



Has income investing had its day?

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M&G Episode Income Fund

Risks associated with this fund

The value of investments and the income from them will rise and fall. This will cause the fund price, as well as any income paid by the fund, to fall as well as rise. There is no guarantee the fund will achieve its objective, and you may not get back the amount you originally invested.

The fund may use derivatives with the aim of profiting from a rise or a fall in the value of an asset (for example, a company's bonds). However, if the asset's value varies in a different manner, the fund may incur a loss.

Changes in currency exchange rates will affect the value of your investment.

The fund will invest in emerging markets which are generally smaller, more sensitive to economic and political factors, and where investments are less easily bought and sold. In exceptional circumstances, the fund may encounter difficulties when selling or collecting income from these investments, which could cause the fund to incur a loss. In extreme circumstances, it could lead to the temporary suspension of dealing in shares in the fund.

Where market conditions make it hard to sell the fund's investments at a fair price to meet customers' sale requests, we may temporarily suspend dealing in the fund's shares.

Some transactions the fund makes, such as placing cash on deposit, require the use of other financial institutions (for example, banks). If one of these institutions defaults on their obligations or becomes insolvent, the fund may incur a loss.

For any performance shown, please note that past performance is not a guide to future performance.

It is also important to note that:

The Fund allows for the extensive use of derivatives

Investing for income

Growing income requirements

- Demographic change
 - Longevity vs low birth rates
- State/company pension might not be sufficient
- Rising inflation requires growing income to keep same standard of living

Income investment environment

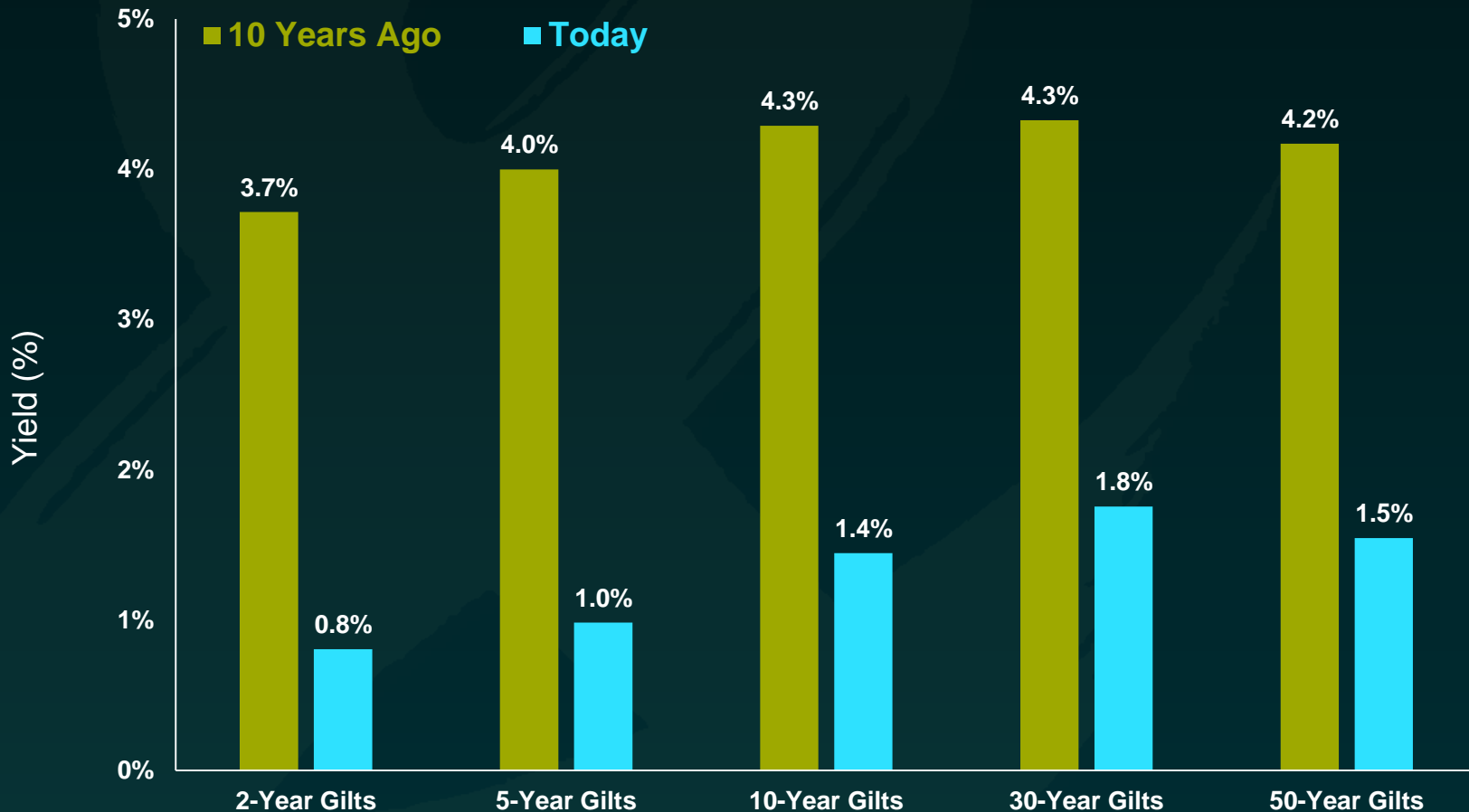
- Low yields on traditional income generating securities
- Multi-asset income funds have become popular alternative
- Investors worry about **rising yields environment**
- Investors worry about market volatility

