



Sheffield CII Life & Pension Society

Looking ahead – what's on investors' minds?

Maria Municchi, Fund Manager

October 2021

Learning outcome statements

- Overview on the current macro-economic situation in terms of global growth and inflation with a particular focus on potential impacts of inflation on asset prices
- As the upcoming COP26 meeting in Glasgow moving into the spotlight over the next weeks, what are the key issues that need to be addressed with regards to climate change?
- How can we build a multi asset portfolio that is focusing with equal measure on financial risks and opportunities as well as investing for a sustainable economy?

M&G Sustainable Multi Asset Cautious Fund

Risks associated with this fund

- 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.
- 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.
- The fund is exposed to different currencies. Derivatives are used to minimise, but may not always eliminate, the impact of movements in currency exchange rates.
- 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.
- The fund may use derivatives to profit from an expected rise or fall in the value of an asset. Should the asset's value vary in an unexpected way, the fund will incur a loss. The fund's use of derivatives may be extensive and exceed the value of its assets (leverage). This has the effect of magnifying the size of losses and gains, resulting in greater fluctuations in the value of the fund.
- In exceptional circumstances where assets cannot be fairly valued, or have to be sold at a large discount to raise cash, we may temporarily suspend the fund in the best interest of all investors.
- The fund could lose money if a counterparty with which it does business becomes unwilling or unable to repay money owed to the fund.
- Operational risks arising from errors in transactions, valuation, accounting, and financial reporting, among other things, may also affect the value of your investments.
- Further details of the risks that apply to the fund can be found in the fund's Prospectus.
- The views expressed in this document should not be taken as a recommendation, advice or forecast.

M&G Sustainable Multi Asset Balanced Fund

Risks associated with this fund

- 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.
- 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.
- The fund is exposed to different currencies. Derivatives are used to minimise, but may not always eliminate, the impact of movements in currency exchange rates.
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M&G Sustainable Multi Asset Growth Fund

Risks associated with this fund

- 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.
- 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.
- The fund is exposed to different currencies. Derivatives are used to minimise, but may not always eliminate, the impact of movements in currency exchange rates.
- 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.
- The fund may use derivatives to profit from an expected rise or fall in the value of an asset. Should the asset's value vary in an unexpected way, the fund will incur a loss. The fund's use of derivatives may be extensive and exceed the value of its assets (leverage).
- This has the effect of magnifying the size of losses and gains, resulting in greater fluctuations in the value of the fund.
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- Further details of the risks that apply to the fund can be found in the fund's Prospectus.
- The views expressed in this document should not be taken as a recommendation, advice or forecast.

Maria Municchi

Biography



- Joined M&G in 2009 and is a member of the Multi Asset team and the Positive Impact Team
- Fund Manager for Sustainable Allocation and Sustainable Multi Asset strategies, Deputy fund manager for the Episode Income and Income Allocation strategies
- Before joining M&G, Maria worked at Barings and UBS Asset Management
- She has an MSc in international management and finance, is a CFA charterholder and has also successfully completed the University of Cambridge Institute of Sustainability Leadership programme in Business Sustainability Management

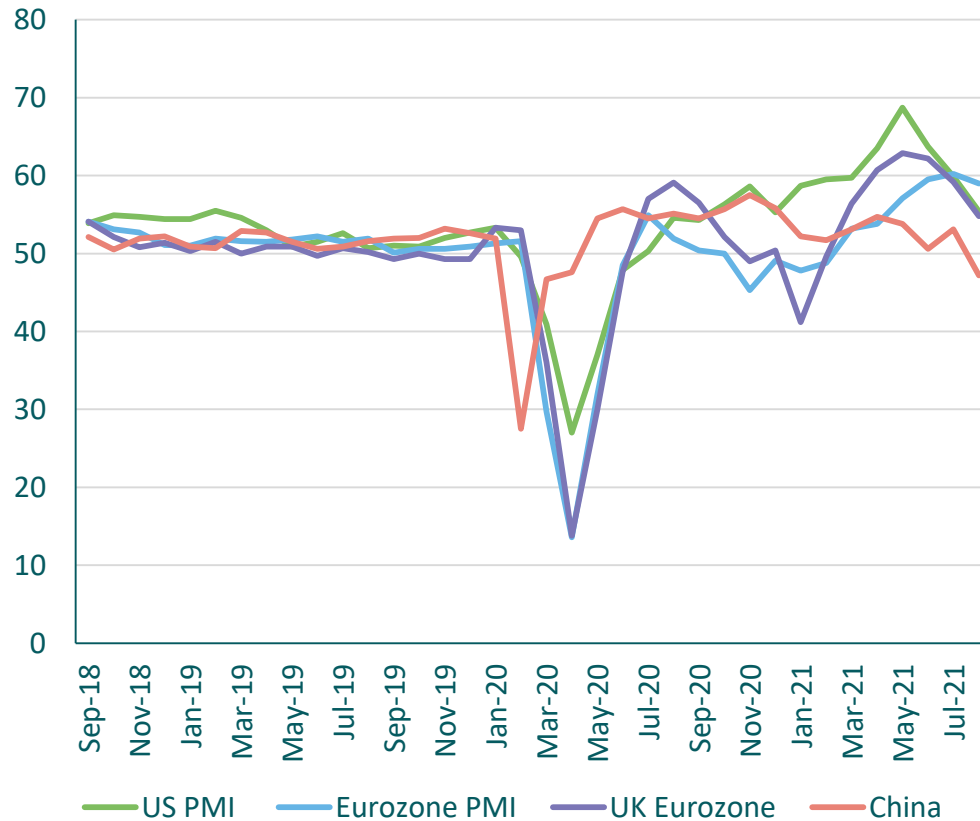
What's on investors' minds?

