

**The Equities Investment Fund for Charities**  
Annual Long Report and audited Financial Statements  
for the year ended 31 October 2018

# Contents

|   |      |    |
|---|------|----|
| Manager's Report  | Page | 1  |
| Directors' statement  | Page | 2  |
| Financial highlights  | Page | 8  |
| Operating charges and portfolio transaction costs                     | Page | 9  |
| Specific unit type performance  | Page | 10 |
| Financial statements and notes  | Page | 11 |
| Notes to the financial statements                                     | Page | 11 |
| Reports   | Page | 16 |
| Manager's responsibilities  | Page | 16 |
| Statement of the Trustee's responsibilities and report of the Trustee | Page | 16 |
| Independent auditor's report  | Page | 17 |
| Other regulatory disclosures  | Page | 19 |
| Appendix  | Page | 20 |
| Glossary  | Page | 21 |

# Manager's Report

The Manager of The Equities Investment Fund for Charities (Charifund) presents its Annual Long Report and audited Financial Statements for the year ended 31 October 2018.

## Fund information

The fund is an authorised unit trust, being a non-UCITS retail scheme as defined by the Financial Conduct Authority's (FCA) regulation number 1086838 and it is registered with the Charity Commission for England and Wales (Number: 249958).

Charifund is a unique unit trust. The fund is a charity and this ensures that charities investing in Charifund obtain the benefits of an investment in a unit trust, such as low charges and a wide spread of investments, whilst qualifying for the same tax treatment as other charitable funds. Charities registered in England, Scotland, Wales and Northern Ireland can invest in Charifund.

Charifund qualifies as an alternative investment fund under the Alternative Investment Fund Managers Directive (2011/61/EU).

M&G Securities Limited (the Manager) is the Alternative Investment Fund Manager and a charity trustee of the fund while M&G Investment Management Limited is the investment adviser.

### Fund manager

Michael Stiasny

Michael Stiasny is employed by M&G Limited which is an associate of M&G Securities Limited.

### Manager

M&G Securities Limited  
Laurence Pountney Hill, London EC4R 0HH  
Telephone: 020 7626 4588

(Authorised and regulated by the Financial Conduct Authority)

### Directors of the Manager

M Ammon\*, G N Cotton, N M Donnelly, P R Jelfs,  
G W MacDowall, L J Mumford

\* Appointed 26 July 2018.

W J Nott resigned with effect from 31 December 2017.

### Advisory committee

The members of the committee, which acts as a consultative committee to M&G Securities Limited, are:

D S S Chichester (Chairman), A W Behrens, B S Bostrom,  
S M Corbett LVO, A F Gibbs, L E Linaker, G A Prescott BA FCA,  
N C Talbot Rice

### Investment adviser

M&G Investment Management Limited  
Laurence Pountney Hill, London EC4R 0HH  
(Authorised and regulated by the Financial Conduct Authority)

### Registrar

DST Financial Services Europe Ltd,  
DST House, St. Nicholas Lane, Basildon, Essex SS15 5FS  
(Authorised and regulated by the Financial Conduct Authority)  
DST Financial Services Europe Ltd act as the administrators for Charifund.

The Register of Unitholders can be inspected during business hours at: DST House, St Nicholas Lane, Basildon, Essex SS15 5FS

### Trustee

NatWest Trustee & Depositary Services Limited is the Trustee of the fund and for the purposes of the Alternative Investment Fund Managers Directive (AIFMD) they are also the Depositary.

NatWest Trustee & Depositary Services Limited, Drummond House,  
1 Redheughs Avenue, Edinburgh EH12 9RH, UK

(Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority)

### Independent auditor

Ernst & Young LLP  
Atria One, 144 Morrison Street, Edinburgh EH3 8EX

## Important information

On 28 September 2018, the Trustee changed from National Westminster Bank Plc to NatWest Trustee & Depositary Services Limited.

## Investor information

The Prospectus and Trust Deed as well as the latest Annual or Interim Long Report and Financial Statements are available free of charge on request from the following address. The Instrument of Incorporation can also be inspected at our offices or at the office of the Trustee.

### Customer services and administration

M&G Charity Team, PO Box 9038, Chelmsford CM99 2XF  
**Telephone: 0800 917 4472**

If you need more information about investing, please contact us direct. Alternatively, if you wish to obtain advice as to whether this investment is suitable for your needs, you should consult a financial adviser.

If you would like a list of financial advisers in your area, please visit [www.unbiased.co.uk](http://www.unbiased.co.uk).

We can answer your questions and take your instructions between 9.00am and 5.00pm Monday to Friday. For security purposes, and to improve the quality of our service, we may record and randomly monitor telephone calls.

If you already invest with us, please quote your M&G holding reference number (shown on your income vouchers or statements) when you contact the M&G Charity Team. Please note that M&G Securities Limited does not offer investment advice or make any recommendations regarding investments.

# Manager's Report

## Directors' statement

The report is signed in accordance with the requirements of the Collective Investment Schemes sourcebook, as issued and amended by the Financial Conduct Authority.

G W MacDowall  
L J Mumford  
28 November 2018

} Directors of M&G Securities Limited

## Investment objective and policy

The trust is designed to provide a high and growing income for charities, while at the same time protecting their capital from the erosive effects of inflation over a rolling ten year period. There is no guarantee that the Trust will achieve a positive return over this, or any other, period and investors may not get back the original amount they invested. The units are a suitable investment for the equity portion of charitable funds. Normally the Manager's policy is to invest in a portfolio mainly of equities and convertible stocks to provide a yield significantly more than that of the FTSE All-Share Index.

## Investment approach

Charifund's portfolio typically comprises approximately 100 stocks. The fund invests mainly in a well-diversified portfolio of high yielding UK stocks with the objective of generating a high income and increasing the annual distribution. The aim is to provide a level of income that is significantly higher than that of the FTSE All-Share Index. The high yield premium attached to the fund generally means that there is a bias towards good value, out-of-favour stocks. The emphasis on yield helps to identify shares that are cheap and to avoid those that are expensive. Good quality companies with attractive dividend growth prospects are identified from the available universe of high yielding stocks as those that exhibit a strong business franchise, competitiveness and good turnover and dividend growth.

In view of the yield premium, the portfolio is constructed quite differently from the FTSE All-Share Index and therefore will usually move at a quite different speed from the index in the short run.

## Risk profile

The fund invests mainly in the shares of UK-listed dividend-paying companies, and a portion of the fund is also invested in the shares of dividend-paying companies listed overseas. It is, therefore, subject to the price volatility of the UK and overseas stockmarkets and the performance of individual companies. The fund may also be subject to fluctuations in currency exchange rates.

The fund's focus is on good-quality companies with attractive dividend growth prospects. Dividend distributions from the fund's holdings, however, are not guaranteed and may vary. Diversification across industries and market capitalisation is key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

## Investment review

As at 1 November 2018, for the year ended 31 October 2018

### Summary

Quarterly distributions amounting to 47.75p per Income unit were declared in respect of the second half of 2018, making a total of 79.00p for the year, and representing a 5.7% increase compared with the total declared in 2017. Inflation, as measured by the Retail Prices Index (RPI), was 3.3% in October, while the Consumer Prices Index (CPI) was 2.4%.

Charifund's net historic yield<sup>[a]</sup> of 5.2%, as at 1 November 2018, compares favourably with the yield of 4.0% on the FTSE All-Share Index. This yield is also well above the level of income available on UK government bonds and cash deposit accounts.

Charifund's total return (the combination of income and growth of capital) over the 12 months to 1 November 2018 was -0.7%. This compares with -1.4% from the FTSE All-Share Index.

The prospect of a global trade war has loomed large for much of 2018 as investors contemplated the imposition of US tariffs on China and other economies, retaliatory measures and the potential consequences for the global economy. The UK stockmarket was also affected by the Brexit negotiations with the European Union (EU). Domestic economic activity has been modest and remains well below long-term trends. However, while recent data has been mixed, the improvement in the public finances enabled the Chancellor to ease up on the government's austerity measures and fund a significant increase in NHS spending in the autumn budget.

Despite sterling reaching over US\$1.40 during the spring – the highest level since before the referendum in 2016 – an apparent lack of progress towards a Brexit agreement and some softer economic data weighed on sterling subsequently. The surging US dollar also contributed to sterling weakness, with the upshot it ended the period at \$1.28.

2018 has produced strong growth in dividends<sup>[b]</sup> so far, with mining and energy companies driving underlying payments. Despite a lower number of special dividends, headline dividends have grown by 5%-6%. A weaker sterling for most of the period was supportive for dividends, especially from those larger companies making their payments in US dollars.

Charifund's income reserve provides some leeway should the dividend environment become more challenging. In the absence of any unexpected upsets, therefore, we are aiming for a further increase in Charifund's distribution in 2019.

<sup>[a]</sup> The historic yield reflects distributions declared over the past 12 months as a percentage of the mid-market price, as at the date shown. Investors may be subject to tax on their distributions. The level of any income earned by the fund will fluctuate.

<sup>[b]</sup> Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

# Manager's Report

## Investment review

### Fund performance

Over the 12 months under review, Charifund produced a capital return of -5.5%, compared with a capital return of -5.2% from the FTSE All-Share Index. With income reinvested, Charifund's total return over the period of -0.7% was slightly ahead of the -1.4% return from the FTSE All-Share Index.

Quarterly distributions of 18.75p and 29.00p per Income unit were declared in the second half of 2018, making a total distribution of 79.00p per Income unit for the year. This represents an increase of 5.7% compared with a total distribution of 74.75p paid in the corresponding period last year. The annual rate of inflation, as measured by the Retail Prices Index (RPI), was 3.3% in October 2018, while the Consumer Prices Index (CPI) was 2.4%, ahead of the Government's 2.0% target. The fund has 9.51p per unit set aside in the reserve facility to assist with income smoothing in future years.

As at 1 November 2018, Charifund's net historic yield of 5.2% was 30% higher than the yield of 4.0% on the FTSE All-Share Index. Notably, Charifund's yield means that it maintains its position as one of the highest distributing funds in the charities UK equity funds peer group (Source: Morningstar, Inc.). In addition, the fund's yield is well above the level of income available on UK government bonds<sup>[c]</sup> and cash deposit accounts. Please note that up to £85,000 of a charity's money is secure in a bank or building society, unlike shares or fixed income investments where up to £50,000 is protected by the FSCS<sup>[d]</sup>.

The fund's longer term performance remains very sound. Since inception in 1960, Charifund has delivered an annualised total return of 12.8% against 10.9% by the FTSE All-Share Index (FT 30 Index prior to April 1962). Shorter term, the fund is slightly behind over three years, but ahead of the index over five, seven and 10 years.

One of Charifund's objectives is to protect investors' capital from the erosive effect of inflation over a rolling 10-year period, and over the decade ending 31 October 2018, the fund's capital performance is ahead of RPI inflation by 1.9% per annum.

<sup>[c]</sup> Bonds are loans in the form of a security, usually issued by a government (government bonds) or company (corporate bonds), which normally pay a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

<sup>[d]</sup> Financial Services Compensation Scheme (FSCS) as at 30 January 2017.

### Market background

The 12 months under review was a volatile period for UK equities, or company shares, due to concerns about rising US interest rates and expectations of further moves towards the normalisation of monetary policy. Increasing unease about international trade wars, volatility in some emerging markets caused by a stronger US dollar, a populist government in Italy challenging the EU's budget rules, and the looming Brexit deadline of March 2019 also dampened investor sentiment.

The Bank of England (BoE) is taking steps to unwind the extraordinary monetary measures taken to support the domestic economy during the global financial crisis. In the first increases in a decade, in November 2017, the BoE raised the base rate to 0.5% and again in August 2018 to 0.75%. The most recent hike came despite only moderate inflationary pressure and weak economic data at the start

of the year, with the bank predicting that the economy would pick up in the second quarter, which duly transpired.

One of the news stories that has worried investors the most over the 12 months was international trade relations. The US initially imposed tariffs on certain key products, before expanding to a wide list of goods. Retaliatory steps have been taken or proposed by China, as well as the EU and other affected nations.

Initial progress in the Brexit negotiations in late 2017 was followed by months of disagreement and stalemate, both within the government and between the UK and the EU negotiators and the odds on a 'no deal' or 'hard Brexit' outcome have shortened.

Sterling had a choppy ride over the 12 months, rising above US\$1.40 for the first time after its Brexit-related devaluation. Since April 2018, however, sterling has come under pressure due to concerns about Brexit and some weaker economic data as the consumer and the corporate sector have delayed spending decisions until after March 2019. Sterling weakness also partly reflects the resurgent US dollar.

The more domestically focused small and medium-sized companies in the UK stockmarket underperformed larger, more internationally exposed companies over the 12 months, although all three areas of the market declined. At a sector level, pharmaceuticals and resource-related firms outperformed the market; the former supported by good results and takeover activity and the latter bolstered by rising commodity prices, especially oil. Exceptionally, amidst generally weak consumer sectors, investors sought out the reliable earnings streams offered by consumer staples companies which manufacture food and household goods. In addition, media companies and supermarket operators were boosted by bid activity.

By contrast, subdued economic growth weighed on the industrial sector, utilities were held back by political and regulatory concerns, while telecoms remained perennially weak, under pressure from competitors and high infrastructure upgrade costs. Despite a rising interest rate environment, which generally favours their business models, banks were affected by HSBC and Standard Chartered's exposure to emerging markets with high levels of US dollar debt.

### Factors affecting performance

Charifund ended its financial year slightly ahead of the FTSE All-Share Index in total return terms. Overall, the risk-averse market conditions generally suited the fund's defensive, dividend-focused investment approach. In addition, the fund benefited from its overseas holdings, which represent approximately 10% of the portfolio and are mainly concentrated in energy and pharmaceutical companies.

