

## **M&G Property Portfolio**

Annual Long Report and audited Financial Statements  
for the year ended 30 September 2018

Please note, when this document was originally published, property expenses and operating charges were incorrectly reported across all share classes.

We would like to make you aware that these figures have been corrected in this version.



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# M&G Property Portfolio

## Authorised Corporate Director's Report

### Company information

#### Company

M&G Property Portfolio

#### Registered Office

Laurence Pountney Hill, London EC4R 0HH, UK

#### Authorised Corporate Director (ACD)

M&G Securities Limited,  
Laurence Pountney Hill, London EC4R 0HH, UK  
Telephone: 0800 390 390 (UK only)

(Authorised and regulated by the Financial Conduct Authority.  
M&G Securities Limited is a member of the Investment Association  
and of the Tax Incentivised Savings Association.)

#### Directors of the ACD

Margaret 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.

#### Investment manager

M&G Investment Management Limited,  
Laurence Pountney Hill, London EC4R 0HH, UK  
Telephone: +44 (0)20 7626 4588  
(Authorised and regulated by the Financial Conduct Authority)

#### Co-fund managers

Fiona Rowley and Justin Upton  
(Employees of M&G Limited, which is an associate  
of M&G Securities Limited.)  
At the start of the review period Fiona Rowley was the sole fund manager.

#### Registrar

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

#### Depositary

NatWest Trustee & Depositary Services Limited, Drummond House,  
1 Redheughs Avenue, Edinburgh EH12 9RH, UK  
(Authorised and regulated by the Financial Conduct Authority)

#### Independent auditor

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

#### Property manager

M&G Real Estate Limited  
Laurence Pountney Hill, London EC4R 0HH, UK

#### Standing independent valuer

Knight Frank LLP, 55 Baker Street, London W1U 8AN, UK

### Customer services and administration

M&G Securities Limited,  
PO Box 9039, Chelmsford CM99 2XG, UK

Please remember to quote your name and M&G client reference and sign any written communication to M&G. Failure to provide this will affect your ability to transact with us.

Telephone: 0800 390 390

For security purposes and to improve the quality of our service, we may record and monitor telephone calls. You will require your M&G client reference. Failure to provide this will affect your ability to transact with us.

The Instrument of Incorporation can be inspected at our offices or at the office of the Depositary.

### Important information

Please note, with effect from 1 April 2018, the distribution policy has been changed so that in determining the amount available for distribution to income shares, the annual management charge and administration charge are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

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

# M&G Property Portfolio

## Authorised Corporate Director's Report

### Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) presents its annual investment report and audited financial statements for the year ended 30 September 2018.

This Open-Ended Investment Company (OEIC) is an Investment Company with Variable Capital (ICVC) incorporated under the Open-Ended Investment Companies Regulations 2001. It is authorised and regulated by the Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000. The Company is a Non-UCITS (Undertakings for Collective Investment in Transferable Securities) scheme as defined in the Collective Investment Schemes sourcebook, as issued (and amended) by the FCA.

The Company was authorised on 16 October 2012 and the fund was launched on 18 January 2013.

The Company's principal activity is to carry on business as an OEIC.

The annual investment report and audited financial statements for the M&G Property Portfolio for the year ended 30 September 2018 are set out in detail on pages 3 to 23.

G W MacDowall  
Director of M&G Securities Limited

L J Mumford  
Director of M&G Securities Limited

20 November 2018

### Directors' statement

This report has been prepared 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 } Directors

20 November 2018

# M&G Property Portfolio

## Authorised Corporate Director's Responsibilities & Depositary's Responsibilities

### Authorised Corporate Director's Responsibilities

#### Statement of the Authorised Corporate Director's responsibilities in respect of the annual investment report and financial statements of the Company

The Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Conduct Authority (FCA), requires the Authorised Corporate Director (ACD) to prepare the investment report and financial statements for each financial year which give a true and fair view of the financial position of the Company as at the end of the financial year, and the net revenue and the net capital gains / (losses) for the year. In preparing the financial statements, the ACD is required to:

- comply with the Statement of Recommended Practice for Authorised Funds issued by the Investment Association in May 2014, the Instrument of Incorporation, generally accepted accounting principles and applicable accounting standards subject to any material departures which are required to be disclosed and explained in the financial statements;
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation.

The ACD is required to keep proper accounting records, and to manage the Company in accordance with the Collective Investment Schemes sourcebook, as issued (and amended) by the FCA, the Instrument of Incorporation and the Prospectus, and to take reasonable steps for the prevention and detection of fraud or other irregularities.

### Statement of the Depositary's Responsibilities and Report of the Depositary to the Shareholders of M&G Property Portfolio ('the Company') for the period ended 30 September 2018

The Depositary must ensure that the Company is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes sourcebook, the Open-Ended Investment Companies Regulations 2001 (SI2001/1228) (the OEIC Regulations), as amended, the Financial Services and Markets Act 2000, as amended, (together 'the Regulations'), the Company's Instrument of Incorporation and Prospectus (together 'the Scheme documents') as detailed below.

