For investment professionals only

M&G European Strategic Value Fund

M&G INVESTMENTS

12 November 2018

M&G European Strategic Value 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.

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

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.

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 invests mainly in company shares and is therefore likely to experience larger price fluctuations than funds that invest in bonds and/or cash.

Shane Kelly
Biography

- Re-joined M&G in December 2017 as an Investment Director.
- He previously worked at Alphinity Investment Management (Sydney, Australia) as a sector analyst responsible for construction materials, healthcare and quantitative analysis.
- Shane worked at M&G between 1999-2007 where he was a member of the Portfolio Construction and Risk team.
- He graduated from Victoria University in New Zealand with a bachelor of commerce and holds a masters of applied finance.

Performance in dollars

M&G European Strategic Value Fund

	YTD %	2017 %	2016 %	2015 %	2014 %	2013 %
M&G European Strategic Value Fund	-3.1	25.7	0.3	-1.5	-.	-
MSCI Europe Index	-1.9	26.2	0.2	-2.3	-5.7	26.0

	6 months %	1 year %	3 years % pa	5 years % pa	Launch of the USD A share class 08 Aug 14 % pa
M&G European Strategic Value Fund	-1.9	0.3	8.0	N/A	3.6
MSCI Europe Index	0.0	0.3	8.4	4.29	3.5
Morningstar Europe Large-Cap Value Equity sector avg.	-4.2	-3.9	6.6	2.83	2.2

Past performance is not a guide to future performance.

Source: Morningstar Inc., Pan European database, 30 September 2018, US dollar A class shares, net income reinvested, price to price.

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M&G European Strategic Value Fund

Shane Kelly, Investment Director

November 2018

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Agenda

European Equities

The value opportunity

M&G value investing

European equities

Attractive fundamentals vs other developed markets

Region	PE 2019*	EPS growth 2019*	Dividend yield 2019*
Global	13.6x	9.6%	2.8%
US	15.0x	10.0%	2.2%
Europe	12.3x	9.9%	4.2%
Japan	11.9x	7.8%	2.5%

*Source: Bloomberg, 23 October 2018. *2019 annual estimate. Indices = Global, MSCI AC World; US, S&P 500; Europe, MSCI Europe; Japan, Topix*

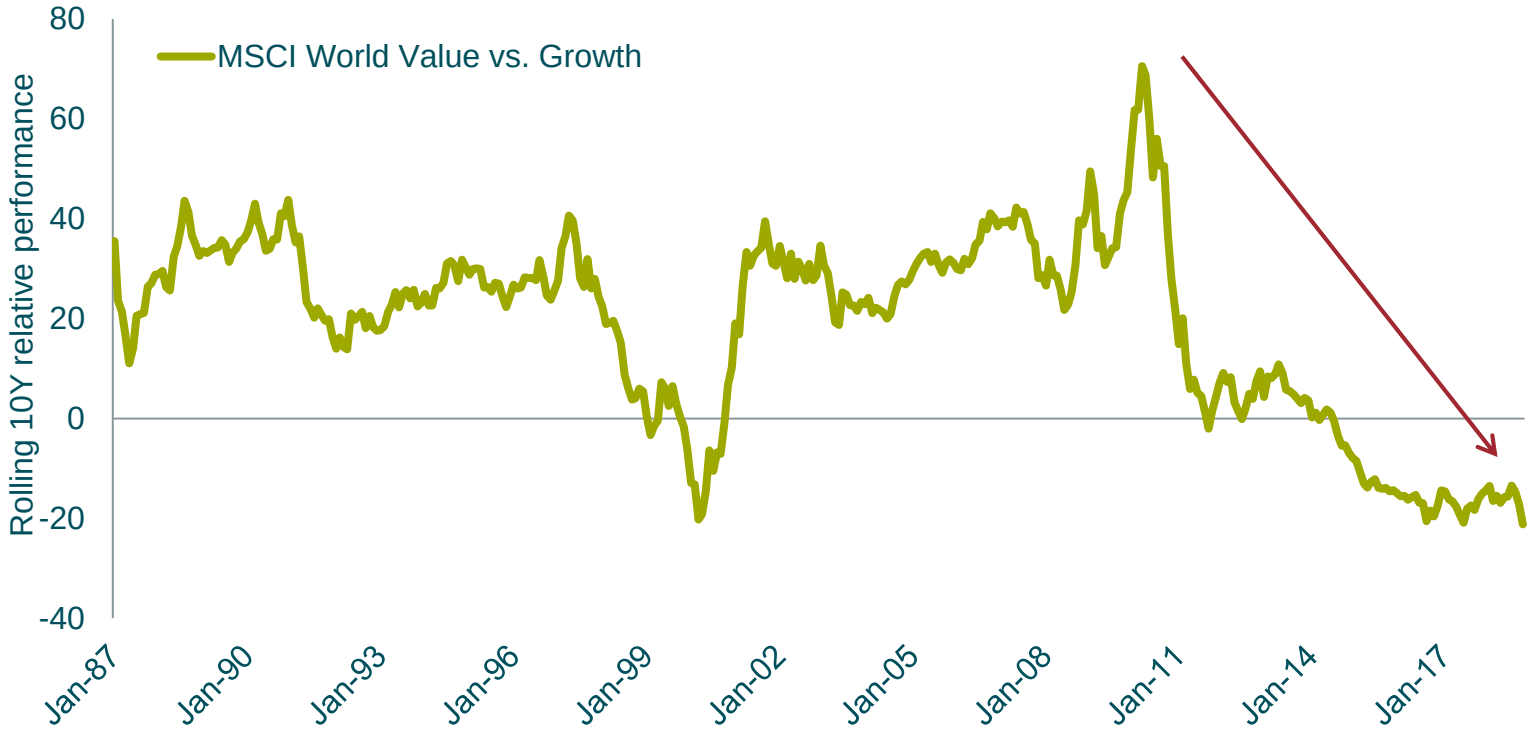
Agenda

- European Equities
- The value opportunity
- M&G value investing

Where has investor sentiment been?

