M&G Global Listed Infrastructure Fund

Three years in the pursuit of reliable long-term growth

Fund Manager – Alex Araujo

FOR INVESTMENT PROFESSIONALS ONLY

October 2020

- *The fund was launched in October 2017 with a clear focus on long-term growth opportunities in listed infrastructure.*
- *The fund pursues a modern approach to provide access to the full breadth of the asset class, including what we see as the structural growth trends in digital infrastructure.*
- *ESG is integrated in the investment process as a key consideration for seeking financial returns over the long term.*
- *The market downturn in March triggered by the onset of COVID-19 presented some attractive buying opportunities, in our view; we established six new holdings in utilities in our efforts to strengthen the fund's income stream.*
- *Fiscal stimulus may provide a favourable tailwind as governments increase infrastructure spending to revive the global economy*.

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.

Philosophy and approach

Infrastructure holds an important place in the fabric of modern society, serving as the backbone of the world economy through good times and bad. As such, we believe that the stable and growing cashflows generated by the asset class across the vagaries of the economic cycle have an equally important part to play in investors' portfolios over the long term.

Focus on listed companies with physical assets

Our strategy invests in listed infrastructure, with a clear focus on asset-backed businesses in the belief that physical assets provide a sustainable barrier to entry. We do not invest in private companies; we only invest in listed companies, which benefit from the liquidity inherent to publicly traded equities. By doing so, we have tremendous flexibility in our portfolio and our proprietary investible universe to seek to take advantage of opportunities presented by market events, such as the indiscriminate sell-off in March 2020 as the global pandemic took hold. We will continue to act on these types of opportunities.

We invest in critical infrastructure with physical backing, where the assets are long-life in nature. This long-term aspect is captured in concession businesses, which we believe can generate stable and growing cashflows over several decades, as well as royalty companies, which provide the ultimate in long-term cashflow streams because the cashflows from their physical landholdings can run into perpetuity.

Focus on dividend growth

We are resolutely focused on dividend growth in the belief that listed infrastructure provides a broad range of opportunities for long-term growth, from the inflation-linking in certain sectors to the powerful thematic trends driving digital infrastructure. Dividend growth is key to the fund's objective of providing a rising income stream. In that context, the fund's yield is an outcome of our stock selection. Listed infrastructure has typically offered a yield premium to global equities and the fund is currently offering a historic yield of 3.7% (GBP I Inc shares, as at 1 October 2020, preliminary data), compared to the MSCI ACWI Index's 2.0% (Source: MSCI Inc., 30 September 2020), but this is very much an outcome. Our income priority is to grow the fund's distribution for our clients.

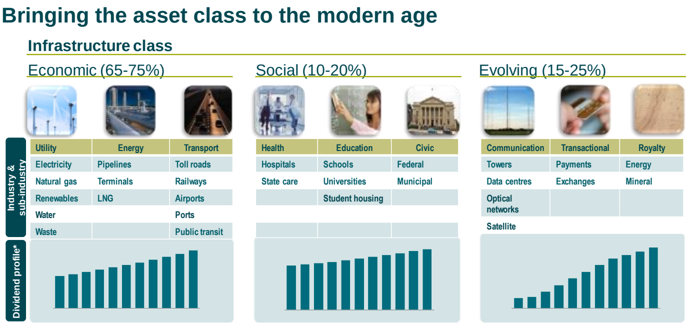
A modern approach to listed infrastructure

Infrastructure is expanding rapidly beyond the traditional realm of utilities, energy pipelines and transport – sectors commonly known as 'economic' infrastructure. In order to capture the full breadth of the asset class and the qualities it has to offer in its entirety, we invest in three distinct categories: 'economic', 'social' and 'evolving' infrastructure.

'Economic' infrastructure accounts for the largest part of the portfolio with a typical weighting of 65-75%, but we also invest in the more defensive 'social' infrastructure, which covers facilities in the health, education and civic domain.