At a sector level, value was added primarily as a result of the fund's tobacco restriction, which meant it avoided the weakness in the sector. However, this was offset by a disappointing performance from some of the fund's income-earning sectors, such as telecoms and utilities, along with a bias towards more domestically focused medium-sized and smaller companies, where it has traditionally generated long-term growth, but also means it is more exposed to Brexit concerns and the UK economy than the multinationals.

At the stock level, value was added through the fund's positions in financials, construction firms, food producers and energy companies. Notably, the main individual contributors to performance included media company UBM, which was taken over by rival Informa, resource companies Equinor (formerly Statoil), Total and Rio Tinto, which were

# Manager's Report

## Investment review

### Factors affecting performance (continued)

lifted by rising commodity prices, US telecoms group Verizon Communications, which produced some good earnings numbers, and pharmaceutical manufacturers AstraZeneca and Novartis. The market had been anticipating AstraZeneca returning to top-line earnings growth in 2018, and Novartis announced that the patent for Gilenya, its multiple sclerosis treatment, had been upheld until 2027.

Some value was surrendered at the stock level, principally through the fund's positions in industrial companies, housebuilders and food retailers. However, the main individual detractors included newspaper and magazine distributor Connect Group, asset manager Jupiter Fund Management, convenience store operator McColl's Retail and housebuilder Crest Nicholson. Connect issued a profit warning, having struggled with its business this year: however, with the appointment of a new chief executive the outlook is more promising. Shares in fund management firms have generally sold off in view of their exposure to declining markets; however, Jupiter remains an attractive dividend-payer. McColl's issued a small profit warning, blaming it partly on the costs of replacing its wholesale goods supplier – Palmer & Harvey, which collapsed at the end of last year. A slowdown in the sale of new homes affected Crest Nicholson, although the long-term demand-supply dynamics remain in place and the government has extended its Help to Buy scheme.

Further value was lost through the fund's below-market position in a strongly performing Royal Dutch Shell; but to maintain an above-market holding in the energy company would mean that in excess of 9% of the portfolio would be invested in one stock.

### Key changes to the portfolio

The main thrust of the investment activity over the 12 months under review was income generation. To this end, amongst the new holdings introduced to the portfolio during the period were speciality chemicals manufacturer Victrex, property company Grit Real Estate Income Group, broadcaster ITV, and copper, zinc and lead miner Central Asia Metals.

Victrex produces polymers, where there is limited supply and strong demand, with its products used in the automobile, energy and medical industries. The Grit Real Estate Income Group is a way of gaining an exposure to the high-growth African market without the risks. The company has recently listed in London in order to access larger investors. The shares offer an 8%-plus yield from a pan-African real estate portfolio of embassies and offices let to governments and blue-chip organisations; 94% of the rents are paid in US dollars or euros. ITV has suffered a downturn in advertising revenue and competition from other media platforms; however, the company has potential to deliver more content and has brought in Carolyn McCall, who turned around easyJet, as chief executive. Charifund has a substantially below-market weight in miners and Central Asia Metals was a way to start increasing its exposure to the sector. The miner has operations in Kazakhstan and Macedonia, and benefits from low production costs.

Elsewhere, technology company Micro Focus was also added to the portfolio, but represented an opportunistic purchase of a high yield stock after the shares halved following a profit warning related to short-term difficulties it has encountered with its purchase of Hewlett Packard's software business.

The fund's biggest above-market stance is in financials, with most of this position represented by financials other than banks. However, a holding in Lloyds Banking Group was increased during the period. Lloyds has an attractive dividend, backed by a relatively strong capital position. HSBC also has an appealing dividend and is exposed to the faster growing emerging markets, but the bank already represents almost 5% of the portfolio, so although a below-market stance, this acts as a constraint on increasing the holding much further. Because of the limited opportunities in the UK, the fund maintains some exposure to good-quality banks in Europe and Canada.

The fund's largest below-market exposure is to the consumer sectors. This mainly reflects its tobacco restriction, as well as below-index stances in low-yielding beverages and retailers. The housebuilders were increased throughout 2016 and 2017, in view of the long-term demographics and government support for the sector, and in the wake of increased dividend payouts.

The fund has a modest below-market position in the energy sector. Historically, this reflected concerns about the dividend outlook for BP and Royal Dutch Shell; but the situation has improved, reflecting the efforts by the oil majors to cut costs and a 22% rise in the oil price to above US\$74 per barrel in the past 12 months. The fund also holds Total and Equinor, in order to reduce the risk of investing too much in any one company.

Most notable amongst the sales were sensor and safety equipment manufacturer Halma, property company Hansteen, camera equipment manufacturer Vitec, and telecoms firm TalkTalk. These were made necessary by their low yields. Halma, Hansteen and Vitec had been long-term holds and good performers – the proceeds from the Hansteen sale were recycled into The Grit Real Estate Income Group. TalkTalk issued a profit warning and accompanied this with a dividend cut that left the shares yielding less than BT and Vodafone. Elsewhere, the John Laing Infrastructure Fund exited the portfolio as a result of a cash takeover by a consortium of institutional investors.

### Outlook

The increased volatility that global equity markets have witnessed towards the end of 2018 was initially a reaction to a sharper-than-expected increase in borrowing costs, driven by the US bond market, where 10-year US Treasury yields have risen above 3% from around 2% at the start of the year. Investors are concerned that the US may raise interest rates more quickly in 2019 in response to inflationary pressures resulting from a strong US economy. More recently, some disappointing earnings guidance and concerns that monetary tightening by the US Federal Reserve may dampen US growth also weighed on investor sentiment.

Encouragingly, and notwithstanding uncertainty about the UK's impending departure from the EU, the domestic economy has been holding up. The UK recorded a moderate 0.4% rebound in the second quarter from the sluggish, weather-related 0.2% growth in the first quarter. Unemployment is at record lows, wage growth is improving and inflation remains contained for now. Furthermore, corporate earnings and dividend growth are supportive.

# Manager's Report

## Investment review

### Outlook (continued)

Growth in the dominant services sector remained positive in September, albeit slightly slower than the previous month and Brexit-related uncertainty is likely to be dampening business confidence. Manufacturing continues to expand, although recent advances mask a relatively lacklustre backdrop overall following a weak performance over the first half of the year. Construction has disappointed of late, with housebuilding, commercial and civil engineering losing momentum.

More than two years on from the UK's vote to leave the EU, the referendum result continues to cast a long shadow over the UK market and sterling. A weak and divided government complicates matters further. The uncertainty over what the eventual economic framework will look like will continue to hamper day-to-day decision-making for companies and individuals. Regardless of the final outcome of the talks in the coming months, a degree of clarity and certainty will be welcome for businesses and households alike.

Sterling has been below US\$1.40 for most of the past year and this weakness has been helpful for Charifund, as many larger companies held in the portfolio declare their dividends in the US currency. Charifund's income reserve should offer some protection in the event of disappointments in the dividend environment. Barring unforeseen upsets, however, we are aiming for a further, above-inflation increase in Charifund's distribution in 2019.

### Benefits of Charifund

Charities derive considerable benefit from investing in Charifund for the equity portion of their portfolio. First, by investing via a collective investment scheme, charities are able to minimise their administrative burden. Secondly, investing in a fund with a clear, consistent strategy and comprising more than 100 holdings limits risk. Thirdly, Charifund has no initial charge and the annual management charges are low. Fourthly, no minimum restrictions apply to the size of a holding, so that all qualifying charities, whatever their size, can gain access to Charifund on equal terms. Finally, Charifund's Advisory Committee consists of external investment professionals of long standing, many of whom have extensive experience as charity trustees, and they give their services for the benefit of unitholders.

### Michael Stiasny

Fund manager

The fund's investment portfolio and details of portfolio transactions are set out on pages 5 to 7.

Michael Stiasny is an employee of M&G Limited which is an associate of M&G Securities Limited.

Please note that the views expressed in this Report should not be taken as a recommendation or advice as to how Charifund or any holding mentioned is likely to perform. If a charity wishes to obtain financial advice as to whether an investment is suitable for its needs, it should consult a financial adviser.

## Investments

### Portfolio statement

| as at 31 October                                     | 2018             | 2018          | 2017 <sup>[a]</sup> |
|--|------------------|---------------|---------------------|
| Holding  | £'000            | %             | %                   |
| <b>EQUITIES</b>                                      | <b>1,139,680</b> | <b>101.00</b> | <b>100.18</b>       |
| <b>Oil &amp; gas producers</b>                       | <b>159,774</b>   | <b>14.16</b>  | <b>11.88</b>        |
| <b>United Kingdom</b>                                | <b>130,575</b>   | <b>11.57</b>  | <b>9.45</b>         |
| 11,250,000 BP  | 63,844           | 5.66          |                     |
| 2,609,726 Royal Dutch Shell 'B'                      | 66,731           | 5.91          |                     |
| <b>France</b>  | <b>11,962</b>    | <b>1.06</b>   | <b>0.86</b>         |
| 259,766 TOTAL  | 11,962           | 1.06          |                     |
| <b>Netherlands</b>                                   | <b>1,005</b>     | <b>0.09</b>   | <b>0.00</b>         |
| 40,274 Royal Dutch Shell 'A'                         | 1,005            | 0.09          |                     |
| <b>Norway</b>  | <b>16,232</b>    | <b>1.44</b>   | <b>1.57</b>         |
| 800,000 Equinor (formerly Statoil)                   | 16,232           | 1.44          |                     |
| <b>Chemicals</b>                                     | <b>11,729</b>    | <b>1.04</b>   | <b>0.93</b>         |
| <b>United Kingdom</b>                                | <b>11,729</b>    | <b>1.04</b>   | <b>0.93</b>         |
| 500,000 Elementis                                    | 1,020            | 0.09          |                     |
| 1,380,000 Synthomer                                  | 6,124            | 0.54          |                     |
| 175,000 Victrex                                      | 4,585            | 0.41          |                     |
| <b>Mining</b>  | <b>48,769</b>    | <b>4.32</b>   | <b>3.09</b>         |
| <b>United Kingdom</b>                                | <b>48,769</b>    | <b>4.32</b>   | <b>3.09</b>         |
| 550,000 BHP Billiton                                 | 8,535            | 0.76          |                     |
| 1,500,000 Central Asia Metals <sup>[b]</sup>         | 3,247            | 0.29          |                     |
| 975,000 Rio Tinto                                    | 36,987           | 3.27          |                     |
| <b>Construction &amp; materials</b>                  | <b>17,798</b>    | <b>1.58</b>   | <b>1.75</b>         |
| <b>United Kingdom</b>                                | <b>17,798</b>    | <b>1.58</b>   | <b>1.75</b>         |
| 3,510,000 Balfour Beatty 10.75% Cum. Cnv. Red. Pref. | 3,791            | 0.34          |                     |
| 500,000 Kier Group                                   | 4,340            | 0.38          |                     |
| 2,280,000 Marshalls                                  | 9,667            | 0.86          |                     |
| <b>General industrials</b>                           | <b>12,474</b>    | <b>1.11</b>   | <b>1.12</b>         |
| <b>United Kingdom</b>                                | <b>12,474</b>    | <b>1.11</b>   | <b>1.12</b>         |
| 3,150,000 DS Smith                                   | 12,474           | 1.11          |                     |
| <b>Electronic &amp; electrical equipment</b>         | <b>4,890</b>     | <b>0.43</b>   | <b>1.07</b>         |
| <b>United Kingdom</b>                                | <b>4,890</b>     | <b>0.43</b>   | <b>1.07</b>         |
| 1,750,000 Morgan Advanced Materials                  | 4,890            | 0.43          |                     |
| <b>Industrial engineering</b>                        | <b>11,100</b>    | <b>0.98</b>   | <b>1.32</b>         |
| <b>United Kingdom</b>                                | <b>8,040</b>     | <b>0.71</b>   | <b>1.06</b>         |
| 800,000 IMI  | 8,040            | 0.71          |                     |
| <b>Finland</b>                                       | <b>3,060</b>     | <b>0.27</b>   | <b>0.26</b>         |
| 80,000 Kone  | 3,060            | 0.27          |                     |
| <b>Industrial transportation</b>                     | <b>9,629</b>     | <b>0.85</b>   | <b>0.95</b>         |
| <b>United Kingdom</b>                                | <b>9,629</b>     | <b>0.85</b>   | <b>0.95</b>         |
| 1,000,000 BBA Aviation                               | 2,402            | 0.21          |                     |
| 3,500,000 Wincanton                                  | 7,227            | 0.64          |                     |
| <b>Support services</b>                              | <b>29,435</b>    | <b>2.61</b>   | <b>4.38</b>         |
| <b>United Kingdom</b>                                | <b>29,435</b>    | <b>2.61</b>   | <b>3.66</b>         |
| 9,000,000 Connect Group                              | 3,033            | 0.27          |                     |
| 900,000 De La Rue                                    | 4,342            | 0.38          |                     |
| 2,500,000 Electrocomponents                          | 15,295           | 1.36          |                     |
| 2,200,000 SThree                                     | 6,765            | 0.60          |                     |
| <b>France</b>  | <b>0</b>         | <b>0.00</b>   | <b>0.72</b>         |
| <b>Food producers</b>                                | <b>11,779</b>    | <b>1.04</b>   | <b>0.97</b>         |
| <b>United Kingdom</b>                                | <b>11,779</b>    | <b>1.04</b>   | <b>0.97</b>         |
| 715,000 Dairy Crest Group                            | 3,416            | 0.30          |                     |
| 1,250,000 Tate & Lyle                                | 8,363            | 0.74          |                     |