Investors have favoured perceived safety and non-cyclical growth

Rolling 10-year relative performance of Value vs. Growth



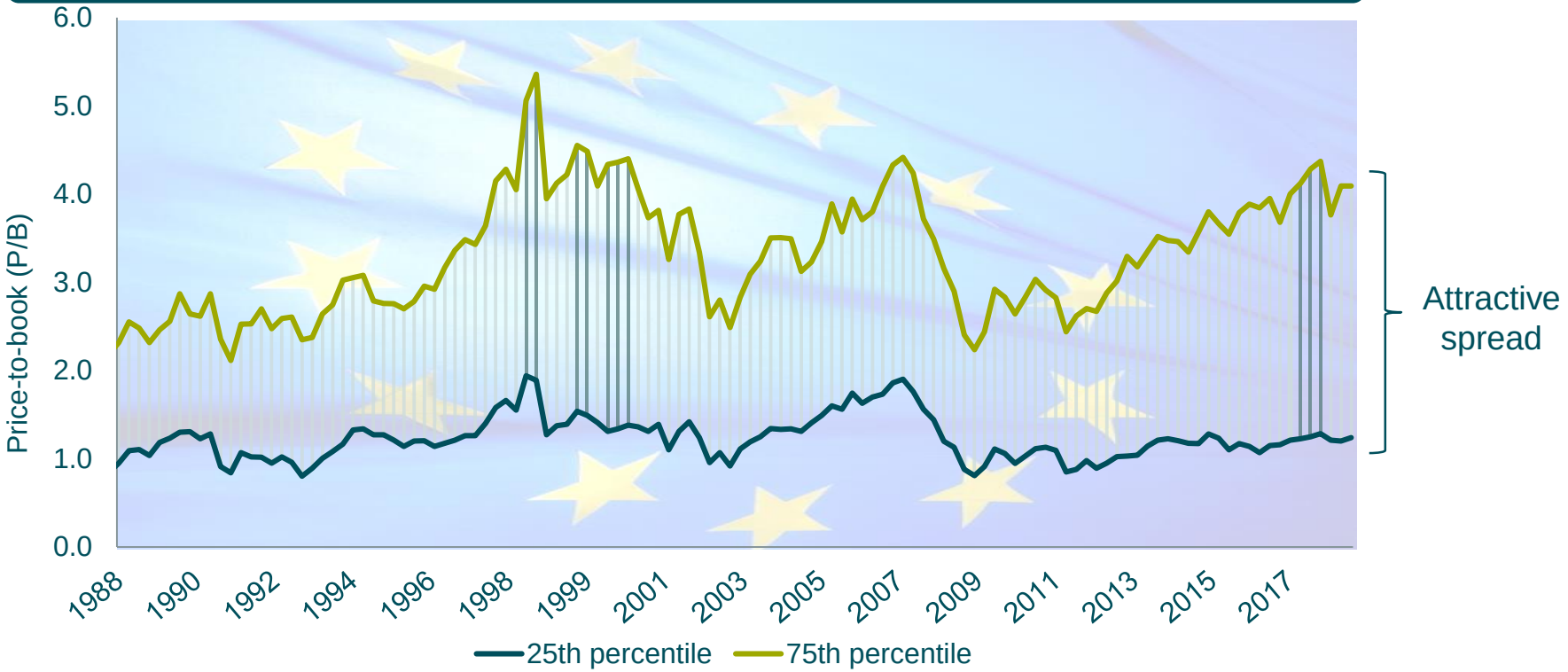
Value's underperformance remains greater than that seen in 2000

Source: MSCI, Thomson Reuters Datastream, 1 October 2018

The opportunity for European value

Valuation dispersions – rarely been wider

MSCI Europe Index: Price-to-book spread between 25th and 75th percentile



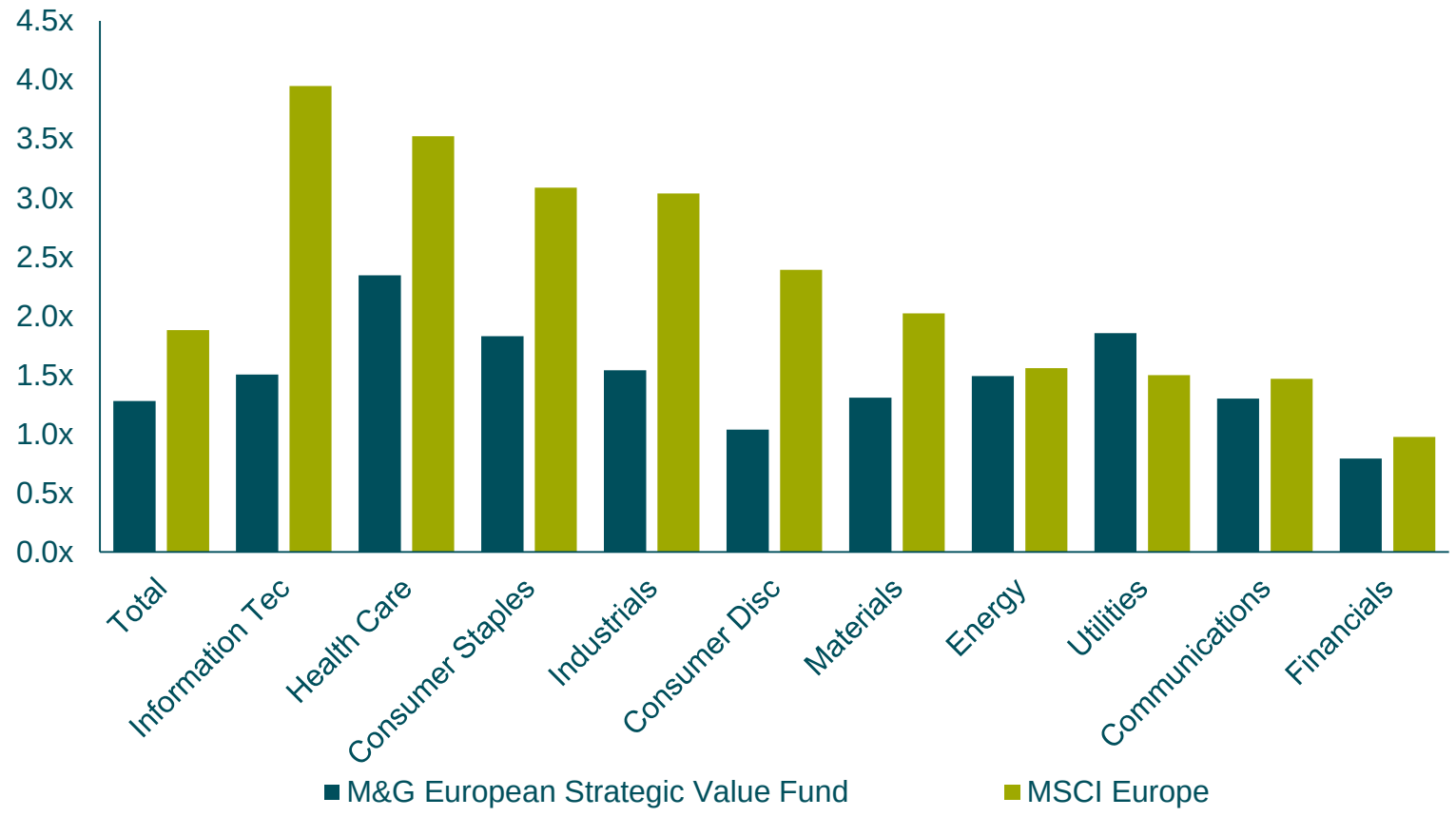
Value cheap on a relative basis <u>and</u> absolute basis