Key narratives for Autumn 2021

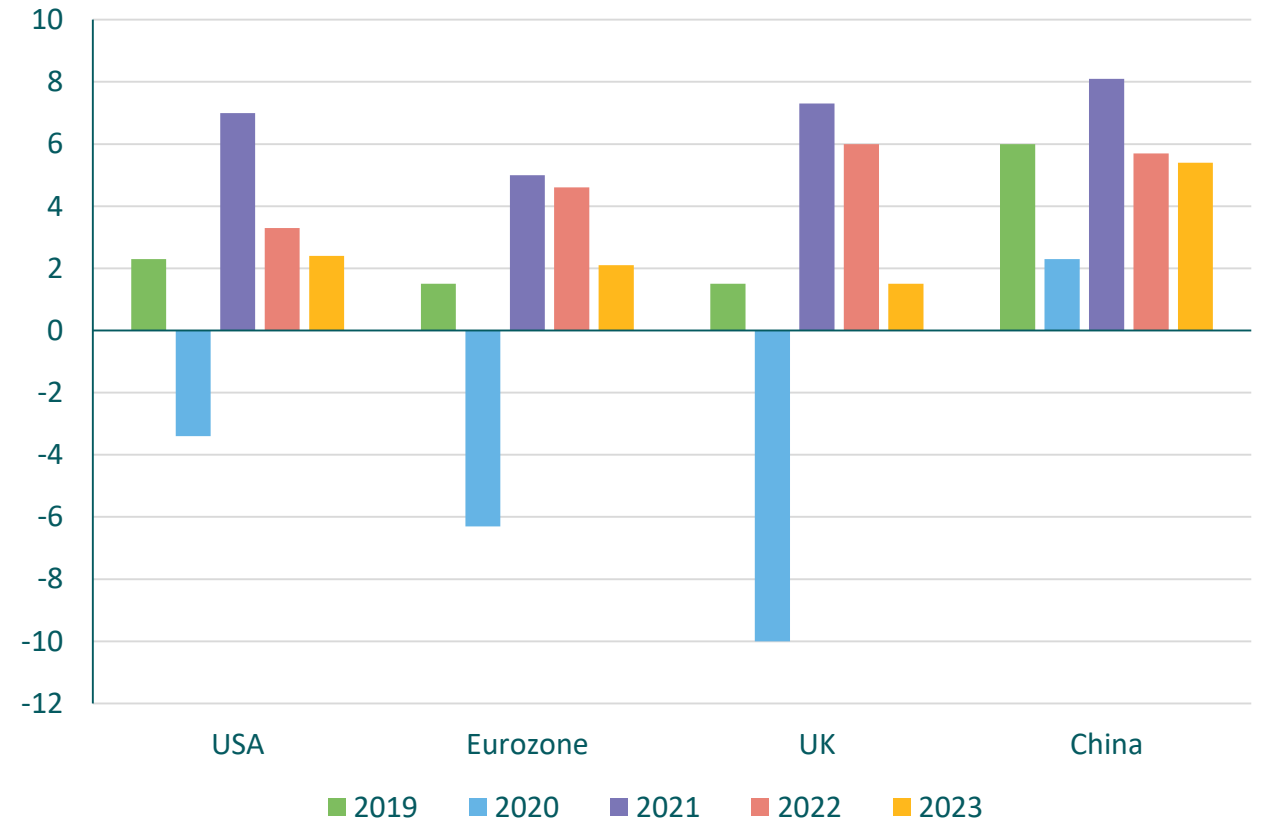


Growth data

Global Composite PMI



Global real GDP growth*



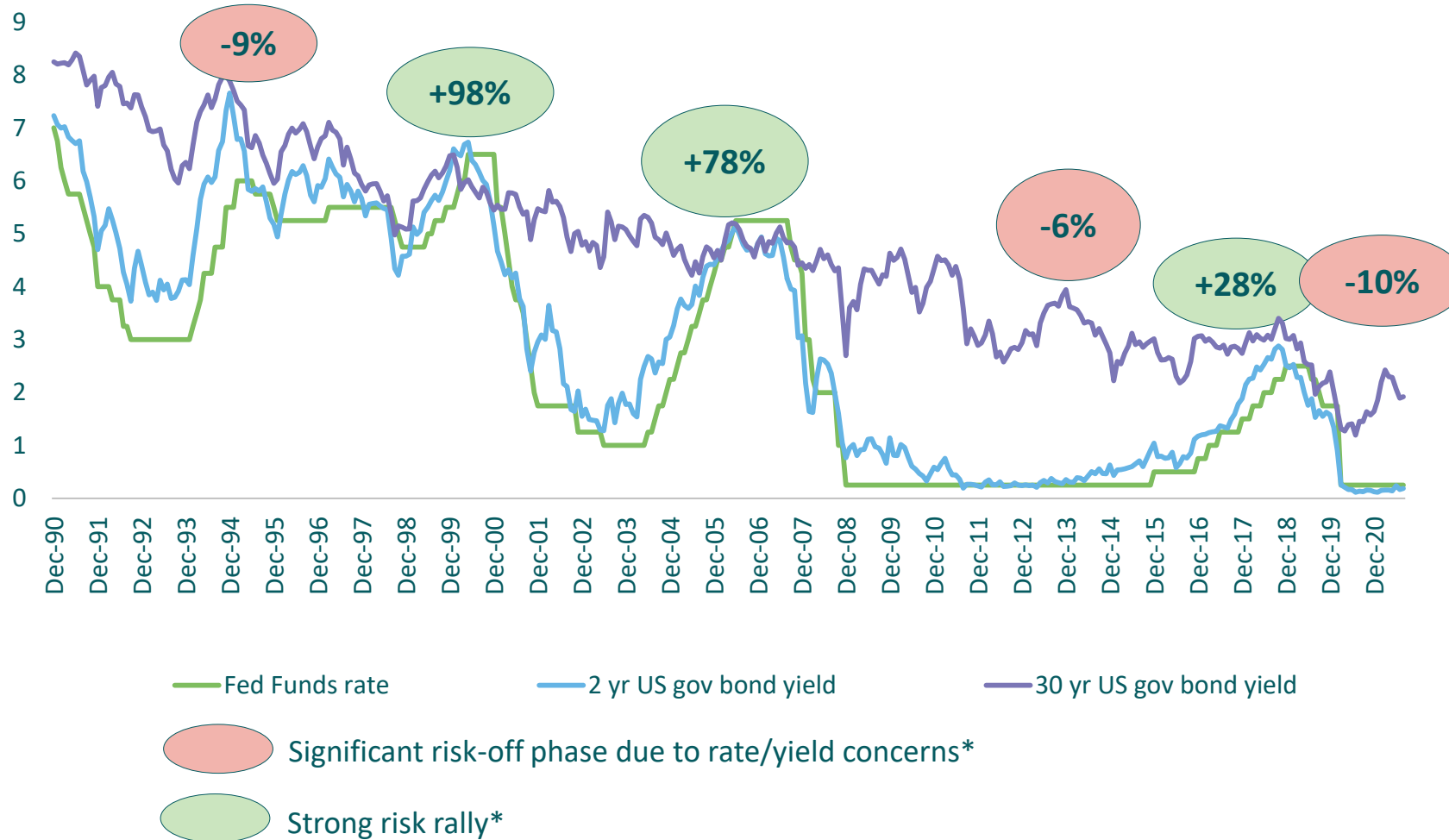
While PMI data have decreased they are still mostly in expansionary territory
Strong recovery in 2021, normalisation thereafter

Future forecasts are not a reliable indicator of future performance

Impact of yields and interest rates on risk-assets

What regime are we in?