# Manager's Report

## Investments

| Portfolio statement (continued)                |                |              |                     |  |
|--|----------------|--------------|---------------------|--|
| as at 31 October                               | 2018           | 2018         | 2017 <sup>[a]</sup> |  |
| Holding  | £'000          | %            | %                   |  |
| <b>Household goods &amp; home construction</b> | <b>24,303</b>  | <b>2.15</b>  | <b>2.63</b>         |  |
| <b>United Kingdom</b>                          | <b>24,303</b>  | <b>2.15</b>  | <b>2.63</b>         |  |
| 250,000 Bellway                                | 7,170          | 0.64         |                     |  |
| 900,000 Bovis Homes Group                      | 8,628          | 0.76         |                     |  |
| 1,600,000 Crest Nicholson                      | 5,437          | 0.48         |                     |  |
| 1,500,000 Watkin Jones <sup>[b]</sup>          | 3,068          | 0.27         |                     |  |
| <b>Personal goods</b>                          | <b>22,313</b>  | <b>1.98</b>  | <b>1.91</b>         |  |
| <b>United Kingdom</b>                          | <b>16,889</b>  | <b>1.50</b>  | <b>1.45</b>         |  |
| 405,000 Unilever                               | 16,889         | 1.50         |                     |  |
| <b>Denmark</b>                                 | <b>5,424</b>   | <b>0.48</b>  | <b>0.46</b>         |  |
| 110,000 Pandora                                | 5,424          | 0.48         |                     |  |
| <b>Pharmaceuticals &amp; biotechnology</b>     | <b>124,010</b> | <b>10.99</b> | <b>8.81</b>         |  |
| <b>United Kingdom</b>                          | <b>92,131</b>  | <b>8.16</b>  | <b>6.25</b>         |  |
| 820,000 AstraZeneca                            | 49,446         | 4.38         |                     |  |
| 2,750,000 GlaxoSmithKline                      | 42,685         | 3.78         |                     |  |
| <b>France</b>                                  | <b>5,611</b>   | <b>0.50</b>  | <b>0.46</b>         |  |
| 80,000 Sanofi                                  | 5,611          | 0.50         |                     |  |
| <b>Switzerland</b>                             | <b>21,533</b>  | <b>1.91</b>  | <b>1.59</b>         |  |
| 225,000 Novartis (Regd.)                       | 15,267         | 1.35         |                     |  |
| 33,000 Roche Holding                           | 6,266          | 0.56         |                     |  |
| <b>Japan</b>                                   | <b>4,735</b>   | <b>0.42</b>  | <b>0.51</b>         |  |
| 150,000 Takeda Pharmaceutical                  | 4,735          | 0.42         |                     |  |
| <b>Food &amp; drug retailers</b>               | <b>2,450</b>   | <b>0.22</b>  | <b>0.44</b>         |  |
| <b>United Kingdom</b>                          | <b>2,450</b>   | <b>0.22</b>  | <b>0.44</b>         |  |
| 1,951,834 McColl's Retail                      | 2,450          | 0.22         |                     |  |
| <b>General retailers</b>                       | <b>15,385</b>  | <b>1.36</b>  | <b>1.98</b>         |  |
| <b>United Kingdom</b>                          | <b>15,385</b>  | <b>1.36</b>  | <b>1.98</b>         |  |
| 1,750,000 Brown (N) Group                      | 2,371          | 0.21         |                     |  |
| 1,795,448 DFS Furniture                        | 3,708          | 0.33         |                     |  |
| 500,000 Dunelm Group                           | 2,970          | 0.26         |                     |  |
| 800,000 Halfords Group                         | 2,450          | 0.22         |                     |  |
| 200,000 WH Smith                               | 3,886          | 0.34         |                     |  |
| <b>Media</b>                                   | <b>35,517</b>  | <b>3.15</b>  | <b>2.65</b>         |  |
| <b>United Kingdom</b>                          | <b>35,517</b>  | <b>3.15</b>  | <b>2.65</b>         |  |
| 200,000 Gocompare.Com                          | 165            | 0.01         |                     |  |
| 3,574,300 Informa                              | 25,699         | 2.28         |                     |  |
| 2,500,000 ITV                                  | 3,729          | 0.33         |                     |  |
| 1,330,000 Moneysupermarket.com                 | 3,920          | 0.35         |                     |  |
| 3,000,000 Reach (formerly Trinity Mirror)      | 2,004          | 0.18         |                     |  |
| <b>Travel &amp; leisure</b>                    | <b>34,744</b>  | <b>3.08</b>  | <b>3.29</b>         |  |
| <b>United Kingdom</b>                          | <b>34,744</b>  | <b>3.08</b>  | <b>3.29</b>         |  |
| 410,000 Compass Group                          | 6,314          | 0.56         |                     |  |
| 503,711 Go-Ahead Group                         | 7,666          | 0.68         |                     |  |
| 1,250,000 Greene King                          | 6,031          | 0.53         |                     |  |
| 5,775,000 Marston's                            | 5,746          | 0.51         |                     |  |
| 2,250,000 National Express                     | 8,987          | 0.80         |                     |  |
| <b>Fixed line telecommunications</b>           | <b>51,242</b>  | <b>4.54</b>  | <b>4.06</b>         |  |
| <b>United Kingdom</b>                          | <b>37,581</b>  | <b>3.33</b>  | <b>3.19</b>         |  |
| 6,700,000 BT Group                             | 15,732         | 1.39         |                     |  |
| 17,250,000 KCOM Group                          | 15,801         | 1.40         |                     |  |
| 3,600,000 Manx Telecom <sup>[b]</sup>          | 6,048          | 0.54         |                     |  |

## Portfolio statement (continued)

| as at 31 October   | 2018           | 2018        | 2017 <sup>[a]</sup> |
|--|----------------|-------------|---------------------|
| Holding  | £'000          | %           | %                   |
| <b>United States</b>                                     | <b>13,661</b>  | <b>1.21</b> | <b>0.87</b>         |
| 300,000 Verizon Communications                           | 13,661         | 1.21        |                     |
| <b>Mobile telecommunications</b>                         | <b>29,532</b>  | <b>2.62</b> | <b>3.03</b>         |
| <b>United Kingdom</b>                                    | <b>29,532</b>  | <b>2.62</b> | <b>3.03</b>         |
| 20,000,000 Vodafone Group                                | 29,532         | 2.62        |                     |
| <b>Electricity</b>                                       | <b>15,120</b>  | <b>1.34</b> | <b>1.30</b>         |
| <b>United Kingdom</b>                                    | <b>15,120</b>  | <b>1.34</b> | <b>1.30</b>         |
| 1,325,701 SSE  | 15,120         | 1.34        |                     |
| <b>Gas, water &amp; multiutilities</b>                   | <b>68,977</b>  | <b>6.11</b> | <b>6.90</b>         |
| <b>United Kingdom</b>                                    | <b>65,870</b>  | <b>5.83</b> | <b>6.59</b>         |
| 5,250,000 Centrica                                       | 7,830          | 0.69        |                     |
| 2,154,166 National Grid                                  | 18,045         | 1.60        |                     |
| 2,420,000 Pennon Group                                   | 18,198         | 1.61        |                     |
| 72,000 Severn Trent                                      | 1,340          | 0.12        |                     |
| 2,800,000 United Utilities                               | 20,457         | 1.81        |                     |
| <b>France</b>  | <b>3,107</b>   | <b>0.28</b> | <b>0.31</b>         |
| 300,000 ENGIE  | 3,107          | 0.28        |                     |
| <b>Banks</b>   | <b>109,109</b> | <b>9.67</b> | <b>9.81</b>         |
| <b>United Kingdom</b>                                    | <b>91,527</b>  | <b>8.11</b> | <b>8.29</b>         |
| 550,000 Close Brothers Group                             | 8,057          | 0.71        |                     |
| 8,500,000 HSBC Holdings                                  | 54,961         | 4.87        |                     |
| 33,000,000 Lloyds Banking Group                          | 18,909         | 1.68        |                     |
| 7,100,000 Standard Chartered 7.375% Non-cum. Irrd. Pref. | 8,236          | 0.73        |                     |
| 1,100,000 Standard Chartered 8.25% Non-cum. Irrd. Pref.  | 1,364          | 0.12        |                     |
| <b>Sweden</b>  | <b>4,291</b>   | <b>0.38</b> | <b>0.45</b>         |
| 250,000 Nordea Bank                                      | 1,730          | 0.15        |                     |
| 300,000 Svenska Handelsbanken                            | 2,561          | 0.23        |                     |
| <b>Canada</b>  | <b>13,291</b>  | <b>1.18</b> | <b>1.07</b>         |
| 225,000 Bank of Montreal                                 | 13,291         | 1.18        |                     |
| <b>Non-life insurance</b>                                | <b>52,908</b>  | <b>4.69</b> | <b>4.67</b>         |
| <b>United Kingdom</b>                                    | <b>40,551</b>  | <b>3.59</b> | <b>3.74</b>         |
| 3,000,000 Aviva 8.375% Cum. Irrd. Pref.                  | 3,960          | 0.35        |                     |
| 1,050,000 Aviva 8.75% Cum. Irrd. Pref.                   | 1,438          | 0.13        |                     |
| 1,604,166 Direct Line Insurance Group                    | 5,254          | 0.47        |                     |
| 6,500,000 General Accident 7.875% Cum. Irrd. Pref.       | 7,930          | 0.70        |                     |
| 9,000,000 General Accident 8.875% Cum. Irrd. Pref.       | 12,240         | 1.08        |                     |
| 4,500,000 RSA Insurance Group 7.375% Cum. Irrd. Pref.    | 5,175          | 0.46        |                     |
| 1,751,713 Sabre Insurance Group                          | 4,554          | 0.40        |                     |
| <b>Finland</b>   | <b>6,286</b>   | <b>0.56</b> | <b>0.56</b>         |
| 175,000 Sampo  | 6,286          | 0.56        |                     |
| <b>Switzerland</b>                                       | <b>6,071</b>   | <b>0.54</b> | <b>0.37</b>         |
| 25,000 Zurich Insurance Group                            | 6,071          | 0.54        |                     |
| <b>Life insurance</b>                                    | <b>65,392</b>  | <b>5.80</b> | <b>5.73</b>         |
| <b>United Kingdom</b>                                    | <b>65,392</b>  | <b>5.80</b> | <b>5.73</b>         |
| 4,775,000 Aviva  | 20,370         | 1.81        |                     |
| 3,790,718 Chesnara                                       | 13,078         | 1.16        |                     |
| 8,750,000 Legal & General Group                          | 21,831         | 1.94        |                     |
| 1,466,666 Phoenix Group                                  | 8,844          | 0.78        |                     |
| 125,000 St. James's Place                                | 1,269          | 0.11        |                     |
| <b>Real estate investment &amp; services</b>             | <b>10,400</b>  | <b>0.92</b> | <b>0.90</b>         |
| <b>United Kingdom</b>                                    | <b>10,400</b>  | <b>0.92</b> | <b>0.90</b>         |
| 1,170,126 AXA Property Trust                             | 412            | 0.04        |                     |
| 3,669,091 Grit Real Estate Income Group                  | 4,165          | 0.37        |                     |
| 1,980,830 Palace Capital                                 | 5,823          | 0.51        |                     |

# Manager's Report

## Investments

### Portfolio statement (continued)

| as at 31 October<br>Holding   | 2018<br>£'000 | 2018<br>%   | 2017 <sup>[a]</sup><br>% |
|---|---------------|-------------|--------------------------|
| <b>Real estate investment trusts</b>                                      | <b>60,785</b> | <b>5.39</b> | <b>5.04</b>              |
| <b>United Kingdom</b>   | <b>55,071</b> | <b>4.88</b> | <b>4.58</b>              |
| 4,436,857 Assura  | 2,360         | 0.21        |                          |
| 1,512,742 British Land  | 8,901         | 0.79        |                          |
| 2,303,235 LondonMetric Property   | 4,111         | 0.36        |                          |
| 900,000 McKay Securities  | 2,430         | 0.22        |                          |
| 500,000 Mucklow A & J Group   | 2,560         | 0.23        |                          |
| 1,002,178 NewRiver REIT   | 2,536         | 0.22        |                          |
| 2,500,000 Picton Property Income  | 2,160         | 0.19        |                          |
| 2,998,798 Primary Health Properties                                       | 3,293         | 0.29        |                          |
| 3,752,311 PRS REIT  | 3,771         | 0.33        |                          |
| 10,877,061 RDI REIT (formerly<br>Redefine International)                  | 3,584         | 0.32        |                          |
| 995,049 Regional REIT   | 992           | 0.09        |                          |
| 3,000,000 Schroder Real Estate Investment Trust                           | 1,782         | 0.16        |                          |
| 600,000 Segro   | 3,697         | 0.33        |                          |
| 7,250,000 Standard Life Investment Property<br>Income Trust               | 6,641         | 0.59        |                          |
| 2,500,000 Target HealthCare   | 2,750         | 0.24        |                          |
| 2,994,229 Urban Logistics (formerly Pacific<br>Industrial) <sup>[b]</sup> | 3,503         | 0.31        |                          |
| <b>Guernsey</b>   | <b>5,714</b>  | <b>0.51</b> | <b>0.46</b>              |
| 5,830,000 Channel Islands Property Fund                                   | 5,714         | 0.51        |                          |
| <b>Financial services</b>   | <b>48,695</b> | <b>4.31</b> | <b>5.41</b>              |
| <b>United Kingdom</b>   | <b>48,695</b> | <b>4.31</b> | <b>5.41</b>              |
| 3,500,000 Ashmore Group   | 12,390        | 1.10        |                          |
| 2,500,000 Brewin Dolphin Holdings   | 8,150         | 0.72        |                          |
| 950,000 Intermediate Capital Group  | 8,944         | 0.79        |                          |
| 1,500,000 Jupiter Fund Management   | 5,064         | 0.45        |                          |
| 2,000,000 Lloyds Banking Group 9.25%<br>Non-cum. Irrd. Pref.              | 2,870         | 0.25        |                          |
| 18,750 Nationwide Building Society 10.25%<br>CCD Non-cum. Irrd. Pref.     | 2,755         | 0.24        |                          |
| 2,187,500 Standard Life Aberdeen (formerly<br>Standard Life)              | 5,867         | 0.52        |                          |
| 920,000 TP ICAP   | 2,655         | 0.24        |                          |
| <b>Equity investment instruments</b>                                      | <b>33,951</b> | <b>3.01</b> | <b>3.64</b>              |
| <b>United Kingdom</b>   | <b>33,951</b> | <b>3.01</b> | <b>3.64</b>              |
| 2,500,000 Aberdeen Asian Income Fund                                      | 4,725         | 0.42        |                          |
| 7,037,520 Aberforth Split Level Income Trust                              | 5,897         | 0.52        |                          |
| 800,000 BlackRock World Mining Trust                                      | 2,740         | 0.24        |                          |
| 4,110,000 Ecofin Global Utilities<br>and Infrastructure                   | 5,076         | 0.45        |                          |
| 1,467,858 EF Realisation <sup>[d]</sup>                                   | 1,264         | 0.11        |                          |
| 294,432 HICL Infrastructure   | 463           | 0.04        |                          |
| 467,628 Merchants Trust   | 2,217         | 0.20        |                          |
| 8,000,000 Middlefield Canadian Income Trusts                              | 7,376         | 0.66        |                          |
| 475,000 Princess Private Equity   | 4,193         | 0.37        |                          |
| <b>Non-equity investment instruments</b>                                  | <b>7,138</b>  | <b>0.63</b> | <b>0.52</b>              |
| <b>United Kingdom</b>   | <b>7,138</b>  | <b>0.63</b> | <b>0.52</b>              |
| 643,095 Honeycomb Investment Trust  | 7,138         | 0.63        |                          |
| <b>Software &amp; computer services</b>                                   | <b>10,332</b> | <b>0.92</b> | <b>0.00</b>              |
| <b>United Kingdom</b>   | <b>10,332</b> | <b>0.92</b> | <b>0.00</b>              |
| 850,000 Micro Focus   | 10,332        | 0.92        |                          |

