

# M&G Episode Income I Inc GBP

November 2018

## Outcome

The aim of the fund is to provide a level of income of around 3-4% p.a. In addition it seeks to deliver capital accumulation over the longer term. Over time the manager will attempt to grow the level of income however he will do this in a risk controlled manner in order to secure the stability of income, and targets a longer term volatility of between 4-10%, which is broadly half that of equities.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●		●	

## Performance Objective

The manager aims to deliver a total annualised return of between 6-7% over the medium to longer term, with broadly half of this being delivered from income.

<b>Active/Passive:</b> Active	<b>IA Sector:</b> IA Mixed Investment 20-60% Shares
<b>Launch Date:</b> 11/11/2010	<b>Fund Size (as at 30 Sep 2018):</b> £849.8m
<b>Yield (as at 13 Nov 2018):</b> 3.7%	<b>Distribution Pay Date:</b> Monthly
<b>Fund Manager:</b> Maria Municchi, Steven Andrew	<b>Ongoing Charge Figure:</b> 0.81%
<b>Domicile:</b> United Kingdom	<b>Transaction Cost ex Ante:</b> 0.19%
<b>Multi-Manager:</b> No	



## Fund Opinion

We like this fund as it has well defined and quantifiable objectives in terms of income, growth and expected risk over the longer term. The lead manager is very clear on how he intends to meet the objectives and where he believes his edge lies. Whilst he has only been lead manager since 2010 he has over 15 years of investment experience, a large number of which has been focused on the fund's main driver of performance, macroeconomics.

The manager will generally only invest in areas of the market that he believes are attractively valued and the unconstrained approach means he is not forced to hold assets where he has low conviction. The fund is managed in a high conviction manner, which means that should the manager's strong views not immediately be reflected in the market price for an asset then there is the potential for the fund to experience short-term periods of volatility.

Mr Andrew is a measured and knowledgeable investor, particularly with regard to the broader market environment. He works within an experienced team, the majority of whom have been working together managing multi-asset strategies for over 10 years. The environment is collegiate but individual managers have the autonomy to make their own decisions on their funds. We think this environment is supportive for the manager but allows his best asset allocation ideas to be fully reflected within the portfolio.

M&G's parent, Prudential plc, recently announced it is to combine Prudential UK & Europe and M&G Investments. Whilst it is too early to say what effect this may have on the fund, investors should be aware that there is the potential for changes within the multi asset business at M&G, but we do not believe it is likely at the current time that they will have a major impact on the fund.

## Fund Description

The lead manager on the fund is Steven Andrew. He joined M&G in 2005 as a member of the portfolio strategy & risk team, before moving to the multi-asset team. Prior to this he worked at F&C Asset Management, Merrill Lynch and the Bank of England. Maria Municchi is the deputy manager on the fund. The pair are part of an experienced multi-asset team which is headed by David Fishwick.

All of M&G's multi-asset strategies are run to a single global investment framework. Underpinning this framework is the belief that the best approach to managing a portfolio lies in the flexibility to allocate capital between global asset classes in response to changes in asset valuations and understanding the behavioural and economic drivers of those valuations. As investors take decisions based on emotion, an assessment needs to be made to see if this unduly affects prices. Analysing closely macroeconomics and government policy, the multi-asset team attempt to understand whether investors optimism or pessimism is valid.

Idea generation is a collective process, however decision-making is undertaken on an individual basis and Mr Andrew takes the team views and applies them to this income orientated approach. The portfolio is constructed to deliver the required income, whilst being mindful of the level of risk and the profile of the underlying investor base of the fund. The manager thinks of asset classes in terms of equity, corporate credit, government bonds and alternatives, including property, and generally invests directly in these.

The main driver of fund returns will be the manager's asset allocation decisions with underlying security selection largely being a secondary factor. In-depth assessment of the long-term fair value of assets is an integral part of the investment process. Equities are managed on a global basis and the manager uses a number of quantitative factors to help identify liquid stocks that provide a reasonable and growing dividend. These stocks tend to be less sensitive to market moves. Mr Andrew then allocates capital to regions and sectors where he sees most value. Fixed income is considered in terms of mainstream and non-mainstream sovereign debt and corporate credit. Mainstream sovereigns are assets that will provide downside protection, in a risk off environment, for example US treasuries and UK gilts. Non-mainstream, are those issued by countries outside of the G7. Within corporate bonds, the manager aims to add value through the management of interest rate and credit risk, targeting specific areas where he sees value. He then seeks to replicate these risk factors through individual bonds utilising the resource of the European credit team at M&G. Property exposure is gained through the M&G Property Portfolio.