Source: Thomson Reuters Datastream, 30 September 2018. Highlighted bars indicate periods where price-to-book spread is greater than the current price-to-book spread.

Where is value?

Opportunities across the market

Price to Book Value



Source: M&G, Thomson Reuters Datastream, 30 September 2018.

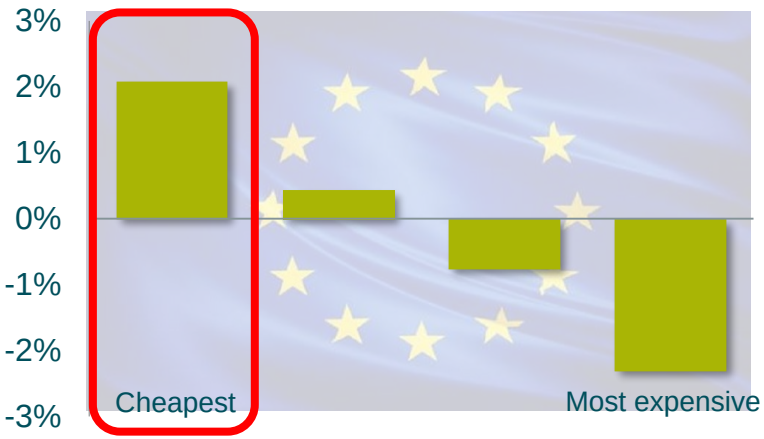
Agenda

- European Equities
- The value opportunity
- **M&G Value investing**

Why value?

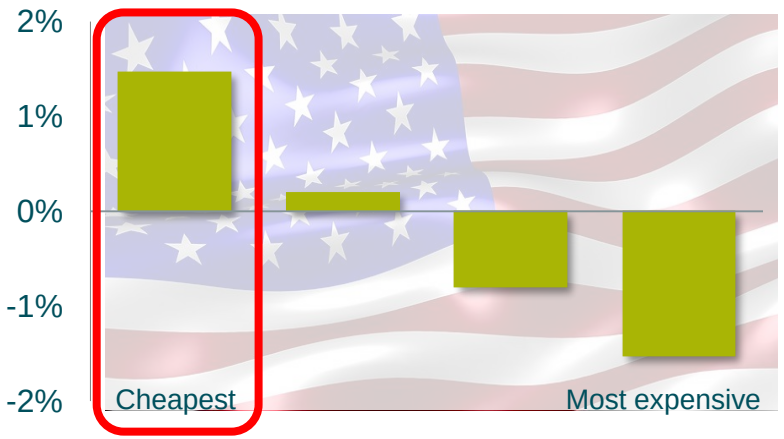
Evidence of the value phenomenon

Europe: excess returns per quartile



Price-to-book quartiles

US



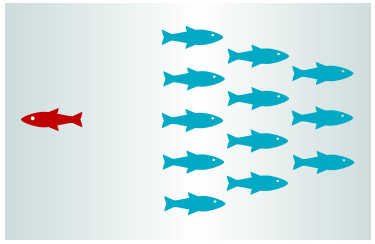
Price-to-book quartiles

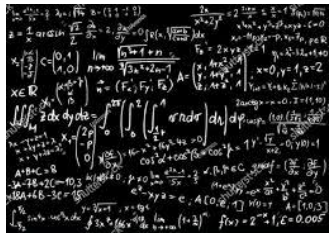
Source: M&G, Factset, 31 December 2016. Equal weighted, excluding negative price-to-book stocks. Returns in excess of back test universe on 3-year annualised basis since 1988.

What do we mean by value?

