



# Multi-Asset Solutions October Quarterly Update

10 October 2024



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## Speakers

- Shanti Kelemen, Chief Investment Officer, M&G Wealth
- Michael Stiasny, Head of UK equities, M&G Investments
- Michael Watt, Investment Director, M&G Treasury & Investment Office

# Learning Objectives

By the end of this session, you will be able to:

Describe the key factors influencing UK equities and how the market is evolving

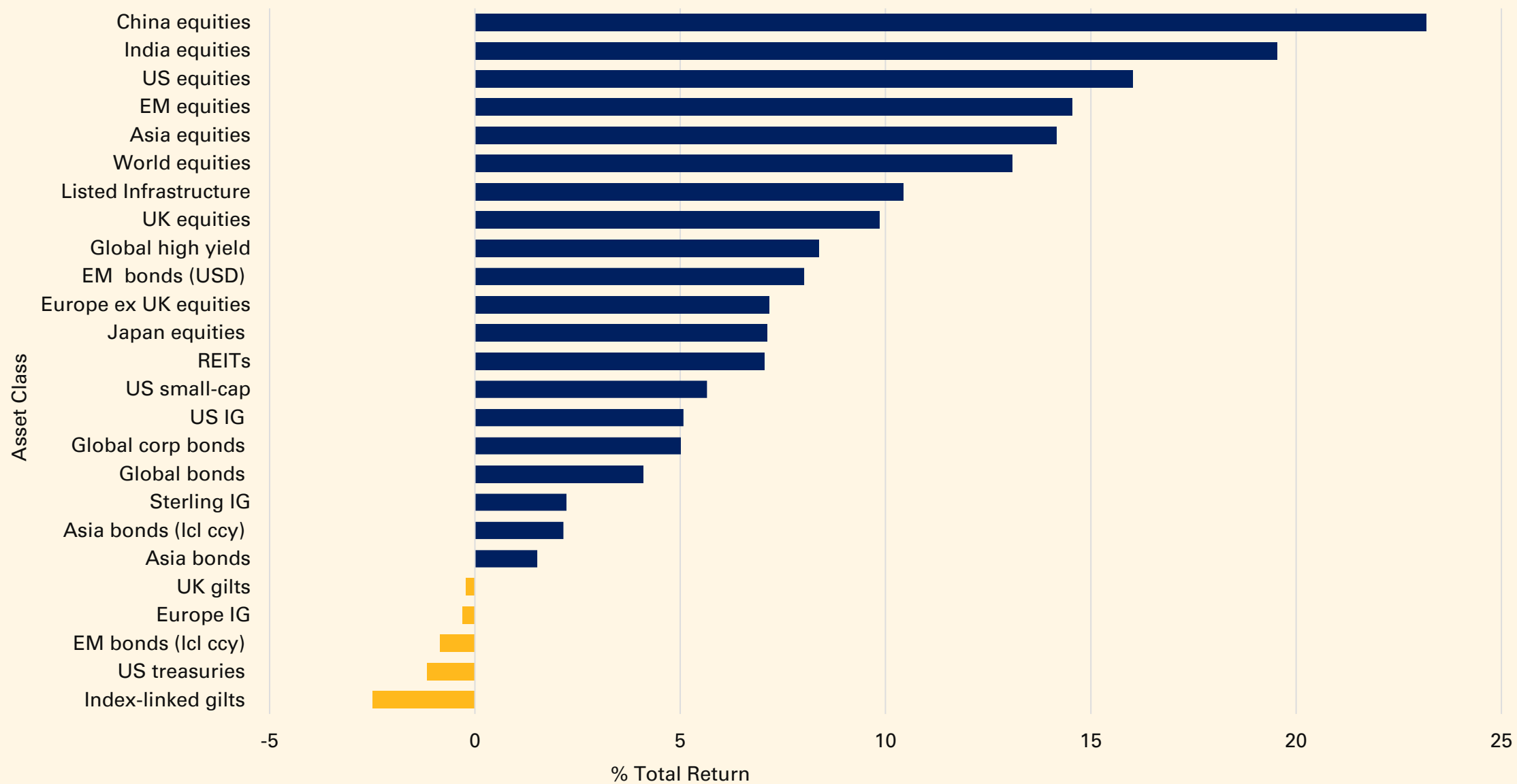
Explain how UK Gilts and UK Corporate Bonds can add diversification to a multi-asset portfolio, as well as the differences vs. investment grade and government bonds from other regions

Understand how the reduction in the capital gains allowance could impact the overall outcomes delivered by MPS and multi-asset funds

# Performance Review

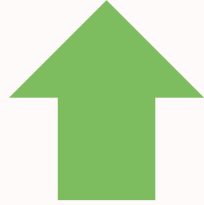


# Asset class returns, year-to-date

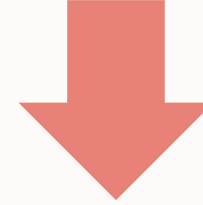


Source: M&G Wealth Investments LLP, Morningstar Direct 30<sup>th</sup> September 2024. Total return quoted in GBP.  
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# Key Performance Drivers



- The models have benefited from having more in corporate bonds and emerging market bonds which have both outperformed developed market government bonds.
- The models also have more in property, infrastructure, emerging market equity and Asia equity which have performed well.



- Having more in Japan vs peers was a detractor.
- Sterling strength was a detractor to international equity returns.

Overall, performance vs benchmark over 1 year continues to be driven by the equity weight compared to the benchmark as equities significantly outperformed bonds.

# Model Portfolio Performance – Passive

- In Q3, relative performance was driven by fixed income allocations as bonds (which we hedge to GBP) outperformed equities.
- Within fixed income, having more in corporate bonds and emerging market bonds benefited returns as both outperformed developed market government bonds.
- The models hold more in property, infrastructure, emerging market equity and Asia equity which have performed well.
- Longer term returns remain strong.

	3m (%)	6m (%)	1yr(%)	3yr (ann) (%)	5yr (ann) (%)
MPS Passive 1	3.00	3.48	10.81	1.01	1.83
Sector: IA Mixed Investment 0-35% Shares	2.46	3.10	10.53	-0.06	1.21
MPS Passive 2	2.56	3.49	11.81	2.15	3.18
Sector: IA Mixed Investment 20-60% Shares	2.28	3.44	12.01	1.43	2.96
MPS Passive 3	2.24	3.49	12.42	3.13	4.48
Sector: IA Mixed Investment 20-60% Shares	2.28	3.44	12.01	1.43	2.96
MPS Passive 4	1.57	3.50	13.74	4.48	5.56
Sector: IA Mixed Investment 40 - 85% Shares	1.64	3.34	13.85	2.45	4.59
MPS Passive 5	1.22	3.48	14.27	5.03	5.81
Sector: IA Mixed Investment 40 - 85% Shares	1.64	3.34	13.85	2.45	4.59

The value of investments will fluctuate, which will cause values to fall as well as rise and investors may not get back the original amount invested. The figures refer to the past and past performance is not a reliable indicator of future results. The performance figures are calculated in FE Analytics based on a standard model and may not reflect the performance of individual customer portfolios. The calculation includes all underlying fund charges. The investment management, platform, wrapper and advice fees are excluded. The IA Sector indices include the underlying fund costs and investment management fees. Platform and advice fees are not included.

Source: FE Analytics, M&G Wealth Investments LLP, 30<sup>th</sup> September 2024.



# Model Portfolio Performance - Hybrid

	3m (%)	6m (%)	1yr(%)	3yr (ann) (%)	5yr (ann) (%)
MPS Hybrid 1	3.28	3.84	11.43	1.19	1.84
Sector: IA Mixed Investment 0-35% Shares	2.46	3.10	10.53	-0.06	1.21
MPS Hybrid 2	2.88	3.92	12.33	2.16	3.21
Sector: IA Mixed Investment 20-60% Shares	2.28	3.44	12.01	1.43	2.96
MPS Hybrid 3	2.57	3.88	12.55	2.71	4.35
Sector: IA Mixed Investment 20-60% Shares	2.28	3.44	12.01	1.43	2.96
MPS Hybrid 4	2.04	4.06	13.48	3.40	5.30
Sector: IA Mixed Investment 40 - 85% Shares	1.64	3.34	13.85	2.45	4.59
MPS Hybrid 5	1.66	4.09	13.58	3.41	5.43
Sector: IA Mixed Investment 40 - 85% Shares	1.64	3.34	13.85	2.45	4.59

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Source: FE Analytics, M&G Wealth Investments LLP, 30<sup>th</sup> September 2024.

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# Model Portfolio Performance – Global ESG Themes

- The models have more in global bonds and less in UK bonds than the other MPS models which has boosted performance.
- The thematic equity funds have performed roughly in-line with global equities.

	3m (%)	6m (%)	1yr (%)	2yr (ann) (%)	3yr (ann) (%)	5yr (ann) (%)
MPS GESGT 1	3.62	3.94	12.58	8.16		
Sector: IA Mixed Investment 0-35% Shares	2.46	3.10	10.53	6.51		
MPS GESGT 2	3.28	3.81	13.30	8.51		
Sector: IA Mixed Investment 20-60% Shares	2.28	3.44	12.01	8.02		
MPS GESGT 3	3.09	3.73	13.61	8.64		
Sector: IA Mixed Investment 20-60% Shares	2.28	3.44	12.01	8.02		
MPS GESGT 4	2.85	3.68	13.96	8.73		
Sector: IA Mixed Investment 40-85% Shares	1.64	3.34	13.85	9.39		
MPS GESGT 5	2.62	3.61	14.26	8.84		
Sector: IA Mixed Investment 40-85% Shares	1.64	3.34	13.85	9.39		

The value of investments will fluctuate, which will cause values to fall as well as rise and investors may not get back the original amount invested. The figures refer to the past and past performance is not a reliable indicator of future results. The performance figures are calculated in FE Analytics based on a standard model and may not reflect the performance of individual customer portfolios. The calculation includes all underlying fund charges. The investment management, platform, wrapper and advice fees are excluded. The IA Sector indices include the underlying fund costs and investment management fees. Platform and advice fees are not included.

Source: FE Analytics, M&G Wealth Investments LLP, 30<sup>th</sup> September 2024.

# Risk Managed Passive Performance

- Higher allocations to Asia equities, emerging market equities and real assets (which were positive in Q3) supported total returns.
- Over the medium term (3-5 year):
  - Having more in UK, Asia and emerging market equities has resulted in underperformance in the portfolios vs. peers.
  - Lower risk models have performed well, due to having more in emerging market and high yield bonds, which outperformed global bonds in this period.

	3m(%)	6m(%)	1yr(%)	3yr (%) (ann)	5yr(%) (ann)	10yr(%) (ann)
LF Prudential Risk Managed Passive 1 P Acc in GB	3.26	3.92	11.96	0.13	1.56	3.41
Sector : IA Mixed Investment 0 - 35% Shares TR in GB	2.46	3.10	10.53	-0.06	1.21	2.60
LF Prudential Risk Managed Passive 2 P Acc in GB	3.13	4.06	12.26	0.69	2.22	
Sector : IA Mixed Investment 20 - 60% Shares TR in GB	2.28	3.44	12.01	1.43	2.96	3.96
LF Prudential Risk Managed Passive 3 P Acc in GB	3.11	4.46	13.19	1.75	3.17	4.82
Sector : IA Mixed Investment 20 - 60% Shares TR in GB	2.28	3.44	12.01	1.43	2.96	3.96
LF Prudential Risk Managed Passive 4 P Acc in GB	3.19	4.87	14.11	2.86	4.21	
Sector : IA Mixed Investment 40 - 85% Shares TR in GB	1.64	3.34	13.85	2.45	4.59	5.69
LF Prudential Risk Managed Passive 5 P Acc in GB	3.16	5.22	15.08	3.97	5.23	
Sector : IA Flexible Investment TR in GB	1.05	2.78	13.04	2.29	5.02	5.92

Source: FE Analytics (bid to bid), M&G Treasury and Investment Office (MAPM), 30<sup>th</sup> September 2024.

