

M&G Episode Income I Inc GBP

November 2021
Investment Research



Overview

The aim of the fund is to provide a level of income of around 3-4% p.a. In addition it seeks to deliver capital accumulation over the longer term. Over time the manager will attempt to grow the level of income however he aims to do this in a risk controlled manner in order to secure the stability of income, and targets a longer-term volatility of between 4-10%, which is broadly half that of equities.



Square Mile Expected Outcome

We believe the fund should be able to provide a sustainable and growing level of income over 3-5 years periods along with an annualised total return of 6-7% over the same timeframe.

Active/Passive: Active	IA Sector: IA Mixed Investment 20-60% Shares
Launch Date: 11/11/2010	Fund Size (as at 31 Oct 2021): £715.6m
Yield: 2.85%	Distribution Pay Date: Monthly
Fund Manager: Maria Municchi, Steven Andrew	Ongoing Charge Figure: 0.65%
Domicile: United Kingdom	Transaction Cost ex Ante: 0.07%
Multi-Manager: No	



Fund Opinion

We like this fund which has well defined and quantifiable objectives in terms of income, growth and expected risk over the long term. The lead manager, Steven Andrew, is very clear on how he intends to meet the objectives and where he believes his edge lies. He has over 20 years of investment experience, a large number of which have been focused on the fund's main driver of performance, macroeconomics. Mr Andrew will generally only invest in areas of the market that he believes are attractively valued and the unconstrained approach means he is not forced to hold assets where he has low conviction. The fund is therefore managed with high conviction, which means there is the potential for it to experience short-term periods of volatility, particularly when these asset classes are underperforming.

Mr Andrew, is a measured and knowledgeable investor, particularly with regard to the broader market environment. He works within an experienced team, the majority of whom have been working together managing multi-asset strategies for over 15 years. The environment is collegiate but individual managers have the autonomy to make their own decisions on their funds. We think this environment is supportive for the manager but allows his best asset allocation ideas to be fully reflected within the portfolio. Historically, Mr Andrew, supported by the underlying team, has been able to deliver on the fund's expected outcome consistently.

In 2017 Prudential UK; Europe and M&G Investments merged and in 2019, this combined business, M&G Prudential, de-merged from Prudential plc, to form a new listed entity, M&G plc. Given these corporate changes it is possible there may be changes in the future to the multi-asset business, but we do not anticipate that they will have a major impact on this fund at the current time.

Fund Description

M&G Investments is a UK based asset management company with offices globally, specialising in active investment management across all the principal asset classes.

The lead manager on the fund is Steven Andrew. He joined M&G Investments in 2005 as a member of the portfolio strategy & risk team, before moving to the multi-asset team. Prior to this he worked at F&C Asset Management, Merrill Lynch and the Bank of England. Maria Municchi is the deputy manager on the fund. The pair are part of an experienced multi-asset team which is headed by David Fishwick.

All of M&G's multi-asset strategies are run to a single global investment framework. Underpinning this framework is the belief that the best approach to managing a portfolio lies in the flexibility to allocate capital between global asset classes in response to changes in asset valuations and understanding the behavioural and economic drivers. As investors take decisions based on emotion, an assessment needs to be made to see if this unduly affects prices. Analysing macroeconomics and government policy, the multi-asset team attempt to understand whether investors optimism or pessimism is valid.

Idea generation is a collective process, however decision-making is undertaken on an individual basis and Mr Andrew takes the team views and applies them to this income-orientated approach. The portfolio is constructed to deliver the required income, whilst being mindful of the level of risk and the profile of the underlying investor base of the fund. The manager thinks of asset classes in terms of equity, corporate credit, government bonds and alternatives, including property, and generally invests directly in these.

The main driver of fund returns will be the manager's asset allocation decisions with underlying security selection largely being a secondary factor. In-depth assessment of the long-term fair value of assets is an integral part of the investment process. Equities are managed on a global basis and the manager uses a number of quantitative factors to help identify liquid stocks that provide a reasonable and growing dividend. These stocks tend to be less sensitive to market moves. Mr Andrew then allocates capital to regions and sectors where he sees most value. Fixed income is considered in terms of mainstream and non-mainstream sovereign debt and corporate credit. Mainstream sovereigns are assets that will provide downside protection, in a risk off environment, such as US treasuries and UK gilts. Non-mainstream, are those issued by countries outside of the G7. Within corporate bonds, the manager aims to add value through the management of interest rate and credit risk, targeting specific areas where he sees value. He then seeks to replicate these risk factors through individual bonds utilising the resource of the European credit team at M&G. Property exposure is gained through the M&G Property Portfolio.

