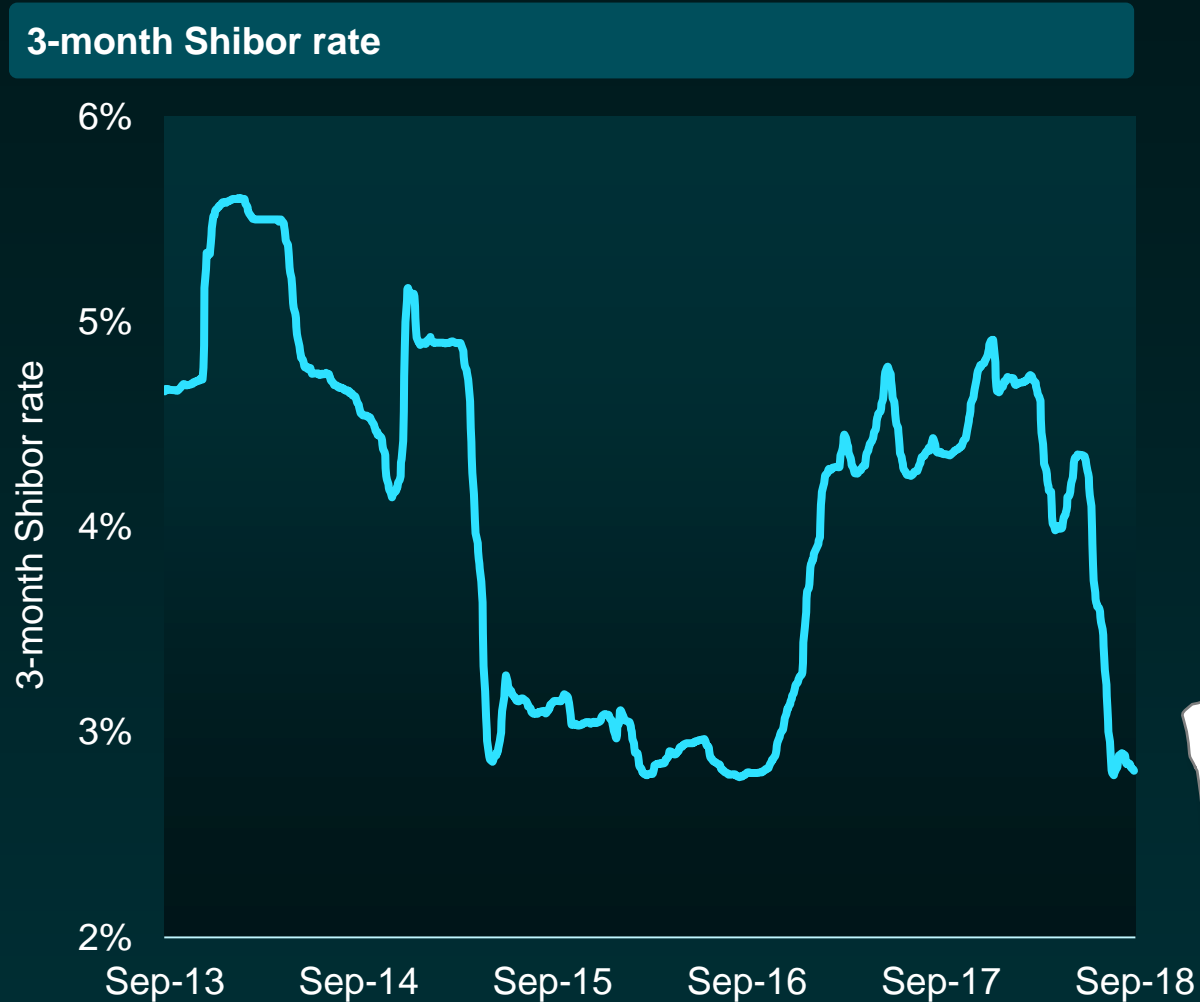
Recent 'episode' in Asian stock markets

Investors worried about growth outside of the US



US trade tariffs: is it all bad news?

Chinese policy easing



China rolls out further tax cuts in support of real economy
- Xinhuanet, 31 August 2018