The table shows the annualised performance of each fund in the LF Prudential Risk Managed Passive range versus its relevant IA sector average. Outperformance for the fund is indicated by the green boxes.

# Risk Managed Active Performance

	3m(%)	6m(%)	1yr(%)	3yr (%) (ann)	5yr(%) (ann)	10yr(%) (ann)
LF Prudential Risk Managed Active 1 P Acc in GB	3.23	3.67	10.69	-0.03	1.73	3.22
Sector : IA Mixed Investment 0 - 35% Shares TR in GB	2.46	3.10	10.53	-0.06	1.21	2.60
LF Prudential Risk Managed Active 2 P Acc in GB	3.44	4.67	11.77	0.39	2.20	3.68
Sector : IA Mixed Investment 20 - 60% Shares TR in GB	2.28	3.44	12.01	1.43	2.96	3.96
LF Prudential Risk Managed Active 3 P Acc in GB	3.57	4.86	12.33	1.32	2.89	4.27
Sector : IA Mixed Investment 20 - 60% Shares TR in GB	2.28	3.44	12.01	1.43	2.96	3.96
LF Prudential Risk Managed Active 4 P Acc in GB	3.69	5.32	13.21	2.17	3.74	5.01
Sector : IA Mixed Investment 40 - 85% Shares TR in GB	1.64	3.34	13.85	2.45	4.59	5.69
LF Prudential Risk Managed Active 5 P Acc in GB	3.82	5.78	14.06	3.01	4.55	5.69
Sector : IA Flexible Investment TR in GB	1.05	2.78	13.04	2.29	5.02	5.92

Source: FE Analytics (bid to bid), M&G Treasury and Investment Office (MAPM), 30<sup>th</sup> September 2024.

The table shows the annualised performance of each fund in the LF Prudential Risk Managed Active range versus its relevant IA sector average. Outperformance for the fund is indicated by the green boxes.

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# UK Equities

The background features a series of parallel diagonal lines in a light brown color on the left side. On the right side, there are several overlapping geometric shapes: a large yellow triangle pointing upwards, a smaller olive green triangle pointing downwards, a red triangle pointing upwards, and a dark brown triangle pointing downwards. The overall design is modern and minimalist.

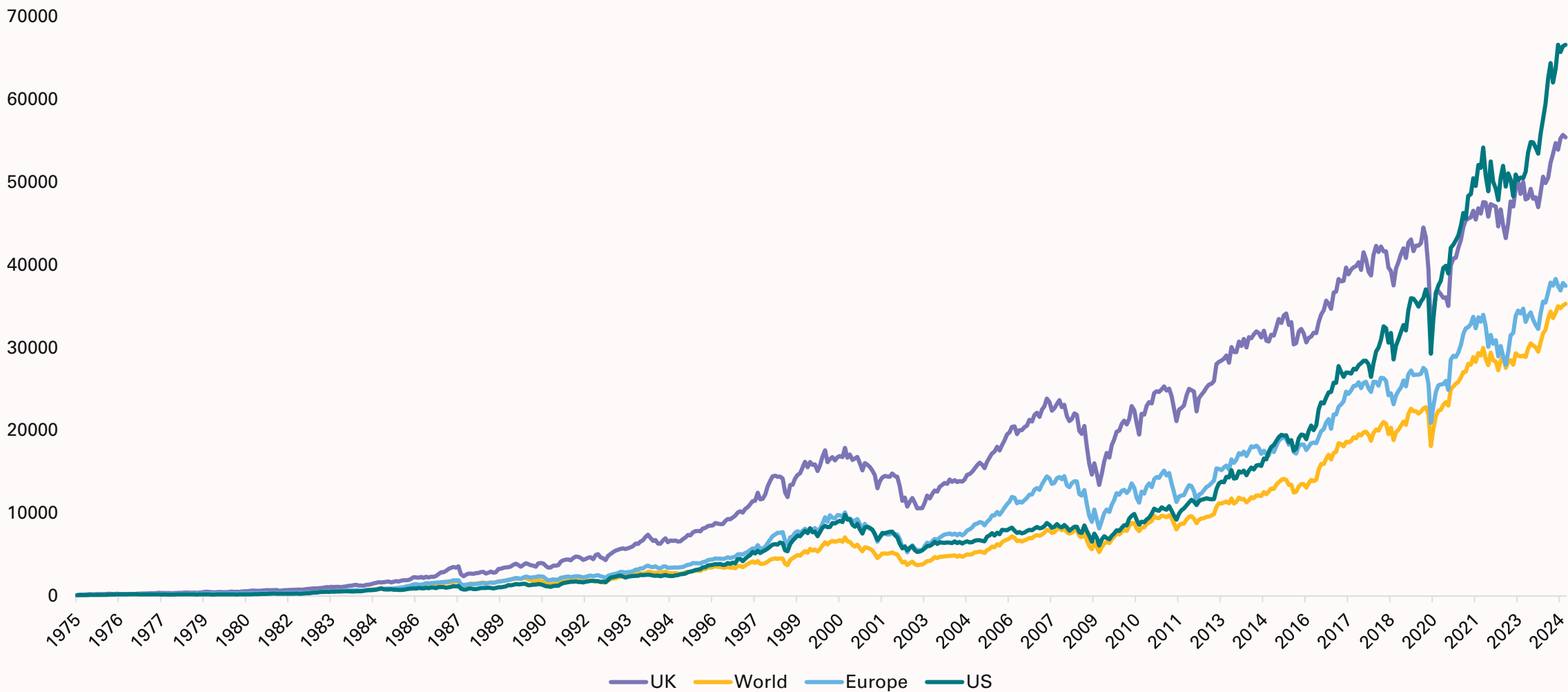
# Attractive attributes of the UK market



\* Please note that not all funds from the M&G equity range include ESG objectives

# The UK market has delivered competitive long-term returns

Cumulative total returns since 1975



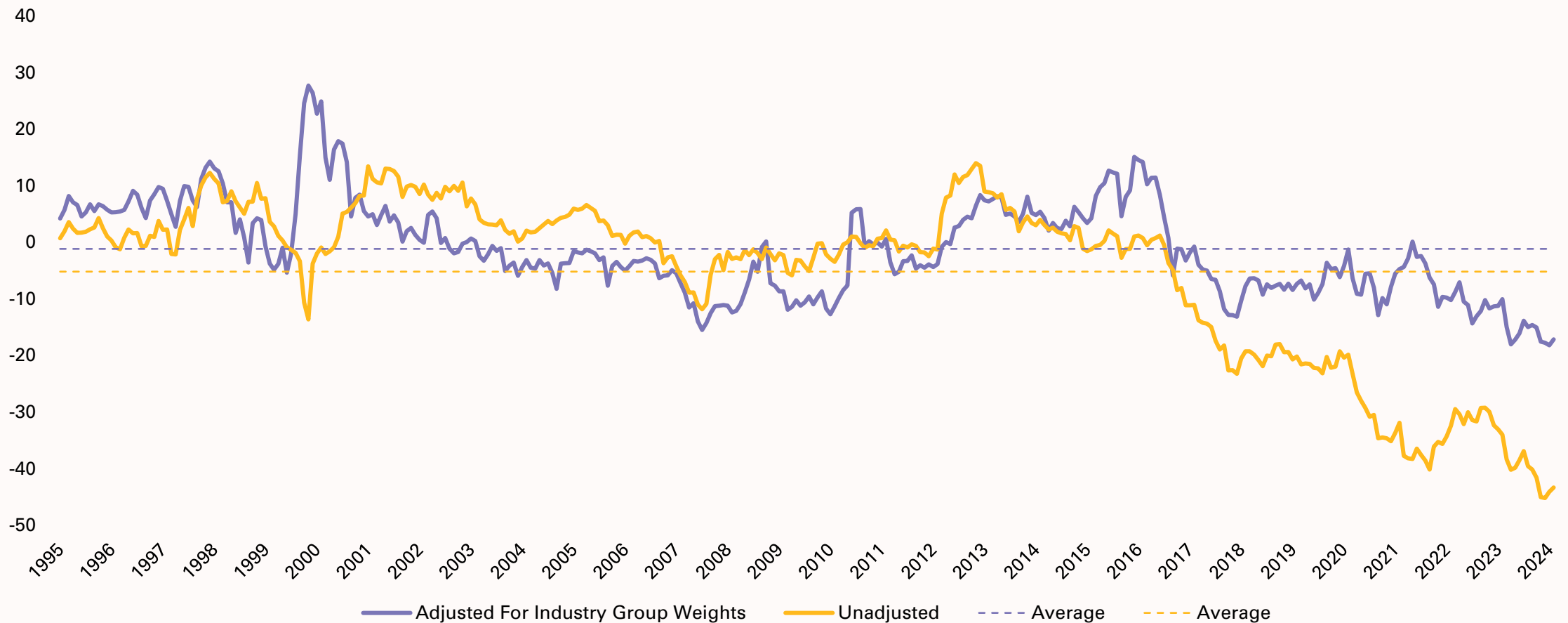
Past performance is not a guide to future performance

Source: Datastream indices, January 1975 – September 2024.

# Compelling Valuations

UK valuations remain attractive on a sector neutral basis

**MSCI UK relative to RoW– Sector neutralised valuation spread:**



Past performance is not a guide to future performance

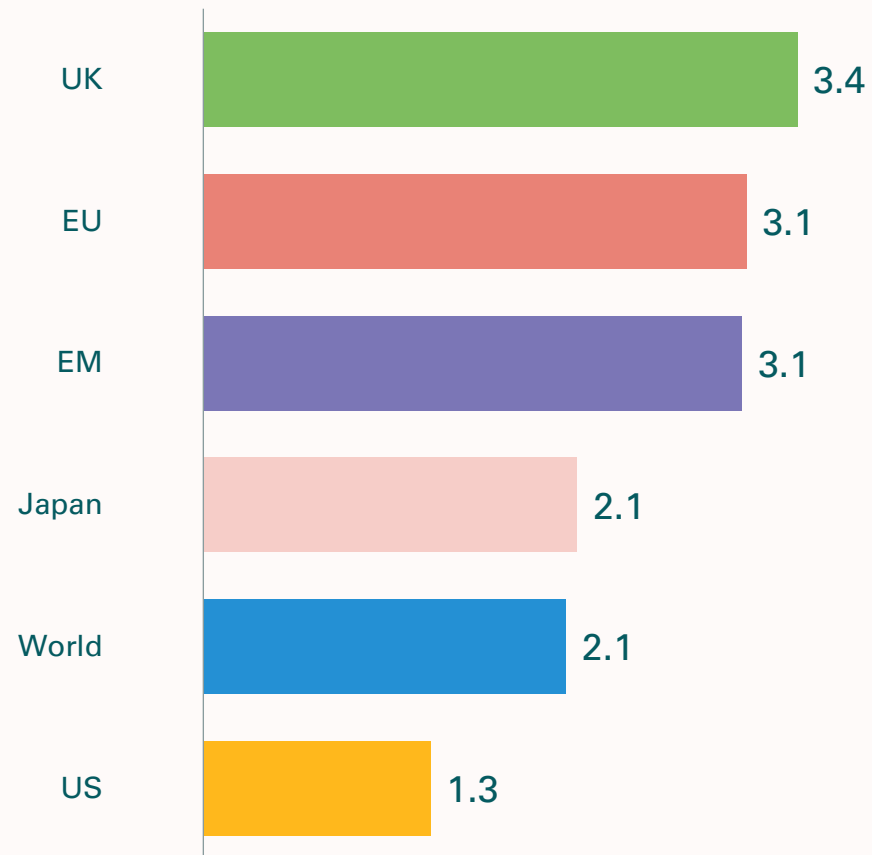
Source: Refinitiv. \*Blended (equal weight) average P/E, EV/EBITDA and P/B \*GBP for UK vs Europe & RoW to August 2024 .



