

M&G (Lux) Sustainable Allocation Fund



A flexible approach to investing sustainably

September 2022

- Despite an increasingly challenging outlook for global growth, the momentum behind building a more sustainable future is helping to transform the investment landscape.
- The fund can access a growing, cross-asset sustainable investable universe, providing us, we believe, with an abundance of opportunities to invest flexibly in response to constantly shifting financial markets and asset valuations.
- We think a sustainable multi asset approach can help investors generate attractive long-term returns whilst having a lasting impact on the world's future.

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 and you may get back less than you originally invested. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.

What is your macro view currently?

The macroeconomic picture remains extremely complex for investors positioning their portfolios ahead of the end of 2022. Inflationary pressures clearly remain elevated, and although we think 'peak inflation' is likely to be behind us (in the US at least), the cost of energy remains highly volatile while food, housing and labour costs also remain high. We therefore think central banks will continue to focus their efforts on keeping inflation expectations anchored.

While second quarter corporate earnings were largely resilient, the growth outlook is quickly deteriorating if leading growth indicators (ISMs, PMIs and US Fed leading data) are to be believed. At the same time, we must acknowledge that labour markets remain tight, with payroll numbers and initial jobless claims still indicating a robust trend, perhaps suggesting that any further significant moves from central banks are warranted.

What factors drive your asset allocation?

All of M&G's multi asset funds are managed within a single global investment framework. Underpinning the framework is the belief that the best approach to managing a portfolio lies in flexibly allocating capital between global asset classes in response to changes in asset valuations, and understanding the behavioural and economic drivers of those valuations. The **M&G (Lux) Sustainable Allocation Fund** normally invests 20-80% in bonds, 20-60% in company shares and 0-20% in other assets. These investments may be from anywhere in the world, including emerging markets, and denominated in any currency. The fund invests in securities that meet the environmental, social and governance (ESG) criteria and sustainability criteria.

In addition, the fund aims to maintain a core holding of assets (typically 20-50%) that are considered to have a positive societal impact through addressing the world's major social and environmental challenges. To achieve this, the fund applies rigorous ESG and 'positive impact' selection criteria to identify suitable investments. Our portfolios are positioned to seek to take advantage of several long-term sustainability trends, including the transition to renewable energy, the emergence of the "circular economy" – where companies and consumers place greater emphasis on reusability and recyclability of products – and opportunities in social housing provision.

The pool of eligible sustainable investments continues to expand, as companies and governments strive to adapt products and solutions to meet the world's social and environmental challenges. We think the cross-asset nature of the sustainable investable universe (green bonds, quasi-sovereign bonds, listed infrastructure, equities) provides us with an abundance of opportunities to invest flexibly in order to generate attractive long-term investment returns, whilst having a lasting impact on the world's future.

What about your recent positioning?

Given the high level of uncertainty in markets, we continue to emphasise diversification and the need to remain tactical in response to changes in market pricing and consensus narrative. In equities, we favour a neutral stance, with a skew towards what we think are better value markets (in particular, Europe and Japan over the US).

We reduced some equity exposure after the summer rally, particularly among US technology names that we had added to in late April after an increase in global risk aversion triggered a sell-off in markets. We also reduced some names in the US and Europe that we feel are more exposed to the housing market and discretionary consumer spending. We are balancing this equity risk with exposure to long duration US Treasuries.

In this regard, August was a painful month given resurgent equity-bond correlations. We continue to believe the market's quarrel with inflation remains one of 'how high do short-term rates need to go to purge inflation?' versus a genuine decoupling of long-term inflation expectations. Thus the risk does appear to be to the side of a harder landing, in which case we would expect US duration to react strongly.

Investments in bonds are affected by interest rates, inflation and credit ratings. It is possible that bond issuers will not pay interest or return the capital. All of these events can reduce the value of bonds held by the fund.

How has performance been this year?

Many asset classes have experienced painfully correlated losses at times as multi-decade high inflation prints have forced central banks to rapidly raise interest rates, contributing to an intensification of recession fears in many economies. Surging prices in energy markets and among other key commodities (driven largely by Russia's military invasion of Ukraine in late February) have exacerbated the inflation picture, causing the world's central banks to take an increasingly assertive stance.

The fund's allocation to equities (over 40%) has been the largest source of negative performance contribution, with European holdings detracting the most due to their proximity to the Russia-Ukraine conflict, including the economic fallout from the restricted flow of Russian natural gas into the Continent. Banks and our UK exposure were notable laggards.