A philosophy defined by what we are and what we are not

What we are:	What we are not:
Divergent	Factor Overlays
Disciplined	Catalyst
Patient	Top Down
Unconstrained	Concentrated



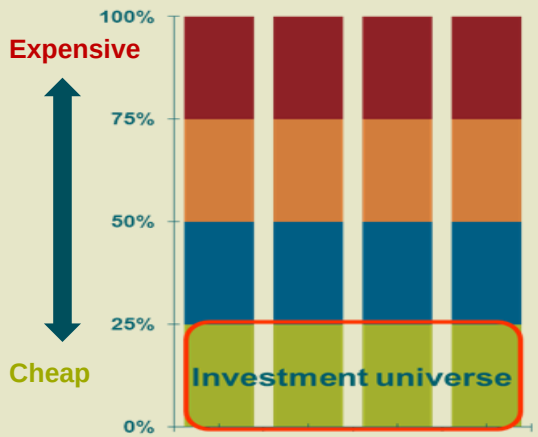


Source: M&G, 2018. Image sources: isilaltay.com/magnifying-glass.html, commons.wikimedia.org/w/index.php?curid=35953945, wallpapersok.com/pt/pictures/63575, www.shutterstock.com/image-vector/blackboard-mathematics-formula-vector-illustration-40878775, www.flickr.com/photos/14516334@N00, commons.wikimedia.org/wiki/ File:Paris-Eiffel-down.jpg#/media/File:Paris-Eiffel-down.jpg, dreamstime.com/royalty-free-stock-photos-basket-one-egg-isolated-image9234578.

A simple, unique and repeatable process

Consistently applied since tenure

Screening

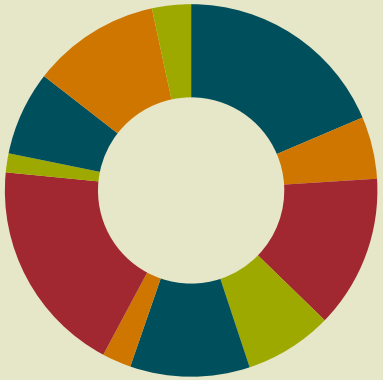


~300 stocks

Fundamental analysis

100-200 stocks

Portfolio construction



60-100 stocks

Source: M&G, 2018

Value investing – easier said than done

It can be a difficult strategy to implement…

What the market was seeing

Price Momentum	X
Earnings Momentum	X
Profitability	X
Cash Flow	X
Balance Sheet	X
Value	?

Past performance is not a guide to future performance

Our process is contrarian

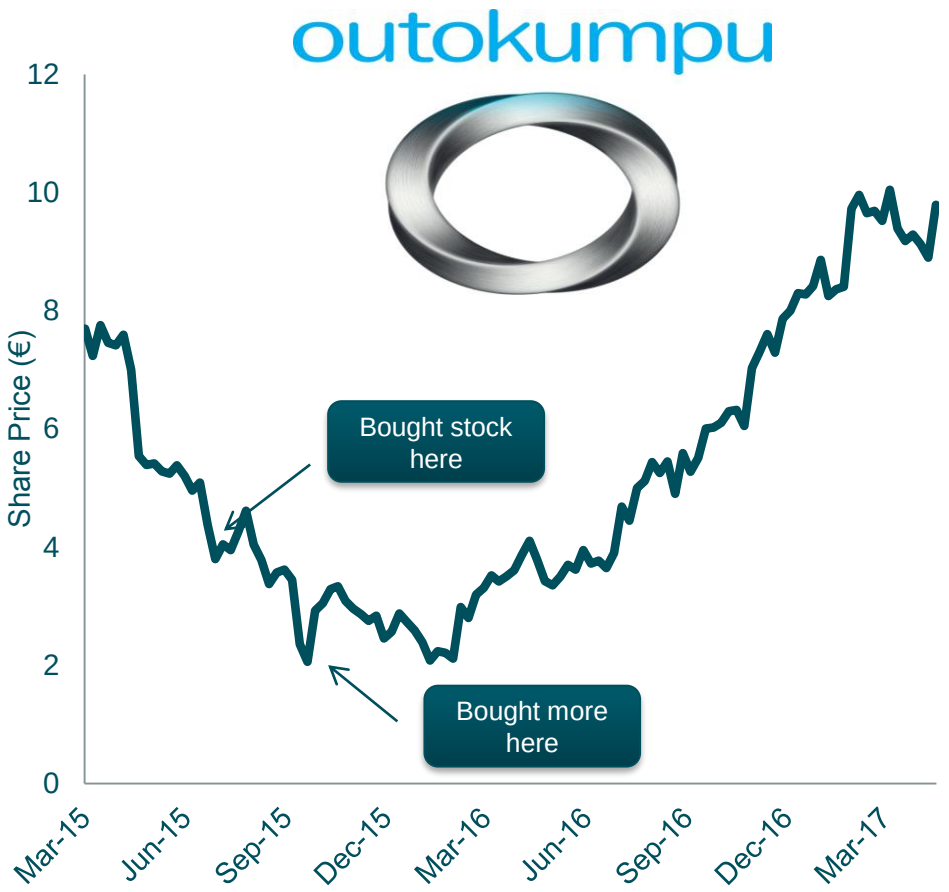
Source: Thomson Reuters Datastream, 31 March 2018

Disciplined process

…but a strong process helps a lot.

What did we see?