THE CHALLENGE:

Providing a rising, sustainable income stream

A yield desert in traditional income sources

UK Gilt Yields, today and ten years ago



2011-2016... The Era Of Obsessive Volatility Aversion

But... A 'Golden' Phase for Multi-Asset portfolios

- Strong positive returns from most assets
- Bonds do 'surprisingly' well
- Equities also perform well... though volatile
- Correlations (negative short run) create meaningful diversification
- Portfolios deliver 'excess' return as yields fall

Safety focused strategies outperformed

Mid 2016: A 'Pivotal Moment'

Regime Change

2016: bond yields and sentiment reaches turning point

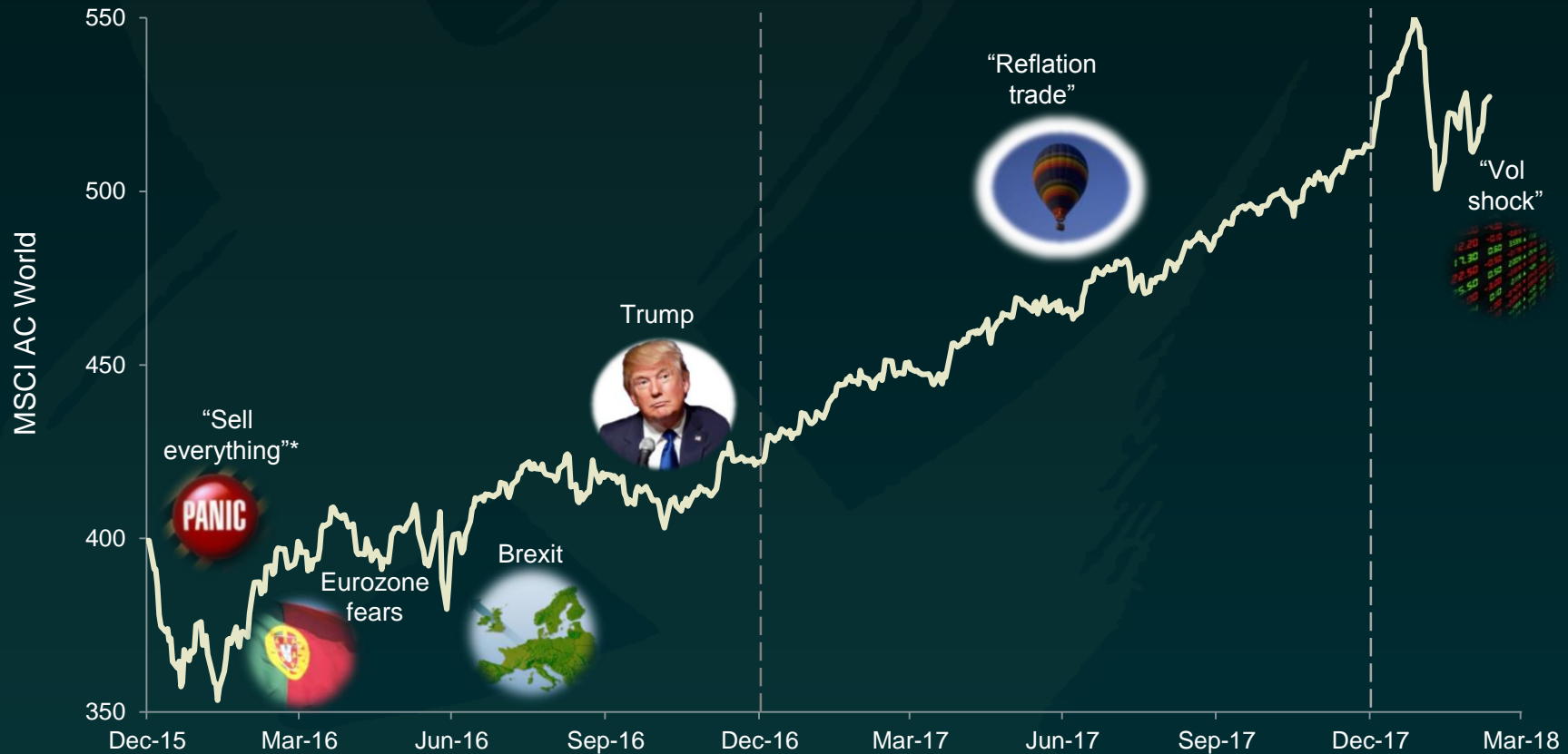
2017: strong returns to risk assets versus developed govt. bonds;
reduced diversification properties