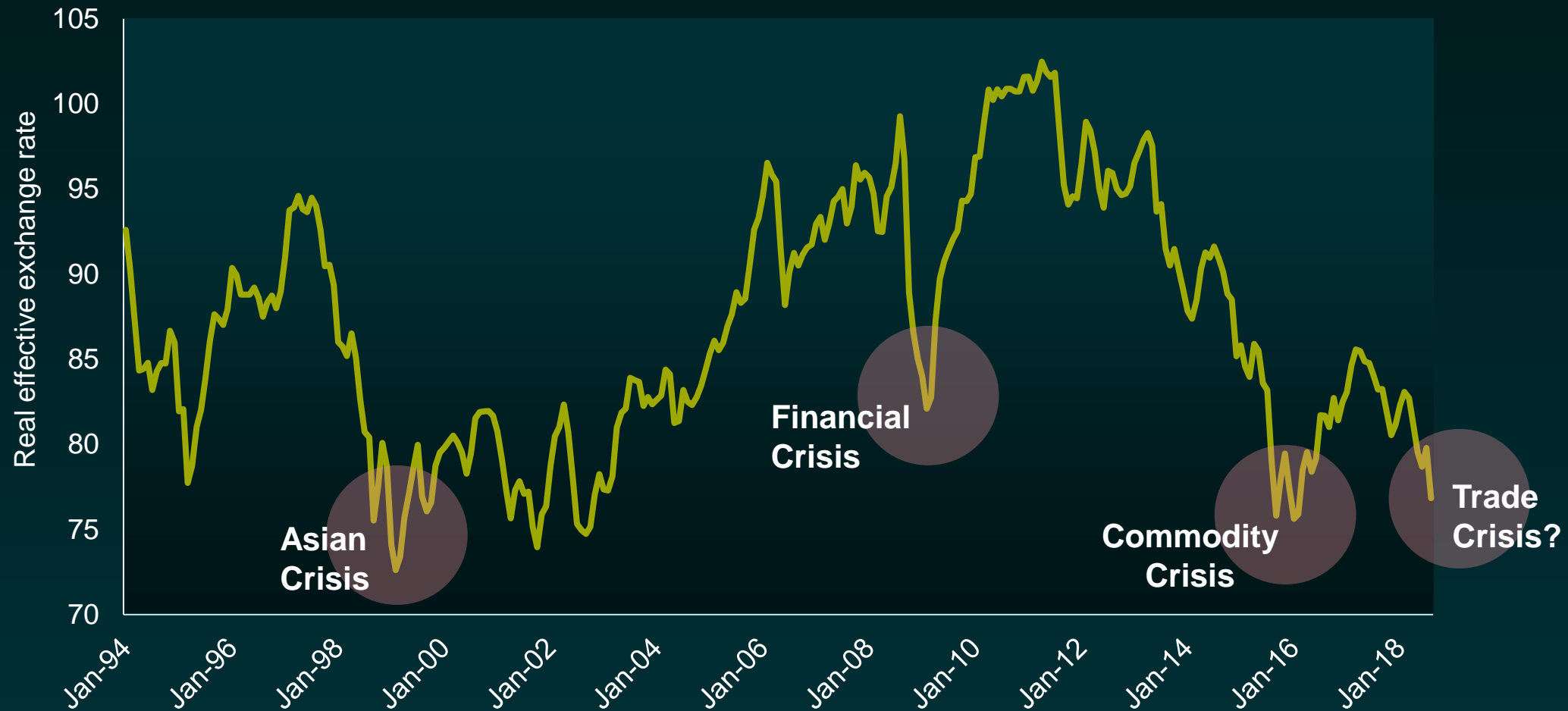
After Donald Trump's move, taxes cut for Chinese firms from factories to farms
- South China Morning Post, 29 March 2018

China's central bank preparing further policy easing to counter credit squeeze
- South China Morning Post, 20 July 2018

Buying fear has been a winning strategy

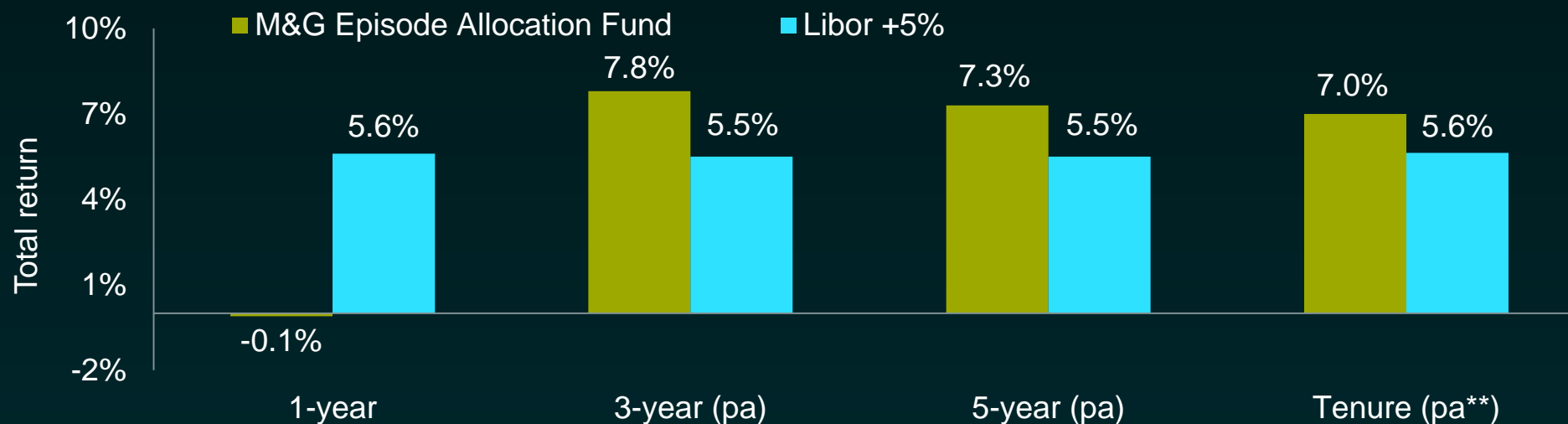
Emerging market currencies: Depressed valuations and carry