The 'social' segment typically accounts for 10-20% of the portfolio. 'Evolving' infrastructure, our third and final category, adds a unique profile. The long-term growth opportunities from communications infrastructure,

Figure 1. Fund philosophy and approach



Source: M&G, 2020 *Expected annual dividend increase, for illustrative purposes only. Internal guidelines only, subject to change

transactional and royalty companies inject a new dimension to an asset class more commonly associated with stability. 'Evolving' infrastructure is expected to range between 15% and 25% of the portfolio.

Creating a balanced portfolio from these three infrastructure classes provides a diversified exposure to an asset class with compelling characteristics.

Three-year performance

In the three years since the fund's launch in October 2017, the M&G Global Listed Infrastructure Fund outperformed the MSCI ACWI Index with an annualised total return of 8.6% (GBP I Acc shares). Each segment of the portfolio – 'economic', 'social' and 'evolving' infrastructure – made a positive contribution to performance.

The fund also delivered on its income objective by increasing the distribution by 6.5% for the financial year ended 31 March 2020 (GBP I Inc shares).

YTD and 5-year performance (%)

	YTD (%)	2019 (%pa)	2018 (%pa)	2017 (%pa)	2016 (%pa)	2015 (%pa)
Fund	-3.4	31.4	1.1	N/A	N/A	N/A
Benchmark*	4.3	22.4	-3.3	13.8	29.4	3.8

3-year performance (pa, %)

	GBP (pa, %)
Fund	8.6
Benchmark*	8.3
IA Global Sector	7.6
Quartile ranking	2

Past performance is not a guide to future performance.

*Benchmark = MSCI ACWI Index

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.

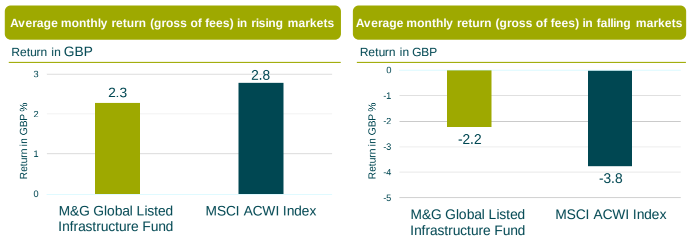
The fund is actively managed. The fund manager has complete freedom in choosing which investments to buy, hold and sell in the fund. The fund's holdings may deviate significantly from the benchmark's constituents.

Source: Morningstar, Inc., as at 5 October 2020, GBP Class I Acc shares, income reinvested, price-to-price basis. Benchmark returns stated in share class currency.

Upside capture, downside protection

The fund experienced a variety of market conditions during its first three years, but the outperformance was driven by a recurring pattern: capturing most of the upside during market rallies and providing downside protection when markets fell (see Figure 2). The upside capture was a direct consequence of the fund's resolute focus on growth, while the downside protection was a reflection of the defensive qualities of listed infrastructure as an asset class.

Figure 2. Performance in rising and falling markets since fund launch



Source: M&G, Aladdin, 30 September 2020. Investment return (gross of fees) calculated in sterling. Fund was launched on 5 October 2017. Investment returns are shown to eliminate timing issues between the pricing of the fund (product return net of fees), which is calculated at midday in London, and the close-of-trading day pricing of the index.

Past performance is not a guide to future performance.

The fund delivered a positive return in 2018 when equity markets fell, and outperformed its benchmark, the MSCI ACWI Index in 2019 as the markets rallied, but has faced more challenging times so far in 2020 against a difficult backdrop for listed infrastructure strategies.

This year's performance has been influenced by events in March when the weakness in energy infrastructure and transport weighed on returns, and the period from June onwards when 'new economy' stocks dominated proceedings and propelled equity markets to all-time highs.