Evolution of yields and equity returns



'Benign' rising rate regime

- Associated with **stronger growth**
- Risk assets can **appreciate**
- **Negative** bond/equity **correlation**

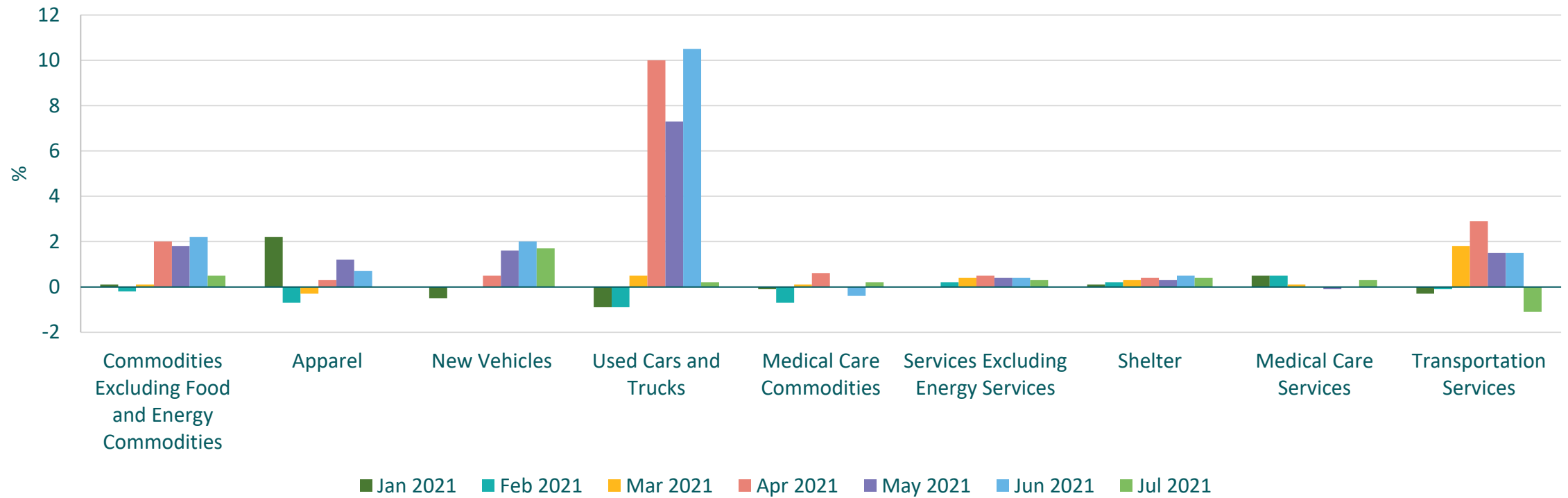
'Malign' rising rate regime

- Rate impact **dominates growth**
- All assets **weaken**
- **Positive** bond/equity **correlation**

