M&G Recovery Fund

Working through the ages

Tom Dobell
Fund Manager

"The stockmarket is good at assimilating masses of data, but rather poor at assessing strategic value."

Fund facts

31 Jul 2019

Fund size: £2.23 billion

Launch date:
23 May 1969

Benchmark:
FTSE All-Share Index

Sector:
IA UK All Companies

Number of companies: 81

Ratings should not be taken as a recommendation.

Past performance is not a guide to future performance.

1. Reasons to consider recovery investing

- Recovery investing provides long-term capital to companies, enabling them to develop and grow. The 'Recovery cycle' generally takes around five years.
- In today's stockmarkets, investors' time horizons can be measured in months rather than years. This short-termism creates investment opportunities; stocks held for the long term can offer rewards as companies realise their true value.
- The execution of a proven strategy by a strong management team should lead to sound growth in cashflows and hence a substantial improvement in a company's share price.

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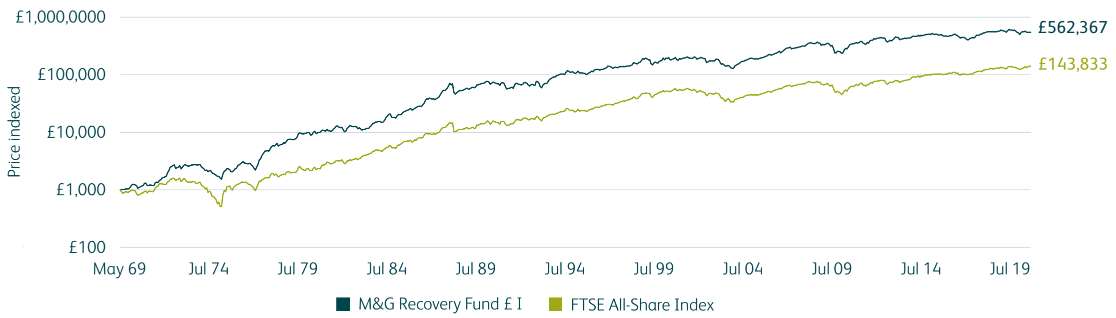
2. A simple and repeatable proposition

- M&G's extensive experience in recovery investing for nearly 50 years is unique; successfully identifying strategic value in unloved companies with that 'special potential' and supporting them as they go through their recovery process.
- The recovery approach focuses on people, strategy and cashflow. Without sound people, there is no investment case. Before investing, Tom and his team take time to talk and listen to company to appreciate the challenges, the risks and the opportunities.

3. Why M&G Recovery Fund

- The fund has a proven track record of generating substantial index-beating returns for our customers over the long term.
- Our active approach to company engagement is enhanced by our unrivalled network of corporate contacts, providing a key advantage.

M&G Recovery Fund: £1,000 invested since inception (May 1969)



Source: M&G Statistics, Sterling I Accumulation Share Class, price to price, income reinvested as at 31.07.19.

	YTD 2019	2018	2017	2016	2015	2014	Annualised since launch
M&G Recovery Fund £I	+9.9%	-15.3%	+11.5%	+20.7%	-4.5%	-8.9%	+13.4%
FTSE All-Share Index	+15.2%	-9.5%	+13.1%	+16.8%	+1.0%	+1.2%	+10.4%

Performance data source: Morningstar Inc. as at 31.07.19, price-to-price with income reinvested, based on Sterling Class I Acc shares.

The fund is actively managed. The benchmark is a target which the fund seeks to outperform. The index has been chosen as the fund's target benchmark as it best reflects the scope of the fund's investment policy. The target benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction.

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The value 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 and you may get back less than you originally invested.

Four-stage recovery cycle

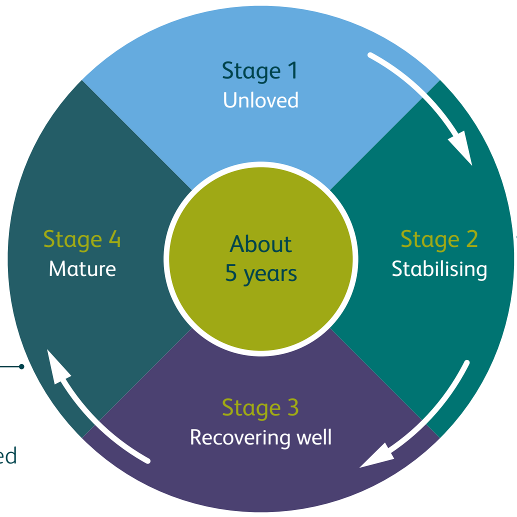
The team focuses on long-term corporate recovery. In the first stage, companies are generally experiencing either operational or financial problems. As management begins to address the problems, the company moves through stage 2, a period of stabilisation. Once management's strategy begins to bear fruit, the company enters stage 3 and recovery picks up. This is reflected in increasing cashflows and a re-rating of the share price. The shares are sold when the company's recovery is complete (at stage 4).

Stage 1: Unloved

- Focus on struggling companies with special potential.
- Meeting companies to establish constructive dialogue.
- Backing good people who can realise company's full potential.

Stage 2: Stabilising

- Problems recognised and being addressed by the company.
- Companies in this stage still represent considerable risk, but will often be showing early signs of stabilisation and recovery.



Stage 4: Mature

- Final phase marks the successful completion of the cycle. By this stage, companies have recovered and realised their potential.
- The Recovery team may seek to sell these holdings and reinvest the proceeds in new recovery ideas.

Stage 3: Recovering well

- Company responding well to management action and generally perceived positively by the market.
- Company no longer needs help and the share price often shows further upside momentum.

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.

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