Covid-19

The exogenous event of a global pandemic was an exceptional circumstance which had unique consequences for listed infrastructure. Energy infrastructure came under severe pressure in March as pipeline stocks became embroiled in a broader sector malaise, thwarted by the dual shock of increased supply from Saudi Arabia and lower global demand in the wake of COVID-19. The cashflows generated by energy infrastructure businesses have different characteristics to those of oil & gas producers; they have limited direct exposure to the underlying commodity price, although fundamentals gave way to sentiment in an environment of extreme uncertainty. Transportation infrastructure, in particular airports, was another area under pressure as the world entered lockdown. In contrast to previous recessions when traffic volumes slowed, the enforcement of 'stay-at-home' policies saw international travel come to an abrupt halt.

Despite the challenges in the short term, we continue to have a positive view and we believe our long-term perspective has already worked in the fund's favour. Energy infrastructure and transport, which led the detractors in March, were strong in the rebound in April and May. Our decision to add to selected holdings during the market downturn was swiftly rewarded.

There is scope for further upside, in our view. A phased reopening of economies, or a successful vaccine, for instance, could lead to a significant reassessment of these businesses as investors contemplate a world returning to normal. The fund's look-through exposure to airports is currently limited to about 5%.

Narrowness of market leadership

In contrast to the one-off nature of the global health crisis, the narrowness of market leadership, which was apparent from June onwards, provided a more familiar headwind for listed infrastructure. The technology-led rally in January 2018 was another example when the reliable growth from listed infrastructure was largely ignored as investors chased the momentum behind 'new economy' stocks.

This time round, Apple and Amazon.com stood out as the beneficiaries of the market's scramble for growth, which gathered pace with little heed for value. These paragons of the modern world are simply not infrastructure businesses and are therefore ineligible for our strategy, although their explosive growth is reflected in our digital infrastructure exposures. Many of the market's tech leaders are important and growing tenants of our data centre holdings, for example.

We continue to believe that listed infrastructure provides attractive opportunities for long-term growth from a variety of sources, without being hostage to the market's fickleness and its bouts of excessive euphoria. 'New economy' stocks made a hasty retreat from their peaks in September.

Portfolio activity

The fund is usually managed as a low turnover, buy-and-hold strategy. There were just five new purchases and six complete sales during the first two years of the fund's history. One of the sales, John Laing Infrastructure Fund, was driven by a takeover approach. However, the indiscriminate selling in March triggered by the onset of COVID-19 created buying opportunities, in our view, for long-life infrastructure assets which are critical for the smooth functioning of modern society, while delivering reliable revenue and cashflow growth. Valuation is a key consideration in our stock selection process. We were therefore more active than usual during the period of market volatility to take advantage of what we considered attractive entry points.

We capitalised on what we considered to be relative value opportunities in utilities, which proved distinctively resilient during the global health crisis. We see the sector acting as a bastion of strength against the backdrop of ongoing economic uncertainty.

We initiated six new positions in utilities since March. We have been tracking these companies for many years, but the valuations were out of reach until the recent market downturn presented the buying opportunity we were waiting for.

The new purchases were selected from around the world, and for us, each one has its own growth story. In the US, NextEra Energy Partners is a pure play on the structural growth in renewable energy, while Sempra Energy and AES Corp provide a different dynamic. Sempra diversifies the exposure we already have to California and Texas by way of our existing holdings in Edison International and Atmos Energy, with the addition of potential growth avenues in the key transition fuel of liquefied natural gas (LNG), as well as emerging markets through its presence in Mexico. AES Corp's long-term growth is driven by its transition to renewables and battery storage, in addition to its emerging market exposure and the transformation of its asset portfolio by way of an aggressive phase-out of coal.

A2A, the Italian multi-utility, also combines growth in renewables with a rapid decarbonisation programme. ContourGlobal is listed in the UK but has a broad geographic footprint with exposure to growth in emerging markets as well as the trend towards sustainable energy sources. China Gas Holdings is another beneficiary of structural growth as China reduces its reliance on coal and shifts its source of power and heat generation to gas. This critical aspect of the energy transition is a multi-decade trend, in our view. We bought the Hong Kong-listed shares.