Inflation

A closer look

US Core CPI MoM components

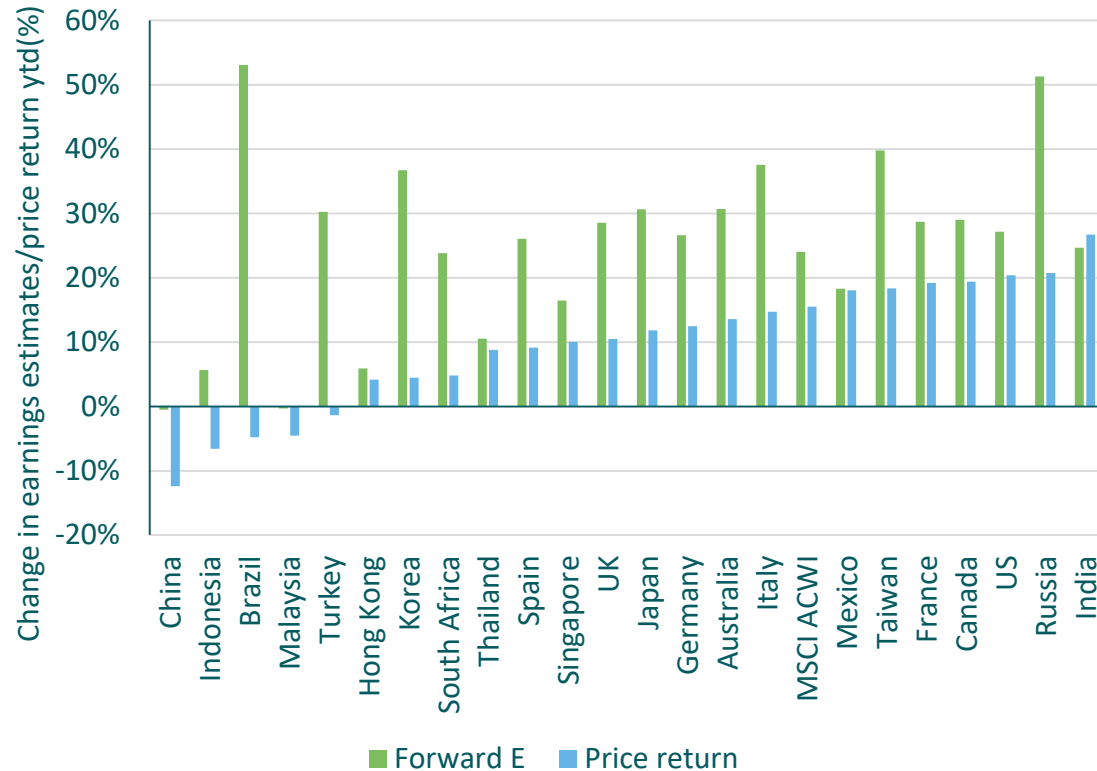


On inflation, the jury will be out for a while yet

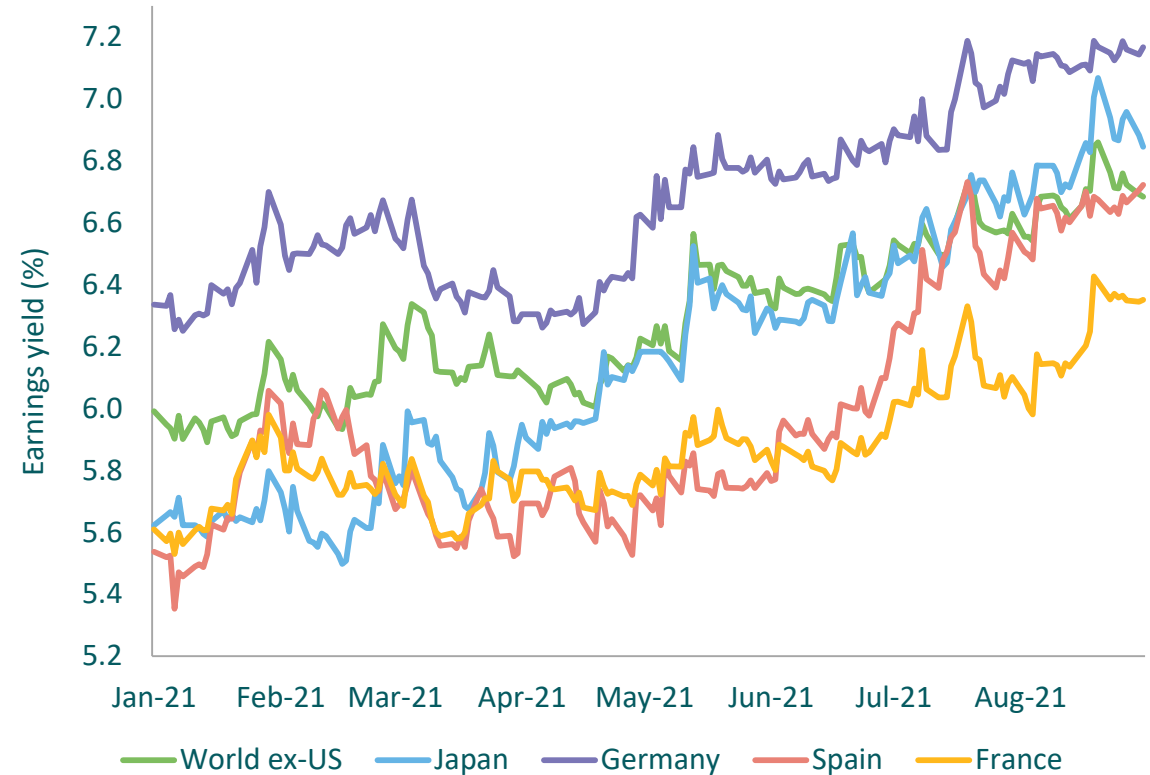
Year-to-date equity market returns and valuation

Earnings revisions have driven equity markets

Return drivers: 31/12/2020 -03/09/2021



Evolution of valuations



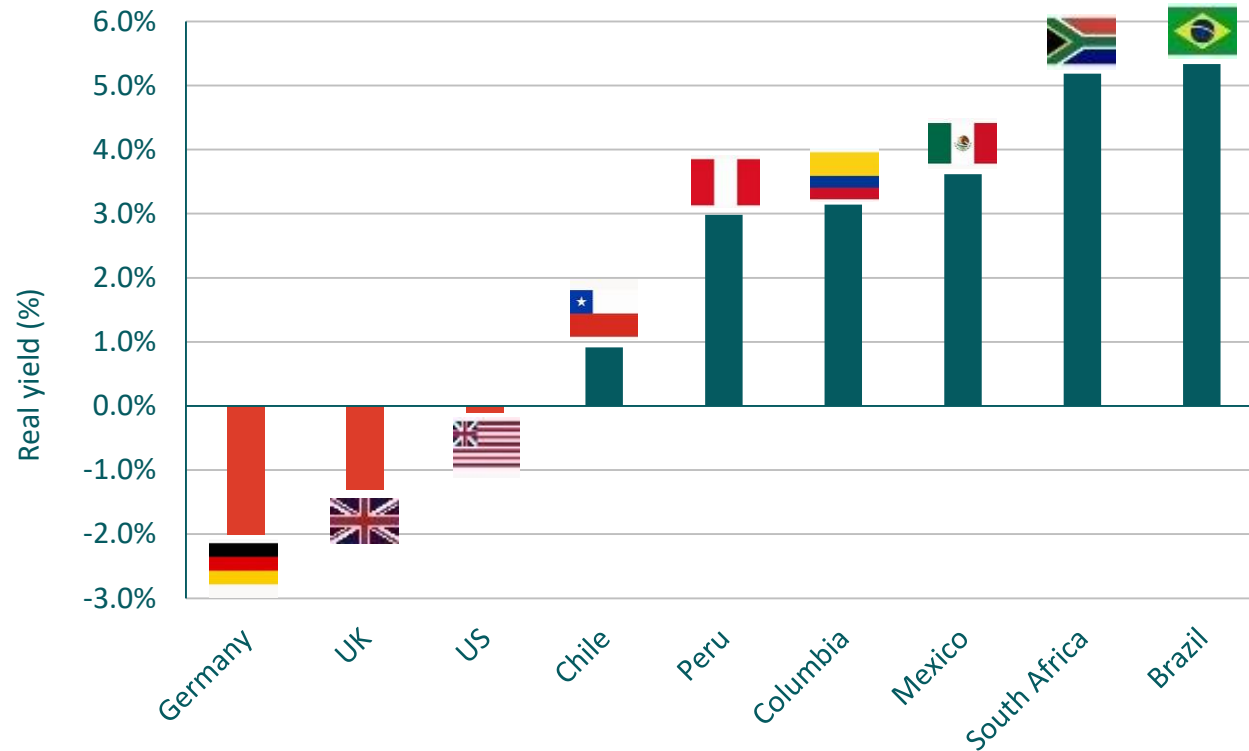
Despite strong performance equities have actually become cheaper

Past performance is not a guide to future performance.

