

M&G (Lux) Global Themes Fund

Keeping it real – thematic investing in an inflationary world

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- Inflation has returned with a vengeance, exacerbated by the spike in energy prices in the wake of Russia's war on Ukraine
- Investors punished growth stocks and took refuge in defensives, hurting growth-hungry thematic funds; but to us this does not mean thematic investing is a busted flush
- Recent events serve as a telling reminder that investors ignore valuation at their peril

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

The return of inflation, exacerbated by a spike in energy prices in the wake of Russia's military attack of Ukraine, has been the defining feature of financial markets in 2022. Central banks have been slow to acknowledge the new reality, interest rates are rising at a pace not seen in decades, and investors are coming to terms with the prospect of a recession and its potentially damaging consequences for the world at large.

The stockmarket's reaction to these challenges has been stark. Energy has been the standout sector as a beneficiary of higher oil and gas prices, while defensive stocks have provided a safe haven in an environment of uncertainty. By contrast, growth stocks – many of which commanded exorbitant multiples – have been decimated as higher bond yields triggered a reappraisal of how financial assets are priced. The triumph of the new economy has quickly turned into a painful comeuppance.

Thematic funds, which are often associated with exuberant growth, have suffered in this new market regime, but this does not mean that thematic investing is a busted flush. It merely highlights the need for discipline. Fundamentals and value are the key determinants of long-term return, in our view, not just growth in isolation. Recent events serve as a telling reminder that investors ignore valuation at their peril. Investors need to keep it real, both figuratively and in an economic sense.

Valuation is crucial

Valuation is a key consideration in our stock selection process, as we seek to focus the portfolio on what we consider to be attractive investments, not just novel concepts. Investors have a habit of chasing the latest fashion with scant regard for the price they are paying – a behavioural trait which, as we have seen, can be detrimental to investment performance.

It is also important that thematic portfolios are sufficiently diversified to be able to cope with a variety of market conditions. We apply a flexible and dynamic approach for the M&G (Lux) Global Themes Fund, with the current portfolio focused on eight granular themes across four overarching trends.

Theme	Overarching trend	Fund weighting %
Living longer, healthier and smarter	Demographics	25.1
The 21 st Century urbanite	Demographics	12.0
The road to zero carbon	Environment	14.0
The circular economy	Environment	2.0
The multi-trillion-dollar shortfall	Infrastructure	6.1
Providing for life's essentials	Infrastructure	11.2
Cloud and connectivity	Innovation	19.0
The changing face of mobility	Innovation	9.2

Source: M&G, Aladdin, 30 September 2022. Internal data, unaudited.

At least 80% of the fund is invested in the shares of companies, across any sector and of any size, from anywhere in the world, including emerging markets. The fund invests in securities that meet the ESG Criteria. Norms-, sector- and/or values-based exclusions apply to investments. The benchmark (MSCI ACWI Net Return Index) is a comparator used solely to measure the fund's performance and reflects the scope of the fund's investment policy but does not constrain portfolio construction. The fund is actively managed. The fund manager has complete freedom in choosing which investments to buy, hold and sell in the fund. The fund's holdings may deviate significantly from the benchmark's constituents.

Our approach to portfolio construction is not driven by traditional sector definitions, but it is a reality that the fund has a large above-benchmark in utilities – a sector which offers inflation protection by way of index-linked revenue as well as the structural growth in renewables and the energy transition. NextEra Energy, the world's largest producer of wind and solar energy, and Enel, an Italian utility undergoing rapid decarbonisation, are core

Key fund risks

- The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.
- 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.
- ESG information from third-party data providers may be incomplete, inaccurate or unavailable. There is a risk that the investment manager may incorrectly assess a security or issuer, resulting in the incorrect inclusion or exclusion of a security in the portfolio of the fund.

Further risks associated with this fund can be found in the fund's Key Investor Information Document and Prospectus.

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.

Please 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.

holdings in our theme of 'the road to zero carbon' under the broader concept of 'environment'.

The fund's largest holding, PrairieSky Royalty, is another beneficiary of the current inflationary environment. The Canadian company, which receives royalties from oil & gas bearing landholdings, has returned more than 50% this year in local currency. We believe that the cashflows running into perpetuity with minimal operating costs, capital commitment or environmental liabilities present a compelling opportunity, with the added benefit of industry-leading credentials for ESG and sustainability.. PrairieSky belongs to the theme of 'providing for life's essentials' under the overarching trend of 'infrastructure'.

We are resolutely focused on the multi-decade trends that underpin our thematic approach and remain as optimistic as ever about the growth opportunities provided by structural change in economies and society. The market downturn has led to increased nervousness, but we strongly believe that the volatility we are seeing is presenting attractive entry points for investors with a long-term investment horizon. We remain true to our investment mantra: themes grounded in reality.

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