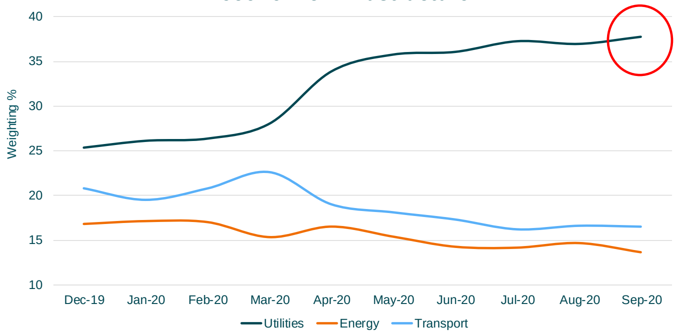
Following these transactions, the fund's utilities weighting rose to the highest since inception at 38% (see Figure 3).

The exposure to energy infrastructure and transport was trimmed back after our holdings recovered strongly in the early stages of the market rebound. The weightings in communications and social infrastructure were also reduced, having performed well across the market's ups and downs.

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

Figure 3. Utilities: we increased exposure to the highest level since fund inception

M&G Global Listed Infrastructure Fund – weighting by industry in 'economic' infrastructure



	Typical range
Utilities	20-40%
Transport	15-25%
Energy	10-20%

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.

Dividends

COVID-19 and its knock-on effect on the global economy have had a profound effect on corporate cashflows and dividends. We therefore took decisive action and made efforts to strengthen the fund's income stream, with the new utilities holdings providing the necessary ballast. NextEra Energy Partners and China Gas Holdings have already made their mark with double-digit dividend increases. We view the utilities sector as having the most reliable revenue and cashflow prospects in the current environment.

Despite the need for caution in certain industries, dividends from listed infrastructure companies have been highly resilient. Many of the fund's holdings have continued to pay and increase their dividends since March as a reflection of their cash-generative qualities and their confidence in long-term growth potential. The fund benefited from dividend increases across the spectrum of listed infrastructure as well as a broad range of countries.

In 'economic' infrastructure, utilities companies demonstrated the resilient nature of their business models, with our holdings continuing to deliver more impressive dividend growth than the pedestrian progress more commonly associated with the sector. American Water Works raised its dividend by 10%, in line with the last two years. Republic Services, the US leader in recycling and waste management, reported a 5% increase. Energy infrastructure was another source of reliable dividends as our holdings continued to pay dividends at prior levels. Union Pacific, the US railroads company, maintained its dividend in transportation infrastructure.

'Social' infrastructure also proved dependable as a source of steady growth. International Public Partnerships (INPP) and HICL Infrastructure announced dividend increases which were broadly in line with inflation, as expected. SDCL Energy Efficiency Trust remains on track to grow the dividend by 10% in the current financial year.

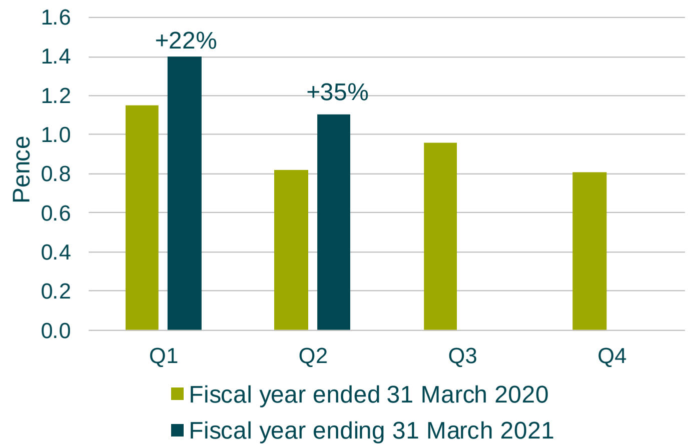
'Evolving' infrastructure provided a more exciting source of growth, with American Tower being the standout. The owner and operator of communication towers has raised its dividend every quarter this year with an annualised growth rate of 20%. Industry peer Crown Castle increased its dividend by 11%.