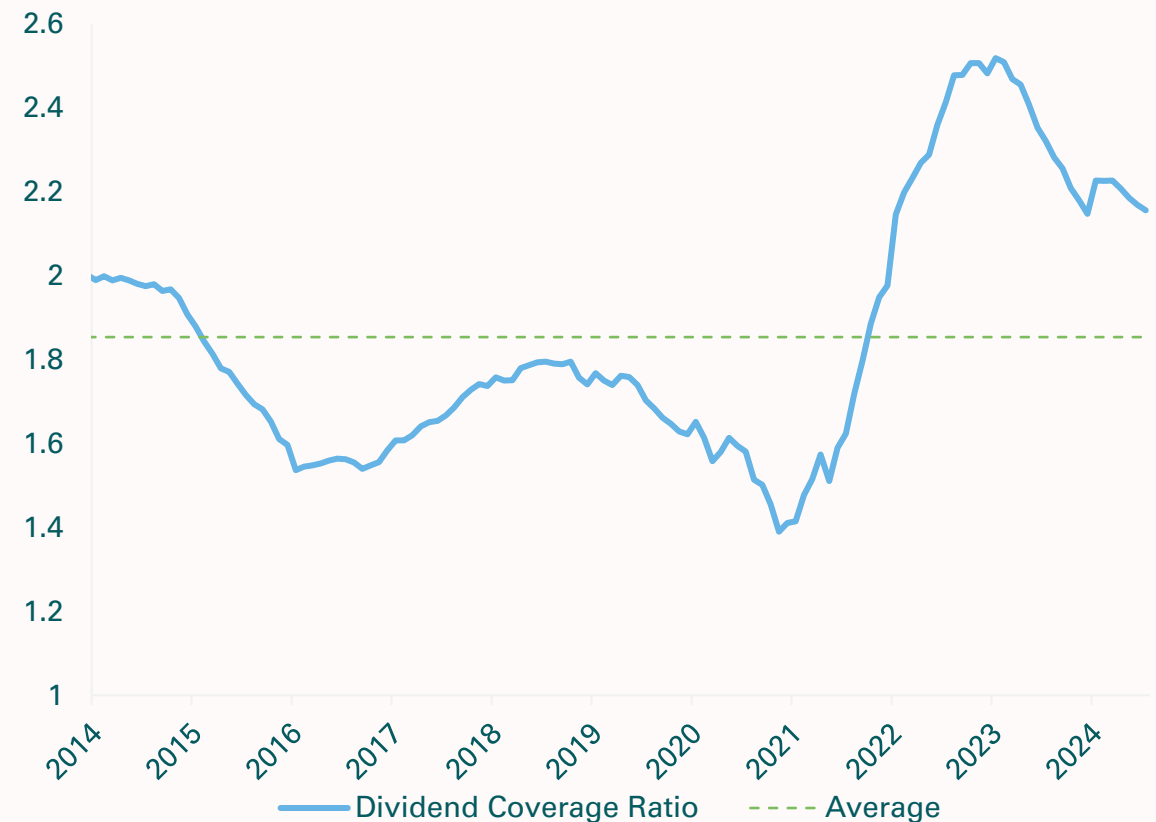
# Dividend yield looks attractive

Supported by a meaningful dividend cover ratio

Dividend yield across regional markets:



FTSE All Share dividend coverage ratio:

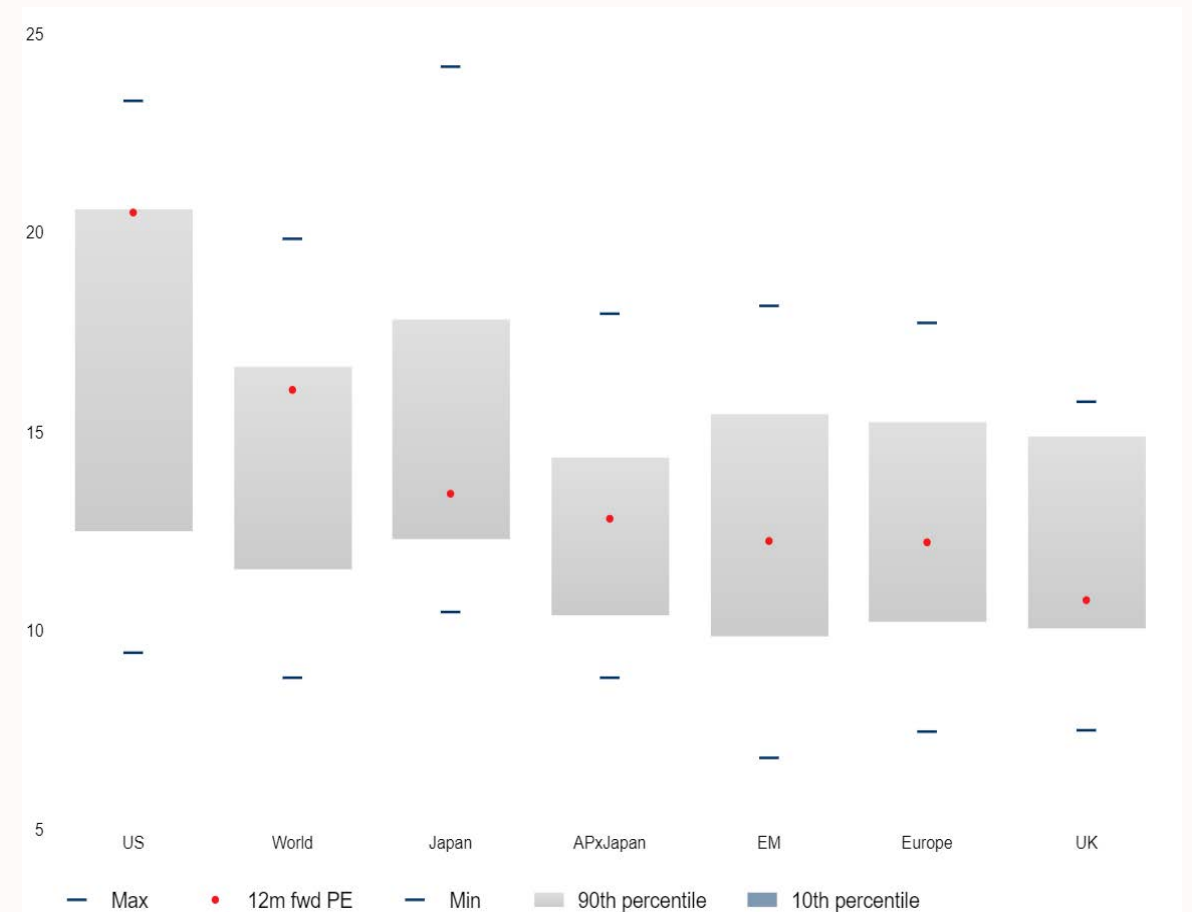
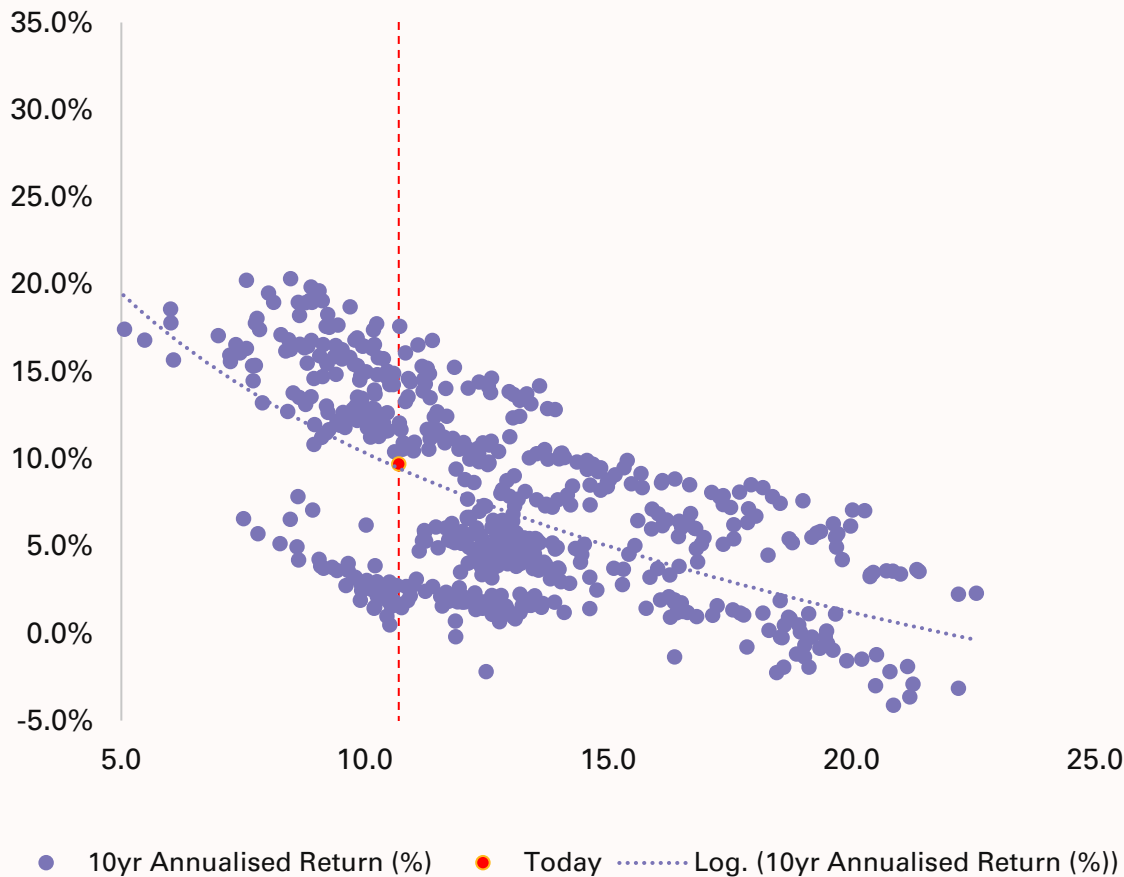


# What is the outlook for UK equities?

History tells us this is an attractive entry point

UK starting PE & future 10yr Annualised Return (%)

Geographical spread of valuations across regions:



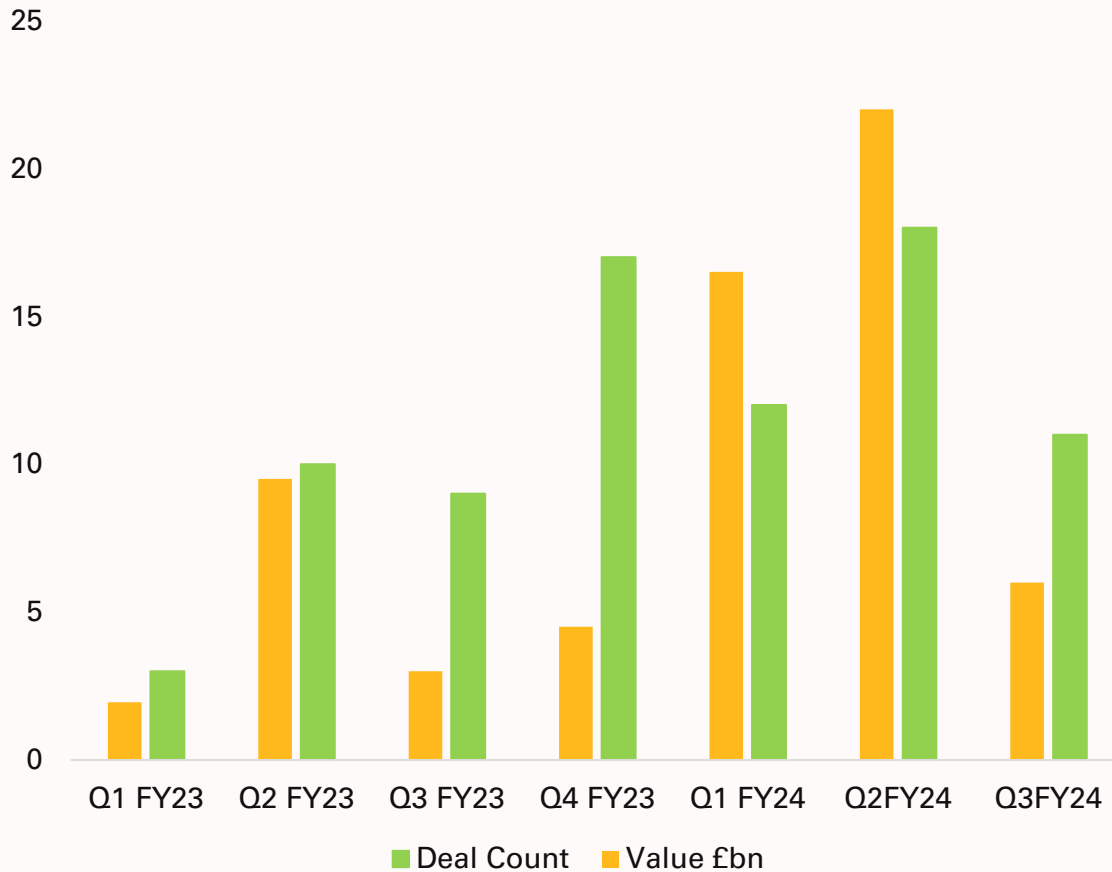
Past performance is not a guide to future performance

Source: Datastream, September 2024.

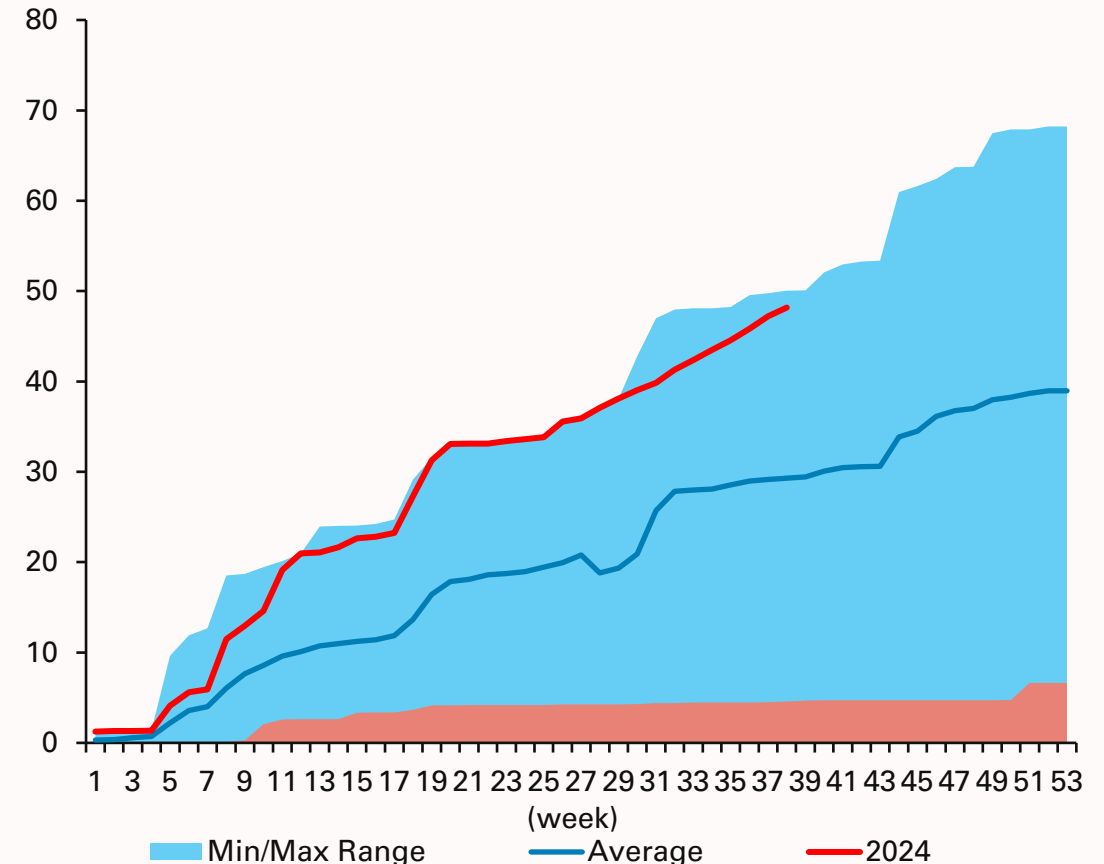
# Evidence that the UK market is cheap

Bids and buybacks suggests the UK market won't stay cheap forever

Bid activity by quarter



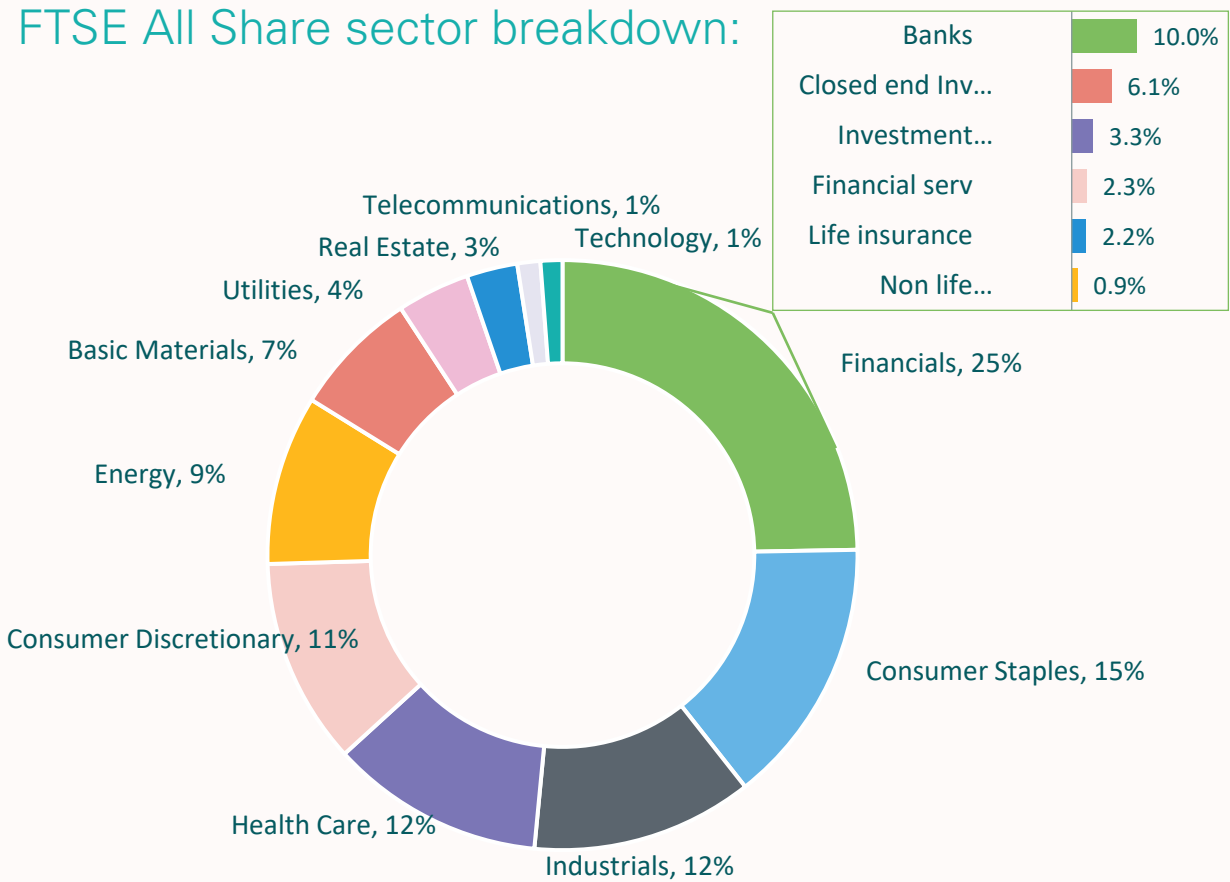
FTSE All Share buybacks announced cumulative since 2017 (£bn)



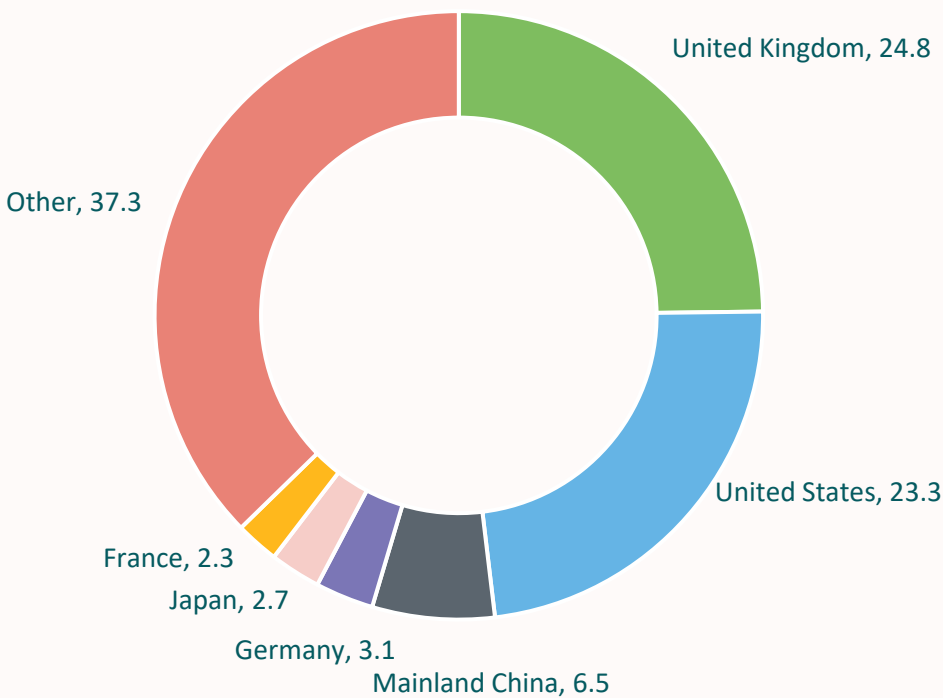
# What makes up the UK market?