### Portfolio statement (continued)

| as at 31 October<br>Holding                                    | 2018<br>£'000    | 2018<br>%     | 2017 <sup>[a]</sup><br>% |
|--|------------------|---------------|--------------------------|
| Portfolio of investments                                       | 1,139,680        | 101.00        | 100.18                   |
| <b>CASH EQUIVALENTS</b>  | <b>0</b>         | <b>0.00</b>   | <b>0.97</b>              |
| 'AAA' rated money market funds <sup>[c]</sup>                  | 0                | 0.00          | 0.97                     |
| <b>Total portfolio (notes 2c &amp; 2d on page 11 &amp; 12)</b> | <b>1,139,680</b> | <b>101.00</b> | <b>101.15</b>            |
| <b>Net other assets / (liabilities)</b>                        | <b>(11,269)</b>  | <b>(1.00)</b> | <b>(1.15)</b>            |
| <b>Net assets attributable to unitholders</b>                  | <b>1,128,411</b> | <b>100.00</b> | <b>100.00</b>            |

All securities are on an official stock exchange listing except where referenced.

<sup>[a]</sup> The portfolio has been reclassified to more appropriately reflect how the fund is managed. 2017 comparatives have been restated to reflect this.

<sup>[b]</sup> AIM quoted.

<sup>[c]</sup> Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.

<sup>[d]</sup> Delisted.

### Top ten portfolio transactions

for the year to 31 October 2018

| Largest purchases              | £'000          |
|--------------------------------|----------------|
| Micro Focus                    | 10,739         |
| BT Group                       | 7,034          |
| Victrix                        | 4,517          |
| Central Asia Metals            | 4,511          |
| Sabre Insurance Group          | 4,458          |
| BP                             | 4,294          |
| Vodafone Group                 | 4,059          |
| Grit Real Estate Income Group  | 4,006          |
| Rio Tinto                      | 3,997          |
| ITV                            | 3,772          |
| Other purchases                | 28,010         |
| <b>Total purchases</b>         | <b>79,397</b>  |
| Largest sales                  | £'000          |
| Elis                           | 9,047          |
| Equinor (formerly Statoil)     | 8,760          |
| Compass Group                  | 6,902          |
| Severn Trent                   | 6,626          |
| John Laing Infrastructure Fund | 5,852          |
| Segro                          | 5,837          |
| Intermediate Capital Group     | 5,460          |
| WH Smith                       | 5,196          |
| Halma                          | 5,150          |
| AstraZeneca                    | 4,784          |
| Other sales                    | 47,101         |
| <b>Total sales</b>             | <b>110,715</b> |

Purchases and sales exclude the cost and proceeds of 'AAA' rated money market funds.

# Financial highlights

## Fund performance

Please note past performance is not a guide to future performance and the value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and a charity may not get back the original amount it invested.

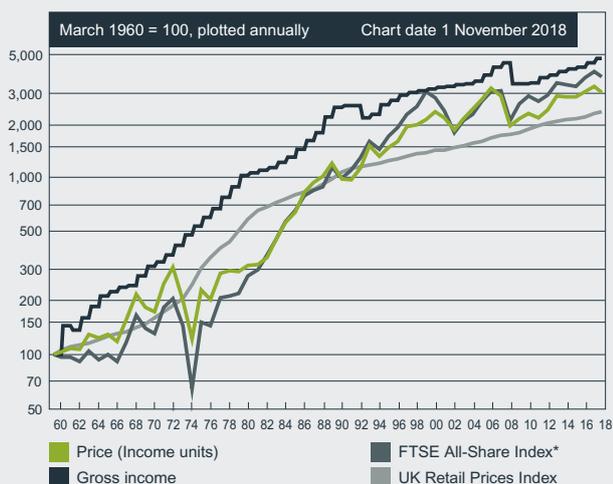
### Fund level performance

#### Fund net asset value

| as at 31 October           | 2018<br>£'000 | 2017<br>£'000 | 2016<br>£'000 |
|----------------------------|---------------|---------------|---------------|
| Fund net asset value (NAV) | 1,128,411     | 1,244,470     | 1,168,270     |

### Performance since launch

To give an indication of how the fund has performed since launch, the graph below shows the capital return of Income units. For a more detailed view of how Income units and Accumulation units have performed since launch please see the Appendix section at the back of this report.



To give an indication of the performance of the fund, the following table shows the absolute return over the period.

#### Long-term performance

|  | One<br>year<br>01.11.17<br>% | Three<br>years<br>03.11.15<br>% | Five<br>years<br>01.11.13<br>% | Since<br>launch<br>01.03.60<br>% |
|--|------------------------------|---------------------------------|--------------------------------|----------------------------------|
| as at 1 November 2018                          |                              |                                 |                                |                                  |
| Charifund Income units <sup>[a]</sup>          | -5.5                         | +7.2                            | +7.6                           | +2,986.5                         |
| FTSE All-Share Index <sup>[b]</sup>            | -5.2                         | +11.7                           | +9.0                           | +3,656.5                         |
| Charifund Accumulation units <sup>[a][c]</sup> | -0.7                         | +24.0                           | +36.7                          | +115,776.5                       |
| FTSE All-Share Index <sup>[b][c]</sup>         | -1.4                         | +25.0                           | +30.6                          | +42,326.5                        |

<sup>[a]</sup> Price to price basis.

<sup>[b]</sup> FT 30 Index prior to April 1962.

<sup>[c]</sup> Income reinvested.

#### Single year performance (5 years ending October)

| From                     | 01.11.17 | 01.11.16 | 01.11.15 | 01.11.14 | 01.11.13 |
|--------------------------|----------|----------|----------|----------|----------|
| To                       | 31.10.18 | 31.10.17 | 31.10.16 | 31.10.15 | 31.10.14 |
|                          | %        | %        | %        | %        | %        |
| Charifund <sup>[a]</sup> | -1.3     | +12.8    | +10.2    | +5.7     | +4.9     |

<sup>[a]</sup> Income units, price to price with income reinvested.

Source: Morningstar, Inc.

Past performance is not a guide to future performance.

The value of stockmarket investments, and the income from them, will fluctuate. This will cause the fund unit price to fall as well as rise and a charity may not receive back the amount it originally invested.

# Financial highlights

## Fund performance

### Operating charges and portfolio transaction costs

We explain below the payments made to meet the ongoing costs of investing and managing the fund, comprised of operating charges and portfolio transaction costs.

#### Operating charges

Operating charges include payments made to M&G and to providers independent of M&G:

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

The operating charges paid by each unit type of the fund are shown in the following performance tables. Operating charges do not include portfolio transaction costs or any entry and exit charges (also known as initial and redemption charges).

Operating charges are the same as the ongoing charges shown in the Key Features Document, other than where an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

For this fund there is no difference between operating charges and ongoing charges figures.

### Portfolio transaction costs

Portfolio transaction costs are incurred by funds when buying and selling investments. These costs vary depending on the types of investment, their market capitalisation, country of exchange and method of execution. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission and taxes.
- **Indirect portfolio transaction costs:** 'Dealing spread' – the difference between the buying and selling prices of the fund's investments; some types of investment, such as fixed interest securities, have no direct transaction costs and only the dealing spread is paid.

Investments are bought or sold by a fund when changes are made to the investment portfolio and in response to net flows of money into or out of the fund from investors buying and selling units in the fund.

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling units in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. The table below shows direct portfolio transaction costs paid by the fund before and after that part of the dilution adjustment relating to direct portfolio transaction costs. To give an indication of the indirect portfolio dealing costs the table also shows the average portfolio dealing spread.

Further information on this process is in the Prospectus, which is available free of charge on request by calling the M&G Charity Team on 0800 917 4472.

| Portfolio transaction costs                       |      |      |      |                        |
|---|------|------|------|------------------------|
| for the year to 31 October                        | 2018 | 2017 | 2016 | Average <sup>[a]</sup> |
| Direct portfolio transaction costs <sup>[b]</sup> | %    | %    | %    | %                      |
| Broker commission                                 | 0.01 | 0.01 | 0.02 | 0.01                   |
| Taxes   | 0.00 | 0.00 | 0.00 | 0.00                   |
| Costs before dilution adjustments                 | 0.01 | 0.01 | 0.02 | 0.01                   |
| Dilution adjustments <sup>[c]</sup>               | 0.00 | 0.00 | 0.00 | 0.00                   |
| Total direct portfolio transaction costs          | 0.01 | 0.01 | 0.02 | 0.01                   |
| as at 31 October                                  | 2018 | 2017 | 2016 | Average <sup>[a]</sup> |
| Indirect portfolio transaction costs              | %    | %    | %    | %                      |
| Average portfolio dealing spread                  | 0.39 | 0.36 | 0.35 | 0.37                   |

<sup>[a]</sup> Average of first three columns.

<sup>[b]</sup> As a percentage of average net asset value.

<sup>[c]</sup> In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

# Financial highlights

## Specific unit type performance

The following tables show the performance of each unit type. All 'Performance and charges' percentages represent an annual rate except for the 'Return after operating charges' which is calculated as a percentage of the opening net asset value per unit (NAV). 'Dilution adjustments' are only in respect of direct portfolio transaction costs.

Historic yields for the current year are calculated as at 9 November 2018.

### Income unit performance

The unit type was launched on 1 March 1960.

| for the year to 31 October<br>Change in NAV per unit                         | 2018<br>UK p | 2017<br>UK p | 2016<br>UK p |
|--|--------------|--------------|--------------|
| Opening NAV  | 1,606.48     | 1,492.51     | 1,422.23     |
| Return before operating charges and after direct portfolio transaction costs | (17.08)      | 197.25       | 148.04       |
| Operating charges  | (8.68)       | (8.53)       | (6.76)       |
| Return after operating charges   | (25.76)      | 188.72       | 141.28       |
| Distributions  | (79.00)      | (74.75)      | (71.00)      |
| Closing NAV  | 1,501.72     | 1,606.48     | 1,492.51     |
| <b>Direct portfolio transaction costs</b>                                    | <b>UK p</b>  | <b>UK p</b>  | <b>UK p</b>  |
| Costs before dilution adjustments  | 0.10         | 0.08         | 0.22         |
| Dilution adjustments <sup>[a]</sup>  | (0.06)       | (0.06)       | (0.04)       |
| Total direct portfolio transaction costs                                     | 0.04         | 0.02         | 0.18         |
| <b>Performance and charges</b>   | <b>%</b>     | <b>%</b>     | <b>%</b>     |
| Direct portfolio transaction costs <sup>[b]</sup>                            | 0.01         | 0.01         | 0.02         |
| Operating charges  | 0.55         | 0.54         | 0.47         |
| Return after operating charges   | -1.60        | +12.64       | +9.93        |
| Historic yield   | 5.24         | 4.65         | 4.86         |
| Effect on yield of charges offset against capital                            | 0.47         | 0.47         | 0.47         |
| <b>Other information</b>   |              |              |              |
| Closing NAV (£'000)  | 1,001,763    | 1,118,608    | 1,055,797    |
| Closing NAV percentage of total fund NAV (%)                                 | 88.78        | 89.89        | 90.37        |
| Number of units  | 66,707,654   | 69,631,077   | 70,739,577   |
| Highest unit price (UK p)  | 1,663.22     | 1,642.99     | 1,573.14     |
| Lowest unit price (UK p)   | 1,498.65     | 1,443.53     | 1,285.24     |

### Accumulation unit performance

The unit type was launched on 25 November 1975.

| for the year to 31 October<br>Change in NAV per unit                         | 2018<br>UK p | 2017<br>UK p | 2016<br>UK p |
|--|--------------|--------------|--------------|
| Opening NAV  | 24,404.51    | 21,631.35    | 19,626.00    |
| Return before operating charges and after direct portfolio transaction costs | (285.30)     | 2,898.74     | 2,100.02     |
| Operating charges  | (133.76)     | (125.58)     | (94.67)      |
| Return after operating charges   | (419.06)     | 2,773.16     | 2,005.35     |
| Distributions  | (1,222.00)   | (1,101.00)   | (994.50)     |
| Retained distributions   | 1,222.00     | 1,101.00     | 994.50       |
| Closing NAV  | 23,985.45    | 24,404.51    | 21,631.35    |
| <b>Direct portfolio transaction costs</b>                                    | <b>UK p</b>  | <b>UK p</b>  | <b>UK p</b>  |
| Costs before dilution adjustments  | 1.57         | 1.16         | 3.11         |
| Dilution adjustments <sup>[a]</sup>  | (0.99)       | (0.93)       | (0.51)       |
| Total direct portfolio transaction costs                                     | 0.58         | 0.23         | 2.60         |
| <b>Performance and charges</b>   | <b>%</b>     | <b>%</b>     | <b>%</b>     |
| Direct portfolio transaction costs <sup>[b]</sup>                            | 0.01         | 0.01         | 0.02         |
| Operating charges  | 0.55         | 0.54         | 0.47         |
| Return after operating charges   | -1.72        | +12.82       | +10.22       |
| Historic yield   | 5.08         | 4.51         | 4.70         |
| Effect on yield of charges offset against capital                            | 0.47         | 0.47         | 0.47         |
| <b>Other information</b>   |              |              |              |
| Closing NAV (£'000)  | 126,648      | 125,862      | 112,473      |
| Closing NAV percentage of total fund NAV (%)                                 | 11.22        | 10.11        | 9.63         |
| Number of units  | 528,019      | 515,733      | 519,953      |
| Highest unit price (UK p)  | 25,758.47    | 24,554.13    | 22,424.31    |
| Lowest unit price (UK p)   | 23,010.73    | 20,921.20    | 17,890.70    |

<sup>[a]</sup> In respect of direct portfolio transaction costs.