The fund has no structural benchmark but has some broad asset class ranges including, 20-50% global equity, 40-80% global bonds and 0-20% other (including cash). The portfolio generally holds around 150 securities. Positions in each security are sized so that the fund is not overly exposed to any single name. Within equities, the limit for a single stock is 1.5%. Individual corporate bonds are also limited to a maximum of 1% per issue. Non-mainstream bonds have a maximum country limit of 3%. The maximum exposure to non-sterling assets is limited to 30% of the portfolio.

## Risk Summary

The manager's behavioural and valuation focused approach means that there will be times when he is investing into assets which have fallen or are falling in value. Investors should therefore be aware that if this trend persists and should the manager continue to believe that on a longer-term basis the market has mis-priced the intrinsic value of the asset, then the fund is likely to be more volatile over shorter time frames than other funds with a similar risk profile and outcome.

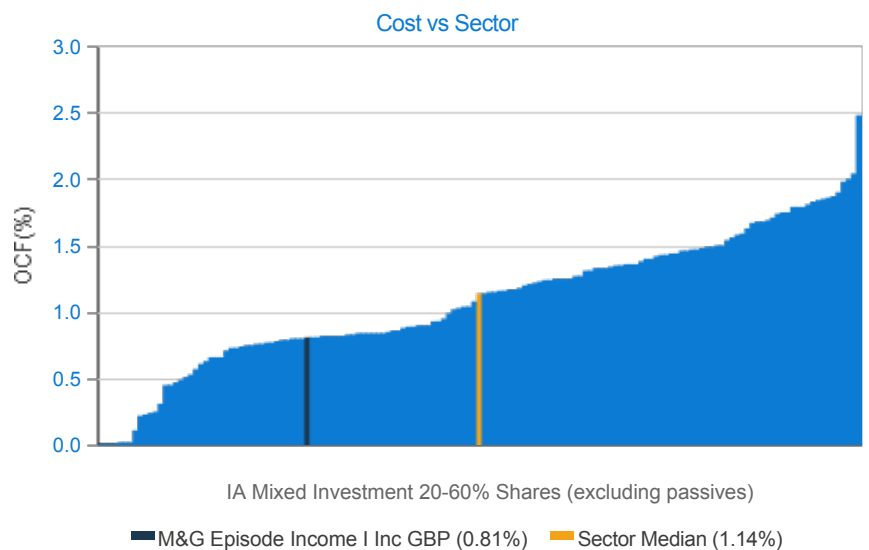
Additionally, unlike a number of other multi-asset income funds, this fund invests directly into individual stocks and bonds in order to reflect the manager's asset allocation views. This approach means that the portfolio will have some fairly high security specific risks although the manager has limits in place to help contain some of the risks.

## Value for Money

(Calculation as at 15 Nov 2018)

The fund is significantly below the median fund in the IA Mixed Investment 20% - 60% Shares sector. This sector contains a number of multi manager funds that carry a double layer of charges and therefore pushes up the average fund fee. Nevertheless, we believe the fund offers investors good value for money, providing exposure to an experienced investment team which is able to leverage the wider resource of the M&G group.

Following the introduction of MiFID II regulations in January 2018, asset management firms are now required to disclose all costs and charges related to the running and administration of funds. This can include items outside of the OCF, such as research costs. As a result, M&G will be absorbing the costs associated with their research, which should slightly reduce the overall fee paid by investors. This step is at the discretion of each fund group, but it is one that a number of firms have followed.



This chart shows the ongoing charge figure (OCF) for the fund relative to the median and all other funds in the sector. Each blue bar represents the OCF of an individual fund's 'primary' share class as meets the Investment Association's definition.

## Socially Responsible Investing

M&G takes its responsibility as an investor seriously. Each investment team shares an acute awareness of their duties as stewards of client assets and this informs all investment decisions. The business believes that environmental, social and governance (ESG) factors can have a material impact on long term investment outcomes and these are incorporated where they are expected to have a meaningful impact on risk and reward. However investment decisions are not solely based on these views. This fund is not managed to any explicit ESG criteria and therefore it is not a primary driver of the manager's investment selection process. That said, he does however leverage the research of the broader investment resource within M&G, for example the fixed income team, where there is more emphasis on ESG factors.

