LWM Consultants Ltd

Meeting the Fund Manager

M&G Optimal Income Fund

The M&G Optimal Income Fund is a holding across most of our portfolios. Although the holding has been reduced from last year as, in some cases, we have increased exposure to emerging market debt.

There are really two funds in this space the L&G Dynamic Bond Trust and this one. In the recent review we felt that the M&G Fund still held the edge and although we considered splitting holdings between the two we felt that this would not add value to the portfolio.

The fund was set up for Richard Woolnough in December 2006 to provide him with a truly flexible, unconstrained fund where he could express his investment views. The fund doesn't restrict him to one asset class and in theory he could invest all the assets in one area if he thought that was right at the time. It does have a global focus but at the moment the focus is on the US, UK and Europe.

The meeting was was Gordon Harding one of the members of the team.

Investment objective and profile

The fund aims to outperform the IMA £ Strategic Bond sector as well as the average investment grade, high yield and government fund over the medium term.

Managing the fund

I wanted to explore how his style might differ from others in the market. Although strategic bond funds look to invest primarily in bonds they do have the ability to invest in equities and I wanted to explore this further and whether this is used within the fund.

The fund can invest up to 20% of the fund in equities and this strategy is used, currently it has around 6%. Towards the end of last year it had up to 10% in equities. The reason was that they felt they were cheap and could drive additional performance. I wanted to explore what type of companies they look to invest in – the rule of thumb seems fairly simple. They have to be held by the M&G Equity Fund and has to be large cap with high dividends so the fund will see the likes of Shell, BP et al appearing at different stages of the cycle.

Away from equities we looked at holdings in financials and how this plays as this is a good example of how the risk is managed. In 2007 / 08 the fund had almost no financial exposure, in 2009 Richard started buying back into financials and then at the end of last year this was around 10%

and now sits at around 20%. He has started to trim it back slightly, for example he purchased a new HSBC issue in November and recently traded 17 points of upside capital growth. He felt at the time it was worth taking the profit.

One of his biggest positions is in Lloyds but he also has holdings in Bank of America, JPMorgan, Goldman Sachs and Morgan Stanley.

Although they have weightings in financials they believe that there is a threat of further downgrades and therefore they have to be selective in choosing positions. Against the sector they are underweight and they are underweight in government bonds as well. The highest weighting and as such they have an overweight position is in the high yield sector where Richard sees opportunities. The view around high yield is similar to L&G.

In summary we believe having an unconstrained mandate is important to be able to respond in this sector and drive long-term returns

Conclusion

This is a good fund which we have used previously and following further research believe it should remain part of the portfolios. If we had any concern it would be around the size of the fund however at this stage M&G do not seem concerned and therefore we are happy with this.

The fund continues to deliver good performance and is well positioned to continue to deliver in the future.