<sup>[b]</sup> As a percentage of average net asset value.

# Financial statements and notes

## Financial statements

### Statement of total return

| for the year to 31 October   | Note | 2018    |                 | 2017    |                |
|--|------|---------|-----------------|---------|----------------|
|  |      | £'000   | £'000           | £'000   | £'000          |
| Income   |      |         |                 |         |                |
| Net capital gains / (losses)   | 5    |         | (75,763)        |         | 94,393         |
| Revenue  | 7    | 63,168  |                 | 60,557  |                |
| Expenses   | 8    | (5,717) |                 | (5,787) |                |
| Net revenue / (expense) before taxation  |      | 57,451  |                 | 54,770  |                |
| Taxation   | 9    | (439)   |                 | (421)   |                |
| Net revenue / (expense) after taxation   |      |         | 57,012          |         | 54,349         |
| <b>Total return before distributions</b>   |      |         | <b>(18,751)</b> |         | <b>148,742</b> |
| Distributions  | 10   |         | (60,744)        |         | (58,835)       |
| <b>Change in net assets attributable to unitholders from investment activities</b> |      |         | <b>(79,495)</b> |         | <b>89,907</b>  |

### Statement of change in net assets attributable to unitholders

| for the year to 31 October  |  | 2018     |                  | 2017     |                  |
|---|--|----------|------------------|----------|------------------|
|   |  | £'000    | £'000            | £'000    | £'000            |
| <b>Opening net assets attributable to unitholders</b>                                   |  |          | <b>1,244,470</b> |          | <b>1,168,270</b> |
| Amounts received on issue of units  |  | 19,667   |                  | 48,027   |                  |
| Amounts paid on cancellation of units   |  | (62,799) |                  | (67,921) |                  |
|   |  |          | (43,132)         |          | (19,894)         |
| Dilution adjustments  |  |          | 170              |          | 201              |
| Change in net assets attributable to unitholders from investment activities (see above) |  |          | (79,495)         |          | 89,907           |
| Retained distributions on Accumulation units  |  |          | 6,396            |          | 5,982            |
| Unclaimed distributions   |  |          | 2                |          | 4                |
| <b>Closing net assets attributable to unitholders</b>                                   |  |          | <b>1,128,411</b> |          | <b>1,244,470</b> |

### Balance sheet

| as at 31 October                              | Note | 2018             | 2017             |
|---|------|------------------|------------------|
|   |      | £'000            | £'000            |
| <b>Assets</b>                                 |      |                  |                  |
| <b>Fixed assets</b>                           |      |                  |                  |
| Investments                                   |      | 1,139,680        | 1,246,713        |
| <b>Current assets</b>                         |      |                  |                  |
| Debtors                                       | 11   | 6,445            | 4,156            |
| Cash and bank balances                        | 12   | 1,808            | 185              |
| Cash equivalents                              |      | 0                | 12,044           |
| <b>Total assets</b>                           |      | <b>1,147,933</b> | <b>1,263,098</b> |
| <b>Liabilities</b>                            |      |                  |                  |
| <b>Creditors</b>                              |      |                  |                  |
| Bank overdrafts                               |      | 0                | (27)             |
| Distribution payable                          |      | (19,345)         | (18,452)         |
| Other creditors                               | 13   | (177)            | (149)            |
| <b>Total liabilities</b>                      |      | <b>(19,522)</b>  | <b>(18,628)</b>  |
| <b>Net assets attributable to unitholders</b> |      | <b>1,128,411</b> | <b>1,244,470</b> |

## Notes to the financial statements

### 1 Statement of compliance

The financial statements have been prepared in compliance with UK Financial Reporting Standard 102 (FRS 102) and in accordance with both the Charities (Accounts and Reports) Regulations 2008 and the Statement of Recommended Practice for Authorised Funds issued by the Investment Association in May 2014 (2014 SORP).

### 2 Summary of significant accounting policies

#### a) Basis of preparation

The financial statements are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss.

#### b) Functional and presentational currency

The functional and presentational currency is UK sterling.

#### c) Exchange rates

Transactions in currencies other than the fund's functional currency are translated at the rate of exchange ruling on the date of the transaction and where applicable assets and liabilities are translated into the fund's functional currency at the rate of exchange ruling as at 12 noon on 31 October 2018 being the last business day of the accounting period.

#### d) Investments – recognition and valuation

The provisions of both Section 11 and Section 12 of FRS 102 have been applied in full. All investments have been designated as fair value through profit and loss and recognised initially at fair value, which is normally the transaction price (excluding transaction costs and accrued interest).

At the end of the reporting period all investments have been measured at their fair value using the prices and the portfolio holdings determined at 12 noon on 31 October 2018, the last valuation point of the accounting period, as this is not materially different from a valuation carried out at close of business on the balance sheet date.

Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the single price or most recent transaction price is used. Interest accrued is not included in the fair value. The methods of determining fair value for the principal classes of investment are:

- Equities and debt securities which are traded on an active market are included at the quoted price, which is normally the bid price, excluding any accrued interest in respect of bonds.
- Equities traded on the Alternative Investment Market (AIM), whose liquidity cannot be guaranteed, are included at their quoted bid price as this represents the most objective and appropriate method of valuation.
- Collective investment schemes operated by the Manager are included at either their cancellation price for dual priced funds or their single price for single priced funds.
- Collective investment schemes operated by another manager are included at either their bid price for dual priced funds or their single price for single priced funds.

# Financial statements and notes

## Notes to the financial statements

### 2 Summary of significant accounting policies (continued)

#### d) Investments – recognition and valuation (continued)

- Other equities and debt securities which are unquoted or not actively traded on a quoted market are included at a value estimated by the Manager using an appropriate valuation technique, excluding any accrued interest in respect of bonds.

#### e) Recognition of income and expenses

- Dividends, including ordinary stock dividends, from equity investments are recognised when the security is quoted ex-dividend.
- Distributions from collective investment schemes are recognised when the scheme is priced ex-distribution.
- Interest income, including coupons from debt securities and bank interest is recognised on an accruals basis.
- Underwriting commission is recognised when the issue takes place.
- Revenue from derivatives is recognised on an accruals basis.
- Fee rebates from investing in other collective investment schemes are recognised on an accruals basis.
- Expenses are recognised on an accruals basis.

#### f) Treatment of income and expenses

- Any increases or decreases in the fair value of investments and gains and losses realised on sales of investments are treated as capital and recognised in net capital gains / (losses).
- Ordinary equity dividends, including ordinary stock dividends are treated as revenue.
- Special equity dividends, unit buy backs or additional unit issues may be treated as revenue or capital depending on the facts of each particular case.
- The value of any enhancement to a stock dividend is treated as capital.
- Distributions from collective investment schemes are treated as revenue in nature, except for any element of equalisation, which represents the average amount of income included in the price paid for the collective investment scheme, which is treated as capital.
- Debt security interest comprises the coupon interest and the difference between the purchase price and the expected maturity price spread over its expected remaining life. This is treated as revenue with the difference adjusting the cost of the units and treated as capital.
- Other interest income, such as bank interest is treated as revenue.
- Underwriting commission is treated as revenue, except where the fund is required to take up all or some of the units underwritten, in which case a proportion of the commission received is deducted from the cost of the units and treated as capital.
- The treatment of the income on derivative contracts depends upon the nature of the transaction. Both motive and circumstances are used to determine whether the returns should be treated as capital or revenue. Where positions are undertaken to protect or enhance capital, and the circumstances support this, the returns are recognised in net capital gains; similarly where the motives and circumstances are to generate or protect revenue, and the circumstances support this, the returns are included within net

revenue before taxation. Where positions generate total returns it will generally be appropriate to apportion such returns between capital and revenue to properly reflect the nature of the transaction.

- Expenses relating to the purchase and sale of investments are treated as capital; all other expenses are treated as revenue.
- Rebates of charges from holdings in collective investment schemes are treated as revenue or capital in accordance with the underlying scheme's distribution policy.

#### g) Tax

Dividends and similar income receivable is recognised at an amount that includes any withholding tax but excludes irrecoverable tax credits. Any withholding tax suffered is shown as part of the tax charge.

Tax is accounted for at the appropriate rate of corporation tax with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

Deferred tax is recognised in respect of temporary timing differences that have originated but not reversed by the balance sheet date. Deferred tax is measured on a non-discounted basis, at the average rate of tax expected to apply in the period in which it expects the deferred tax to be realised or settled. A deferred tax asset is only recognised to the extent that it is more likely than not than the asset will be recovered.

The fund is a registered charity and is therefore not currently liable to corporation tax on its revenue or capital gains.

#### h) Allocation of returns to unit types

The annual management charge is directly attributable to individual unit types. All other returns are apportioned to the fund's unit types, pro-rata to the value of the net assets of the relevant unit type, on the day that the income or expenses are recognised.

All available net revenue accounted for in accordance with the above policies, adjusted to exclude the amortisation in respect of the effective yield on debt securities, is distributed in accordance with the distribution policy to holders of Income units or retained and reinvested for holders of Accumulation units. Should expenses and taxation together exceed revenue, there will be no distribution and the shortfall will be met from capital.

Distributions which have remained unclaimed by unitholders for more than six years are credited to the capital property of the fund.

### 3 Risk management policies

In pursuing the fund's investment objective, as set out in the Manager's Report, the Manager accepts market price risk and currency risk in relation to the investment portfolio. Generally, the Manager does not seek to hedge these exposures since it believes that, in the long term, such hedging would be detrimental to total return. Accordingly, although permitted by the Prospectus, the fund has not used derivative instruments.

In the context of the fund's objective, the Manager may, on occasion, make an investment with a view to securing a particular dividend to enhance distributable income. This can act as a constraint on short-term capital performance.

Since the objective of the fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are not undertaken.

# Financial statements and notes

## Notes to the financial statements

### 3 Risk management policies (continued)

The fund's assets comprise securities that can be readily realised to meet obligations that may arise when investors sell their units. As noted on page 19 the Manager's policy is that the fund should normally be close to fully invested (i.e. with liquidity of 5% or less).

These policies have been consistently applied since the beginning of the financial year (2017: same).

### 4 Distribution policy

In order to conduct a controlled dividend flow to unitholders, distributions will be at the fund manager's discretion, up to the maximum of the distributable income available at the end of the year. The fund is permitted to retain in reserves up to 15% of the current year's income.

All expenses, with the exception of bank overdraft interest, are offset against capital in determining the distribution of the fund, thereby increasing the level of distributable income whilst restraining the fund's capital performance to an equivalent extent. This policy increases investment opportunities in lower yielding companies and the Manager believes that this should facilitate maximising the total return of the fund, consistent with the yield target.

### 5 Net capital gains / (losses)

| for the year to 31 October                         | 2018<br>£'000   | 2017<br>£'000 |
|--|-----------------|---------------|
| Non-derivative securities                          | (75,716)        | 94,347        |
| Currency gains / (losses)                          | (44)            | 50            |
| Transaction charges                                | (3)             | (4)           |
| <b>Net capital gains / (losses) <sup>[a]</sup></b> | <b>(75,763)</b> | <b>94,393</b> |

<sup>[a]</sup> Includes realised gains of £47,623,000 and unrealised losses of £123,383,000 (2017: realised gains of £32,450,000 and unrealised gains of £61,947,000). Certain realised gains and losses in the current year were unrealised in the prior year.