Selected emerging market bonds

An attractive asset class

Real yield of 30-year sovereign bonds (in local currency)



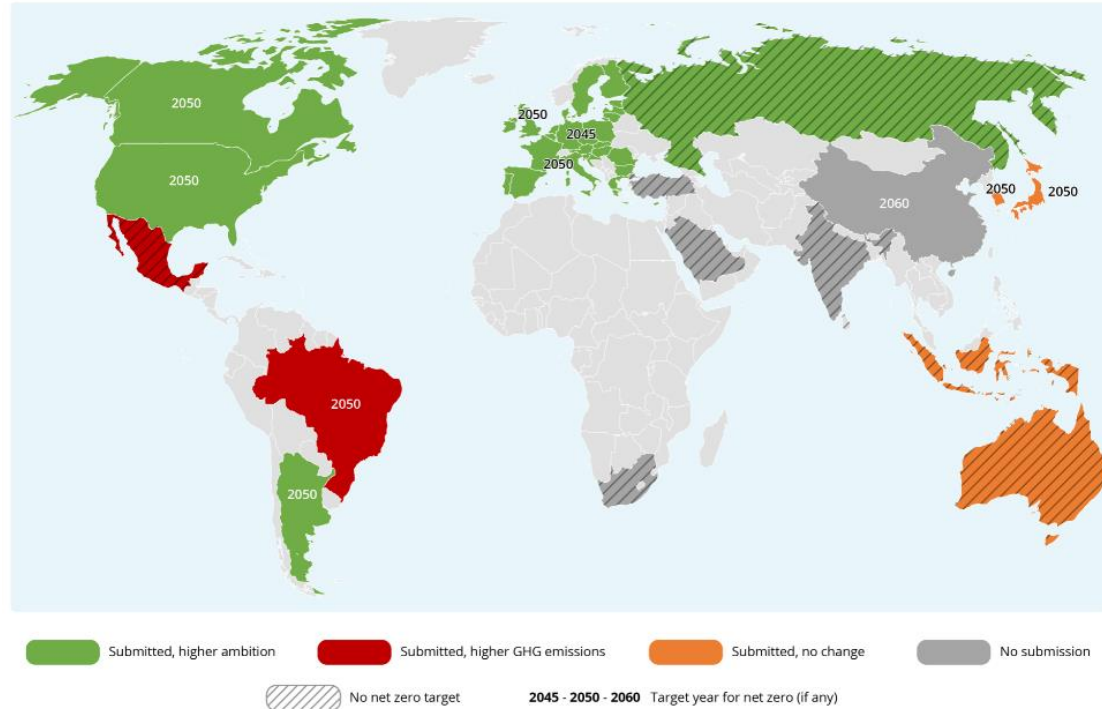
Views on asset class:

- Significantly higher yields vs DM bonds
- Recent inflation pressure appears to be transitory
- Convergence theme
- Vulnerability significantly lower vs taper tantrum as interest rate moves largely priced in

Past performance is not a guide to future performance.

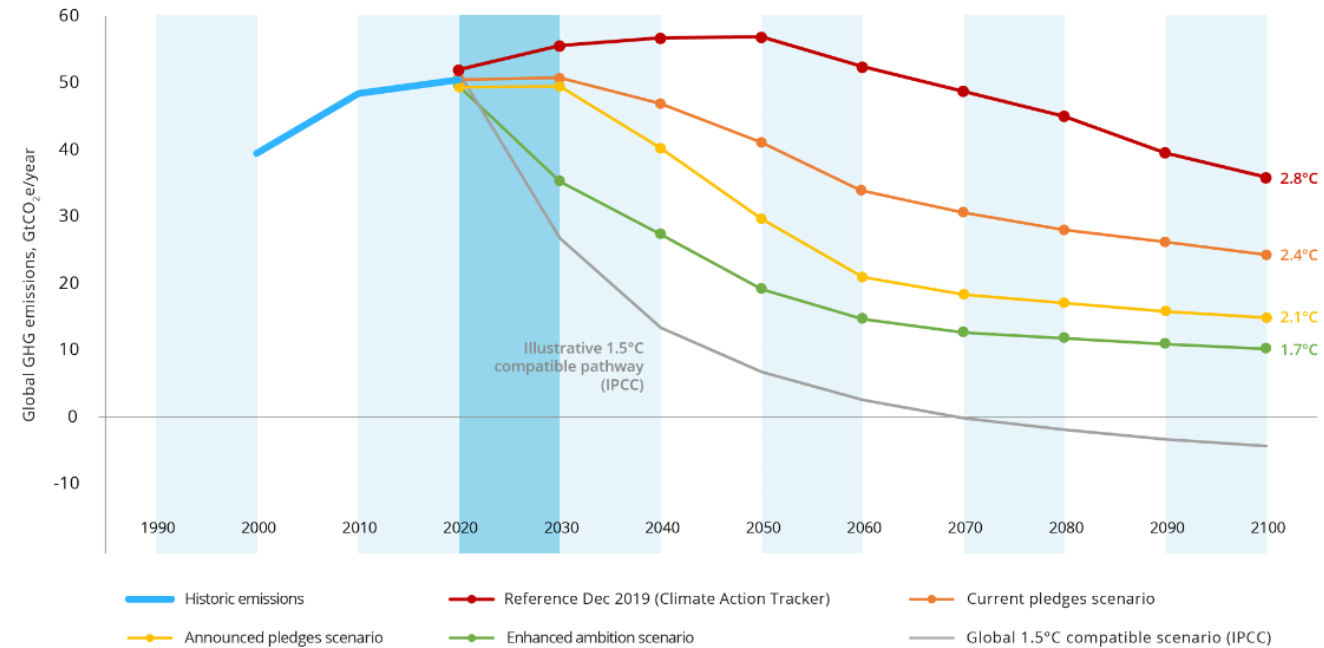
The need to close the gap

Mapping the current G20 climate commitments



The map shows nationally determined contributions (NDCs) submitted during the first update cycle under the Paris Agreement as well as whether or not countries have announced net zero targets and for when. Note: The European Union as a whole has a net zero target for 2050.

