

- The blurring of traditional asset class roles and growing investor focus on outcome-orientated 'solutions' is creating new opportunities
- Sustainability is integral to our investment philosophy and embedded in our investment process
- We use the breadth and depth of our experience in both public and private markets to help our clients meet their long-term goals



The value of investments will fluctuate, which will cause prices to fall as well as rise and you may not get back the original amount you invested. Wherever past performance is shown, please note that this is not a guide to future performance.

Q&A with Simon Pilcher, Chief Executive, Fixed Income and Alternatives, and Executive Chairman, Real Estate

What is your role at M&G?

As Chief Executive of M&G's Fixed Income & Alternatives businesses, I lead our institutional fixed income and infrastructure teams, including the development of our investment strategy and capabilities. We manage \$161 billion of assets ranging from bonds and asset-backed securities to direct lending and leveraged finance, real estate debt, project and infrastructure finance, private equity, private placements and distressed debt.

I was also appointed as Executive Chairman for M&G Real Estate's global operations in 2018, to provide strategic direction for the further growth the business. M&G Real Estate currently manages \$41.1 billion assets under management (AUM) globally¹ and is well positioned to build on this success.

What can fixed income, alternatives and real estate offer investors today?

The traditional role of fixed income securities in an investment portfolio has been to provide investors with benefits such as stable income streams, diversification from other asset classes and downside protection, while helping institutions looking to meet long-term liabilities. Investment in fixed income and real estate has flourished over recent years as pension funds and insurers have sought yield, income and lower volatility from financial markets.

The blurring of traditional asset class roles has created new opportunities. The ability of fixed income to play different roles in a portfolio reflects the diversity and value of the asset class. Today, investors are increasingly looking for outcome-orientated 'solutions' and goal-based investment strategies, a trend that is encouraging innovation from asset managers. Multi-asset credit strategies, for example, look to build flexible fixed income portfolios from the bottom up using a combination of public and private market assets, and fixed and floating-rate instruments, to create a better risk profile, while cashflow-driven investing (CDI), an investment approach designed to increase the certainty of cashflows for pension funds, takes a similar 'building blocks' approach to portfolio construction.

Real assets investing also continues to grow in importance to long-term institutional investors. Real assets such as real estate and infrastructure can offer investors inflation protection and hard asset security as well as the potential to deliver long-term capital growth. The most common real asset class held by pension schemes is property, but infrastructure, both debt and equity, is being used to provide equity-like returns with debt-like characteristics that are uncorrelated with the wider economy. Long lease real estate, similarly offers investors exposure to buildings leased to high quality tenants together with secured, inflation-linked rental income over a long period of time.

How active is M&G in European private debt and alternative assets?

Investment in private and illiquid assets is a core expertise for M&G and continues to grow rapidly in response to significant demand from our clients. Institutional investors' allocations to private debt and alternative asset classes have increased significantly, primarily due to the years of low interest rates and quantitative easing following the global financial crisis in 2008.

As yields on public bonds have declined, owners of long-term capital that have a tolerance for illiquidity have increasingly recognised the long-term potential for private debt and alternative asset classes to help them meet their investment goals. We enable our institutional clients to allocate to a broad range of private assets that have the potential to provide a return premium to compensate for factors such as their relative illiquidity and complexity. These offer attractive outcomes including lower correlation with public markets and investor protections such as covenants and security over assets.

Some forms of private debt, such as leveraged loans, private placements and infrastructure debt, are relatively long-established in Europe.

We were one of the first non-bank investors in European leveraged loans, in 1999, and are one of the largest loan managers in Europe today.

¹ M&G, all AUM figures as at 30 June 2018

Yet Europe's private asset markets are continually evolving and we continually work to identify new opportunities and bring them to market. We have been active in direct lending since 2009, when an opportunity emerged during the crisis from the withdrawal of capital-constrained banks from corporate lending. Today, specialty finance, which includes residential mortgages, personal loans, auto loans, student loans, credit card advances and small business loans, looks set to be another area for new growth.

Private asset investing is challenging and requires a high degree of expertise and experience to source and analyse the best opportunities for optimal risk and return. Our real estate business sources more than two thirds of its assets off-market through the hard work of our origination team and its networks of relationships that reach worldwide.

How does M&G approach investing sustainably?

Sustainability is integral to our investment philosophy and embedded in our investment process. We incorporate environmental, social and governance (ESG) considerations into our investment decisions to help better manage risk and aim to generate more sustainable long-term returns. We take an active approach to ESG engagement because we believe we can be an agent for positive change.

Throughout our heritage as an investment manager we have focused on financing sustainable businesses and projects that have delivered social and environmental benefits alongside a financial return.

By demonstrating that investments can generate attractive risk-adjusted returns, as well as benefit society and the environment, we are able to work in partnership with our clients towards achieving the same global sustainability goals.

We have financed impact investments, which target a direct positive social or environmental benefit alongside a competitive return, on behalf of our clients since the 1930s. Today, we have approximately \$30 billion² invested in fixed income impact assets, and we expect interest in impact investing to grow in future.

Our real estate business takes a sector-leading approach to responsible property investment, which it applies throughout its day-to-day investment and management activity. This is rooted in the belief that creating world-class places to live, work and play brings positive value to investors, to society and to the environment.

Finally, our growing suite of ESG-focused investment strategies encompass a broad range of sustainable investment approaches, each with their own risk, return and impact profile.

What is your message for international investors?

Fixed income and alternatives are growing, evolving markets in which discipline, flexibility and patience are crucial to invest successfully for the long term.

We have invested for institutional clients, including our parent, the insurance company Prudential, for decades and we understand that every institution's position and investment goals are unique. We use the breadth and depth of our experience in both public and private markets to support our clients in meeting their long-term investment goals.

² M&G calculation as at 30 April 2018. Figures converted to US dollars

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