Our US equities have also struggled this year, particularly picks in the technology sector. On the other hand, one area that has been highly beneficial to the fund is its allocation in the listed infrastructure space (approximately 7% of fund assets currently). Names such as Greencoat UK Wind plc and Renewables Infrastructure Group have benefited from the surge in power prices this year, and a growing portfolio of diversified green assets within their businesses.

In fixed income, US Treasuries have had a torrid year as markets have gradually increased expectations of a faster pace of US interest rate rises. Our government bond exposure rallied in June and through July as equity and commodity markets sold off on renewed global growth concerns, but this was not enough to cushion losses overall. There was a small positive contribution from the fund's allocation to emerging market bonds – including an allocation to sovereign green bonds in Latin America.

Investing in emerging markets involves a greater risk of loss due to greater political, tax, economic, foreign exchange, liquidity and regulatory risks, among other factors. There may be difficulties in buying, selling, safekeeping or valuing investments in such countries.

Figure 1: Performance: YTD, YTD (%) and calendar-year performance (pa%)

Past performance is not a guide to future performance

	2022 YTD	YTD	2021	2020	2019	2018
Fund (EUR)	-11.5	-13.5	8.8	2.0	16.1	n/a
Sector* (EUR)	-10.4	-12.4	9.5	3.0	12.7	-7.0
Fund (USD)	-10.3	-12.7	9.7	3.2	19.8	n/a
Sector* (USD)	-13.0	-14.2	7.5	7.4	14.9	-6.4

	2017	2016	2015	2014	2013	2012
Fund (EUR)	n/a	n/a	n/a	n/a	n/a	n/a
Sector* (EUR)	5.2	3.4	2.6	7.5	7.7	9.3
Fund (USD)	n/a	n/a	n/a	n/a	n/a	n/a
Sector* (USD)	11.8	4.6	-2.2	2.7	10.5	10.7

Past performance is not a guide to future performance

YTQ = year to most recent quarter.

The fund is actively managed and has no benchmark. Investors can assess the performance of the fund by its objective to provide a total return of 4-8% per annum over any five-year period.

* Morningstar EUR Moderate Allocation Global Sector.

Source: Morningstar, Inc., as at 31 August 2022, Euro Class A Acc shares and USD Class A-Hedged shares, price to price, income reinvested. Not all share classes are registered for sale in all countries. Details in the Prospectus. Fund launched November 2018.

Going forward

While rocketing oil and gas prices have led to some short-term underperformance among sustainable investment strategies, we think the world's renewed focus on energy security should ultimately be good news for sustainable investors. Renewable energy capacity is relatively quick to install compared to nuclear and the traditional carbon-intensive sources, such as coal and gas. It also adapts well to different countries and regions: solar will be suitable in some countries, while wind is preferable for others. The economies of scale created as more renewable energy capacity is installed should result in lower costs and less price volatility into the near to long term, easing fears of higher costs associated with going green, or 'greenflation'.

In terms of sectors, we think some overlooked areas of the market will play an important role in a lower carbon economy moving forward, for example, insulation companies such as Denmark's Rockwool. We are also taking an active interest in the autos sector given that some of the mainstream players continue to issue green bonds dedicated to the development of electric vehicles. The infrastructure space continues to interest us too, enabling our portfolios to access some unique investment characteristics and relatively stable income streams.

The recent dip in performance can be a source of good investment opportunities from here, particularly as the rotation from growth to value has also affected some highly-rated companies with strong ESG track records. We have positioned ourselves ready to deploy capital as opportunities arise. At the same time, our high cash position should act as a diversifier if further correlated sell-offs occur.

Maria Municchi

Fund Manager



Other important information

- The fund allows for the extensive use of derivatives.
- Investing in this fund means acquiring units or shares in a fund, and not in a given underlying asset such as a building or shares of a company, as these are only the underlying assets owned by the fund.

- For an explanation of technical terms, please refer to the glossary via the link:
<https://www.mandg.com/dam/global/shared/en/documents/glossary-master-en.pdf>

For European investors, the fund's sustainability-related disclosures can be found on the relevant country website below:

Luxembourg:

<https://www.mandg.com/investments/professional-investor/en-lu/funds/mg-lux-sustainable-allocation-fund/lu1900799617#sustainability>

Belgium:

<https://www.mandg.com/investments/professional-investor/en-be/funds/mg-lux-sustainable-allocation-fund/lu1900799617#sustainability>

Denmark:

<https://www.mandg.com/investments/professional-investor/en-dk/funds/mg-lux-sustainable-allocation-fund/lu1900799617#sustainability>

Finland:

<https://www.mandg.com/investments/professional-investor/en-fi/funds/mg-lux-sustainable-allocation-fund/lu1900799617#sustainability>

France:

<https://www.mandg.com/investments/professional-investor/fr-fr/funds/mg-lux-sustainable-allocation-fund/lu1900799617#sustainability>

Greece: <https://www.mandg.com/investments/private-investor/en-gr/funds/mg-lux-sustainable-allocation-fund/lu1900799617#sustainability>

Ireland:

<https://www.mandg.com/investments/professional-investor/en-ie/funds/mg-lux-sustainable-allocation-fund/lu1900799617#sustainability>

Italy:

<https://www.mandg.com/investments/professional-investor/en-it/funds/mg-lux-sustainable-allocation-fund/lu1900799617#sustainability>

[investor/en-it/funds/mg-lux-sustainable-allocation-fund/lu1900799617#sustainability](https://www.mandg.com/investments/professional-investor/en-li/funds/mg-lux-sustainable-allocation-fund/lu1900799617#sustainability)

Liechtenstein:

<https://www.mandg.com/investments/professional-investor/en-li/funds/mg-lux-sustainable-allocation-fund/lu1900799617#sustainability>

Netherlands:

<https://www.mandg.com/investments/professional-investor/en-nl/funds/mg-lux-sustainable-allocation-fund/lu1900799617#sustainability>

Norway:

<https://www.mandg.com/investments/professional-investor/en-no/funds/mg-lux-sustainable-allocation-fund/lu1900799617#sustainability>

Portugal:

<https://www.mandg.com/investments/private-investor/pt-pt/solucoes/os-nosso-fundos>

Spain:

<https://www.mandg.com/investments/professional-investor/es-es/funds/mg-lux-sustainable-allocation-fund/lu1900799617#sustainability>

Sweden:

<https://www.mandg.com/investments/professional-investor/en-se/funds/mg-lux-sustainable-allocation-fund/lu1900799617#sustainability>

Switzerland:

<https://www.mandg.com/investments/professional-investor/en-ch/funds/mg-lux-sustainable-allocation-fund/lu1900799617#sustainability>



For Investment Professionals, Institutional Investors, Accredited Investors and Professional Investors only. Not for onward distribution. No other persons should rely on any information contained within. Distribution of this document in or from Switzerland is not permissible with the exception of the distribution to Qualified Investors according to the Swiss Collective Investment Schemes Act, the Swiss Collective Investment Schemes Ordinance and the respective Circular issued by the Swiss supervisory authority ("Qualified Investors"). Supplied for the use by the initial recipient (provided it is a Qualified Investor) only.