The fund has no structural benchmark but has some broad asset class ranges including, 20-50% global equity, 40-80% global bonds and 0-20% other (including cash). The portfolio generally holds around 150 securities. Positions in each security are sized so that the fund is not overly exposed to any single name. Within equities, the limit for a single stock is 1.5%. Individual corporate bonds are also limited to a maximum of 1% per issue. Non-mainstream bonds have a maximum country limit of 3%. The maximum exposure to non-sterling assets is limited to 30% of the portfolio.

Risk Summary

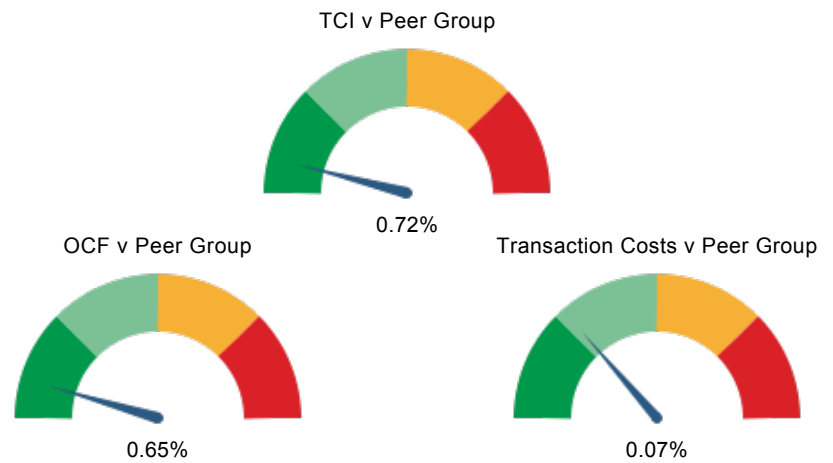
The manager's behavioural and valuation focused approach means that there will be times when he is investing into assets which have fallen or are falling in value. Investors should therefore be aware that if this trend persists and should the manager continue to believe that on a longer-term basis the market has mis-priced the intrinsic value of the asset, then the fund is likely to be more volatile over shorter time frames than other funds with a similar risk profile and outcome. Additionally, unlike a number of other multi-asset income funds, this fund invests directly into individual stocks and bonds in order to reflect the manager's asset allocation views. This approach means that the portfolio will have some fairly high security specific risks although the manager has limits in place to help contain some of the risks. He is also willing to have large sector skews.

This is a NURS (Non-UCITS Retail Scheme). This gives the manager wider investment powers and higher concentration limits than a UCITS scheme. For example, this fund hold's a commercial property fund.

Value for Money

The fund's transaction costs, ongoing charge figure and Total Cost of Investing are well below the peer group median. We believe the fund offers investors good value for money, providing exposure to an experienced investment team which is able to leverage the wider resource of the M&G group.

Following the introduction of MiFID II regulations in January 2018, asset management firms are now required to disclose all costs and charges related to the running and administration of funds. This can include items outside of the OCF, such as research costs. As a result, M&G will be absorbing the costs associated with their research, which should slightly reduce the overall fee paid by investors. This step is at the discretion of each fund group, but it is one that a number of firms have followed.



ESG Integration

Company Assessment	0	1+	2	3
The company has made ESG factors available to the investment teams as an input to their analysis, but they are not compelled to consider that as a factor when making investment decisions.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	0	1	2	3
There is no discernible approach to, or consideration of ESG factors in the fund's investment process.				

Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional Information

Annualised Return	6.48%
Annualised Volatility	11.33%
Max Drawdown	-20.48%
Max Gain	10.85%
Max Loss	-20.48%
Sharpe Ratio	0.51
Sortino Ratio	0.43

(3 years data to last month end unless otherwise stated)

Currency of Share Class

GBP

Fund Price (as at 12 Nov 2021)