A diverse range of companies and revenue streams

FTSE All Share sector breakdown:

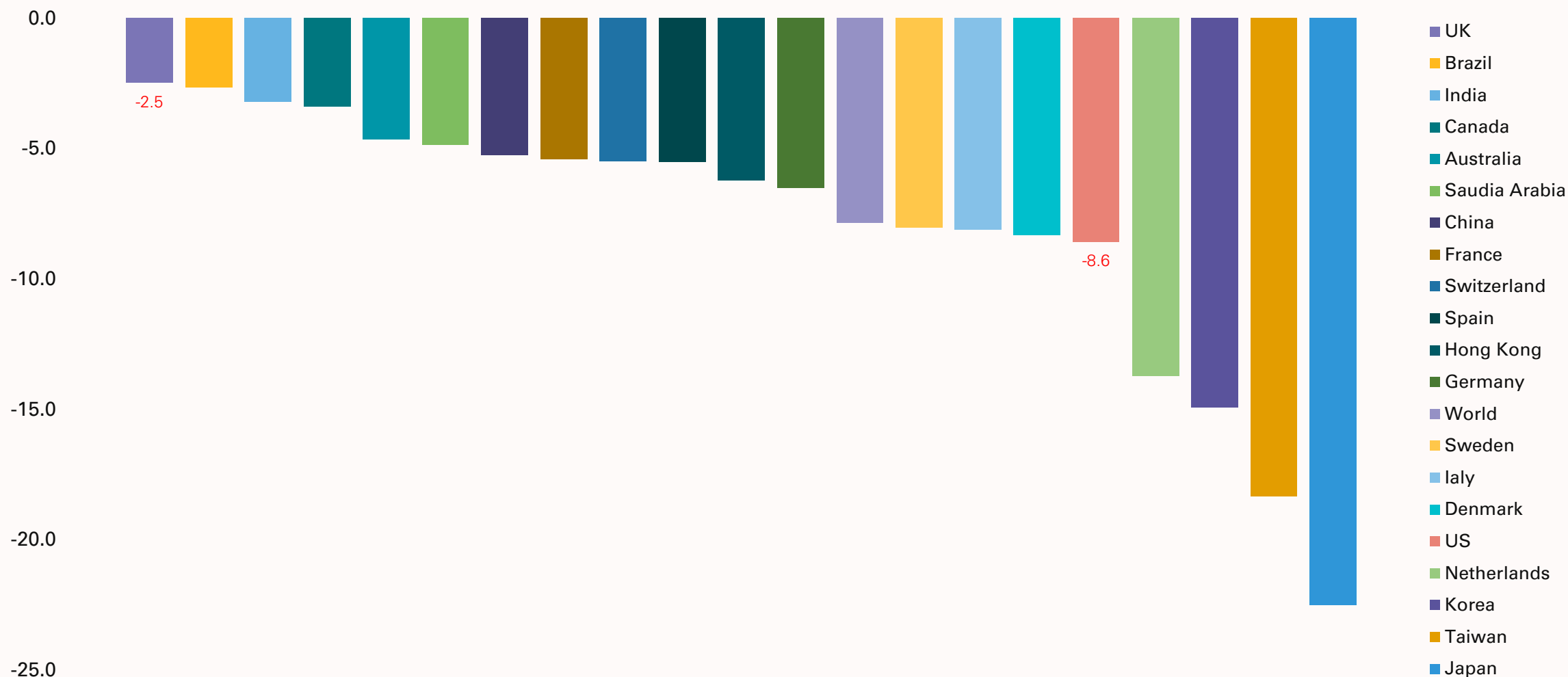


% overseas revenue split for FTSE All Share:



# Diversification: UK equities in the context of global markets

Market sell off from July 16<sup>th</sup> to August 5<sup>th</sup>:



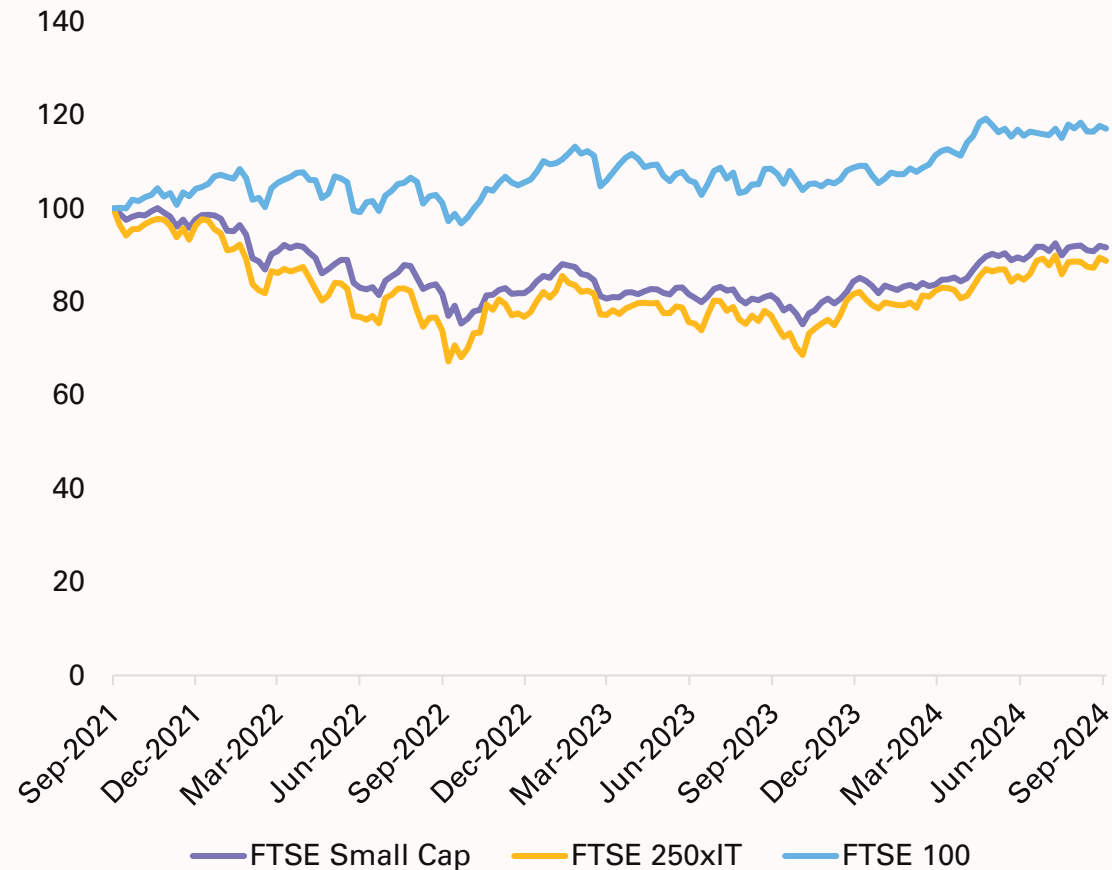
Past performance is not a guide to future performance

Source: Datastream, September 2024.

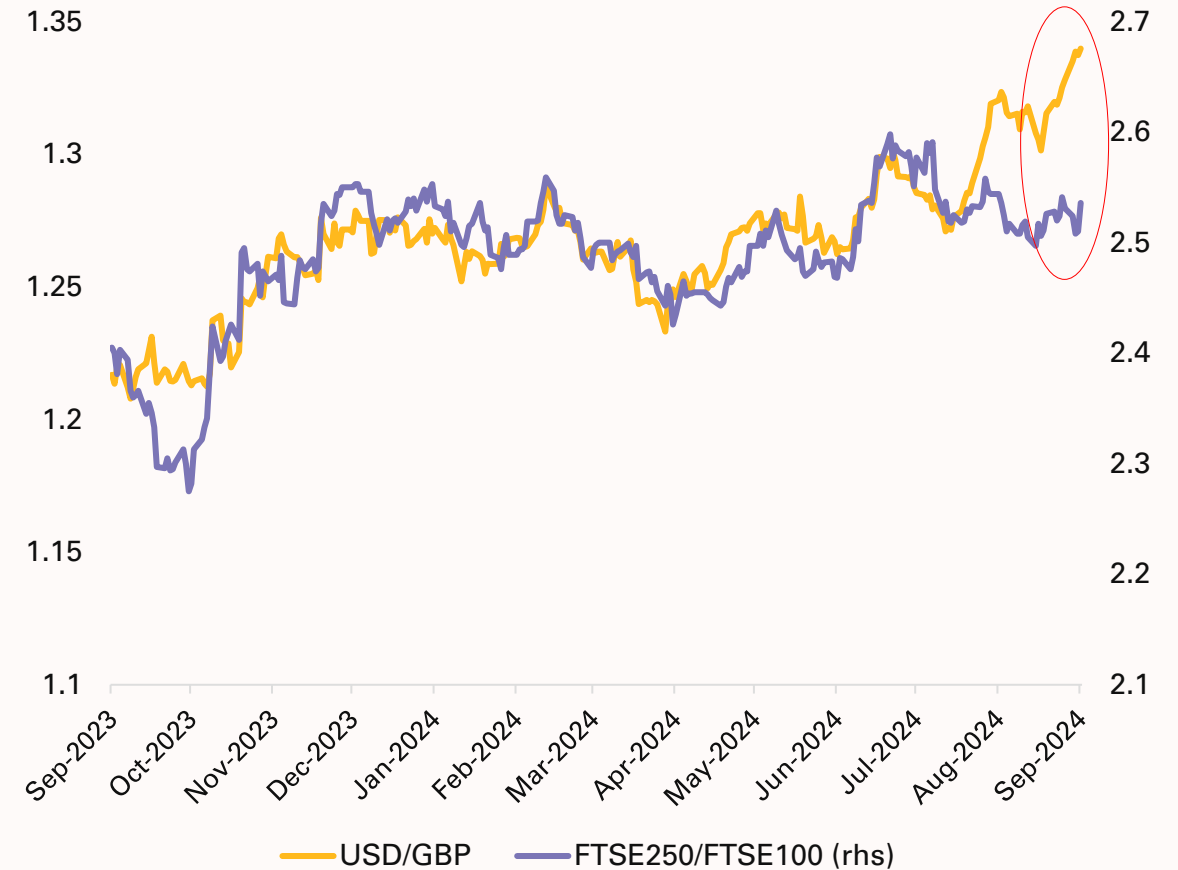
# A difficult few years for the SMID universe

Political stability and economic resilience could be a catalyst?