In Spain the M&G Investment Funds are registered for public distribution under Art. 15 of Act 35/2003 on Collective Investment Schemes as follows: M&G (Lux) Investment Funds 1 reg. no 1551. The collective investment schemes referred to in this document (the "Schemes") are open-ended investment companies with variable capital, incorporated in Luxembourg. The Portuguese Securities Market Commission (Comissão do Mercado de Valores Mobiliários, the "CMVM") has received a passporting notification under Directive 2009/65/EC of the European Parliament and of the Council and the Commission Regulation (EU) 584/2010 enabling the fund to be distributed to the public in Portugal. In the Netherlands, all funds referred to are UCITS and registered with the Dutch regulator, the AFM. M&G Luxembourg S.A. is the manager of the UCITS referred to in this document. Registered Office: 16, boulevard Royal, L 2449, Luxembourg. For Hong Kong only: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer of any funds mentioned in it. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. Shares, units or other interests in the funds mentioned in this document may only be offered or sold in Hong Kong to persons who are "professional investors" as defined in the Securities and Futures Ordinance ("Ordinance") and any rules made under the Ordinance – or in circumstances which are permitted under the Companies (Winding Up and Miscellaneous Provisions) Ordinance. In addition, distribution of this document in Hong Kong is restricted. It may not be issued or possessed for the purposes of issue, whether in Hong Kong or elsewhere, and shares, units or other interests in the funds mentioned may not be disposed of to any person unless such person is a "professional investor" as defined in the Ordinance and any rules made under the Ordinance or as otherwise may be permitted under Hong Kong law. For Singapore only: For "accredited investors" and "institutional investors" as defined under the Securities and Futures Act (Cap. 289) of Singapore ("SFA") only. This document forms part of, and should be read in conjunction with, the Information Memorandum of the Fund and other communications permitted for offers made in reliance of prospectus exemptions under the SFA. All forms of investments carry risks. Such investments may not be suitable for everyone. M&G Investments (Hong Kong) Limited, M&G Investments (Singapore) Pte. Ltd. (Co. Reg. No. 201131425R), and M&G Luxembourg S.A. and the funds referred to in this document may not be authorised, recognised or regulated by the local regulator in your jurisdiction. This information is not an offer or solicitation of an offer for the purchase or sale of investment shares in one of the funds referred to herein. Purchases of a fund should be based on the current Prospectus and Key Investor Information Document (KIID). The Instrument of Incorporation Prospectus, Key Investor Information Document, the annual or interim Investment Report and Financial Statements, are available free of charge in English or your local language (unless specified below) from www.mandg.com/investments/ or in paper form from one of the following: the Luxembourg paying agent: Société Générale Bank & Trust SA, Centre operational 28-32, place de la Gare L 1616 Luxembourg; the Danish paying agent: Nordea Danmark, Filial af Nordea Bank Abp, Finland, Issuer Services, Postbox 850, Reg.no. 5528, DK-0900 Copenhagen C; Allfunds Bank, Calle Estafeta, No 6 Complejo Plaza de la Fuente, La Moraleja, 28109, Alcobendas, Madrid, Spain; M&G Luxembourg S.A. French branch, 8 rue Lamennais, Paris 75008; from the French centralising agent of the fund: RBC Investors Services Bank France; or from the Swedish paying agent: Nordea Bank AB (publ), Smålandsgatan 17, 105 71 Stockholm, Sweden. For Switzerland, please refer to M&G International Investments Switzerland AG, Talstrasse 66, 8001 Zurich. For Italy, they can also be obtained on the website: www.mandgitalia.it. For the Netherlands, they are available online at www.mandg.com/investments/nl and for more information concerning the Key Investor Information Document, please refer to www.afm.nl/ebi. For Ireland, they are available in English language and can also be obtained from the Irish facilities agent, Société Générale SA, Dublin Branch, 3rd Floor IFSC House – The IFSC Dublin 1, Ireland. For Greece, they are available in English, except the Key Investor Information Document/s which is available in Greek, from the Greek Representative: Eurobank Ergasias S.A. 8, Othonos Street, 10557 Athens. For Taiwan only: The financial product(s) offered herein has not been reviewed or approved by the competent authorities and is not subject to any filing or reporting requirement. The financial product(s) offered herein is only permitted to be recommended or introduced to or purchased by customers of an offshore banking unit of a bank ("OBU")/offshore securities unit of a securities firm ("OSU") which customers reside outside the R.O.C. Customers of an OBU/OSU are not eligible to use the financial consumer dispute resolution mechanism under the Financial Consumer Protection Law. This product(s) may be made available for purchase by Taiwan OBUs/OSUs acting on behalf of non-Taiwan customers of such units but may not otherwise be offered or sold in Taiwan. **Before subscribing investors should read the Prospectus and Key Investor Information Document**, which includes a description of the investment risks relating to these funds. The value of the assets managed by the funds may greatly fluctuate as a result of the investment policy. The information contained herein is not a substitute for independent investment advice. M&G Luxembourg S.A. may terminate arrangements for marketing under the new Cross-Border Distribution Directive denotification process.

Complaints handling information is available in English or your local language from the following websites:

Luxembourg: www.mandg.com/investments/professional-investor/en-lu/complaints-dealing-process

Ireland: www.mandg.com/investments/professional-investor/en-ie/complaints-dealing-process

Belgium: www.mandg.com/investments/professional-investor/en-be/complaints-dealing-process

Denmark: www.mandg.com/investments/professional-investor/en-dk/complaints-dealing-process

Norway: www.mandg.com/investments/professional-investor/en-no/complaints-dealing-process

Netherlands: www.mandg.com/investments/professional-investor/en-nl/complaints-dealing-process

Sweden: www.mandg.com/investments/professional-investor/en-se/complaints-dealing-process

Finland: www.mandg.com/investments/professional-investor/en-fi/complaints-dealing-process

Greece: www.mandg.com/investments/private-investor/en-gr/complaints-dealing-process

Spain: www.mandg.com/investments/professional-investor/es-es/complaints-dealing-process

Italy: www.mandg.com/investments/professional-investor/it-it/complaints-dealing-process

Portugal: www.mandg.com/investments/private-investor/pt-pt/complaints-dealing-process

France: www.mandg.com/investments/professional-investor/fr-fr/complaints-dealing-process

In Hong Kong, this financial promotion is issued by M&G Investments (Hong Kong) Limited, Office: Unit 1002, LHT Tower, 31 Queen's Road Central, Hong Kong; In Singapore, this document is issued by M&G Investments (Singapore) Pte. Ltd. (Co. Reg. No. 201131425R), regulated by the Monetary Authority of Singapore; and, elsewhere, by M&G Luxembourg S.A. Registered Office: 16, boulevard Royal, L 2449, Luxembourg.

821601_SICAV_Asia_PE_ex_DE_AT