The fund was not immune to dividend cuts, however, particularly in airports where the operating environment has been extremely challenging. Dividends from airport companies are under pressure in the short term, and our pure airport plays, Sydney Airport and Flughafen Zurich, have temporarily suspended their payments. Vinci and Ferrovial also have airports businesses, and Vinci has cut its dividend. It would be reasonable to expect Ferrovial to follow suit.

We continue to have conviction in the long-term prospects of these companies as owners and operators of strategic assets and have no intention of selling out of these holdings on a tactical basis. We have faith in their commitment to reinstate dividends and resume dividend growth at the appropriate time. In these unprecedented times, we remain supportive as long-term shareholders.

While a dividend cut should never be taken lightly, these disappointments were outliers in a 47-stock portfolio. The majority of holdings continued to deliver stable or rising dividends in an extreme environment, as a result of which the fund delivered on its objective of growing the income stream during the first six months of the current financial year ending 31 March 2021. The distribution for the first two

Figure 4. Quarterly distributions of the M&G Global Listed Infrastructure Fund*



Source: M&G, 1 October 2020. * GBP I Inc share class.

Past performance is not a guide to future performance.

fiscal quarters rose 27% compared to last year (GBP I Inc shares) (see Figure 4).

We would be wary of extrapolating this growth rate for the remainder of the year, but we remain confident that the vast majority of our holdings can keep growing their dividends in the core 5-10% range. The fund remains on track to deliver on its objective of providing a rising income stream for the full year.

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.

ESG integration

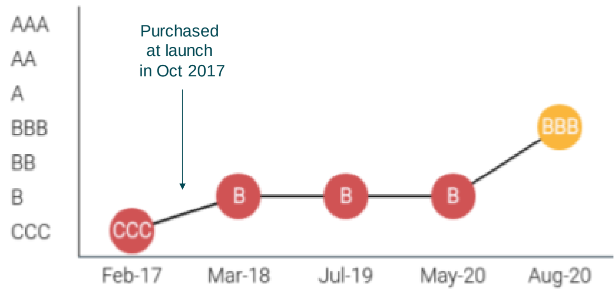
The analysis of environmental, social and governance (ESG) issues has been an integral part of the investment process since inception of the fund because there are risks and considerations associated with listed infrastructure that are unique to the asset class. We are investing in companies with physical assets which are by their very nature immovable and have an impact on a variety of stakeholders including employees, customers, shareholders and wider society. Our ESG process is designed to assess the sustainability of assets and thereby ensure that the cashflows generated by the infrastructure businesses in which we are investing are sustainable and have the potential to grow over the long term. We need to make sure that our favoured businesses do not face 'stranded asset' risk or lose their social licence to operate.

Proprietary research is central to our ESG analysis. We do not subscribe to the blind acceptance of third-party rankings or the mechanical exclusion of poorly rated companies. Take Republic Services, for example. The US leader in recycling and waste management provides essential services for society, but its landfill assets and associated greenhouse gas (GHG) emissions were given what we considered to be simplistic treatment by third-party ESG ratings providers. Prior to the fund's launch in October 2017, Republic Services was rated CCC by MSCI ESG. For us, the low rating was not a sufficient reason to dismiss the company as a potential investment candidate; it merely prompted us to conduct our own due diligence and engage the company on ESG issues.

