

# M&G Positive Impact Fund

## Can impact investing be at the centre of the recovery?

Fund Manager – John William Olsen

Head of Sustainable and Impact Investing – Ben Constable Maxwell

FOR INVESTMENT PROFESSIONALS ONLY

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*John William Olsen and Ben Constable Maxwell discuss the bigger picture social and environmental issues the world is facing in relation to Covid-19, as well as the fund's positioning and performance as we move through the crisis.*

*Please note, past performance is not a guide to future performance. 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.*

### Ben Constable Maxwell, Head of Sustainable and Impact Investing, on the bigger picture social and environmental issues the world is facing in relation to Covid-19

- While the number of people living in extreme poverty – those existing on under \$2 a day – has been steadily declining, the Covid-19 crisis has stopped this trend in its tracks. Current forecasts estimate that between 49 million and 420 million people could be pushed into extreme poverty as a result of the virus. The likelihood of suffering from disease, and longer term economic impact, hits the poorest hardest, and as such, the pandemic recovery will need to, among other things, support the alleviation of inequality.
- The crisis has presented hope that we would see an environmental rebound, driven by a sharp reduction in emissions – in April, for example, greenhouse gas (GHG) emissions were almost a fifth lower than the previous year. For 2020, predictions show GHGs down 4-8%. This is good news; however, we would need to achieve that level of reduction every year to meet the Paris goals of keeping global average temperature increases to well below 2°C above pre-industrial levels. And atmospheric CO2 levels are now at 417 parts per million – the highest level in human history. While noticeably cleaner air and water under lockdown has been welcome, we have not solved the problem.
- In terms of the recovery from Covid-19, we need to 'build back better'— with impact investing arguably at the centre of that recovery. We must ensure the recovery is sustainable, equitable and fair, and needs to include climate-supportive measures. The world also needs to double down on protecting nature, particularly given the links between biodiversity and coronavirus. As the UNDP's director of SDG impact says, 'a pandemic gives permission for change'. Impact and sustainable investing can play a major role in supporting a more sustainable and fairer future.

- At the start of the crisis we wrote to all of our holdings, asking how they were responding to the pandemic in terms of resilience, as well as their behaviour towards stakeholders. We received some fascinating, and very encouraging, responses. These focused around: working to support communities; caring for employees; making a meaningful medical contribution to the pandemic; and maintaining business operations. We will be publishing a note in the coming weeks highlighting the responses from our companies.

### John William Olsen, Fund Manager, on fund performance and company activity

- Performance in 2019, which represented strong market conditions, was good. The question is how the fund will perform in a downturn; but all downturns are different. In this particular one, we think the overweight in healthcare, nearly a third of the portfolio, should be supportive.

### Year-to-date and 5-year performance

	YTD (%)	2019 (% pa)	2018 (% pa)	2017 (% pa)	2016 (% pa)	2015 (% pa)
Fund	2.0	29.1	n/a	n/a	n/a	n/a
Benchmark	-2.4	22.4	-3.3	13.8	29.4	3.8

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 investment 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 31 May 2020, sterling Class I Acc shares, income reinvested, price-to-price basis. Fund launched on 20 November 2018. Benchmark returns stated in sterling.*

- Half of the portfolio invests in environmentally impactful companies and half in socially impactful ones. Companies like Thermo Fisher Scientific and Grifols, for

example, have obvious exposure to the current situation, both of which were involved in developing tests. Meanwhile, Quest Diagnostics has carried out the testing – by the end of March, its labs had carried out more than half of the tests in the US, and it has remained the largest tester.

- On the environmental side, these companies are not going to come up with Covid-19 solutions, but we think they will be long-term beneficiaries of measures being put in place by governments – this includes green packages by the European Union, Germany and Denmark, while more should follow, as this is a very good way to kickstart the economy. One fear coming into this crisis was that people would forget about the environment. But luckily governments have not forgotten, and know they need to invest for the long term. This includes making buildings more energy efficient and supporting new energy sources.
- In terms of some of our holdings, we established a new position in Kenyan telecoms company Safaricom, bought during the downturn at what we believe is a very good price for a very good company. Safaricom has the largest mobile payment system in Africa, called M-PESA. It is cheap, easy to use, and an efficient way of paying and keeping the economy going. The company is very aware of its social role connecting people and, in response to Covid-19, lowered fees on transactions and put up limits on payments, while doubling the bandwidth for its broadband customers. It did this for free, and while it cost money, it solidified the company's position in Kenya. Safaricom reaches 32 million people and is part of the back bone that makes the country work.
- We also started a position in Rockwool before the downturn. This is a cyclical company that provides

insulation for houses and buildings, and took a hit during the downturn. But we think it is obviously going to be a beneficiary of government programmes, particularly relating to structural environmental efficiency as well as increasing safety standards (the stone wool insulation the company produces is also a fire retardant). Rockwool's share price had been down 50% because of some price competition in Germany, but given the long-term trend, we believe these short-term moves really don't matter.

- We are extremely proud of our portfolio companies – they have demonstrated great social responsibility, which we think is core to the culture of these businesses, from a philanthropic perspective but also as their nature is to provide solutions. We think this will bring long-term benefits to these companies, with this terrible crisis really bringing sustainability front and centre.

Please note, the fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment. In addition, 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.

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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.

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