2018: a 'return of volatility' ...with bonds as the source

Flexibility has been key to navigating the changing environment

Generating returns out of volatile & stable environments

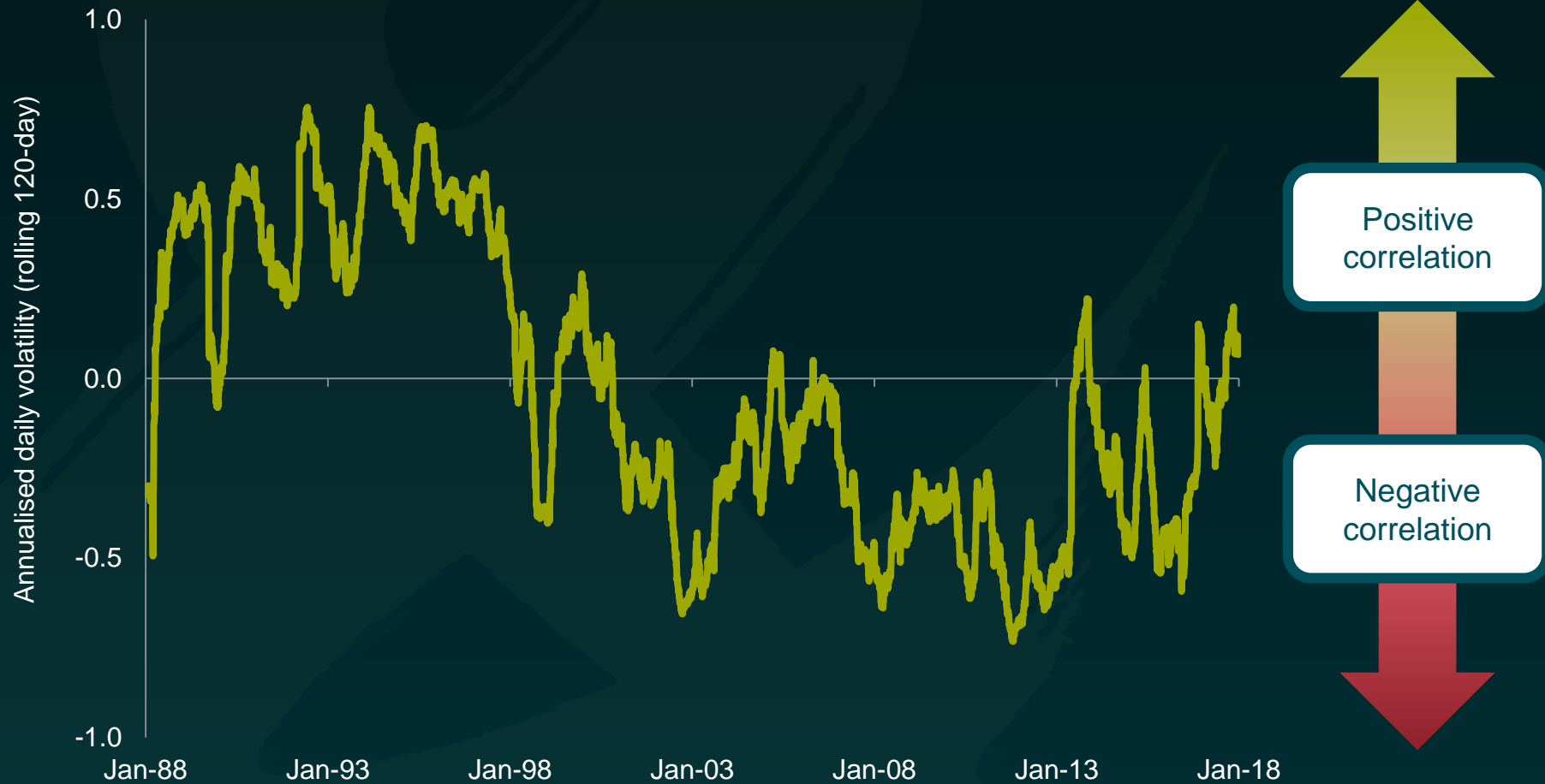
MSCI AC World



Source: M&G, Thomson Reuters Datastream, 27 February 2018. *Source: <http://www.telegraph.co.uk/business/2016/02/11/rbs-cries-sell-everything-as-deflationary-crisis-nears/>. Trump image source: By Michael Vadon - → This file has been extracted from another file: Donald Trump August 19, 2015.jpg, CC BY-SA 2.0, <https://commons.wikimedia.org/w/index.php?curid=42609338>, Image Copyright - / Shutterstock