1347.0 pence

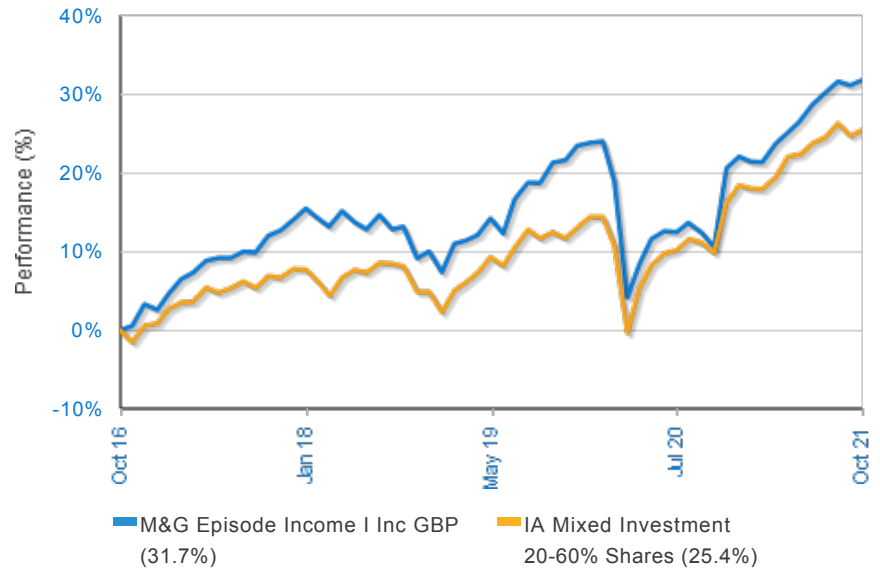
Benchmark

None Stated

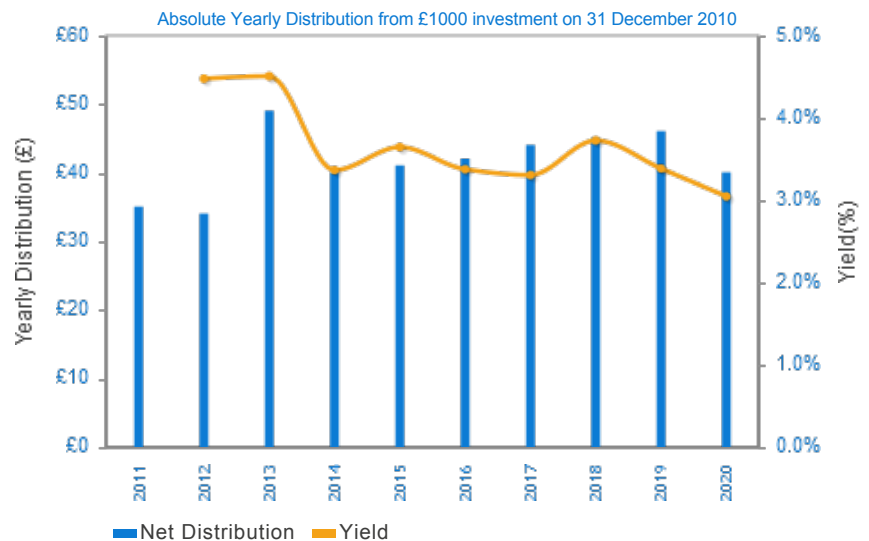
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	16.6	12.2	1
12-24m	-7.3	-1.2	4
24-36m	7.2	4.0	1
36-48m	3.0	2.6	2
48-60m	12.5	6.2	1

Capital Growth

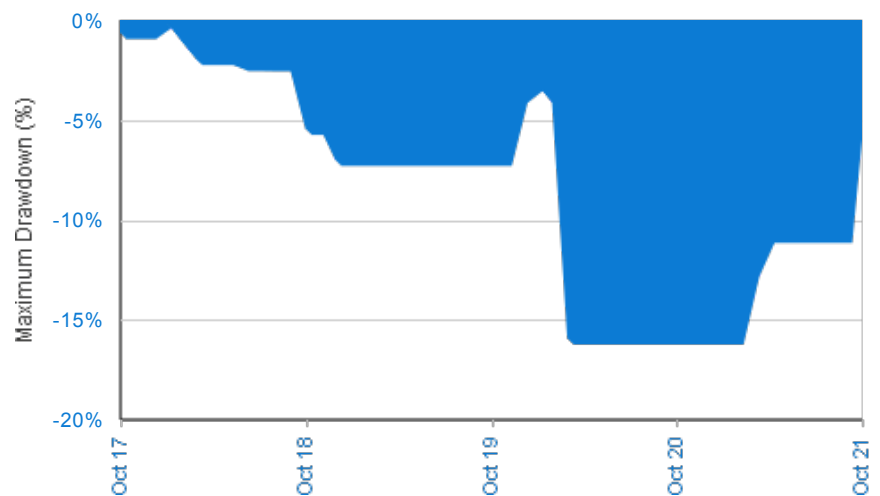


Income



This graph assumes that income is distributed to shareholders and not reinvested. Yield represents share price fluctuations.

Maximum Drawdown (Rolling 12 Months)



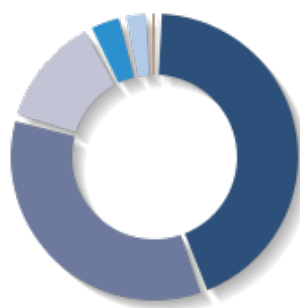
Asset Allocation Positioning

Name	%
North American Equities	18.0
North American Fixed Interest	17.4
Global Emerging Market Fixed Interest	15.2
Global High Yield Fixed Interest	9.8
European Equities	9.6
Japanese Equities	8.4
UK Equities	4.3
Others	17.3

(Data as at 30 Sep 2021)