3 year performance: FTSE 100, FTSE250xIT and FTSE Small Cap



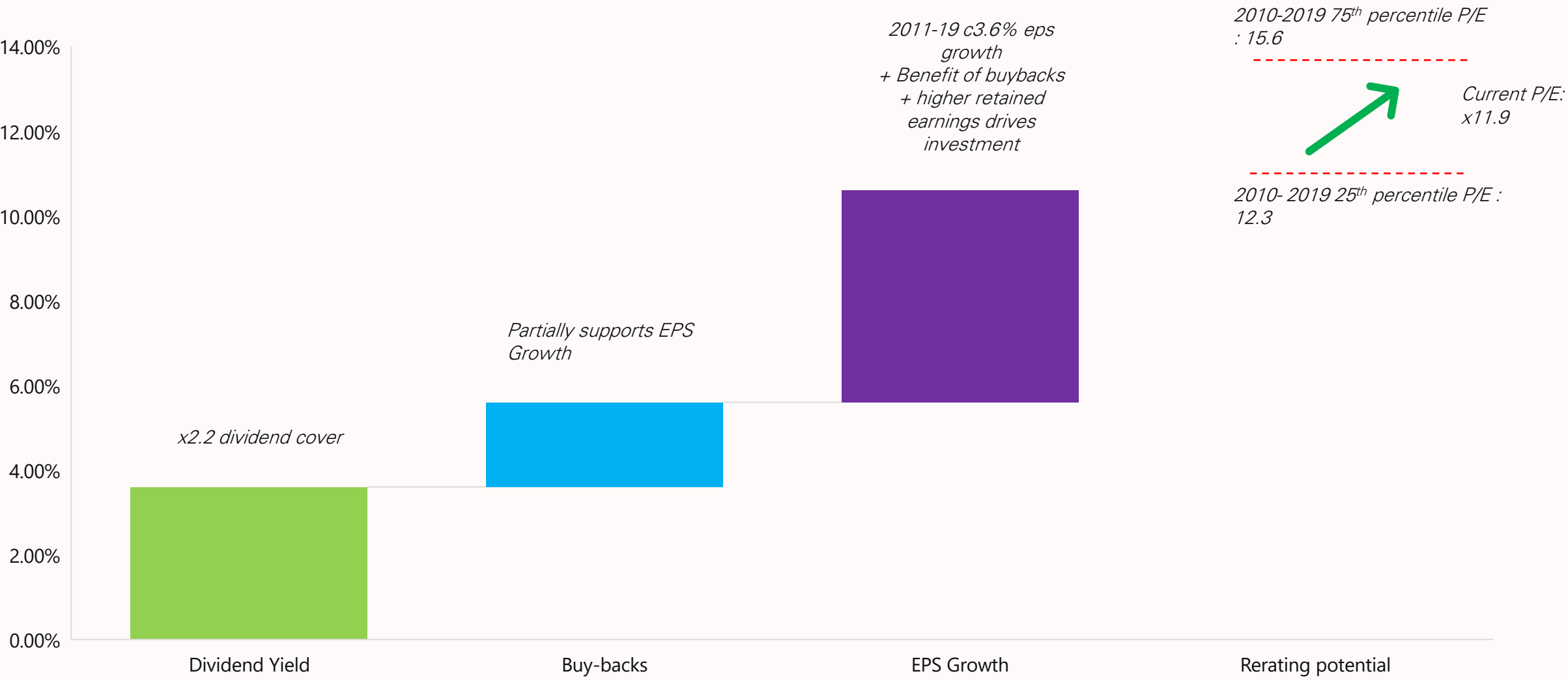
Currency a tailwind to the SMID universe?



Past performance is not a guide to future performance

Source: Datastream, September 2024.

# Theoretical UK Market Returns



Source: M&G, September 2024. The information provided should not be considered a recommendation to purchase or sell any particular security.

# Summary

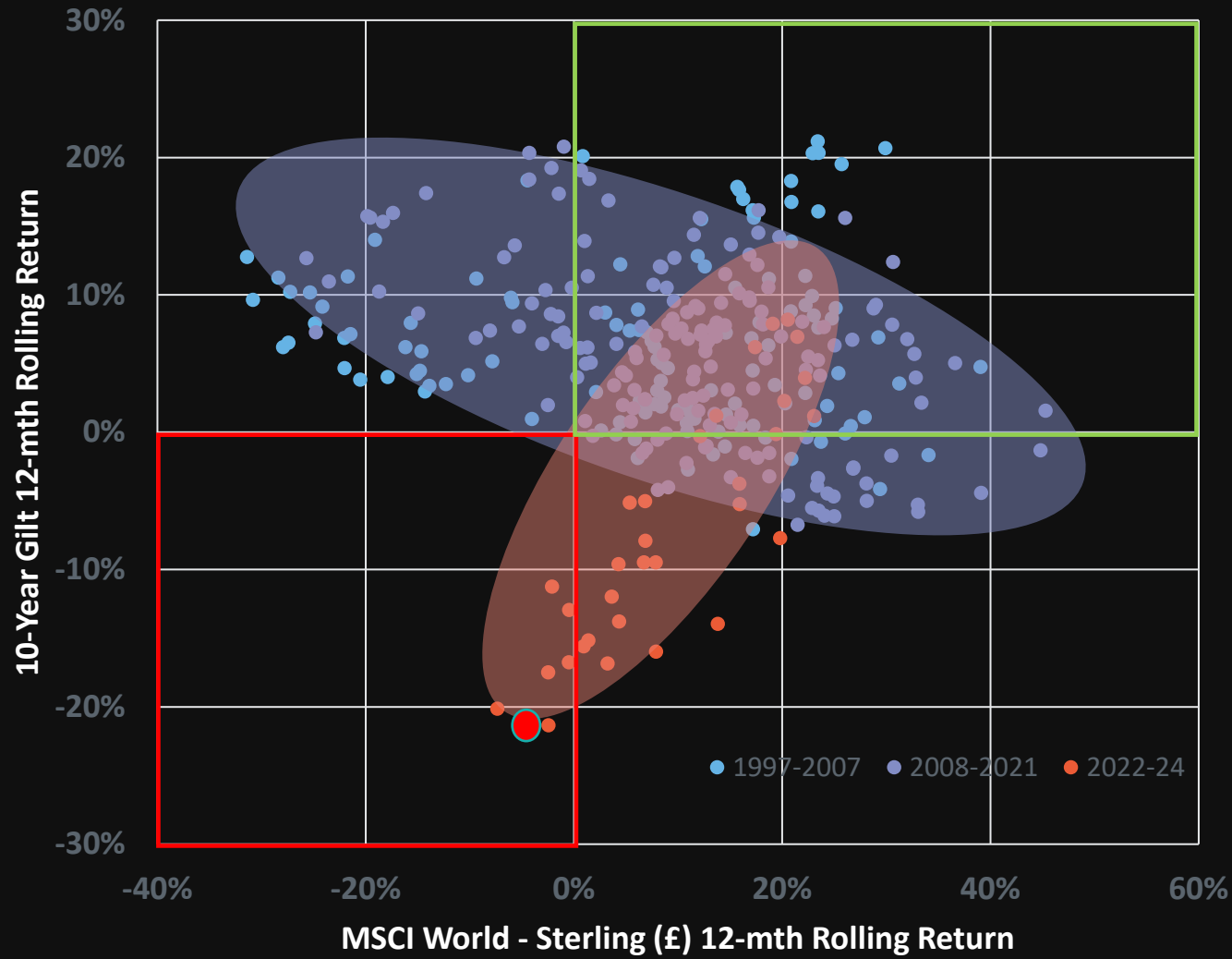
- The UK market looks cheap relative to history and to other markets
- UK allocation may play a role in diversifying equity exposure - at an attractive entry price
- Given starting valuations and the opportunities available the UK market potentially could be set for good relative returns
- Relative political stability for the UK seeks to provide a powerful springboard for small and mid-cap equity performance



# UK Bonds

The background features a series of parallel diagonal lines in a light brown color on the left side. On the right side, there are several overlapping geometric shapes: a large yellow triangle pointing upwards, a smaller olive green triangle pointing downwards, a red triangle pointing upwards, and a dark brown triangle pointing downwards. The overall design is modern and minimalist.

# Is diversification back in play?

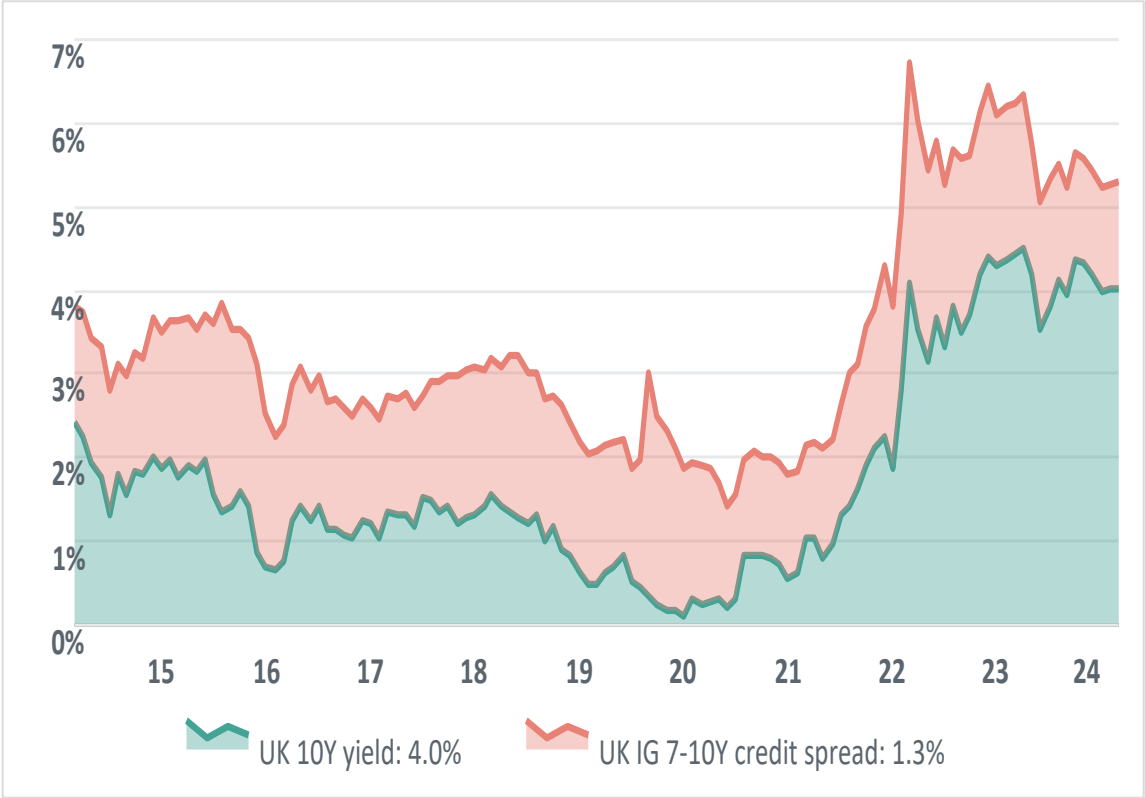


- 2022 mini-budget triggered a difficult period for equities AND bonds.
- Positive equity/bond correlation a common theme across different countries throughout 2023 and into 2024.
- We believe Listed Alternatives offer additional diversification benefits in an uncertain world.
- Recent correlations suggest bonds are beginning to provide cyclical diversification, as central banks see more balanced risks to inflation.