Insurance policy increasingly unreliable

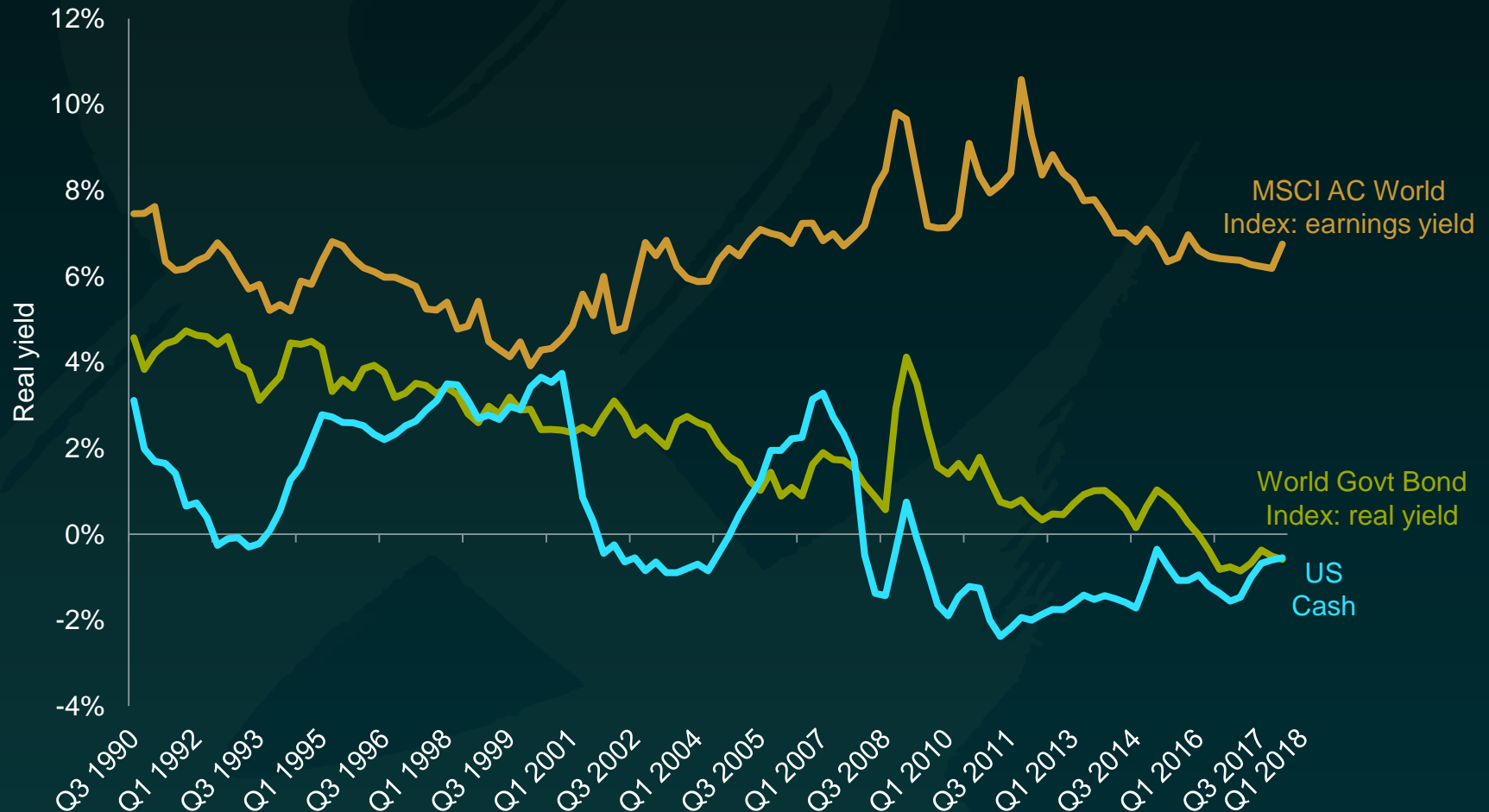
Rolling 120-day correlation, FTSE All-Share Index and UK 30-year gilt



The valuation anomaly today

Can we make it show only full years (not quarter),
And 2018 as last number

MSCI All Country World Index, Citigroup World Govt Bond Index and US cash



Investors are still overpaying for safety; opportunity cost has risen



The key development in the last six months

US 2-Year Treasury Yield (%)

