



LWM Consultants Ltd

Fund Manager Briefing Note

M&G Optimal Fund

The M&G Optimal Income Fund is a core holding in many of the portfolios - holdings vary from 13% in the Defensive Portfolio to 5% in the Moderately Adventurous Portfolio. In this review we unpick elements of the fund to provide you with a greater insight as to why we have selected it.

What does the fund look to achieve?

Fixed interest assets do not perform in the same way as equities, if equity markets decline fixed interest investments do not tend to fall at the same pace, and in some cases can give positive returns in this environment.

Reduced volatility is why these types of assets underpin many portfolios especially the lower volatility mandates. Our challenge is that there are different types of fixed interest assets which react to different circumstances in different ways, so for example interest rate changes and / or inflation. An investor has to make choices between, for example, corporate or government bonds and high yield or high grade depending on the market at different points in the cycle.

In recent years management houses have introduced strategic bond funds which enable them to invest across the whole fixed interest market and avoid unattractive areas (which more limited or specific mandates compel them to remain invested in).

The Optimal Income Fund has an unconstrained mandate, this means it invests across the whole fixed interest market and if the fund manager feels it is right it can also hold equities. This gives the fund manager the responsibility and freedom to manage the exposures, and Richard Woolnough is one of the very best in his field.

In summary the fund looks to achieve the most attractive, or optimal, income streams at any point in the economic cycle by moving freely between gilts, investment grade and high yield bonds.

Introducing the fund manager

The fund has been managed since its launch in 2006 by Richard Woolnough; Richard has over twenty years' experience within fixed interest and his skill and expertise has been widely recognised. The fund has the highest independent rating from Morningstar (five stars) and Standard and Poor's (AAA) which provides confirmation of its pedigree.

Richard is supported by a team of 22 analysts, and M&G operates a strong team approach. This has resulted in a string of awards including Professional Adviser's Best Fixed Interest Group for four years running (2008 – 2011).

This approach displays that not only is there a strong management team but also a robust support team meaning should anything happen to a key manager the process is resilient enough to ensure continuity for investors.

How the fund is managed

There are a number of factors which are considered by Richard when making final stock selections for the fund:

- Macroeconomic view – economic growth, inflation, regulatory issues, duration and yield curve
- Asset allocation and credit rating – government bonds, investment grade bonds, high yield bonds, preference shares and equities
- Sector and stock selection – valuations, covenants, structured credit and liquidity

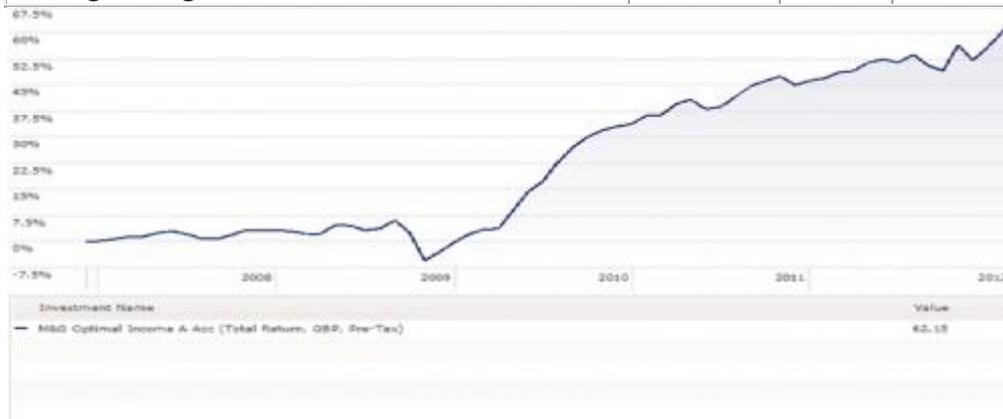
Currently the fund is holding 70% in investment grade and high yield bonds, 15% in UK gilts and 8% in UK equities.

How has the fund performed?

In 2011 the global funds sector was down 9.34%, the Optimal Income Fund returned a positive 5.68%. This outperformance demonstrates how the fund is uncorrelated to equity markets and why it provides a good balance within a portfolio.

The table below illustrates how the fund has performed against its sector over the last five years:

	2011	2010	2009	2008	2007
M&G Optimal Income Fund	5.7%	8.3%	32.7%	-4.34%	2.4%
Sterling Strategic Bond	3.90%	8.3%	20.2%	-13.1%	0.2%



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.

Conclusion

We are currently in the process of reviewing the portfolios. We see no reason currently why this fund will not remain as a core holding as it provides a balance between equity exposure and less volatile fixed interest investments.

The source of information in this note has been provided by M&G and is correct as at 31 January 2012. These are notes from discussions with M&G and should not be seen as a recommendation to purchase this fund. 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. You should also note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.