Note: Above chart data is sourced from Datastream. The purple dot reflects 12-month rolling returns of 10-Year Gilt and MSCI-All World Sterling index to 30/08/2024

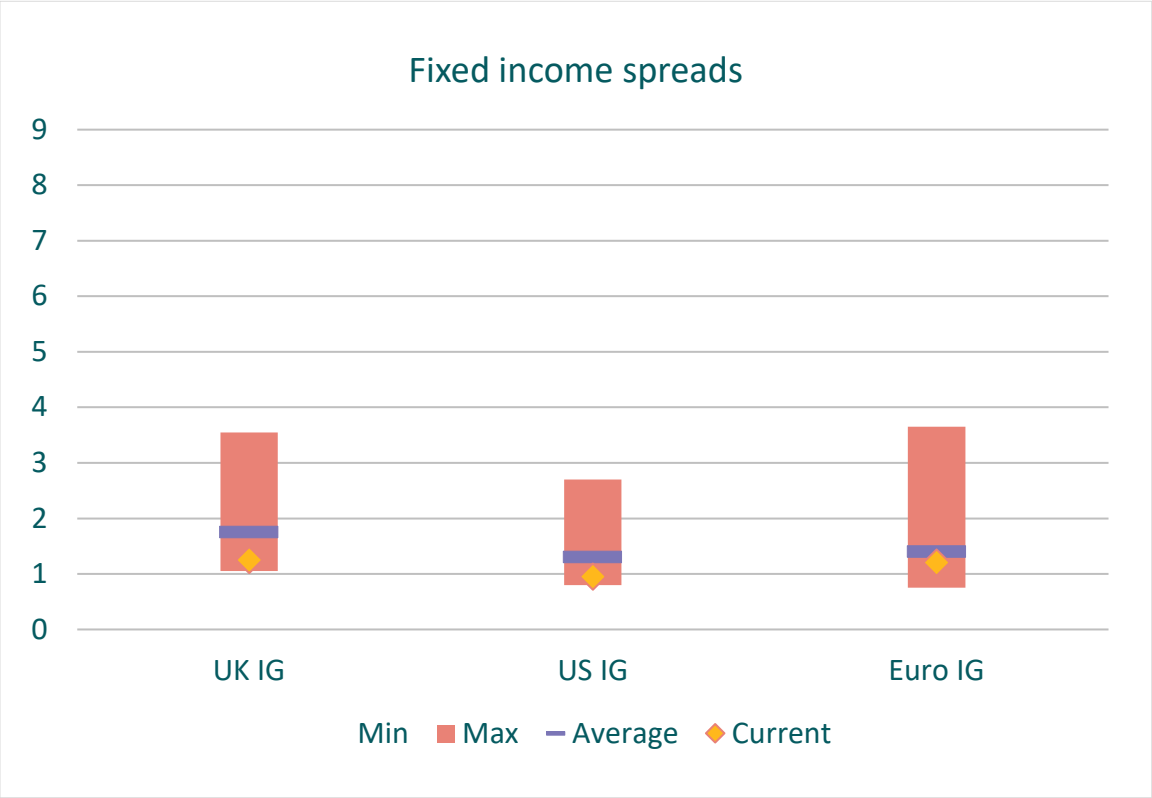
# Attractive yields on offer – decomposing returns

## UK Investment Grade Corporate Bonds



Source: LSEG DataStream data using ICE Bofa Sterling 7-10 year corporate bond, 30 Sept 2024

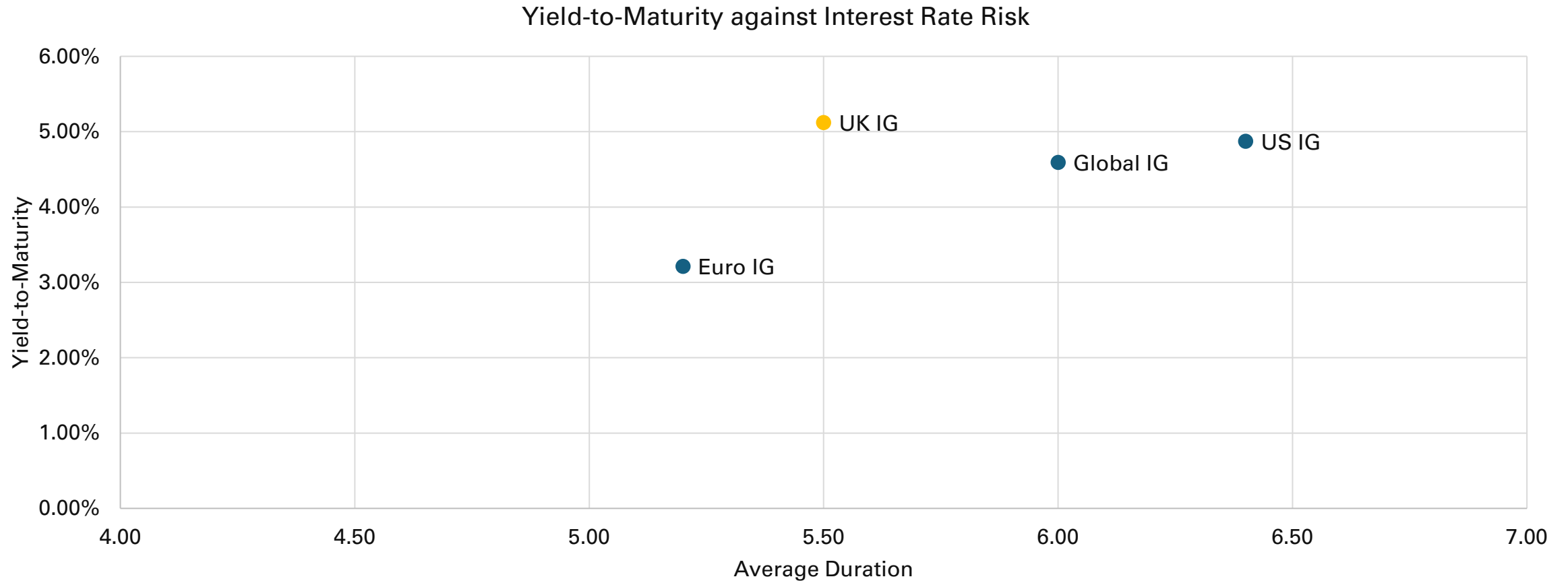
## Credit spreads are tight



Source: LSEG DataStream data using ICE BofA indices, September 2024. The credit spread is the difference in yields paid by government and corporate bonds.

# Limited extra risk for additional return

UK Investment Grade Bonds are offering attractive risk-adjusted returns relative to other areas.



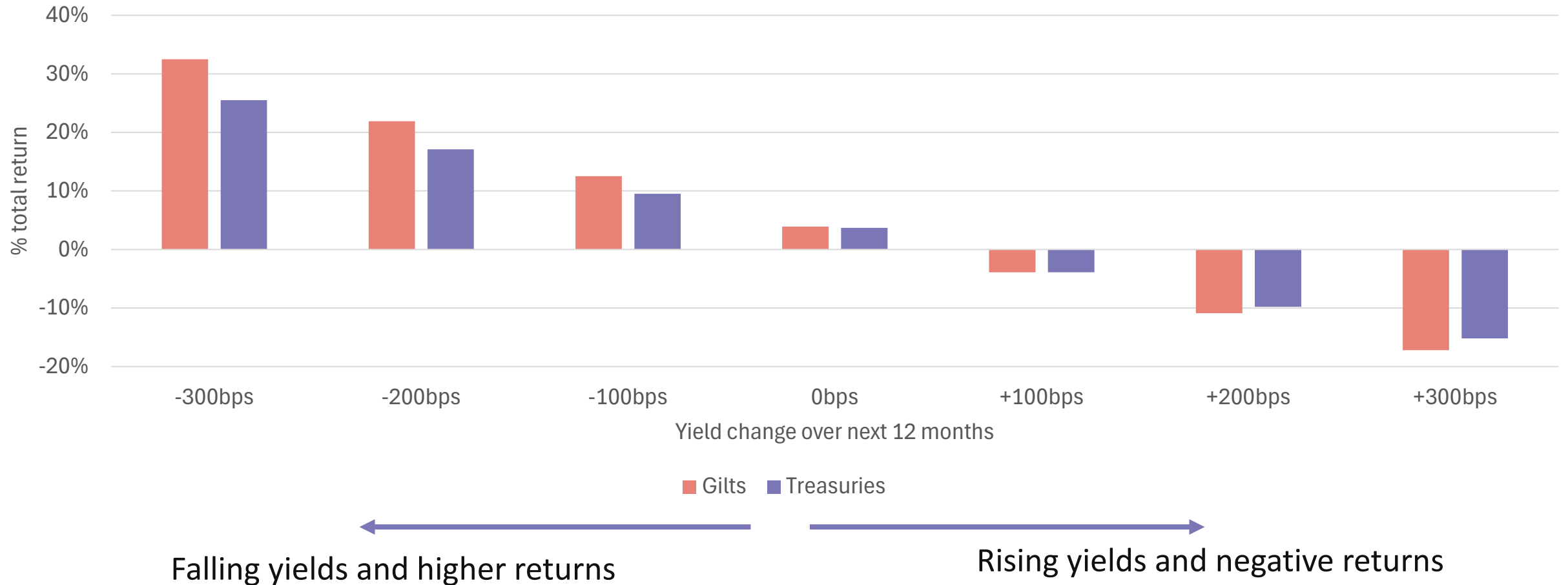
Source: iShares Corporate Bond Index represents UK Investment Grade (UK IG), Vanguard Euro Investment Grade Bond Index represents Euro Investment Grade (Euro IG), Vanguard US Investment Grade Credit Index represents US investment Grade (US IG) and Vanguard Global Corporate Bond Index represents Global Investment Grade (Global IG). For callable bonds, Yield-to-Maturity is the Yield-to-Worst. M&G Wealth, Vanguard, BlackRock, 31<sup>st</sup> August 2024.

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# The risk and return for government bonds is good

With bond yields higher there is more 'safety' within prices if rates were to rise. Equally if rates fall by 1% total return would be about 10%

Total return scenarios for UK Gilts and US Treasuries in the portfolios (1-year % total return)

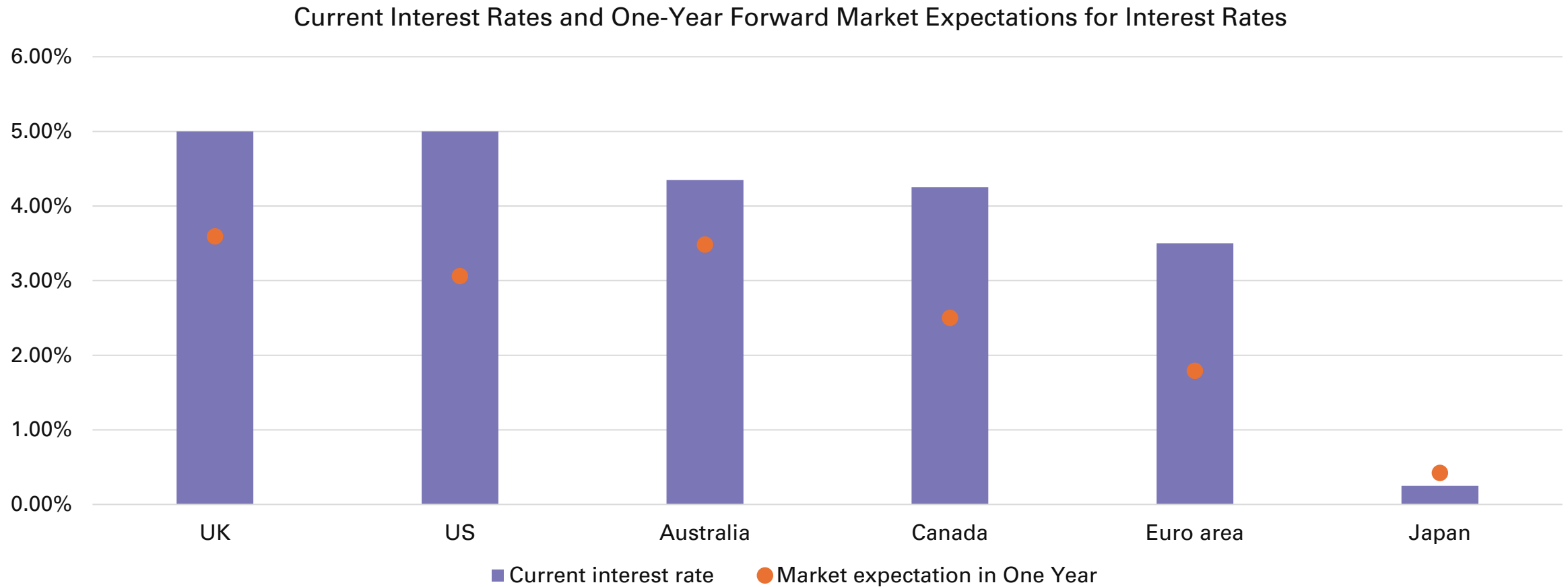


Source: M&G Wealth Investments, based on starting yields at 01<sup>st</sup> October 2024

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# UK has more scope to cut if needed

A reduction in interest rates can lead to capital appreciation for bond holdings.