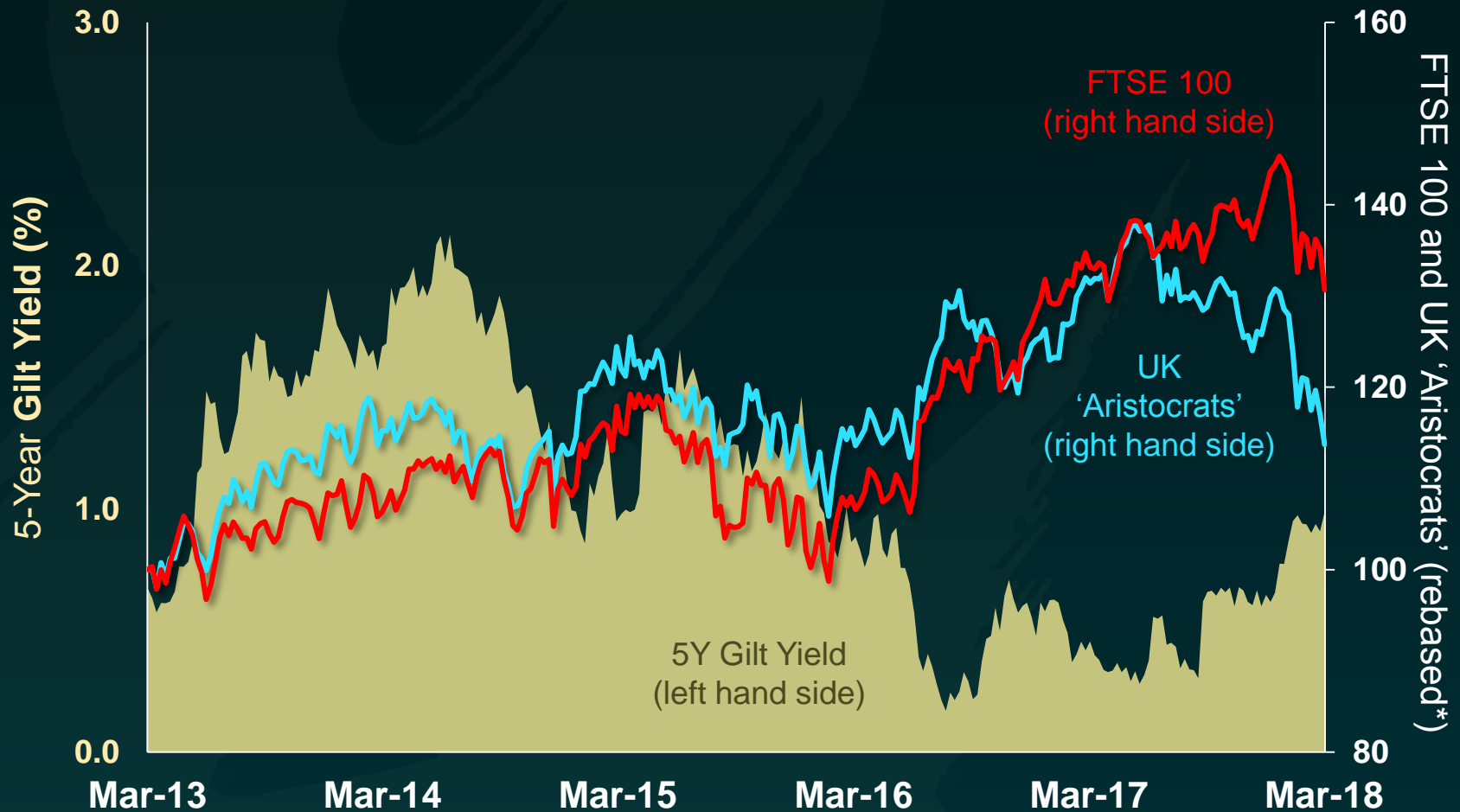


Global 'risk free rate' underpins valuation of all assets



UK equity relationship with Gilt yields

FTSE 100 and UK 'Aristocrats' (rebased*) and UK 5-Year Gilt Yield (%)