- Value ✓
- Financial Strength ✓
- Business Durability ✓
- Management Behaviour ✓



Past performance is not a guide to future performance

Focus on determining whether a stock is structurally challenged

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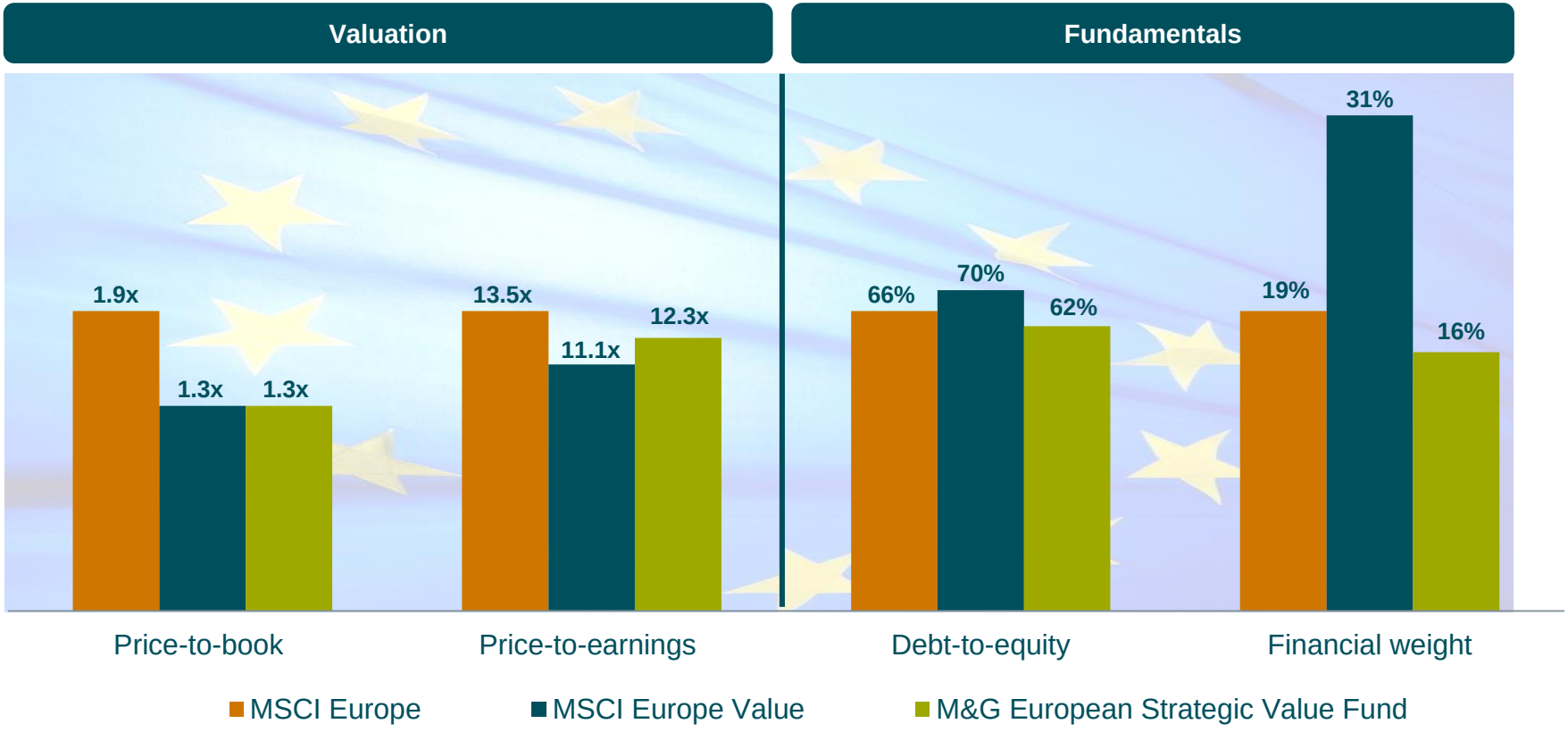
Source: Thomson Reuters Datastream, 31 March 2018

Portfolio characteristics

M&G European Strategic Value Fund



Significantly differentiated vs the value index

Source: M&G, Bloomberg, 30 September 2018, price-to-book and price-to-earnings on 12-month forward basis. Debt-to-equity figure calculated on weighted median basis.