Sector Breakdown

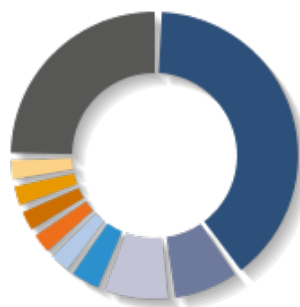
(Data as at 30 Sep 2021)



- Equities (44%)
- Government Bonds (35%)
- Corporate Bonds (13%)
- Money Market (4%)
- Property (3%)
- Infrastructure (1%)

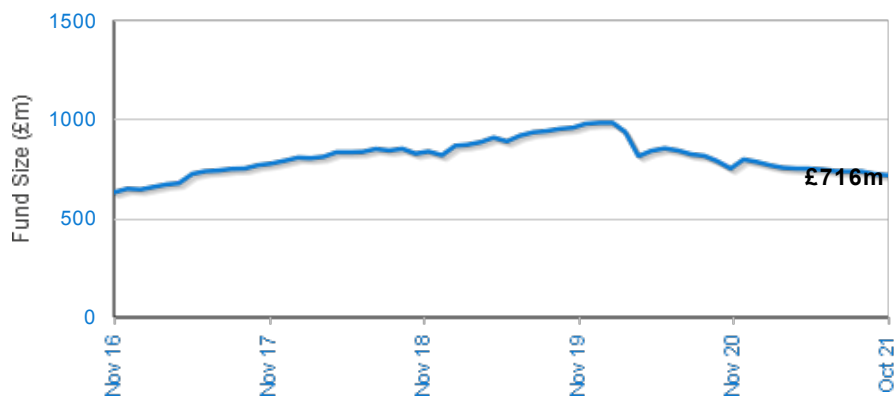
Geographic Breakdown

(Data as at 30 Sep 2021)



- USA (40%)
- Japan (8%)
- UK (8%)
- Money Market (4%)
- France (3%)
- Mexico (3%)
- South Africa (3%)
- Brazil (3%)
- International (3%)
- Other (25.7%)

Assets Under Management



Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk	●		
Interest Rate Risk		●	
Credit Risk		●	
Exchange Rate Risk		●	
Liquidity Risk		●	
Emerging Markets Risk		●	
Derivative Risk			●
Manager Risk		●	

Equity Risk

The fund has exposure to shares. Shares are volatile investments but diversification across asset classes may moderate these risks. At times of economic stress, volatility may rise as might correlations between asset class returns.

Interest Rate Risk

This is a multi-asset fund. Higher interest rates may adversely impact valuations of many financial assets.

Credit Risk

The fund can take exposure to both investment grade and sub-investment grade credit. Credit defaults and downgrades may adversely impact the fund price, typically this occurs at times of economic weakness.

Exchange Rate Risk

The fund has some exposure to assets denominated in foreign currencies. Changes to exchange rates may impact the fund price.

Liquidity Risk

The fund primarily invests in liquid assets but may hold some less liquid assets.

Emerging Markets Risk

The fund has the ability to invest in securities issued by governments or companies in emerging markets, though the bulk of the portfolio is expected to be focused on developed markets.

Derivative Risk

The fund is predominantly invested in physical assets but may employ derivative strategies for risk management and investment purposes.

Manager Risk

The manager is seen as an important element in Square Mile's rating of the fund, although potential alternatives may exist elsewhere in the organisation. Square Mile will reappraise the rating if the lead manager were to leave.

FE Risk Rating: 56.00

SRRI: 4

Disclaimer

This factsheet is aimed at professional advisers only and should only be relied upon by such persons. It is published by, and remains the copyright of, Square Mile Investment Consulting and Research Ltd ("SM"). Unless agreed by SM, this commentary may only be used by the permitted recipients and shall not be provided to any third parties. SM makes no warranties or representations regarding the accuracy or completeness of the information contained herein. This information represents the views of SM at the date of publication but may be subject to change without reference or notification to you.

The value of investment in funds can fall as well as rise, as can any income payment received from an investment. Any information relating to past performance is not a guide to future performance. If you are unsure of an investment decision you should seek professional financial advice.

SM does not offer investment advice or make recommendations regarding investments and nothing in this factsheet shall be deemed to constitute financial or investment advice in any way and shall not constitute a regulated activity for the purposes of the Financial Services and Markets Act 2000.

This factsheet shall not constitute or be deemed to constitute an invitation or inducement to any person to engage in investment activity. Should you undertake any investment activity based on information contained herein, you do so entirely at your own risk and SM shall have no liability whatsoever for any loss, damage, costs or expenses incurred or suffered by you as a result. The fund's prospectus provides a complete description of the risk factors. Unless indicated, all figures are sourced from FE fundinfo. The information in this factsheet is believed to be reliable but its completeness and accuracy is not guaranteed. SM does not accept any responsibility for errors, inaccuracies, omissions or any inconsistencies herein.