The impact of different G20 ambition levels on limiting global temperature rise



COP26 will focus minds, but significant investments are needed to achieve climate goals

Today's client outcomes

Dual objective

Sustainability outcome



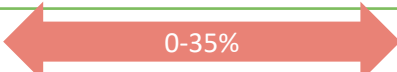
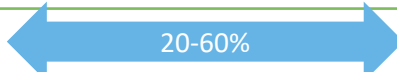
















How can we provide a solution to both?

Return and risk outcome



Sustainable Multi Asset Range

Product features

Volatility barometer		<div> <div>Bond-like</div> <div>2/3 equity volatility</div> <div>Equity-like</div> </div>		
Financial	Fund name	M&G Sustainable Multi Asset Cautious Fund	M&G Sustainable Multi Asset Balanced Fund	M&G Sustainable Multi Asset Growth Fund
	Aim to limit average volatility (pa over a 5yr rolling period)	9%	12%	17%
	Sector	IA volatility managed	IA volatility managed	IA volatility managed
	Typical equity allocation ranges	 0-35%	 20-60%	 55-100%
	Performance comparator	IA Mixed Investment 0-35%	IA Mixed Investment 20-60%	IA Flexible Investment
Non-Financial	Expected MSCI ESG rating	A-AA	A-AA	A-AA
	Expected carbon intensity	Below MSCI AC World	Below MSCI AC World	Below MSCI AC World
	Expected positive impact exposure	20% to 50%	20% to 50%	20% to 50%
	External risk ratings	  	  	  
	External sustainability ratings	 	 	 

Past performance is not a guide to future performance. ESG rating published by MSCI. Ratings should not be taken as a recommendation.

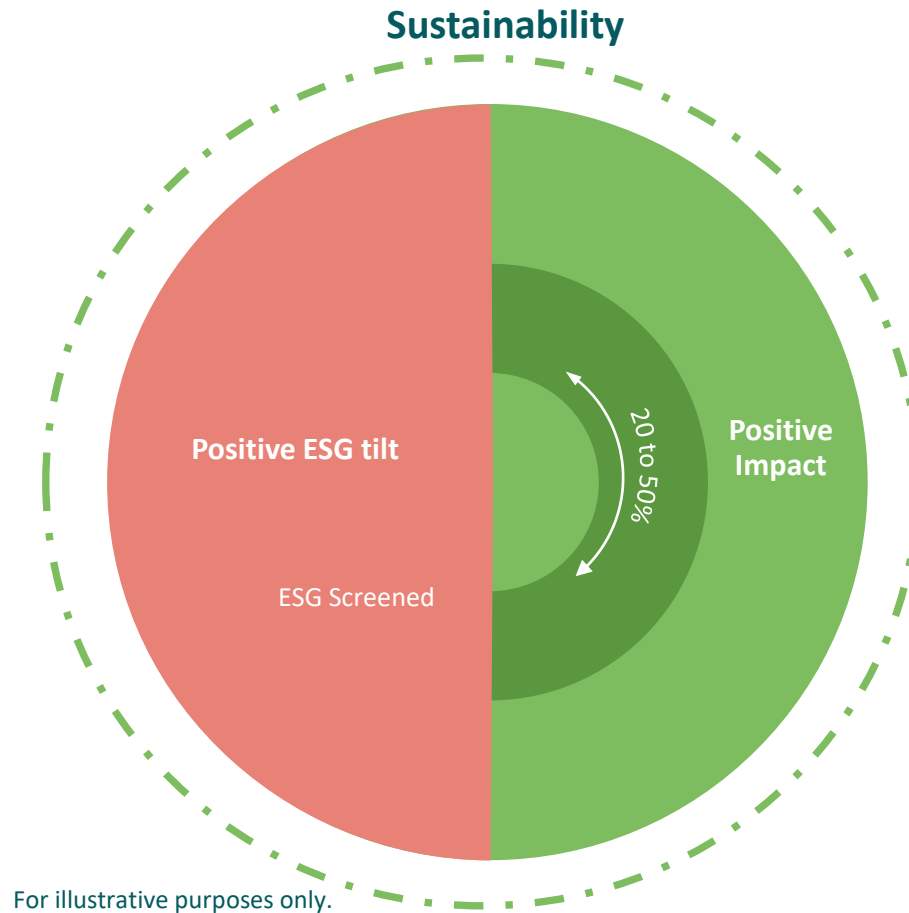
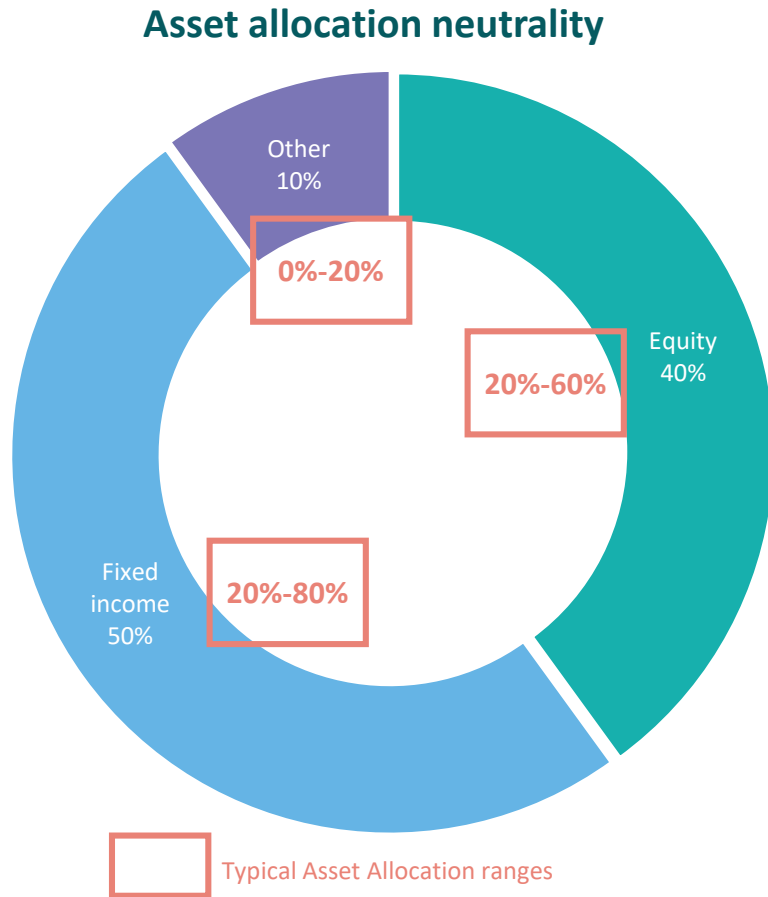
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<https://www.msci.com/our-solutions/esg-investing/esg-ratings>.