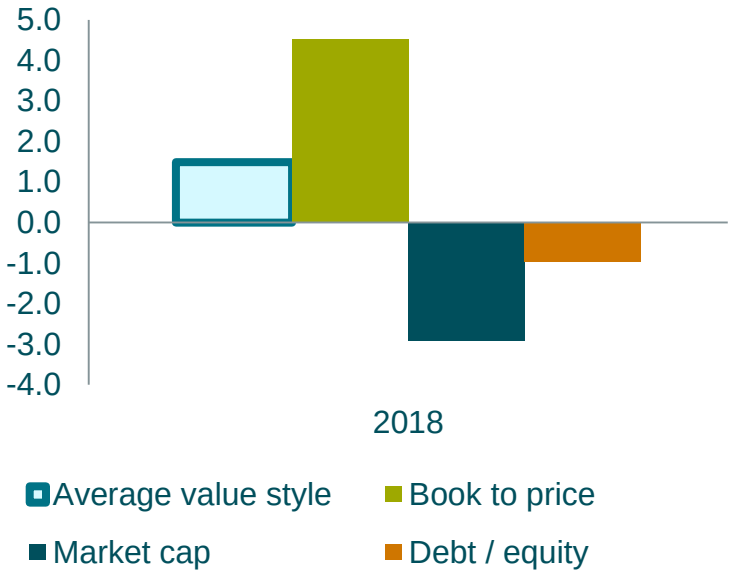
Portfolio characteristics

The process is designed to be the key driver of returns

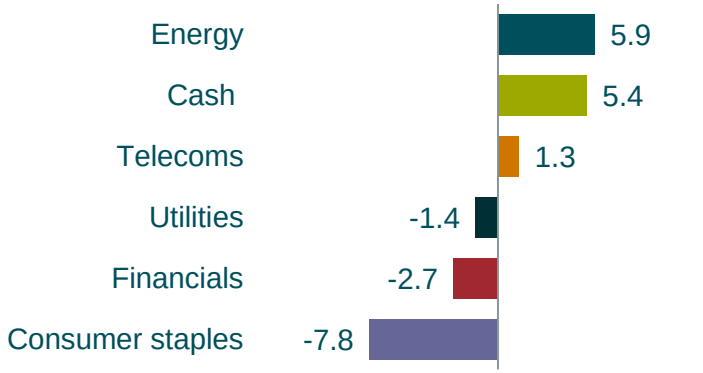
Active Share
80%

Active Risk
3.0%

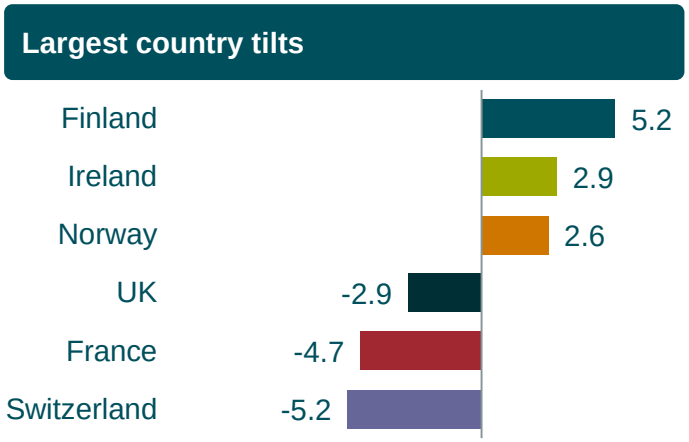
Style tilts



Largest sector tilts



Largest country tilts



Source: M&G, Style Research, Factset, Axioma, Europe Fundamental Factor Risk Model, medium-term horizon, 30 September 2018. Relative to MSCI Europe Index

Aiming for consistency

Delivering alpha irrespective of market thematics

	All Months	Value Months	Neutral Months	Growth Months	Up Months	Down Months
Numbers of Months	127	35	45	47	80	47
Percent of Months	100%	28%	35%	37%	63%	37%
Winning Percentage	**57%**	**77%**	**62%**	**38%**	**55%**	**62%**

Value months or growth months are deemed to occur when the returns for one of these indices outperforms the other by more than 1%. The Value/Growth indices are the MSCI Europe indices.

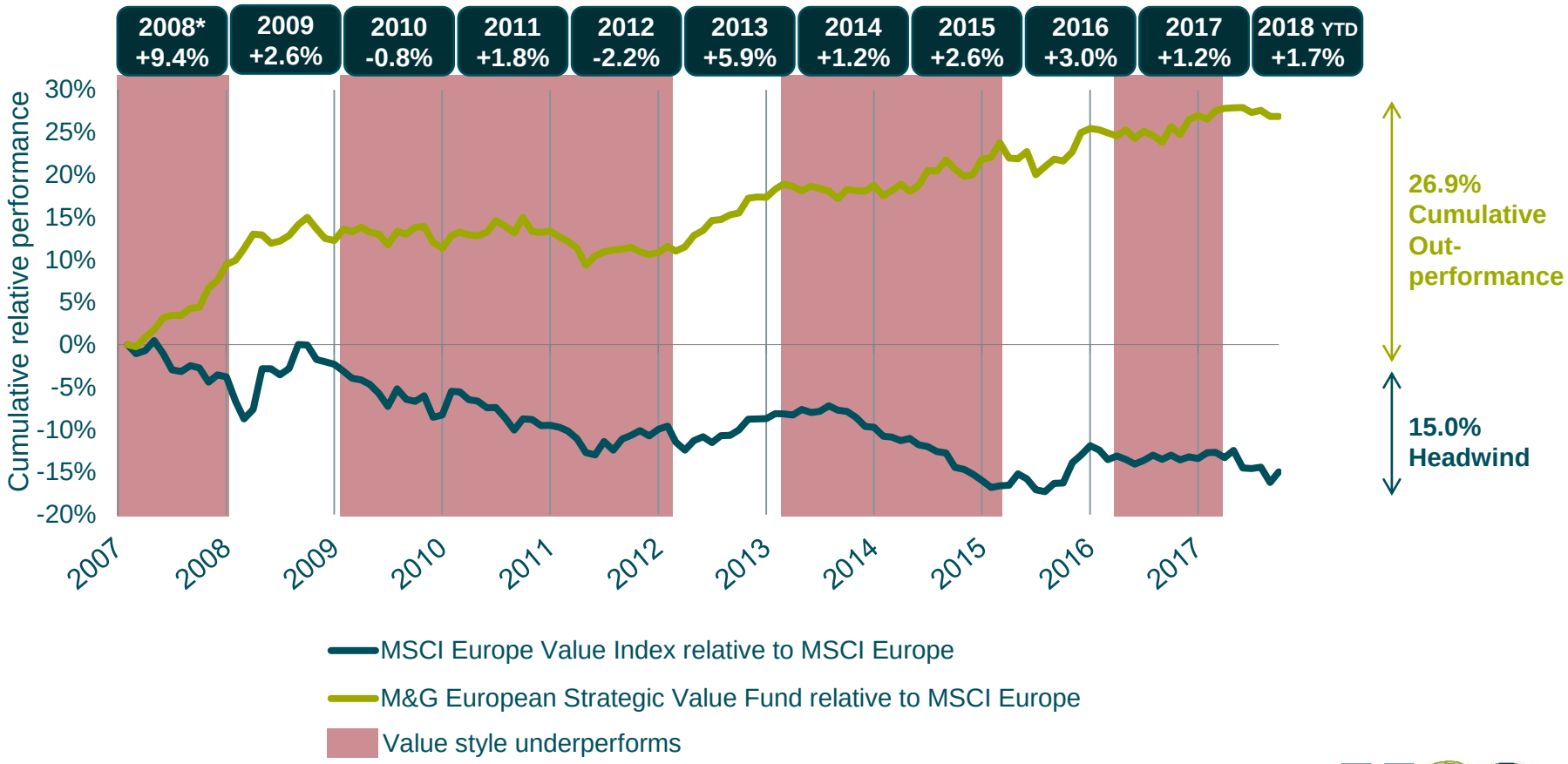
Past performance is not a guide to future performance.

Source: M&G Xamin, 30 September 2018. Investment returns (gross of fees) relative to MSCI Europe Index, calculated in sterling, preliminary returns for Sep 18.