Source: M&G Wealth, Trading Economics, Refinitiv, 3<sup>rd</sup> October 2024.

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# CGT in General Investment Accounts

The background features a series of parallel diagonal lines in a light brown color on the left side. On the right side, there are several overlapping geometric shapes: a large yellow triangle pointing upwards, a smaller olive green triangle pointing downwards, a red triangle pointing upwards, and a small teal triangle pointing downwards. The overall design is modern and minimalist.

# The Basics

- The CGT annual exempt amount has been reduced to £3,000 per annum
- Getting the correct mix of wrapped and unwrapped investments is important in delivering good customer outcomes. Many clients will hold unwrapped investments as part of their overall financial plan.
- Industry commentary is that there will be more CGT management necessary, and more tax paid, when managing unwrapped investments with a multi OEIC strategy (MPS)
- For a customer with a general investment account, we've modelled several simple scenarios to help understand the impact



# The Assumptions

Assumption	Why we've used this
MPS or Fund held in a General Investment Account	The examples focus on situations where a GIA is held
20% Capital Gains Tax Rate	It's the current rate for higher rate taxpayers
Income/Dividend Tax is ignored	The income tax position for unwrapped funds and portfolios is broadly neutral and not relevant to CGT analysis
All investments rise at the same rate	The overall outcome and tax bill would be very similar to a portfolio with variation in performance across asset classes, as higher capital gains will be offset by losses
A different part of the model is sold each year*	Keeps the calculation simple, by avoiding having to rebase investments.
The tax bill is paid from the portfolio at the start of each year	Using the portfolio to pay the tax gives a better picture of the overall outcome
The percentage turnover rate is calculated based on portion of the portfolio that hasn't been traded*	Keeps the calculation simple. This means the percentage traded falls each year, because a new part of the model is traded each time

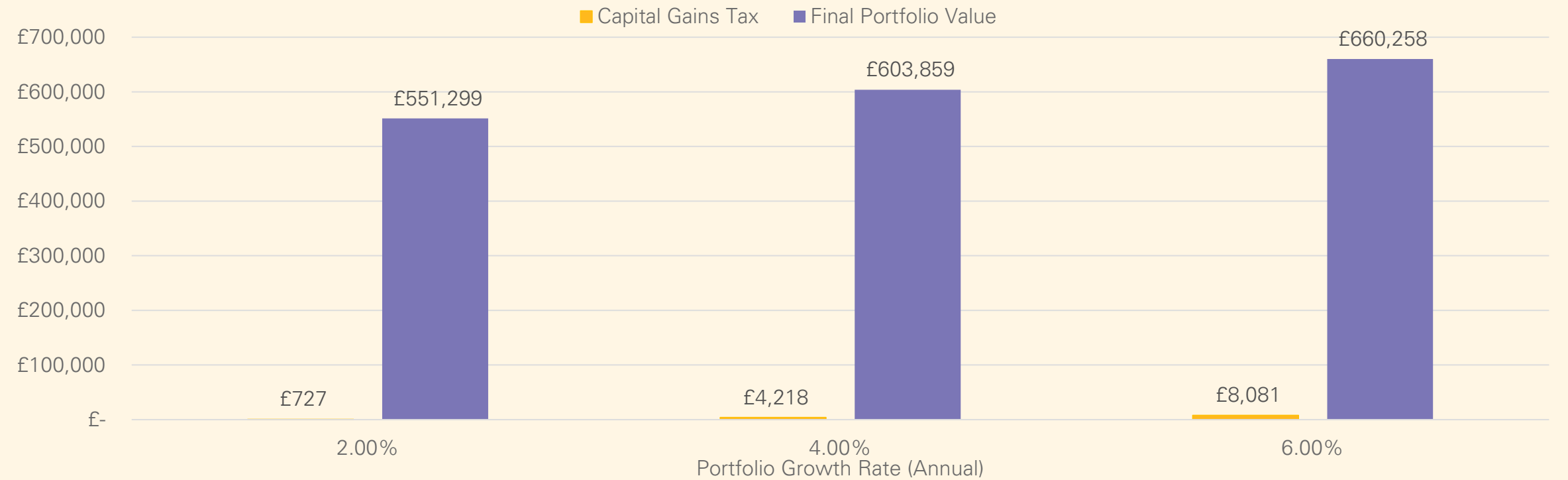
\*In practice, what is sold/turned over will depend on performance, need for rebalancing and any asset allocation decisions.

# Impact of Growth Rates Over 5 years

Initial Portfolio Value:	£500,000.00
Expected portfolio growth rate (annual):	2%
Turnover rate:	20%

Initial Portfolio Value:	£500,000.00
Expected portfolio growth rate (annual):	4%
Turnover rate:	20%

Initial Portfolio Value:	£500,000.00
Expected portfolio growth rate (annual):	6%
Turnover rate:	20%

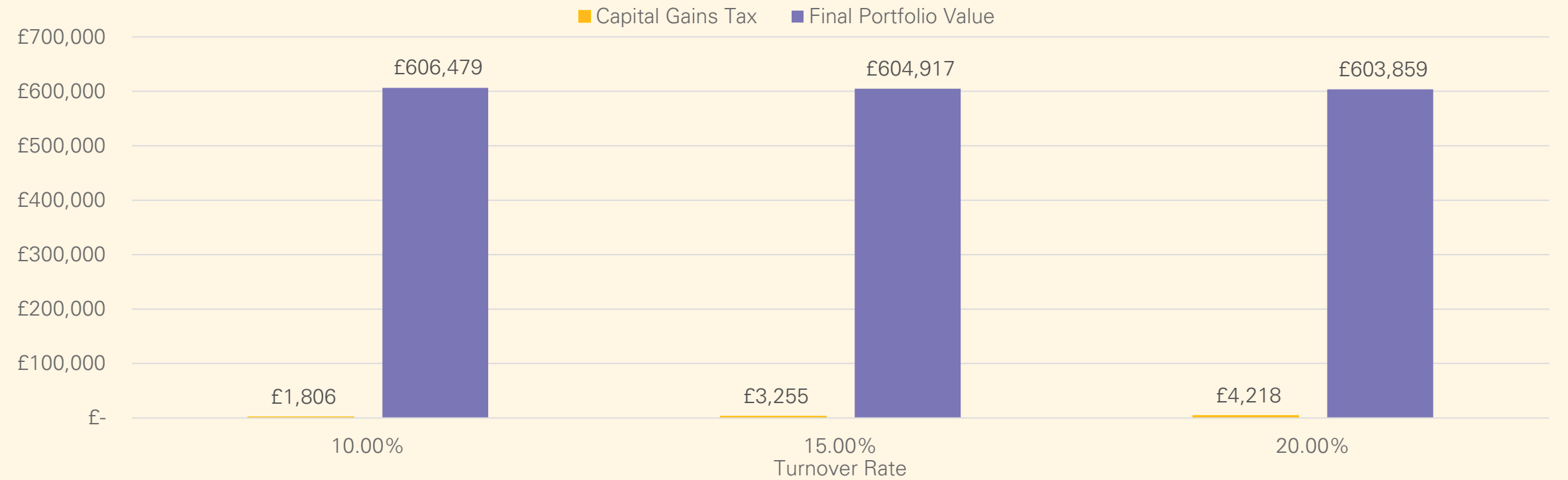


# Impact of Lower Turnover Over 5 Years

Initial Portfolio Value:	£500,000.00
Expected portfolio growth rate (annual):	4%
Turnover rate:	10%

Initial Portfolio Value:	£500,000.00
Expected portfolio growth rate (annual):	4%
Turnover rate:	15%

Initial Portfolio Value:	£500,000.00
Expected portfolio growth rate (annual):	4%
Turnover rate:	20%



# Impact of Significant Withdrawals

- Overall tax bill could be similar
- CGT administration for client will be different
- Paying CGT from portfolio will drag overall performance

## MPS

Initial Portfolio Value:	£500,000.00
Portfolio growth rate (annual):	4%
Turnover rate:	20%
Sale at the end of year 5	50% of portfolio value
CGT:	
Year 1	£200
Year 2	£706
Year 3	£998
Year 4	£1,139
Year 5 (turnover and 50% sale)	£8,374
Total CGT paid	£11,417
Net proceeds of 50% sale	£290,513

## Fund

Initial Fund Value:	£500,000.00
Fund growth rate (annual):	4%
Turnover rate: (no use of AEA)	NA
Sale at the end of 5 years:	50% of fund value
CGT:	
Year 1	£0
Year 2	£0
Year 3	£0
Year 4	£0
Year 5	£10,233
Total CGT paid	£10,233
Net proceeds of 50% sale	£293,930

# Comparisons

Considerations	MPS	Fund
Rebalancing	CGT event	No CGT event
CGT events	Dictated by investment manager	Dictated by financial adviser
AEA	<ul style="list-style-type: none"><li>• Some / all allowance may be used without adviser intervention.</li><li>• Full allowance may not be used.</li><li>• If full AEA to be used adviser will need to sell down.</li></ul>	<ul style="list-style-type: none"><li>• Adviser needs to intervene to ensure allowances used</li><li>• Adviser controls amount of allowance used each year</li><li>• Gains can accumulate if CGT management not undertaken</li></ul>
Losses	Losses crystallised by investment manager	Losses crystallised by financial adviser
CGT bill	Tax potentially paid annually with lower final bill	Tax paid at end with potentially higher bill
Overall CGT Position	Largely dictated by investment manager	Dictated by financial adviser
CGT uplift	Lower	Higher

# Conclusions

- Managing investments within tax wrappers has no CGT management consequences for the individual investor.
- For those with general investment accounts, CGT management is more important than ever - ensuring efficient use of allowances and claiming any loss relief.
- Decision required on whether you want investment management or financial management triggering tax events for individual.
- The more CGT events that happen the more CGT management will be required by the adviser.
- Tax may be similar between MPS and funds but paid at different points.
- Nominal tax amounts may be insignificant compared to overall portfolio value.
- Investment decisions should come before tax decisions. But highest net return should always be the goal.

# Investment Solutions

## PruFund Range

from Prudential

Choice of 16 multi-asset funds:

- PruFund Growth
  - PruFund Cautious
  - Risk Managed PruFunds
  - PruFund Planet
- 

Cautious to medium risk investors.

Those looking for a smoother journey from their investment.

Close to retirement / in decumulation.

Available on the M&G Wealth Platform and through packaged retirement and investment products (both onshore and offshore).

## Risk-Managed Range

from Prudential

Choice of two ranges:

- Risk Managed Active Range
  - Risk Managed Passive Range
- 

Accumulation and decumulation.

A lower cost solution actively managed.

Use as either stand alone or as part of a portfolio.

Available on platforms, and through packaged retirement and investment products.

## Model Portfolio Service

From M&G Wealth Investments

Three portfolio ranges:

- Passive
  - Hybrid
  - Global ESG Themes
- 

Complete solution for those advisers looking to outsource their investment proposition.

For both accumulation and decumulation.

Blend with existing CIP to help achieve more diversification and lower volatility.

Available on platforms.

Get in touch with your usual contact if you need further help.