Following a series of ESG-focused meetings with the company in conjunction with M&G's Corporate Finance and Stewardship team, we gained comfort that the company is being managed in a responsible manner: Republic Services has adopted pioneering technologies to reduce by-products and increase the recycling of landfill gas wherever and as much as possible. We invested in the company at the fund's launch and the investment has made a positive contribution: the dividend has increased every year in the 5-10% range and the share price has climbed 30%. We are pleased that

Figure 5. ESG integration

MSCI ESG Rating history - Republic Services



Source: MSCI ESG, 25 August 2020.

Past performance is not a guide to future performance.

we did not miss out because of a poor third-party ESG rating at the outset.

The company's progress is also reflected in ESG ratings. MSCI ESG has upgraded Republic Services on two occasions in the past three years in recognition of the significant improvement in its GHG profile (see Figure 5). The company's ESG journey does not end there. The promising direction of travel is also reflected in the company's commitment to clearly defined sustainability goals. Having achieved its 2018 targets, Republic Services has embarked on a more ambitious strategy with seven sustainability goals aligned with the United Nations' Sustainable Development Goals (SDGs), including the aggressive reduction of GHG emissions and a continued increase in recycling. The stock remains a core holding.

Outlook

Governments around the world have announced huge fiscal stimulus packages in response to the global pandemic, including higher spending on infrastructure, which may provide a favourable backdrop. Europe's recovery plan has been notable, not only for its scale and ambition but also the prominence attached to its green agenda. 'Next Generation EU' has a clear policy of promoting renewable energy and clean transport, as well as the renovation and efficiency of buildings and infrastructure to support a more circular economy. Digital infrastructure is another area receiving more investment as Europe strives to improve connectivity in a digital age, with the rapid deployment of 5G networks high on the priority list. Companies exposed to these structural growth trends can prosper to the benefit of their stakeholders, which include employees, customers, shareholders and broader society.

Infrastructure investment has been a key feature of economic stimulus packages in Europe, China and Japan, but the major economy where this has been notably absent is the US – ironically, the country that probably needs it most.

The need to repair, modernise and expand America's ailing infrastructure is one of the few areas of common ground between the Republicans and Democrats, regardless of the US election outcome in November. The fact that Donald Trump has been unable to implement a much-needed infrastructure plan during his presidency has been a source of frustration for both sides of the political divide. That said, decisions on infrastructure spending in the US remain in the hands of individual states for the most part, although federal initiatives in the form of state subsidies and tax incentives will be widely welcomed if they materialise. A Biden victory would also add impetus to renewable energy deployments, given his upfront green agenda. His plan 'to build a modern, sustainable infrastructure and an equitable clean energy future' comes with two specific targets: net zero carbon emissions by 2050 and $2 trillion investment in infrastructure.

Our long-term approach to listed infrastructure is not reliant on fiscal expansion continuing or government initiatives having an immediate impact on economic growth, but we are also conscious that this type of dynamic can drive strong performance for the asset class.

Figure 6. Multi-decade growth trends with examples of potential beneficiaries in the fund

Source: M&G October 2020.

Fiscal stimulus is likely to remain a topical issue until the global economy is on a firmer footing, but it is also important not to lose sight of the fact that listed infrastructure is a beneficiary of powerful trends which we believe are likely to be more enduring. Thematic tailwinds such as renewable energy, clean transportation and digital connectivity are likely to persist for many decades to come, in our view (see Figure 6).

That said, we remain vigilant about the immediate outlook. We are acutely aware that growth is fragile in many parts of the global economy and therefore that dividends will continue to be tested. We cannot dismiss the potential for more dividend retrenchment as the year progresses. With this reality in mind, we believe that the fund is better placed after our efforts to strengthen the income stream with more reliable growth from selected utilities.

We continue to invest with a long-term view and remain confident that the portfolio is in good shape not only to weather the current uncertainty, but to capture attractive growth over the long term. Having passed the three-year milestone, we are even more excited about the next three years. We are optimistic as we have ever been about the long-term growth opportunities in listed infrastructure.

Please note that 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.

Further risks associated with this fund can be found in the fund's Key Investor Information Document.

M&G
October 2020