## Additional Information

<b>Annualised Return</b>	6.06%
<b>Annualised Volatility</b>	6.09%
<b>Max Drawdown</b>	-5.48%
<b>Max Gain</b>	7.47%
<b>Max Loss</b>	-5.26%
<b>Sharpe Ratio</b>	0.42
<b>Sortino Ratio</b>	0.42

(3 year data to last month end)

## Currency of Share Class

GBP

## Fund Price (as at 13 Nov 2018)

1200.1 pence

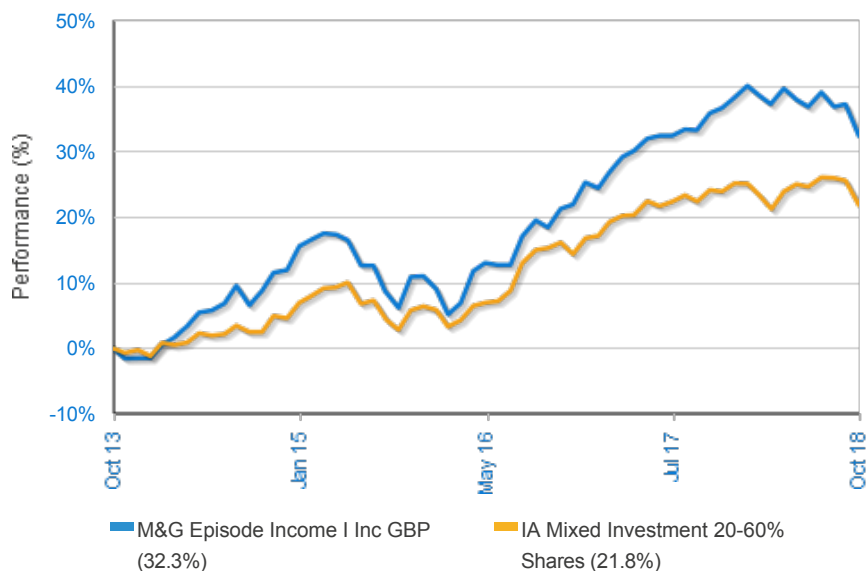
## Benchmark

None Stated

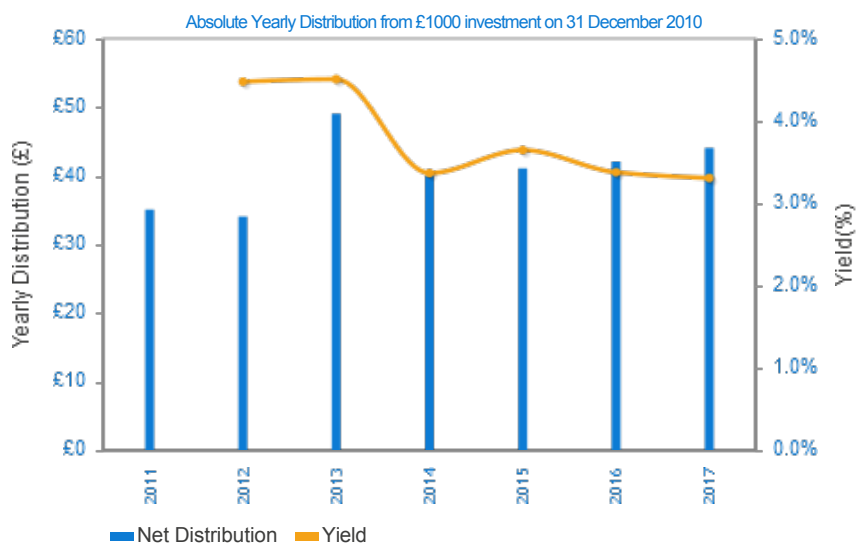
## Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	3.0	2.6	2
12-24m	12.5	6.2	1
24-36m	11.5	12.1	3
36-48m	-0.4	0.3	3
48-60m	9.1	5.1	1

