M&G North American Dividend Fund

The reopening theme – navigating uncertainty

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- We believe the reopening theme is very much intact, and structural growth is available at valuations not seen in years
- The fund provided downside protection in a falling market and outperformed the S&P 500 Index year to date
- Despite the uncertainties facing the global economy, dividends from the fund's holdings continue on a positive footing

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.

Opportunities

- The reopening theme is very much intact, in our view, with the fund exposed to a variety of themes:
  - International travel (**Visa** and **MasterCard**)
  - Return to the office (**Cogent Communications**, an internet service provider for businesses)
  - Eating out (**Sysco**, a food service company supplying restaurants)
- Growth stocks on sale? We believe structural growth is available at valuations not seen in years. New purchases this year include:
  - **American Express** and **Estee Lauder** (high-end US consumer)
  - **TransUnion** and **Equifax** (credit bureaus)
  - **Intuit** (technology)
- Inflation pressures are real but not ruinous, in our view. Inflation is not an easy theme to invest behind, but we have selective exposure through:
  - **Charles Schwab** (return on customer deposits)
  - Managed Care Organizations (MCOs) in healthcare (**Anthem** and **UnitedHealth**)
- The fund continues to have a meaningful exposure to technology (see Figure 1), focused on specific themes:
  - Digital payments
  - Semiconductors
  - Software
  - Digital infrastructure (real estate)
- The fund has zero exposure to the speculative areas of the new economy, which tend to be non-dividend paying and are therefore ineligible for our dividend growth strategy.

The fund holds a small number of investments, and therefore a fall in the value of a single investment may have a greater impact than if it held a larger number of investments.

Figure 1: Technology and technology-related holdings in the fund

Source: M&G, 31 May 2022.

Figure 2: Dividend announcements since 1 September 2021

	Bucket	Sector	Dividend growth %	Weighting %
Microsoft	Quality	Technology	11%	8.4%
Visa	Rapid growth	Technology	17%	8.1%
Fidelity National Information Services	Rapid growth	Technology	21%	5.6%
Mastercard	Rapid growth	Technology	11%	5.4%
Lowe's	Rapid growth	Consumer discretionary	31%	4.6%
Blackrock	Assets	Financials	18%	4.5%
Broadcom	Assets	Technology	14%	4.1%
American Tower	Quality	Real estate	13%	3.5%

Double-digit growth from top holdings

Past performance is not a guide for future performance.

Source: M&G, Aladdin, 31 May 2022. Data based on internal databases and unaudited. Please see the Monthly Fund Review for verified data.

Dividends

Despite the uncertainties facing the global economy, dividends from the fund's holdings continue on a positive footing, with the majority reporting increases in the core 5-15% range, in line with previous years. There have been no dividend cuts. We have also seen an unusually high number of companies raising their dividends by 15% or more, particularly among our top holdings.

The fund remains on track to deliver on its objective of providing a rising income stream for the financial year ending 31 August 2022. For the six months ended 28 February 2022, the fund's distribution (I Inc shares) increased 8% in US dollars and 10% in sterling.

Outlook

The return of inflation, exacerbated by the geopolitical situation in Russia/Ukraine, has led to heightened anxiety across financial markets, but we strongly believe that the increased volatility is presenting buying opportunities for investors with a long-term time horizon. We remain focused on identifying long-term winners.

Digital payments remains an area where we have a high degree of confidence that the structural growth is not only intact, but accelerating due to permanent changes in consumer behaviour. In our view, the ease of online purchases and delivery is unlikely to be a temporary phenomenon, restricted to life in lockdown. The long-run shift away from cash transactions towards card and digital payments shows no signs of abating. Visa and MasterCard reported strong results for the first quarter despite concerns about the Omicron variant of coronavirus affecting spending patterns and the companies' decision to suspend operations in Russia. We believe both companies remain poised to benefit further, as international travel recovers in earnest.

We also retain our conviction in our semiconductor holdings, which are exposed to improving demand in a variety of end-markets, without the excessive valuations attached to many growth stocks. Valuation remains a critical aspect of our company analysis, to ensure that we do not overpay for the growth we seek. Fundamentals and value are the key determinants of long-term return, in our view.

Value's resurgence at the expense of growth in the current market environment underscores the importance of valuation. Speculative areas of the market have seen their unrealistic expectations reined back, but valuations remain polarised. Being selective will be paramount. We continue to believe that the majority of our holdings can sustain dividend growth in the 5-15% range over the long term, while offering an attractive yield. We are undeterred in our pursuit of dividend growth and remain resolutely committed to its viability not only as a source of rising income, but also as a total return strategy in the US market over the long term.

Year-to-date performance

- The fund provided downside protection in a falling market and outperformed the S&P 500 Index. The fund ranks top quartile in the IA North America sector.
- Stock selection was the key driver of excess return, with the strongest contribution from technology and healthcare.
- **Visa** and **MasterCard** added value in technology as the digital payments companies continued to report better-than-expected results. **Anthem** and **Merck** outperformed in healthcare after both companies raised their guidance. **ONEOK** delivered double-digit returns in a buoyant energy sector.
- Relative performance also benefited from not owning Meta Platforms and Amazon.com.
- In terms of buckets, 'quality' stocks made the biggest contribution to fund performance, helped by our healthcare holdings and **Sysco** in consumer staples. 'Rapid growth' benefited from the outperformance of our digital payments holdings, as well as **Activision Blizzard**, which received a takeover bid. 'Assets' detracted marginally as the positive contribution from our energy-related holdings (**ONEOK**, **Gibson Energy** and **Methanex**) was offset by the weakness in semiconductors (**Lam Research**) and consumer discretionary (**Lowe's** and **VF Corp**).

Not owning the oil majors Exxon Mobil and Chevron also held back relative performance.

The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.

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.

Figure 3: Performance in sterling

	To Q1 2022 %	2021 %	2020 %	2019 %	2018 %	2017 %	2016 %	2015 %	2014 %	2013 %	2012 %
M&G North American Dividend Fund	-2.1	30.5	10.1	26.1	-0.6	13.4	41.5	-0.7	17.5	27.9	8.5
S&P 500 Index*	-1.9	29.9	14.7	26.4	1.6	11.3	33.6	7.3	20.8	29.9	10.9

	2022 YTD %	1 year %	3 years % pa	5 years % pa	Manager tenure from 28 Apr 15 % pa
M&G North American Dividend Fund	-3.4	13.8	14.8	13.8	14.9
S&P 500 Index*	-6.2	12.5	16.4	13.9	15.2
IA North America Sector avg.	-10.1	3.8	13.1	11.7	12.9
Quartile ranking	1	1	2	1	1

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*The benchmark is a target which the fund seeks to outperform. The index has been chosen as the fund's benchmark as it best reflects the scope of the fund's investment policy. The benchmark is used solely to measure the fund's performance and does not constrain the fund's 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.

Source: Morningstar Inc., M&G Statistics, UK database, Investment Association Database, 31 May 2022. Sterling I class shares, price to price basis, income reinvested.

M&G Investments

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