M&G Episode Income Fund

Performance in sterling

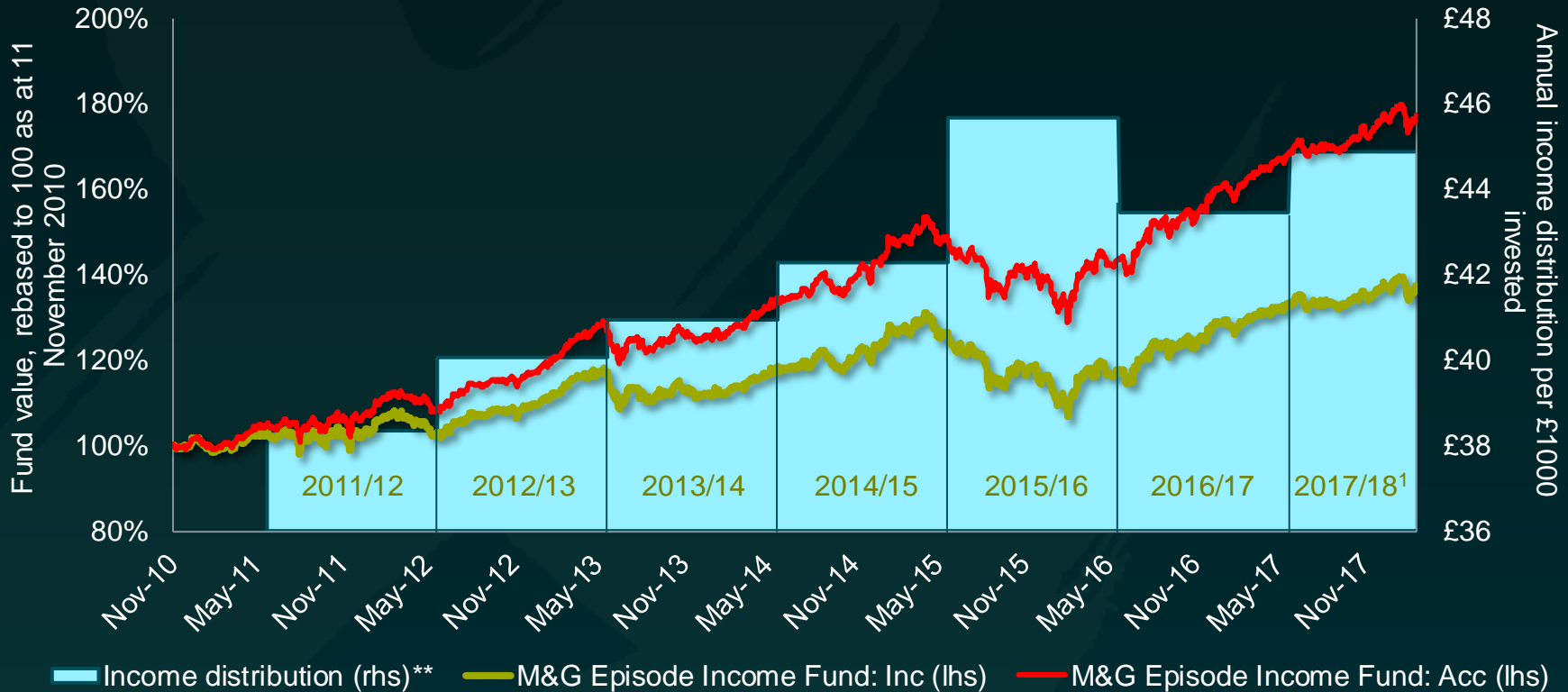
	01.04.17 to 31.03.18	01.04.16 to 31.03.17	01.04.15 to 31.03.16	01.04.14 to 31.03.15	01.04.13 to 31.03.14
M&G Episode Income Fund	3.4%	18.6%	-6.7%	11.8%	4.1%

Past performance is not a guide to future performance

Delivering a growing income stream

M&G Episode Income Fund

Accumulation and income share classes since launch*



Past performance is not a guide to future performance

Source: Morningstar Inc., 28 February 2018, sterling I class shares, accumulation shares, price-to-price and income share class. The fund's sterling I class shares launched on 3 August 2012. Performance data shown prior to this date is that of the fund's sterling A share class.

*12 November 2010. Income distribution based on total distributions declared over the fund's annual reporting period (1 May–30 April)