EM currency basket*: Average real effective exchange rate



M&G Episode Allocation Fund

Aims to deliver total return* of at least 5% per annum above the 3-month GBP LIBOR rate



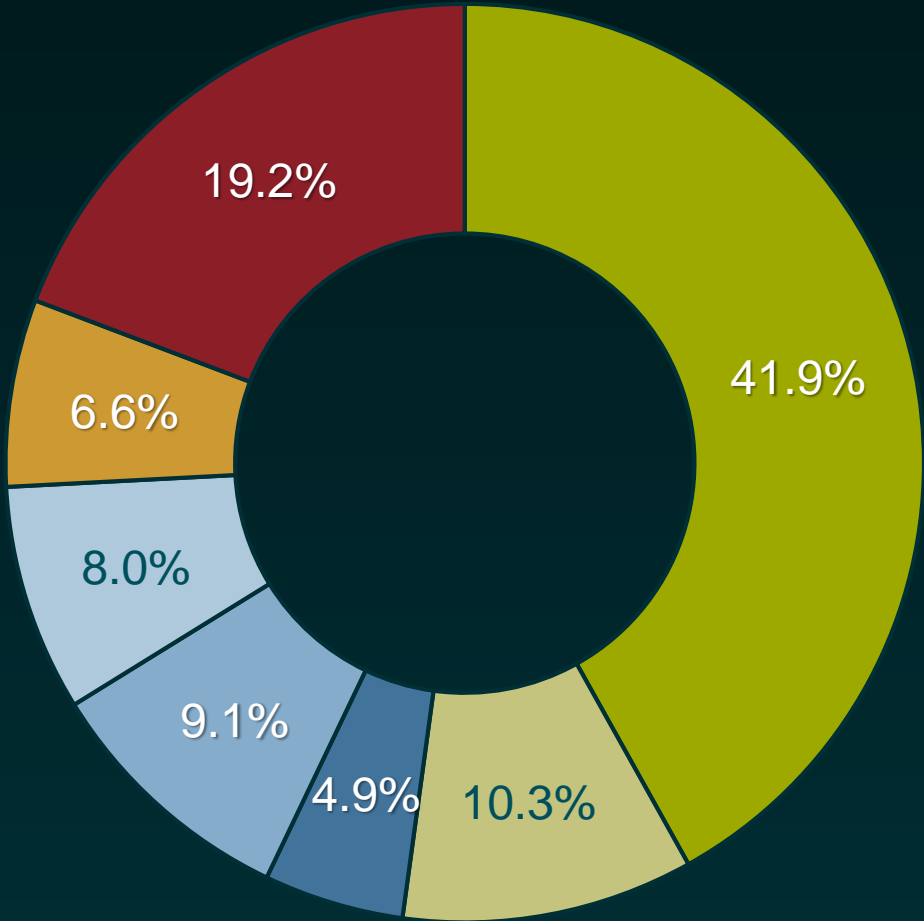
	YTD %	2017 %	2016 %	2015 %	2014 %	2013 %
M&G Episode Allocation Fund (GBP A share class)	-2.9	11.9	13.7	1.6	8.6	10.8
3 month LIBOR + 5%	3.8	5.4	5.5	5.6	5.6	5.5

Past performance is not a guide to future performance

*The return aim is quoted gross of charges on a total return basis (combination of income and capital growth) and is calculated over any five-year period. There is no guarantee that the Fund will achieve a positive return over five years, or any other period, and investors may not get back the original amount they invested.

Positioning

M&G Episode Allocation Fund



- Equity: developed
- Equity: emerging
- Government bonds: Developed
- Government bonds: Emerging
- Corporate bonds
- Property
- Cash

Conclusions

- Recent volatility creating exciting opportunities across global markets
- Equity versus bond the major asset allocation opportunity
- Relative value signals opening up. US equity vs. the rest of the world
- Diversification a challenge; time horizon is key

Q&A

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