### 6 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 9.

| for the year to 31 October                     | 2018<br>£'000 | % of<br>transaction | 2017<br>£'000  | % of<br>transaction |
|--|---------------|---------------------|----------------|---------------------|
| <b>a) Purchases</b>                            |               |                     |                |                     |
| <b>Equities</b>                                |               |                     |                |                     |
| Equities before transaction costs              | 74,399        |                     | 111,634        |                     |
| Commissions                                    | 31            | 0.04                | 9              | 0.01                |
| Taxes  | 0             | 0.00                | 3              | 0.00                |
| <b>Equities after transaction costs</b>        | <b>74,430</b> |                     | <b>111,646</b> |                     |
| <b>Other transaction types</b>                 |               |                     |                |                     |
| Corporate actions                              | 4,967         |                     | 3,241          |                     |
| <b>Total purchases after transaction costs</b> | <b>79,397</b> |                     | <b>114,887</b> |                     |

| for the year to 31 October                                     | 2018<br>£'000  | % of<br>transaction | 2017<br>£'000  | % of<br>transaction |
|--|----------------|---------------------|----------------|---------------------|
| <b>b) Sales</b>  |                |                     |                |                     |
| <b>Equities</b>  |                |                     |                |                     |
| Equities before transaction costs                              | 108,307        |                     | 127,112        |                     |
| Commissions  | (47)           | 0.04                | (49)           | 0.04                |
| <b>Equities after transaction costs</b>                        | <b>108,260</b> |                     | <b>127,063</b> |                     |
| <b>Other transaction types</b>                                 |                |                     |                |                     |
| Corporate actions  | 2,455          |                     | 0              |                     |
| <b>Total sales after transaction costs</b>                     | <b>110,715</b> |                     | <b>127,063</b> |                     |
| <b>c) Direct portfolio transaction costs</b>                   |                |                     |                |                     |
| <b>Commissions paid</b>  |                |                     |                |                     |
| Equities   | 78             | 0.01                | 58             | 0.01                |
| <b>Taxes paid</b>  |                |                     |                |                     |
| Equities   | 0              | 0.00                | 3              | 0.00                |
| <b>Total direct portfolio transaction costs <sup>[a]</sup></b> | <b>78</b>      | <b>0.01</b>         | <b>61</b>      | <b>0.01</b>         |
| <b>d) Indirect portfolio transaction costs</b>                 |                |                     |                |                     |
| Portfolio dealing spread <sup>[b]</sup>                        |                | 0.39                |                | 0.36                |

<sup>[a]</sup> Costs before dilution adjustments. Please refer to the 'Financial highlights' section for the effect of dilution adjustments.

<sup>[b]</sup> Average portfolio dealing spread at the balance sheet date.

### 7 Revenue

| for the year to 31 October                                     | 2018<br>£'000 | 2017<br>£'000 |
|--|---------------|---------------|
| Bank interest  | 1             | 0             |
| Distributions from underlying funds: property income dividends | 2,209         | 1,844         |
| Dividends from equity investments: non-taxable                 | 59,442        | 52,332        |
| Dividends from equity investments: taxable                     | 0             | 354           |
| Interest distributions   | 17            | 15            |
| Other income   | 13            | 22            |
| Stock dividends  | 1,460         | 5,926         |
| Underwriting commission  | 26            | 64            |
| <b>Total revenue</b>   | <b>63,168</b> | <b>60,557</b> |

### 8 Expenses

| for the year to 31 October                 | 2018<br>£'000 | 2017<br>£'000 |
|--|---------------|---------------|
| <b>Payable to the Manager or associate</b> |               |               |
| Annual management charge                   | 5,635         | 5,702         |
| <b>Payable to the Trustee or associate</b> |               |               |
| Trustee's charge (including VAT)           | 61            | 61            |
| <b>Other expenses</b>                      |               |               |
| Audit fee (including VAT)                  | 3             | 5             |
| Interest payable                           | 3             | 4             |
| Safe custody charge                        | 15            | 15            |
|  | 21            | 24            |
| <b>Total expenses</b>                      | <b>5,717</b>  | <b>5,787</b>  |

# Financial statements and notes

## Notes to the financial statements

### 9 Taxation

| for the year to 31 October                               | 2018<br>£'000 | 2017<br>£'000 |
|--|---------------|---------------|
| <b>a) Analysis of charge in the year</b>                 |               |               |
| Corporation tax  | 0             | 0             |
| Withholding tax  | 439           | 421           |
| Deferred tax (note 9c)                                   | 0             | 0             |
| <b>Total taxation</b>                                    | <b>439</b>    | <b>421</b>    |
| <b>b) Factors affecting taxation charge for the year</b> |               |               |
| Net revenue / (expense) before taxation                  | 57,451        | 54,770        |
| Corporation tax at 20%                                   | 11,490        | 10,954        |
| Effects of:  |               |               |
| Dividends from equity investments: non-taxable           | (11,888)      | (10,466)      |
| Stock dividends not taxable                              | (292)         | (1,185)       |
| Net revenue not taxable due to charitable status         | 690           | 697           |
| Withholding tax  | 439           | 421           |
| <b>Total tax charge (note 9a)</b>                        | <b>439</b>    | <b>421</b>    |
| <b>c) Provision for deferred taxation</b>                |               |               |
| Provision at the start of the year                       | 0             | 0             |
| Deferred tax in profit and loss account (note 9a)        | 0             | 0             |
| <b>Provision at the end of the year</b>                  | <b>0</b>      | <b>0</b>      |

There is no unrecognised deferred tax asset at the period end (2017: same). The Trustee considers that Charifund will maintain its charitable status indefinitely and will, therefore, not be subject to corporation tax under current legislation.

### 10 Distributions

| for the year to 31 October                            | 2018                        |                             | 2017                        |                             |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | Inc <sup>[a]</sup><br>£'000 | Acc <sup>[b]</sup><br>£'000 | Inc <sup>[a]</sup><br>£'000 | Acc <sup>[b]</sup><br>£'000 |
| <b>Dividend distributions</b>                         |                             |                             |                             |                             |
| First interim   | 8,618                       | 980                         | 8,544                       | 996                         |
| Second interim  | 12,892                      | 1,473                       | 12,935                      | 1,475                       |
| Third interim   | 12,739                      | 1,541                       | 12,591                      | 1,469                       |
| Final   | 19,345                      | 2,402                       | 18,452                      | 2,042                       |
| <b>Total net distributions</b>                        | <b>59,990</b>               | <b>58,504</b>               |                             |                             |
| Income deducted on cancellation of units              |                             | 1,138                       |                             | 904                         |
| Income received on issue of units                     |                             | (384)                       |                             | (573)                       |
| <b>Distributions</b>                                  | <b>60,744</b>               | <b>58,835</b>               |                             |                             |
| Net revenue / (expense) per statement of total return |                             | 57,012                      |                             | 54,349                      |
| Expenses offset against capital                       |                             | 5,713                       |                             | 5,783                       |
| Undistributed income brought forward                  |                             | 5,165                       |                             | 3,868                       |
| Undistributed income carried forward                  |                             | (7,146)                     |                             | (5,165)                     |
| <b>Distributions</b>                                  | <b>60,744</b>               | <b>58,835</b>               |                             |                             |

<sup>[a]</sup> Distributions payable on Income units.

<sup>[b]</sup> Retained distributions on Accumulation units.

### 11 Debtors

| as at 31 October                      | 2018<br>£'000 | 2017<br>£'000 |
|---------------------------------------|---------------|---------------|
| Amounts receivable on issues of units | 976           | 21            |
| Distributions receivable              | 0             | 2             |
| Dividends receivable                  | 3,421         | 3,017         |
| Sales awaiting settlement             | 850           | 117           |
| Withholding tax recoverable           | 1,198         | 999           |
| <b>Total debtors</b>                  | <b>6,445</b>  | <b>4,156</b>  |

### 12 Cash and bank balances

| as at 31 October                    | 2018<br>£'000 | 2017<br>£'000 |
|-------------------------------------|---------------|---------------|
| Cash held as bank balances          | 1,808         | 185           |
| <b>Total cash and bank balances</b> | <b>1,808</b>  | <b>185</b>    |

### 13 Other creditors

| as at 31 October                            | 2018<br>£'000 | 2017<br>£'000 |
|---|---------------|---------------|
| Managers's annual management charge payable | 128           | 128           |
| Expenses payable                            | 20            | 21            |
| Purchases awaiting settlement               | 29            | 0             |
| <b>Total other creditors</b>                | <b>177</b>    | <b>149</b>    |

### 14 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2017: same).

### 15 Unit type in issue

The following table shows each type of unit in issue during the year. Each unit type has the same rights on winding up.

| Unit type         | Opening<br>01.11.17 | Movements<br>Issued | Cancelled   | Closing<br>31.10.18 |
|-------------------|---------------------|---------------------|-------------|---------------------|
| <b>Sterling</b>   |                     |                     |             |                     |
| Income unit       | 69,631,077          | 774,677             | (3,698,100) | 66,707,654          |
| Accumulation unit | 515,733             | 31,385              | (19,099)    | 528,019             |

### 16 Related parties

M&G Securities Limited, together with NatWest Trustee & Depository Services Limited, are regarded as controlling parties and therefore related parties of the fund by virtue of having the ability to act in concert in respect of the operations of the fund.

M&G Securities Limited acts as principal on all the transactions of units in the fund. The aggregate monies received through creations, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to unitholders' and note 10. Amounts due to / from M&G Securities Limited in respect of unit transactions at the year end are disclosed in notes 11 and 13 where applicable.

Amounts paid to M&G Securities Limited in respect of the Managers' annual management charge and amounts paid to NatWest Trustee & Depository Services Limited in respect of trustee services are disclosed in note 8. Amounts due at the year end in respect of the Manager's annual management charge are disclosed in note 13.

Neither M&G Securities Limited nor NatWest Trustee & Depository Services Limited entered into any other transactions with the fund during the period. NatWest Trustee & Depository Services Limited as trustees of the fund are / may be trustees of charities that invest in the fund.

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 10.37% (2017: 9.94%) of the fund's units.

### 17 Events after the balance sheet date

There were no events after the balance sheet date to disclose.

# Financial statements and notes

## Notes to the financial statements

### 18 Fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

#### Level 1: Unadjusted quoted price in an active market for an identical instrument

This includes instruments such as publicly traded equities; highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.

#### Level 2: Valuation technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

#### Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights.

| as at 31 October   | Assets           | Liabilities | Assets           | Liabilities |
|--------------------|------------------|-------------|------------------|-------------|
| Basis of valuation | 2018             | 2018        | 2017             | 2017        |
|                    | £'000            | £'000       | £'000            | £'000       |
| Level 1            | 1,138,416        | 0           | 1,246,713        | 0           |
| Level 2            | 0                | 0           | 0                | 0           |
| Level 3            | 1,264            | 0           | 0                | 0           |
|                    | <b>1,139,680</b> | <b>0</b>    | <b>1,246,713</b> | <b>0</b>    |

In accordance with FRS 102 (22.4a) the units in issue meet the definition of a puttable instrument as the unitholders have the right to sell the units back to the issuer. The units in the fund may be issued and redeemed on any business day at the quoted price. These units are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The units in issue as detailed in note 15 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

### 19 Risk management policies

The general risk management policies for the fund are described in note 3 to the financial statements on pages 12 & 13.

### 20 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £56,984,000 (2017: £62,336,000). A five per cent decrease would have an equal and opposite effect.

### 21 Currency risk sensitivity and exposure

Currency risk is not considered significant for the fund and is therefore not disclosed.

A five per cent increase in the value of the fund's currency exposure would have the effect of increasing the return and net assets by £56,421,000 (2017: £62,224,000). A five per cent decrease would have an equal and opposite effect.

### 22 Interest rate risk sensitivity and exposure

As the majority of the fund's financial assets are non-interest bearing, the risk is not considered significant and is therefore not disclosed.

### 23 Credit risk exposure

Credit risk is not considered significant for the fund and is therefore not disclosed.

### 24 Dividend distribution tables

This fund pays quarterly ordinary distributions and the following table sets out the distribution periods.

| Quarterly distribution periods |          |          |          |          |
|--------------------------------|----------|----------|----------|----------|
|                                | Start    | End      | Xd       | Payment  |
| First interim                  | 01.11.17 | 31.01.18 | 01.02.18 | 28.02.18 |
| Second interim                 | 01.02.18 | 30.04.18 | 01.05.18 | 31.05.18 |
| Third interim                  | 01.05.18 | 31.07.18 | 01.08.18 | 31.08.18 |
| Final                          | 01.08.18 | 31.10.18 | 01.11.18 | 15.12.18 |

The following tables set out for each distribution the rates per unit for both Group 1 and Group 2 units.

Group 1 units are those purchased prior to a distribution period and therefore their income rate is the same as the distribution rate.

Group 2 units are those purchased during a distribution period and therefore their distribution rate is made up of income and equalisation. Equalisation is the average amount of income included in the purchase price of all Group 2 units and is refunded to the holders of these units as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of units for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the income and equalisation components.

| Income units                                      |             |                   |                          |         |
|---|-------------|-------------------|--------------------------|---------|
| Ordinary distributions for the year to 31 October | Group 2     |                   | Group 1 & 2 Distribution |         |
|   | Income 2018 | Equalisation 2018 | 2018                     | 2017    |
|   | p           | p                 | p                        | p       |
| First interim                                     | 0.0000      | 12.5000           | 12.5000                  | 12.0000 |
| Second interim                                    | 0.0000      | 18.7500           | 18.7500                  | 18.2500 |
| Third interim                                     | 0.0000      | 18.7500           | 18.7500                  | 18.0000 |
| Final   | 0.0000      | 29.0000           | 29.0000                  | 26.5000 |

| Accumulation units                                |             |                   |                          |          |
|---|-------------|-------------------|--------------------------|----------|
| Ordinary distributions for the year to 31 October | Group 2     |                   | Group 1 & 2 Distribution |          |
|   | Income 2018 | Equalisation 2018 | 2018                     | 2017     |
|   | p           | p                 | p                        | p        |
| First interim                                     | 0.0000      | 190.0000          | 190.0000                 | 174.0000 |
| Second interim                                    | 0.0000      | 287.0000          | 287.0000                 | 265.0000 |
| Third interim                                     | 0.0000      | 290.0000          | 290.0000                 | 266.0000 |
| Final   | 0.0000      | 455.0000          | 455.0000                 | 396.0000 |

## Manager's responsibilities

The Manager is required to prepare annual and interim long reports for the fund. It must ensure that the financial statements are prepared in accordance with the Charities Statement of Recommended Practice issued by the Charity Commission; the Statement of Recommended Practice for Financial Statements of UK Authorised Funds (SORP) issued by the Investment Association; and UK Financial Reporting Standards and give a true and fair view of the net revenue or expense and the net capital gains or losses for the accounting period, and the financial position at the end of that period.