## Capital Growth

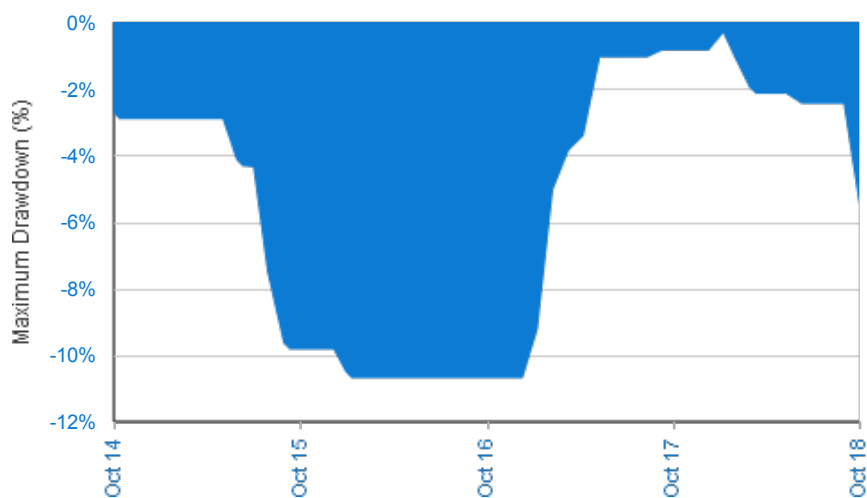


## Income



This graph assumes that income is distributed to shareholders and not reinvested.  
Yield represents share price fluctuations.

## Maximum Drawdown (Rolling 12 Months)



### Asset Allocation Positioning

Name	%
US Fixed Interest	18.1
European Equities	13.1
US Equities	12.5
Money Market	12.2
Global Fixed Interest	10.9
Japanese Equities	10.0
European Fixed Interest	8.0
Others	15.3

(Data as at 30 Sep 2018)

### Sector Breakdown

(Data as at 30 Sep 2018)



- Equities (44%)
- Government Bonds (36%)
- Money Market (12%)
- Corporate Bonds (4%)
- Mutual Funds (3%)
- Fixed Interest (1%)

### Geographic Breakdown

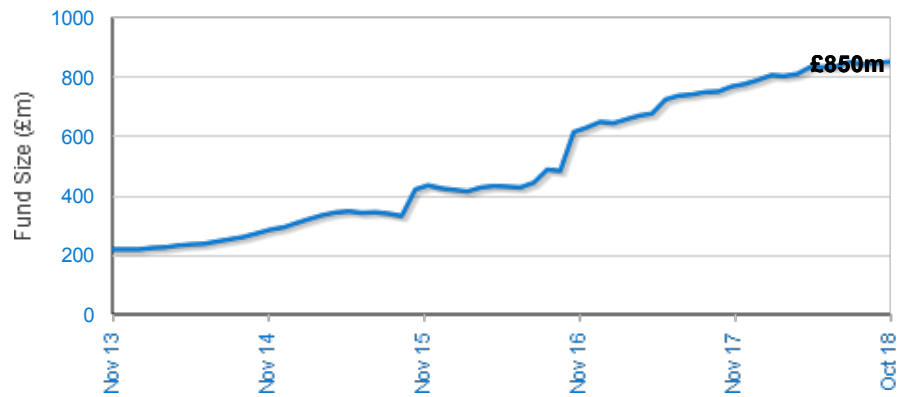
(Data as at 30 Sep 2018)



- USA (33%)
- Money Market (12%)
- Japan (10%)
- Italy (7%)
- UK (7%)
- Spain (6%)
- Mexico (3%)
- France (3%)
- Canada (2%)
- Other (17.1%)

### Assets Under Management

(Data as at 30 Sep 2018)



### Financial Express Crown Rating



### Financial Express Alpha Manager Rating

N

## Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk	●		
Interest Rate Risk		●	
Credit Risk		●	
Exchange Rate Risk		●	
Liquidity Risk			●
Emerging Markets Risk		●	
Derivative Risk			●
Manager Risk		●	

### Equity Risk

The fund has exposure to shares. Shares are volatile investments but diversification across asset classes may moderate these risks. At times of economic stress, volatility may rise as might correlations between asset class returns.

### Interest Rate Risk

This is a multi-asset fund. Higher interest rates may adversely impact valuations of many financial assets.

### Credit Risk

The fund can take exposure to both investment grade and sub-investment grade credit. Credit defaults and downgrades may adversely impact the fund price, typically this occurs at times of economic weakness.

### Exchange Rate Risk

The fund has some exposure to assets denominated in foreign currencies. Changes to exchange rates may impact the fund price.

### Liquidity Risk

The fund predominantly invests in liquid assets and any sale should be possible at close to the prevailing market price.

### Emerging Markets Risk

The fund has the ability to invest in securities issued by governments or companies in emerging markets, though the bulk of the portfolio is expected to be focused on developed markets.

### Derivative Risk

The fund is predominantly invested in physical assets but may employ derivative strategies for risk management and investment purposes.

### Manager Risk

The manager is seen as an important element in Square Mile's rating of the fund, although potential alternatives may exist elsewhere in the organisation. Square Mile will reappraise the rating if the lead manager were to leave.

FE Risk Rating: 50

SRRI: 4

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