Source: M&G, February 2021.

Combining asset allocation and sustainability

Example: M&G Sustainable Multi Asset Balanced Fund



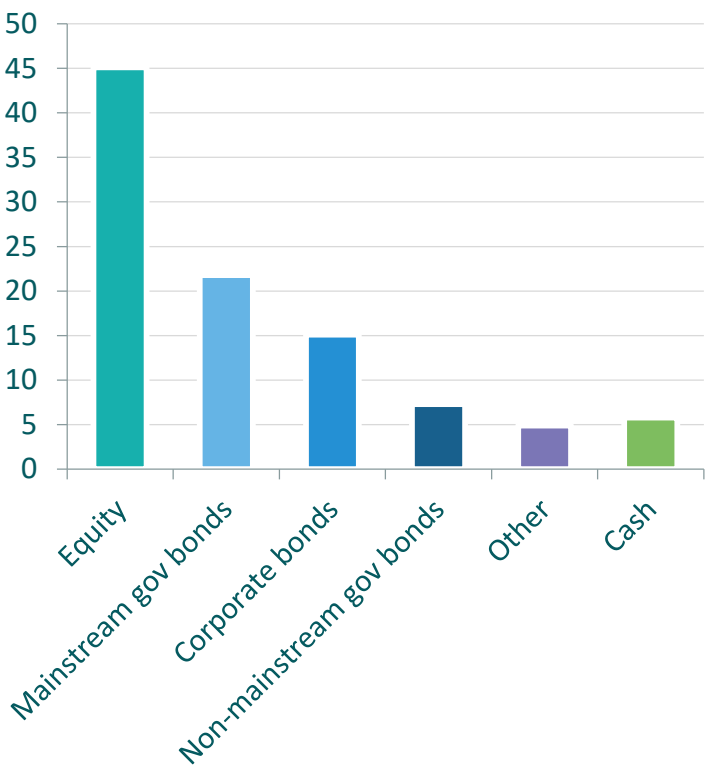
- Positive Impact:**
 - 20 – 50% allocation
 - Dedicated to investments which are actively **addressing the biggest societal and environmental challenges**
 - Listed impact equities; Green bonds; Infrastructure; supranational bonds; Specialty funds
- Positive ESG Tilt:**
 - Focuses on investments with **better ESG quality** based on ESG scores
 - Listed equities, corporate bonds, EM & DM gov bonds
- Climate Focus:**
 - Encompasses the **whole portfolio**, not only focused on positive impact
 - Sector exclusions & government E overlay
 - Carbon mission management & climate scenario analysis

Neutrality is the positioning of the fund if all assets were trading at their 'fair value'. This can be thought of as a strategic asset allocation. In an ideal world, when all assets were trading at their 'fair value', then neutrality would be how a fund was positioned, given its strategy and risk profile. However, assets seldom trade at fair value, so the actual allocation of each fund may not match the neutral position. There is no guarantee that the fund will achieve a positive return over any period. Investors may not get back the original amount they invested.

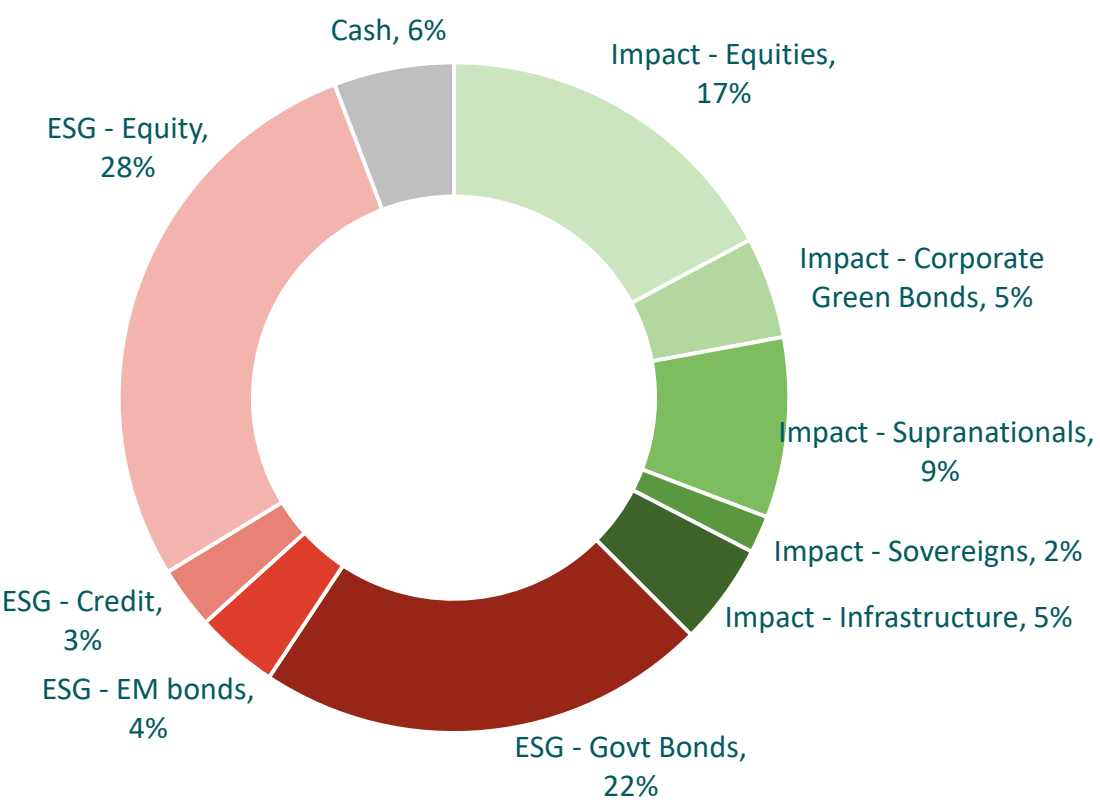
Combining asset allocation and sustainability