Strong performance despite headwinds

M&G European Strategic Value Fund

Cumulative relative returns since fund launch



Past performance is not a guide to future performance

Source: M&G Xamin, 30 September 2018. Investment returns (gross of fees) relative to MSCI Europe Index, calculated in sterling. Morningstar, Inc., MSCI Europe Value relative to MSCI Europe index, calculated in sterling.

Appendix

Source: M&G, 2018

Value team

Richard Halle
Fund Manager

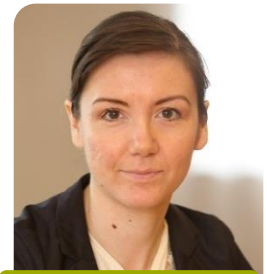
Experience
- Industry: 18 years
- Firm: 18 years

Daniel White
Fund Manager

Experience
- Industry: 16 years
- Firm: 12 years

Shane Kelly
Investment Director

Experience
- Industry: 18 years
- Firm: 8 years



Sylvia Baxter
Analyst

Experience
- Industry: 9 years
- Firm: 9 years

Timothy Alexander
Analyst

Experience
- Industry: 1 year
- Firm: 1 year

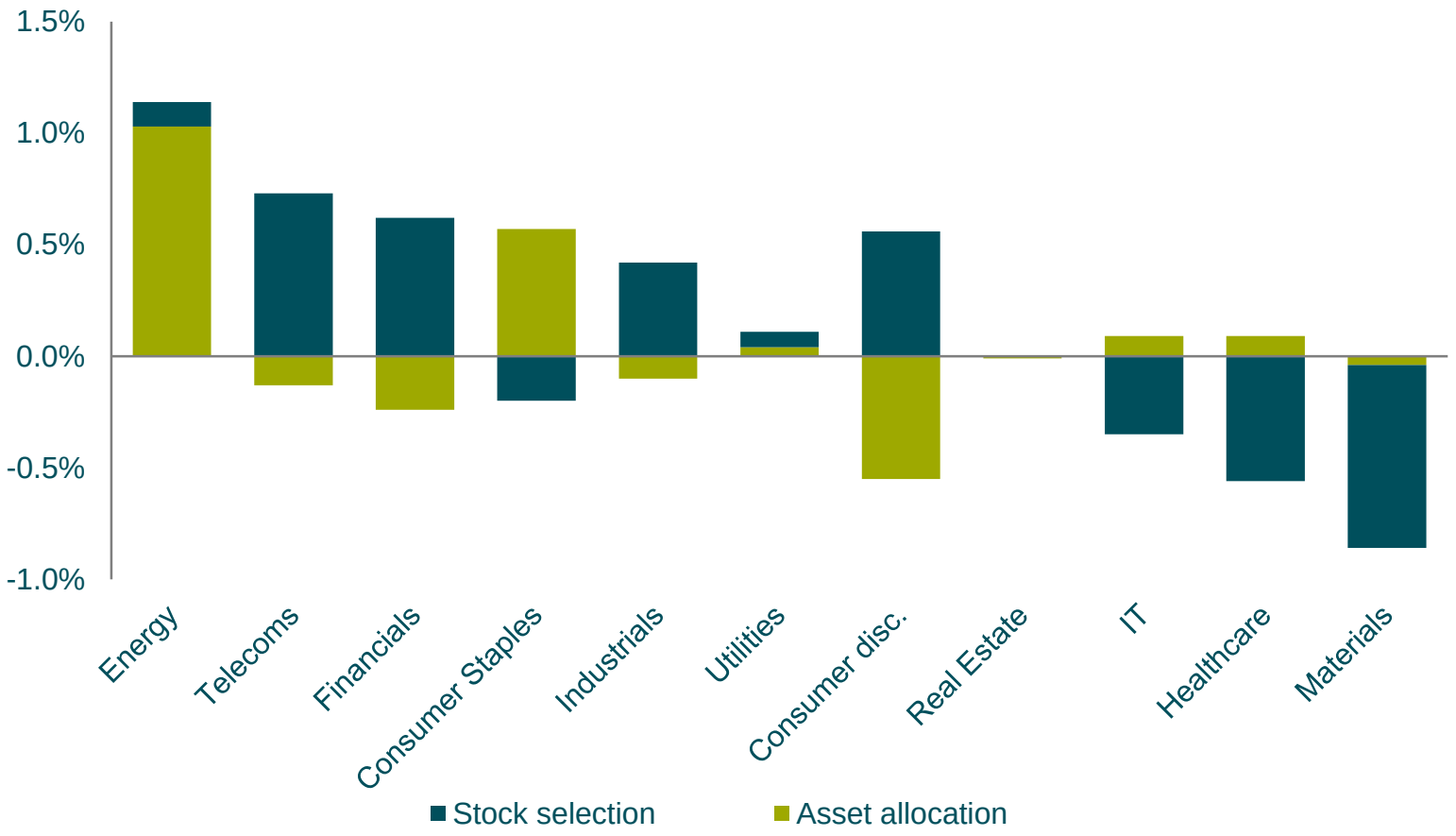
OEIC range	M&G European Strategic Value Fund	M&G North American Value Fund
Fund Manager	Richard Halle	Daniel White
Deputy Fund Manager	Daniel White	Richard Halle
Fund manager tenure	February 2008	September 2013
Comparative index	MSCI Europe	S&P 500
Fund size	$2,952million	$774million

Common philosophy across different regions

Source: M&G, 30 September 2018

Performance attribution – sector level

M&G European Strategic Value Fund – 12 months to 30 September 2018



Past performance is not a guide to future performance.