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

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

The Depositary must ensure that:

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

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

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

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

Edinburgh  
20 November 2018

NatWest Trustee  
& Depositary Services Limited

# M&G Property Portfolio

## Independent Auditor's Report

### Independent auditor's report to the shareholders of M&G Property Portfolio

#### Opinion

We have audited the financial statements of M&G Property Portfolio ("the Company") for the year ended 30 September 2018 which comprise the Statement of Total Return and Statement of Change in Net Assets Attributable to Shareholders together with the Balance Sheet and Cashflow Statement, the accounting policies of the Company, the related notes 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 Company as at 30 September 2018 and of the net revenue and the net capital gains on the scheme property of the Company 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'.

#### 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 Company 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 ACD's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the ACD has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company'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 ACD 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 Instrument of Incorporation;
- the information given in the ACD'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.

#### 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.

#### Responsibilities of the Authorised Corporate Director (ACD)

As explained more fully in the ACDs' responsibilities statement set out on page 3, the ACD 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 ACD 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 ACD is responsible for assessing the Company'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 ACD either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

# M&G Property Portfolio

## Independent Auditor's Report

### Independent auditor's report to the shareholders of M&G Property Portfolio

#### 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 Company's shareholders, as a body, pursuant to Paragraph 4.5.12 of the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority. Our audit work has been undertaken so that we might state to the Company's shareholders 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 Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Edinburgh  
20 November 2018

Ernst & Young LLP  
Statutory Auditor

1. The maintenance and integrity of the M&G Securities Limited website is the responsibility of the Manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# M&G Property Portfolio

## Independent Auditor's Report

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# M&G Property Portfolio

## Authorised Corporate Director's Report

### Investment objective

The investment objective of the fund is to carry on Property Investment Business and to manage cash raised from investors for investment in the Property Investment Business. In so doing, the fund aims to maximise long term total return (the combination of income and growth of capital) through investment mainly in commercial property.

### Investment policy

The fund invests in a diversified portfolio of commercial property mainly in the UK, seeking to add value through strategic asset allocation, stock selection and asset management. The fund may also invest in other property related assets, including collective investment schemes, transferable securities, derivatives and debt instruments, as well as government debt, money market instruments and cash. Derivatives may be used for investment purposes as well as for efficient portfolio management.

### Investment approach

The M&G Property Portfolio aims to maximise long-term total return through direct investment in commercial property. The fund is diversified across different property sectors (such as retail, offices and industrial). This is done by reviewing the structural and portfolio risk implications of holding various assets within the fund and when acquiring new assets for the fund. In researching properties and therefore the associated risk, the manager considers location, property type, rent review and lease expiry pattern, tenant, industry sector, tenure, lease covenants and physical and environmental factors.

### Risk profile

The fund invests in a diversified portfolio of commercial property mainly in the UK. It is therefore subject to the price volatility of the UK commercial property markets as well as the performance of individual properties.

The fund is valued daily on both an 'offer' basis (how much its assets would cost to buy) and a 'bid' basis (how much the fund would receive if assets were sold). The difference between the two, known as the 'spread', is currently around 7.25%. The published dealing prices are based on either the offer or bid valuation, depending on whether investors are generally buying fund shares (the fund is in 'net inflow') or selling shares (the fund is in 'net outflow'). Should fund flows move from net inflow to net outflow, the dealing prices may 'swing' from an offer basis to a bid basis and fall by the extent of the spread. On the other hand, the dealing prices may rise by the same extent should fund flows move from net outflow to net inflow.

For large deals, the dealing price investors receive may be different from the published price. If investors are buying shares, they may receive a price that is higher than the quoted offer price. If investors are selling shares, they may receive a price that is lower than the quoted bid price.

In difficult market conditions, or if significant numbers of investors withdraw their investments from the fund at the same time, the manager may be forced to dispose of property investments, and the value of certain property investments may therefore be less predictable than usual. Under these circumstances, it may be harder to sell assets at a fair price. Such conditions could result in unpredictable changes in the value of the fund's holdings. In general, property investments are harder to buy and sell compared to investments in fixed income securities and company shares.

There is the possibility that a portion of the portfolio will be held in cash if the supply of new investment opportunities is limited which, if the situation persists, may restrict the performance of the fund.

In addition, there is a risk that an occupational tenant on a property held in the fund's portfolio could default on its rental payments. Furthermore, the fund manager will place transactions, hold positions and place cash on deposit with a range of eligible persons or institutions, also known as counterparties. There is a risk that a counterparty may default on its obligations or become insolvent, which could have a negative impact on the value of the fund.

The fund invests in illiquid assets, but trades daily and hence portfolio diversification is key in managing liquidity and default risks as well as reducing market risk. The fund's risks are measured and managed as an integral part of the investment process. However, in exceptional circumstances where assets cannot be fairly valued, or have to be sold at a large discount to raise cash to settle redemptions, we may temporarily suspend the fund in the best interest of all investors.