Example: M&G Sustainable Multi Asset Balanced Fund

Current asset allocation in %

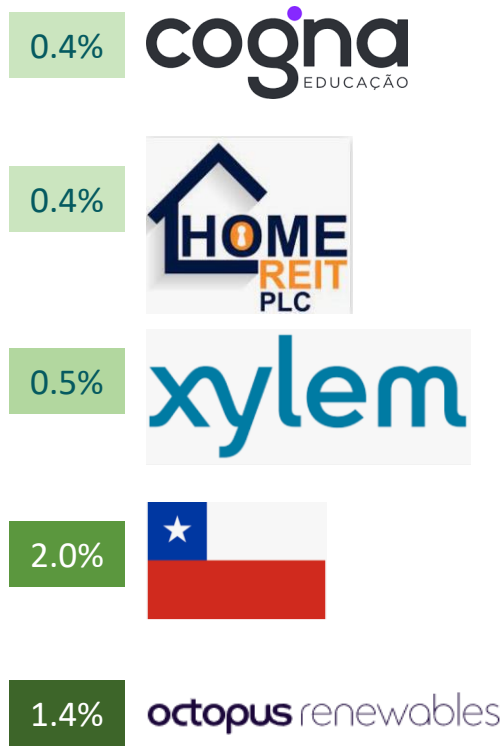


Sustainability in practice



Weight in fund














Total Positive impact: 36%



Supporting the conversation you have with your clients on sustainability

M&G sustainable multi asset funds

July 2021 ESG and Impact Report: KPI examples

Company	Activity	Primary SDGs	KPI outcomes*
AES Tietê (Equity)	A renewable energy company, based in Brazil		790,000 tonnes of CO ₂ emissions saved 12.5 TWh generated
Apple (Bond)	Two green bonds issued to fund environmental impact and sustainability projects		4.4m tonnes GHG emissions avoided 89m gallons of water saved 43,400 tonnes of waste diverted from landfill
Boralex (Equity)	Generates electricity for North America and European markets with a strong emphasis on using many different sources of renewable power		290,000 tonnes of CO ₂ emission 4,371 GWh generated
Electricité de France (Bond)	Green bond series to finance new EDF Renewables wind and solar projects. Also active to renovate and modernise French hydropower assets		815 MW renewable capacity installed with expected output of 3.3 TWh/year Estimated 1.83m tonnes of CO ₂ emissions avoided annually
Energias de Portugal (Bond)	Green bonds issued to extend EDP's renewable energy footprint, and contribute to the energy transition		8.6 GW of installed renewable capacity 22.5 TWh annual net production of renewable energy 14.3m tonnes CO ₂ emissions avoided
European Investment Bank (Bond)	Green bond invested in clean energy		783,000 tonnes of CO ₂ emissions avoided annually (M&G estimate)
Greencoat Renewables (Alternative)	Owner and operator of renewable infrastructure energy assets		Installed capacity of 538 MW to date Year end 2019: 462 MW of installed capacity, 1.2 TWh of renewable energy generated (enough for 275,000 homes annually), 433,000 tonnes CO ₂ emissions saved
Greencoat UK Wind (Alternative)	Investment company investing in UK wind farms		In 2019: 953,000 tonnes CO ₂ emissions saved 2,385 GWh of renewable energy generated, enough to power 769,000 homes
KfW (Bond)	Green bonds issued to facilitate projects focused on renewable energy sources		Annual renewable electricity generation of 5.2 TWh 3.1m tonnes CO ₂ emissions avoided annually
Octopus Renewables Infrastructure (Alternative)	Builds and operates renewable energy assets		367 GWh estimated annual electricity production, equivalent to 83,000 homes powered by clean energy ¹ Estimated 60,000 tonnes carbon avoided, equivalent to 294,000 new trees required to avoid the same carbon ¹
Ørsted (Equity)	Operates wind farms		11.3m tonnes of CO ₂ emissions avoided, powering 15.2m people
SolarEdge Technologies (Equity)	Smart energy products for residential and commercial use		12.6m tonnes of CO ₂ emissions avoided 2.1m homes optimised for solar energy
The Renewables Infrastructure Group (Alternative)	Renewable energy infrastructure in the UK and Northern Europe, with a focus on operating projects		1.6 GW net capacity, equivalent to 1m homes powered by clean energy 1.1m tonnes CO ₂ emissions avoided per annum

July 2021 ESG and Impact Reports



Source: M&G, July 2021. KPI = Key Performance Indicators. Information given in this document has been obtained from, or based upon, sources believed to be reliable and accurate, although M&G does not accept liability for the accuracy of the contents.

¹Based on 85% (% of IPO funds committed) of annual production of whole portfolio when fully constructed.



Appendix

Positive ESG tilt

Positive ESG tilt

Positive Impact

Climate Focus

Company Holdings

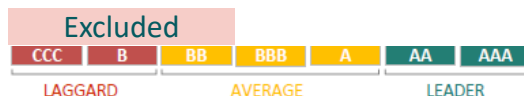
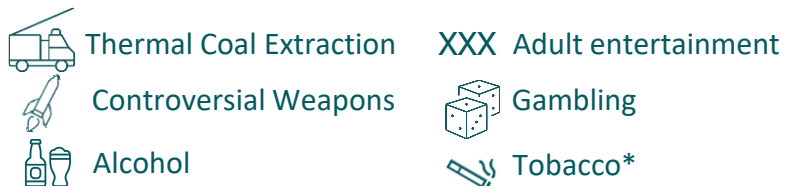
Exclude if in breach of
UN Global Compact Principles

Exclude
controversial sectors

Focus on corporates with
better ESG quality

Backward & forward looking
climate considerations

Active **voting policy** and
ESG engagement



Government Holdings

Quantitative ESG screening



Qualitative assessment
on social factors



Qualitative assessment
on environmental factors



*We apply a 0% revenue threshold for tobacco producers and a 10% revenue threshold for distributors.

Positive Impact

Our approach: differentiated impact investing

Positive ESG tilt

Positive Impact

Climate Focus

III Positive Impact Framework



Positive Impact across many asset classes:

- Listed equities
- Green and sustainable bonds
- Supranational bonds
- Green infrastructure
- Bonds and convertible bonds of impactful companies

- Aligned with UN Sustainable Development Goals
- Specific measurable outcomes and KPIs

While we support the UN SDGs, we are not associated with the UN and our funds are not endorsed by them.

The value of investments will fluctuate, which will cause fund prices to fall as well as rise and investors may not get back the original amount invested.

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