The Manager is required to keep proper accounting records, and to manage the fund in accordance with the Collective Investment Schemes sourcebook, as issued (and amended) by the FCA, the Charities Act 2011, the Trust Deed and the Prospectus, and to take reasonable steps for the prevention and detection of fraud or other irregularities.

## Statement of the Trustee's responsibilities and report of the Trustee

### To the unitholders of The Equities Investment Fund for Charities for the year ended 31 October 2018

The Trustee must ensure that the Scheme is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes sourcebook, the Investment Funds Sourcebook, the Financial Services and Markets Act 2000, as amended, (together 'the Regulations'), the Trust Deed and Prospectus (together 'the Scheme documents') as detailed below.

The Trustee must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Scheme and its investors.

The Trustee is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Scheme in accordance with the Regulations.

The Trustee must ensure that:

- the Scheme's cashflows are properly monitored and that cash of the Scheme is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, redemption and cancellation of units are carried out in accordance with the Regulations and the Scheme documents;
- the value of units in the Scheme is calculated in accordance with the Regulations;
- any consideration relating to transactions in the Scheme's assets is remitted to the Scheme within the usual time limits;
- the Scheme's income is applied in accordance with the Regulations; and
- the instructions of the Alternative Investment Fund Manager ('the AIFM') are carried out (unless they conflict with the Regulations).

The Trustee also has a duty to take reasonable care to ensure that the Scheme is managed in accordance with the Regulations and the Scheme documents in relation to the investment and borrowing powers applicable to the Scheme.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Trustee of the Scheme, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Scheme, acting through the AIFM:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Scheme's units and the application of the Scheme's income in accordance with the Regulations and the Scheme documents, and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Scheme and has been managed in accordance with the Regulations and the Scheme documents.

Edinburgh  
28 November 2018

NatWest Trustee & Depository  
Services Limited

## Independent auditor's report to the unitholders and Charity Trustees of The Equities Investment Fund for Charities

We have audited the financial statements of The Equities Investment Fund for Charities ("the fund") for the year ended 31 October 2018 which comprise the Statement of Total Return and Statement of Changes in Net Assets Attributable to Unitholders together with the Balance Sheet, the related notes 1 to 24 including a summary of significant accounting policies and the Distribution Tables. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'.

In our opinion the financial statements:

- give a true and fair view of the financial position of the fund as at 31 October 2018 and of the net revenue and the net losses on the scheme property of the fund for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Charities Act 2011.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the manager's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the manager has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The manager is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinions on other matters prescribed by the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority

In our opinion:

- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Funds, the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority and the Trust Deed;
- the information given in the manager's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- there is nothing to indicate that proper accounting records have not been kept or that the financial statements are not in agreement with those records.

## Independent auditor's report to the unitholders and Charity Trustees of The Equities Investment Fund for Charities

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matter in relation to which the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority require us to report to you if, in our opinion:

- we have not received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

We have nothing to report in respect of the following matters where the Charities (Accounts and Reports) Regulations 2008 require us to report to you if, in our opinion:

- the information given in the Annual Report is inconsistent in any material respect with the financial statements; or
- sufficient accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

### Responsibilities of the manager

As explained more fully in the manager's responsibilities statement as set out on page 16, the manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the manager is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the manager either intends to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Use of our report

This report is made solely to the unitholders of the fund, as a body, pursuant to Paragraph 4.5.12 of the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority and the charity's Trustees, as a body, in accordance with Part 4 of the Charities (Accounts and Reports) Regulations 2008. Our audit work has been undertaken so that we might state to the unitholders of the fund those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the fund and the unitholders of the fund as a body, for our audit work, for this report, or for the opinions we have formed.

Edinburgh  
28 November 2018

Ernst & Young LLP  
Statutory Auditor

# Other regulatory disclosures

## Liquidity

The Board's policy is that the fund should normally be close to fully invested (i.e. with liquidity of 5% or less) but this is subject to the need to retain liquidity for the purpose of effecting the redemption of units and the efficient management of the Scheme in accordance with its objective. There may, therefore, be occasions when there will be higher levels of liquidity, for example following the issue of units or the realisation of investments. Higher liquidity levels may also arise when the fund's asset allocation policy is changed or when the Manager believes that market conditions warrant it.

## Leverage

In accordance with the Alternative Investment Funds Management Directive (AIFMD) we are required to disclose the 'leverage' of the fund. Leverage is defined as any method by which the fund increases its exposure through borrowing or the use of derivatives. 'Exposure' is defined in two ways – 'gross method' and 'commitment method' – and the fund must not exceed maximum exposures under both methods.

'Gross method' exposure is calculated as the sum of all positions of the fund (both positive and negative), that is, all eligible assets, liabilities and derivatives, including derivatives held for risk reduction purposes. 'Commitment method' exposure is also calculated as the sum of all positions of the fund (both positive and negative), but after netting off derivative and security positions as specified by AIFMD rules.

Therefore as at 31 October 2018 the total amount of leverage calculated for the year ending 31 October 2018 is as follows:

|                   |         |
|-------------------|---------|
| Gross method      | 99.73%  |
| Commitment method | 100.00% |

Please note that the fund does not use leverage. The figures above (100% and less) also confirm that the fund was not leveraged at the year end.

## Remuneration

In line with the requirements of the Alternative Investment Fund Managers Directive ("AIFMD"), M&G Securities Limited is subject to a remuneration policy which is consistent with the principles outlined in the European Securities and Markets Authority guidelines on sound remuneration policies under the AIFMD.

The remuneration policies are designed to ensure that any relevant conflicts of interest can be managed appropriately at all times and that the remuneration of its staff is in line with the risk policies and objectives of the alternative investment funds it manages. Further details of the remuneration policy applicable at an M&G Limited level can be found here: [docs.mandg.com/docs/Corporate/MandG-Limited-Remuneration-Policy.pdf](https://docs.mandg.com/docs/Corporate/MandG-Limited-Remuneration-Policy.pdf).

M&G Securities Limited in its capacity as the Alternative Investment Fund Manager (the "AIFM") of The Equities Investment Fund for Charities has delegated portfolio management services to M&G Investment Management Limited (the "Delegate").

The ESMA Guidelines require the AIFM to ensure that, to the extent portfolio management activities are delegated by the AIFM, the Delegate is itself subject to remuneration provisions of equivalent effect to those contained in the AIFMD. M&G Investment Management Limited is subject to the Markets in Financial Instruments Directive ("MiFID") which is considered by the Financial Conduct Authority to be equally effective.

The AIFM is required under the AIFMD to make quantitative disclosures of remuneration. These disclosures are made in line with M&G's interpretation of currently available guidance on quantitative remuneration disclosures. As market or regulatory guidance evolves, M&G may consider it appropriate to make changes to the way in which quantitative disclosures are calculated. Members of staff and senior management typically provide both AIFMD and non-AIFMD related services and have a number of areas of responsibility. Therefore, only the portion of remuneration for those individuals' services which may be attributable to the AIFM is included in the remuneration figures disclosed. Accordingly the figures are not representative of any individual's actual remuneration.

M&G Securities Limited does not directly employ any staff members. However, for the financial year ended 31 December 2017, aggregate remuneration of £4,452,723 (£595,444 in respect of fixed remuneration and £3,857,279 in respect of variable remuneration) was paid to individuals whose actions may have a material impact on the risk profile of M&G Securities Limited, of which £182,816 related to senior management.

# Appendix

## Income and prices

|                      |                  |                 | Income units |             | Accumulation units |             |
|----------------------|------------------|-----------------|--------------|-------------|--------------------|-------------|
|                      | Distributed<br>p | Reinvested<br>p | Highest<br>p | Lowest<br>p | Highest<br>p       | Lowest<br>p |
| <b>Calendar year</b> |                  |                 |              |             |                    |             |
| 1960                 | 1.104            | -               | 54.40        | 48.00       | -                  | -           |
| 1961                 | 2.396            | -               | 62.20        | 50.30       | -                  | -           |
| 1962                 | 2.271            | -               | 56.20        | 49.00       | -                  | -           |
| 1963                 | 2.667            | -               | 63.40        | 52.30       | -                  | -           |
| 1964                 | 3.062            | -               | 68.40        | 59.40       | -                  | -           |
| 1965                 | 3.520            | -               | 64.90        | 57.60       | -                  | -           |
| 1966                 | 3.750            | -               | 71.20        | 56.10       | -                  | -           |
| 1967                 | 3.979            | -               | 78.90        | 58.80       | -                  | -           |
| 1968                 | 4.062            | -               | 109.40       | 76.10       | -                  | -           |
| 1969                 | 4.583            | -               | 115.20       | 83.40       | -                  | -           |
| 1970                 | 5.229            | -               | 96.40        | 77.40       | -                  | -           |
| 1971                 | 5.500            | -               | 125.90       | 83.70       | -                  | -           |
| 1972                 | 6.050            | -               | 156.50       | 127.10      | -                  | -           |
| 1973                 | 6.850            | -               | 156.20       | 99.70       | -                  | -           |
| 1974                 | 7.900            | -               | 109.40       | 58.70       | -                  | -           |
| 1975                 | 8.800            | -               | 116.80       | 58.00       | 116.10             | 111.30      |
| 1976                 | 9.900            | 10.054          | 127.10       | 86.40       | 131.00             | 94.80       |
| 1977                 | 11.100           | 12.399          | 156.30       | 103.40      | 180.80             | 113.40      |
| 1978                 | 12.900           | 15.697          | 163.00       | 132.00      | 205.50             | 160.40      |
| 1979                 | 14.800           | 19.717          | 175.00       | 139.00      | 237.10             | 190.00      |
| 1980                 | 17.100           | 25.123          | 174.50       | 145.00      | 271.30             | 208.30      |
| 1981                 | 17.800           | 29.152          | 183.30       | 146.40      | 301.40             | 245.70      |
| 1982                 | 18.300           | 33.355          | 185.40       | 159.10      | 359.80             | 283.30      |
| 1983                 | 18.940           | 38.325          | 225.00       | 176.00      | 490.00             | 348.90      |
| 1984                 | 20.300           | 44.992          | 279.80       | 224.20      | 660.90             | 488.40      |
| 1985                 | 21.700           | 52.030          | 322.20       | 279.10      | 818.30             | 659.20      |
| 1986                 | 24.000           | 61.841          | 416.40       | 311.20      | 1,127.20           | 790.40      |
| 1987                 | 27.000           | 73.978          | 628.90       | 401.80      | 1,757.60           | 1,133.30    |
| 1988                 | 30.000           | 87.037          | 538.20       | 469.70      | 1,592.10           | 1,359.70    |
| 1989                 | 36.900           | 113.459         | 632.80       | 500.30      | 1,995.50           | 1,517.60    |
| 1990                 | 41.600           | 136.471         | 620.80       | 464.90      | 2,009.40           | 1,596.00    |
| 1991                 | 42.640           | 151.461         | 580.60       | 456.60      | 2,133.80           | 1,630.70    |
| 1992                 | 42.888           | 166.000         | 568.70       | 436.30      | 2,351.20           | 1,752.80    |
| 1993                 | 36.500           | 154.199         | 764.60       | 562.00      | 3,344.90           | 2,324.00    |
| 1994                 | 38.315           | 170.789         | 794.70       | 633.80      | 3,505.50           | 2,838.30    |
| 1995                 | 43.214           | 204.338         | 753.40       | 630.70      | 3,650.80           | 2,944.40    |
| 1996                 | 45.565           | 228.452         | 807.90       | 714.40      | 4,220.60           | 3,589.00    |
| 1997                 | 48.755           | 259.692         | 1,002.00     | 794.50      | 5,431.00           | 4,151.10    |
| 1998                 | 50.600           | 284.146         | 1,141.60     | 882.50      | 6,407.60           | 5,016.80    |
| 1999                 | 51.950           | 306.5517        | 1,116.90     | 976.60      | 6,604.40           | 5,661.70    |
| 2000                 | 52.986           | 329.0723        | 1,173.12     | 893.20      | 7,516.40           | 5,482.30    |
| 2001                 | 54.320           | 353.9856        | 1,195.82     | 957.95      | 7,808.91           | 6,314.46    |
| 2002                 | 54.830           | 375.6189        | 1,177.75     | 911.04      | 8,046.08           | 6,414.88    |
| 2003                 | 56.200           | 407.6273        | 1,072.50     | 833.96      | 8,059.09           | 5,968.15    |
| 2004 <sup>[a]</sup>  | 57.100           | 437.2672        | 1,224.97     | 1,061.85    | 9,691.60           | 8,011.39    |
| 2005                 | 58.965           | 474.5043        | 1,388.46     | 1,206.75    | 11,507.14          | 9,690.14    |
| 2006                 | 63.530           | 534.8294        | 1,615.19     | 1,374.86    | 13,967.84          | 11,510.87   |
| 2007                 | 70.720           | 621.2436        | 1,705.06     | 1,406.16    | 14,982.85          | 12,710.57   |
| 2008                 | 74.650           | 688.7661        | 1,468.39     | 883.39      | 13,273.06          | 8,265.93    |
| 2009                 | 57.020           | 563.8150        | 1,077.91     | 763.16      | 11,061.29          | 7,457.84    |
| 2010                 | 57.130           | 598.0791        | 1,159.24     | 989.26      | 12,539.72          | 10,398.66   |

## Income and prices (continued)

|                       |                  |                 | Income units |             | Accumulation units |             |
|-----------------------|------------------|-----------------|--------------|-------------|--------------------|-------------|
|                       | Distributed<br>p | Reinvested<br>p | Highest<br>p | Lowest<br>p | Highest<br>p       | Lowest<br>p |
| <b>Calendar year</b>  |                  |                 |              |             |                    |             |
| 2011                  | 57.700           | 635.7143        | 1,200.08     | 1,020.50    | 13,259.44          | 11,416.06   |
| 2012                  | 61.710           | 716.1321        | 1,210.42     | 1,065.86    | 14,525.36          | 12,408.15   |
| 2013                  | 63.580           | 776.7108        | 1,446.52     | 1,217.64    | 18,096.97          | 14,612.10   |
| 2014                  | 66.500           | 850.5127        | 1,499.27     | 1,332.43    | 19,358.36          | 17,265.22   |
| 2015                  | 69.000           | 923.0000        | 1,561.06     | 1,377.93    | 20,859.07          | 18,667.43   |
| 2016                  | 71.000           | 994.5000        | 1,573.14     | 1,285.24    | 22,424.31          | 17,890.70   |
| 2017                  | 74.750           | 1,101.0000      | 1,642.99     | 1,443.53    | 24,554.13          | 20,921.20   |
| <b>Financial year</b> |                  |                 |              |             |                    |             |
| 2018 <sup>[b]</sup>   | 79.000           | 1,222.0000      | 1,663.22     | 1,498.65    | 25,758.47          | 23,010.73   |

<sup>[a]</sup> Prior to 6 April 2004 income from UK equities was reported gross of tax to take account of the fact that the fund recovered the recoverable tax credit directly. Since this date the tax credit is no longer recoverable and, therefore, income is now reported net of the tax credit.