**Source: M&G, Morningstar Inc., 28 February 2018, sterling A Income class shares, income distributed, price-to-price. ¹ estimate



Outlook and positioning

Aggregate value assessments remain valid

Volatility is back in 2018

Selectivity becoming more important

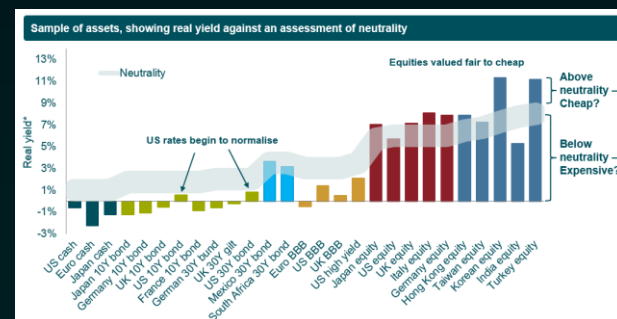
Q&A

Appendix

Multi asset for income

Tackling the investment challenges...

- Multi asset income investing offers **flexibility** to invest wherever we find opportunities
- **Income & capital growth go hand-in-hand**
 - Capital growth is a precondition for sustainable income growth
 - Capital growth through (dynamic) asset allocation
 - Taking advantage of emotional volatility
 - Avoiding overvalued assets



Opportunities in equities



Opportunities in bonds



..because multi asset income can tackle today's challenges while delivering tomorrow's income

Global equity re-rating modest since 2016

Earnings Yield, MSCI AC World (%)



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