

## **SHINING A LIGHT ON..... M&G OPTIMAL INCOME FUND**

### **Update....**

There are different camps on the likely returns from fixed interest investments going forward; some believing returns will be negative and some more positive. Additionally, it is also becoming increasingly harder to pick which sector to invest in whether government bonds, high yield, investment grade etc.

For this reason, funds like the M&G Optimal Income Fund are attractive as they are effectively managed bond funds. The challenge with this fund is its size. The fund was over £20 billion and this does make it difficult when investors want to take money out although at the moment the manager has been able to navigate this. The performance has also lagged a little of late. However, the manager is well respected as are the team.

In this brief update Richard discussed his macro views and how the fund is positioned. His view is that the macro picture is not bad. He added that every US recession is preceded by an oil price spike and this is not happening. Added to this there have been healthy employment figures and falling oil prices is good for the growth.

Touching on oil Richard explained there is Main Street and the Stock Market. On Main Street the drop in oil prices is good for the consumer and most economies but obviously on the Stock Market it is not good news for Oil Stocks. The problem is that the Stock Market is giving a false reading and is being used as a barometer for the global economy.

Going further he added there is also talk of a recession and for this to be happening the default rates would be increasing and they are not. There are areas of the market which are not good especially US high yield although that is distorted with its weighting to energy stocks. His view is that the markets are undervaluing fixed interest investments and this is creating value especially in investment grade bonds.

For this reason, the fund is weighted more towards investment grade although it does have selective holdings in high yield and government bonds. The fund can hold equities but he feels they are not as attractive as they have been in the past and the fund currently holds no equities.

Finally going back to the macro picture he touched on China and added that whether China is growing at 7% or 5% or 4% it doesn't matter. The fact is that it is growing. It is also worth reflecting that Chinese exports accounts for about 1% of US GDP and most of this is food which they will still need.

In summary this is well managed fund with a great reputation. For investors looking to invest in bonds but unsure where to turn this is worth looking at. The concern some have voiced is the size of the fund and the potential impact this could have both on people leaving the fund and performance.

# LWM Consultants Ltd

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## Fund performance

Performance over the last five years (to 31 December 2015):

	2011	2012	2013	2014	2015
<b>M&amp;G Optimal Income Fund</b>	6.59%	13.75%	7.79%	5.26%	-0.86%
<b>iShares Core UK Gilts</b>	15.32%	2.49%	-4.13%	13.67%	0.29%
<b>iShares Core £ Corporate Bond</b>	8.23%	12.69%	0.20%	13.15%	-0.12%

Performance over 1, 3, 5 years and since launch 8 December 2006:

	1 year	3 years	5 years	Since Launch
<b>M&amp;G Optimal Income Fund</b>	-0.86%	12.48%	36.38%	99.58%
<b>iShares Core UK Gilts</b>	0.29%	9.29%	29.17%	59.09%
<b>iShares Core £ Corporate Bond</b>	-0.12%	13.24%	38.11%	45.11%

*You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.*

*The source of information in this note has been provided by M&G and is correct as at January 2016. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision.*