Source: M&G Xamin, 30 September 2018. Investment returns (gross of fees) relative to MSCI Europe Index, calculated in sterling, preliminary data only

Performance drivers – stock level

M&G European Strategic Value Fund – 12 months to 31 August 2018

Positive

Stock name	Rel weight at start %	Contribution to performance %
Sainsbury's	1.6	0.59
UPM-Kymmene	1.3	0.58
Ladbrokes Coral	0.9	0.49
Petroleum Geo-Services	0.4	0.48
TDC	0.9	0.41

Negative

Stock name	Rel weight at start %	Contribution to performance %
Outokumpu	1.8	-0.73
Buzzi Unicem	1.6	-0.41
Leonardo SpA	1.2	-0.38
Safilo	0.6	-0.37
Hornbach	1.7	-0.35

Past performance is not a guide to future performance.

Source: M&G Xamin, 30 September 2018. Investment returns (gross of fees) relative to MSCI Europe Index, calculated in sterling, preliminary data only

Top 10 overweight holdings

M&G European Strategic Value Fund

	Fund %	MSCI Europe Index %	Relative %
Securitas	2.2	0.1	2.1
Volkswagen	2.3	0.4	1.9
Bank of Ireland Group	1.8	0.1	1.7
Aperam	1.7	0.0	1.7
BP	3.3	1.7	1.6
Total	3.3	1.7	1.6
Buzzi Unicem	1.5	0.0	1.5
William Hill	1.5	0.0	1.5
UPM-Kymmene	1.7	0.2	1.5
Nokia	1.7	0.3	1.4

Source: M&G, 30 September 2018

Top 10 holdings

M&G European Strategic Value Fund

	Fund %	MSCI Europe Index %	Relative %
BP	3.3	1.7	1.6
Total	3.3	1.7	1.6
Novartis	3.2	2.1	1.1
Roche	3.0	1.9	1.2
Royal Dutch Shell	2.5	3.2	-0.6
Volkswagen	2.3	0.4	1.9
Securitas	2.2	0.1	2.1
Bayer	2.0	0.9	1.1
AstraZeneca	1.9	1.1	0.9
Bank of Ireland Group	1.8	0.1	1.7

Source: M&G, 30 September 2018

Capitalisation split

M&G European Strategic Value Fund

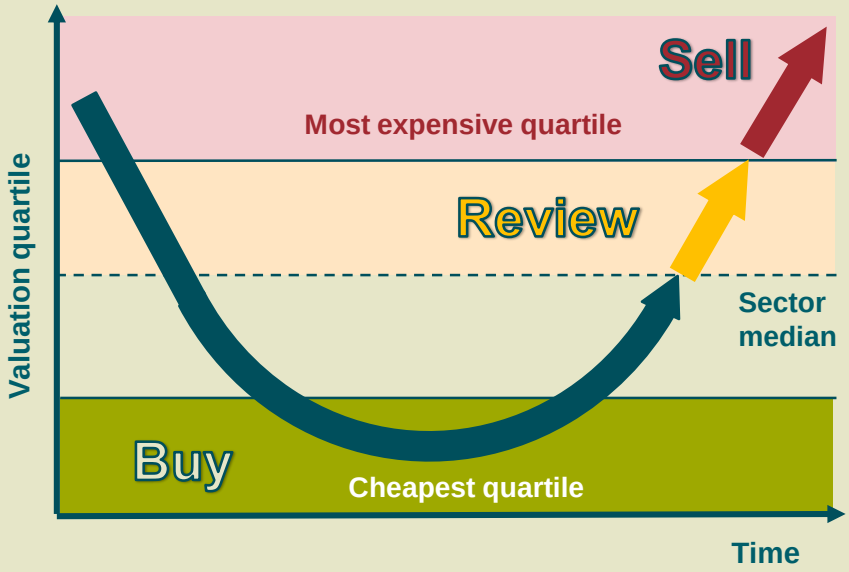
	Fund %	MSCI Europe Index %	Relative %
> €50 billion	25.6	43.5	-17.9
€25 - €50 billion	12.4	23.1	-10.7
€5 - €25 billion	24.3	32.2	-8.0
€2.5 - €5 billion	10.4	1.0	9.4
< €2.5 billion	21.9	0.0	21.9
Cash and near cash	5.4	0.0	5.4

Source: M&G, 30 September 2018

Sell discipline

Two clear scenarios

Valuation



Reason for sale: If valuation looks expensive, typically third or fourth quartile

Fundamentals

Reason for sale: If something changes within the business which means it no longer passes our fundamental tests

Selling when the risk reward is no longer in our favour

Portfolio construction: position sizing

Valuation

Strong value signal?

Nature of behavioural price action?

POSITION SIZE

Fundamental analysis

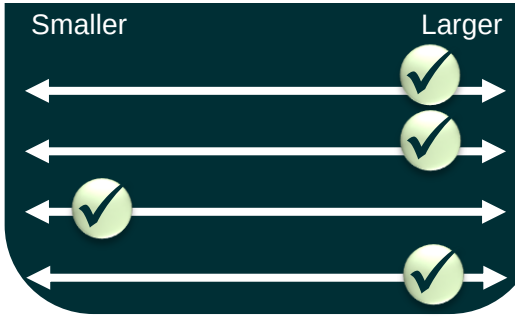
Stable underlying fundamentals?

Strong balance-sheet?

Risk of permanent loss? (Default, expropriation)

Management aligned with shareholders interests?

POSITION SIZE



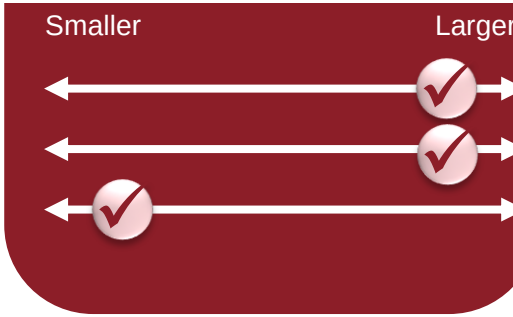
Portfolio construction

Liquid security?

Valuation skew?

High correlation with existing holdings?

POSITION SIZE



Source: M&G

Q&A

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