<sup>[b]</sup> To 31 October 2018.

Please note that with effect from 29 September 2014 the fund adopted a fully swinging single price model.

Please note past performance is not a guide to future performance and the value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and a charity may not receive back the original amount it invested.

# Glossary

**Accumulation shares:** A type of share where distributions are automatically reinvested and reflected in the value of the shares.

**Accumulation units:** A type of unit where distributions are automatically reinvested and reflected in the value of the units.

**Asset:** Anything having commercial or exchange value that is owned by a business, institution or individual.

**Asset allocation:** Apportioning a portfolio's assets according to risk tolerance and investment goals.

**Asset class:** Category of assets, such as cash, company shares, fixed income securities and their sub-categories, as well as tangible assets such as real estate.

**Bond:** A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

**Bond issue:** A set of fixed income securities offered for sale to the public by a company or government. If the bonds are sold for the first time, it is called a 'new issue'.

**Bottom-up selection:** Selecting stocks based on the attractiveness of a company.

**Bunds:** Fixed income securities issued by the German government.

**Capital:** Refers to the financial assets, or resources, that a company has to fund its business operations.

**Capital at risk:** The risk an investor faces that he or she may lose all or part of the assets invested.

**Capital growth:** Occurs when the current value of an investment is greater than the initial amount invested.

**Capital return:** The term for the gain or loss derived from an investment over a particular period. Capital return includes capital gain or loss only and excludes income (in the form of interest or dividend payments).

**Capital structure:** The composition of a firm's liabilities - refers to the way a firm finances its assets through a combination of equity, which refers to raising funds by selling shares, and debt. Often when capital structure is referred to, the focus is on the firm's debt-to-equity ratio, which is an indicator of how risky a company is.

**Capitalisation:** The total market value of all of a company's outstanding shares.

**Cash equivalents:** Deposits or investments with similar characteristics to cash.

**Consumer Prices Index (CPI):** An index used to measure inflation, which is the rate of change in prices for a basket of goods and services. The contents of the basket are meant to be representative of products and services we typically spend our money on.

**Corporate bonds:** Fixed income securities issued by a company. They are also known as bonds and can offer higher interest payments than bonds issued by governments as they are often considered more risky.

**Coupon:** The interest paid by the government or company that has raised a loan by selling bonds.

**Credit:** The borrowing capacity of an individual, company or government. More narrowly, the term is often used as a synonym for fixed income securities issued by companies.

**Credit rating:** An independent assessment of a borrower's ability to repay its debts. A high rating indicates that the credit rating agency considers the issuer to be at low risk of default; likewise, a low rating indicates high risk of default. Standard & Poor's, Fitch and Moody's are the three most prominent credit rating agencies. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**Credit rating agency:** A company that analyses the financial strength of issuers of fixed income securities and attaches a rating to their debt. Examples include Standard & Poor's and Moody's.

**Credit risk:** Risk that a financial obligation will not be paid and a loss will result for the lender.

**Credit selection:** The process of evaluating a fixed income security, also called a bond, in order to ascertain the ability of the borrower to meet its debt obligations. This research seeks to identify the appropriate level of default risk associated with investing in that particular bond.

**Credit spread:** The difference between the yield of a corporate bond, a fixed income security issued by a company, and a government bond of the same life span. Yield refers to the income received from an investment and is expressed as a percentage of the investment's current market value.

**Default:** When a borrower does not maintain interest payments or repay the amount borrowed when due.

**Default risk:** Risk that a debtholder will not receive interest and full repayment of the loan when due.

**Developed economy/market:** Well-established economies with a high degree of industrialisation, standard of living and security.

**Dilution adjustments:** The dilution adjustment is used to protect ongoing investors against the transaction charges incurred in investing or divesting in respect of creations and cancellations. The dilution adjustment is made up of the direct and indirect transaction charges. In the financial statements the direct transaction charges as a percentage of average NAV will be disclosed. This percentage will take account of those direct transaction charges that have been recovered through the dilution adjustment leaving a percentage that just represents the costs incurred in portfolio management.

**Distribution:** Distributions represent a share in the net income of the fund and are paid out to income shareholders or reinvested for accumulation shareholders at set times of the year (monthly, quarterly, half-yearly or annually). They may either be in the form of interest distributions or dividend distributions.

**Distribution yield:** Expresses the amount that is expected to be distributed by the fund over the next 12 months as a percentage of the share price as at a certain date. It is based on the expected gross income less the ongoing charges.

**Diversification:** The practice of investing in a variety of assets. This is a risk management technique where, in a well-diversified portfolio, any loss from an individual holding should be offset by gains in other holdings, thereby lessening the impact on the overall portfolio.

**Dividend:** Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.

# Glossary

**Duration:** A measure of the sensitivity of a fixed income security, also called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

**Duration risk:** The longer a fixed income security, also called a bond, or bond fund's duration, the more sensitive and therefore at risk it is to changes in interest rates.

**Emerging economy or market:** Economies in the process of rapid growth and increasing industrialisation. Investments in emerging markets are generally considered to be riskier than those in developed markets.

**Equities:** Shares of ownership in a company.

**Ex-dividend date:** The date on which declared distributions officially belong to underlying investors, rather than the fund, usually the first business day of the month.

**Exposure:** The proportion of a fund invested in a particular share/fixed income security, sector/region, usually expressed as a percentage of the overall portfolio.

**Fiscal policy:** Government policy on taxation, spending and borrowing.

**Fixed income security:** A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid. Also referred to as a bond.

**Foreign exchange:** The exchange of one currency for another, or the conversion of one currency into another currency. Foreign exchange also refers to the global market where currencies are traded virtually around the clock. The term foreign exchange is usually abbreviated as 'forex' and occasionally as 'FX'.

**Fundamentals (company):** A basic principle, rule, law, or the like, that serves as the groundwork of a system. A company's fundamentals pertain specifically to that company, and are factors such as its business model, earnings, balance sheet and debt.

**Fundamentals (economic):** A basic principle, rule, law, or the like, that serves as the groundwork of a system. Economic fundamentals are factors such as inflation, employment, economic growth.

**Gilts:** Fixed income securities issued by the UK government.

**Government bonds:** Fixed income securities issued by governments, that normally pay a fixed rate of interest over a given time period, at the end of which the initial investment is repaid.

**High yield bonds:** Fixed income securities issued by companies with a low credit rating from a recognised credit rating agency. They are considered to be at higher risk of default than better quality, ie higher-rated fixed income securities but have the potential for higher rewards. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**Income share:** A type of share where distributions are paid out as cash on the payment date.

**Income unit:** A type of unit where distributions are paid out as cash on the payment date.

**Index:** An index represents a particular market or a portion of it, serving as a performance indicator for that market.

**Index-linked bonds:** Fixed income securities where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also referred to as inflation-linked bonds.

**Inflation:** The rate of increase in the cost of living. Inflation is usually quoted as an annual percentage, comparing the average price this month with the same month a year earlier.

**Inflation-linked bonds:** Fixed income securities where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also referred to as index-linked bonds.

**Initial public offering (IPO):** The first sale of shares by a private company to the public.

**Interest rate risk:** The risk that a fixed income investment will lose value if interest rates rise.

**Investment grade bonds:** Fixed income securities issued by a company with a medium or high credit rating from a recognised credit rating agency. They are considered to be at lower risk from default than those issued by companies with lower credit ratings. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**Issuer:** An entity that sells securities, such as fixed income securities and company shares.

**Liquidity:** A company is considered highly liquid if it has plenty of cash at its disposal. A company's shares are considered highly liquid if they can be easily bought or sold since large amounts are regularly traded.

**Macroeconomic:** Refers to the performance and behaviour of an economy at the regional or national level. Macroeconomic factors such as economic output, unemployment, inflation and investment are key indicators of economic performance. Sometimes abbreviated to 'macro'.

**Maturity:** The length of time until the initial investment amount of a fixed income security is due to be repaid to the holder of the security.

**Monetary easing:** When central banks lower interest rates or buy securities on the open market to increase the money in circulation.

**Monetary policy:** A central bank's regulation of money in circulation and interest rates.

**Monetary tightening:** When central banks raise interest rates or sell securities on the open market to decrease the money in circulation.

**Near cash:** Deposits or investments with similar characteristics to cash.

**Net asset value (NAV):** A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.

**Open-ended investment company (OEIC):** A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

**Overweight:** If a fund is 'overweight' a stock, it holds a larger proportion of that stock than the comparable index or sector.

**Payment date:** The date on which distributions will be paid by the fund to investors, usually the last business day of the month.

# Glossary

**Portfolio transaction cost:** The cost of trading, such as brokerage, clearing, exchange fees and bid offer spread as well as taxes such as stamp duty.

**Principal:** The face value of a fixed income security, which is the amount due back to the investor by the borrower when the security reaches the end of its life.

**Private placement:** An offer of sale of securities to a relatively small number of investors selected by the company, generally investment banks, mutual funds, insurance companies or pension funds.

**Real return:** The return on an investment, adjusted for changes in prices in an economy.

**Real yield:** The return of an investment, adjusted for changes in prices in an economy.

**Retail Prices Index (RPI):** A UK inflation index that measures the rate of change of prices for a basket of goods and services in the UK, including mortgage payments and council tax.

**Risk management:** The term used to describe the activities the fund manager undertakes to limit the risk of a loss in a fund.

**Risk premium:** The difference between the return from a risk-free asset, such as a high-quality government bond or cash, and the return from an investment in any other asset. The risk premium can be considered the 'price' or 'pay-off' for taking on increased risk. A higher risk premium implies higher risk.

**Risk/reward ratio:** A ratio comparing the expected returns of an investment with the amount of risk undertaken.

**Risk-free asset:** An asset that notionally carries no risk of non-payment by the borrower such as a high-quality fixed income security issued by a government or cash.

**Safe-haven assets:** Refers to assets that investors perceive to be relatively safe from suffering a loss in times of market turmoil.

**Security:** Financial term for a paper asset – usually a share in a company or a fixed income security also known as a bond.

**Share class:** Type of fund shares held by investors in a fund (share classes differ by levels of charge and/or by other features such as currency or share class hedging).

**Short-dated corporate bonds:** Fixed income securities issued by companies and repaid over relatively short periods.

**Short-dated government bonds:** Fixed income securities issued by governments and repaid over relatively short periods.

**Sovereign debt:** Debt of a government. Also referred to as government bonds.

**Total return:** The term for the gain or loss derived from an investment over a particular period. Total return includes income (in the form of interest or dividend payments) and capital gains.

**Transaction cost:** The cost of trading, such as brokerage, clearing and exchange fees as well as taxes such as stamp duty.

**Treasuries:** Fixed income securities issued by the US government

**Triple A or AAA rated:** The highest possible rating a fixed income security, also called a bond, can be assigned by credit rating agencies. Bonds that are rated AAA are perceived to have the lowest risk of default. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**UCITS:** Stands for Undertakings for Collective Investment in Transferable Securities. This is the European regulatory framework for an investment vehicle that can be marketed across the European Union and is designed to enhance the single market in financial assets while maintaining high levels of investor protection.

**Underlying value:** The fundamental value of a company, reflecting both tangible and intangible assets, rather than the current market value.

**Underweight:** If a portfolio is 'underweight' a stock, it holds a smaller proportion of that stock than the comparable index or sector.

**Unit trust:** A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

**Unit/share type:** Type of units/shares held by investors in a trust or fund (unit/share types differ by features such as whether income is to be paid out as cash or reinvested on the payment date).

**Valuation:** The worth of an asset or company based on its current price.

**Volatile:** When the value of a particular share, market or sector swings up and down fairly frequently and/or significantly, it is considered volatile.

**Volatility:** The degree to which a given security, fund, or index rapidly changes. It is calculated as the degree of deviation from the norm for that type of investment over a given time period. The higher the volatility, the riskier the security tends to be.

**Yield (equity):** Refers to the dividends received by a holder of company shares and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value. Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.

**Yield (bonds):** This refers to the interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

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# Notes