# M&G Property Portfolio

## Authorised Corporate Director's Report

### Investment review

**As at 1 October 2018, for the year ended 30 September 2018**

#### Performance against objective

Between 2 October 2017 (the start of the review period) and 1 October 2018, the M&G Property Portfolio produced a positive total return (the combination of income and growth of capital) across all share classes.\*

Over the longer term (since the fund became a Property Authorised Investment Fund in January 2013) to 1 October 2018, the fund has achieved its objective of delivering income and capital growth over the long term through direct investment in commercial property.

\* For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Fund performance' section of this report.

#### Market background

Over the 12-month review period, the UK commercial property market on the whole enjoyed solid growth in capital values and a steady increase in rental income, according to property consultant CBRE. Capital values grew by nearly 4%, which when combined with rental income (which grew by just over 1%) gave a total return of over 9%.

While the overall figures are positive, there was a wide divergence in performance between the three main sectors: Industrials, Offices and Retail. Capital growth was strongest in Industrials and values were up by 15%. Together with rental income, the sector delivered a total return of 21%. We believe valuations in the industrial sector are reasonably well underpinned due to the lack of supply of quality assets. The popularity of e-commerce has led to an increase in demand for well-located fulfilment centres and smaller distribution units.

The Office sector recorded capital growth of just under 4% and a total return of over 8%. Meanwhile, rental values increased, albeit at a much slower pace than for Industrials. Rental growth has been particularly weak in Central London.

Retail was the only sector where capital values fell over the year, with a decline of just over 2%. Rental values also declined marginally, however, including rental income, the sector managed to record a positive total return of more than 1%. Unlike the other two sectors, Retail has not recouped the capital losses suffered in the summer of 2016 after the 'Leave' vote in the UK referendum on European Union (EU) membership.

The volume of property transactions remains resilient, with interest from both domestic buyers and overseas investors, attracted in part by sterling's weakness. (Overseas buyers represent around 45% of the market.) In 2017, transactions totalled over £66 billion and are expected to reach £55 billion for 2018 as a whole.

#### Portfolio structure

The portfolio is predominantly invested in what we consider as either prime or good secondary property – the higher quality end of the spectrum. In terms of strategy, we aim to balance the elements of income and growth within the portfolio while, importantly, managing the fund's assets actively to optimise performance.

Over the review period, we maintained the fund's exposure towards prime, higher-quality properties. The value of, and crucially, the income from prime assets, tends to be more resilient in times of market stress. As at the end of September 2018, the split between prime and good secondary was 65%/35% respectively.

Furthermore, according to an independent report by IPD (a company that provides analysis of the UK real estate market), the fund is just outside the top quartile relative to its peer group, in terms of quality of income.

The fund is a well-diversified portfolio designed to generate rental income across the UK by region and sector with valuations guiding asset allocation decisions. Across all sectors, the strength of rental growth in the next 12 to 18 months may have a significant bearing on property valuations going forward. The somewhat muted supply response in recent years (with the exception of Central London offices) and low historical vacancies should be supportive of rents at current levels.

In terms of positioning, our largest underweight exposure is to offices in Central London – that is, the City, Mid Town and the West End. Central London pricing has been driven higher in recent years, principally from overseas investors, pushing yields well below their long-run average. Our forecast is for Central London offices to be the most vulnerable to declines in capital value in the near term, which would be supportive of the fund's relative performance.

Overall, the fund's weighting in Offices is slightly above that of the broader market (as measured by IPD) as the underweight in Central London is offset by overweight positions in South East Offices and Rest of UK Offices, where we forecast healthier returns.

Turning to the Retail sector, we have continued to observe an ongoing polarisation of rental growth between prime, dominant locations at the expense of fringe, secondary towns. As the internet continues to alter the way consumers spend, those towns and centres that draw the greatest level of footfall and dwell time consistently attract retailers prepared to pay a premium rent. We therefore retain our material underweight position in the High Street and overweight exposure to dominant regional sites, including Shopping Centres. We also favour out-of-town retail parks, which benefit from the steady rise in online shopping, particularly the increasing demand for 'click & collect' shopping.

The fund's position to supermarkets is in line with the broader market. Supermarkets provide a steady income stream that is generally linked to movements in the Retail Prices Index or is subject to predefined increases. This should help protect, to a degree, the real income generated by the portfolio if inflation rises further.

In the Industrial sector, the fund is underweight in London and the South East and marginally overweight in the Rest of the UK. The fund has been underweight in London and the South East for some time as pricing has remained firm, making it challenging for us to find value in the sector. However, we bought three properties in the South East during the review period, thus reducing the fund's underweight position.

Within the sector, demand is strong from retailers for smaller warehouses close to towns, as online shoppers demand tighter delivery windows, while larger sheds are still required for regional and national distribution. Over the next three years, we forecast the total return for the sector will exceed the market as a whole, and will continue to look to add to our allocation there as attractive opportunities materialise.

# M&G Property Portfolio

## Authorised Corporate Director's Report

### Investment review

#### Portfolio structure (continued)

Outside the three core property sectors, we hold a position in the growing direct student accommodation market. Student accommodation proved resilient in the last downturn and investment in this sector provides exposure to a market which is structurally undersupplied, as well as being accretive to the overall yield of the portfolio.

The vacancy rate (including developments) of the fund was 7.5% at the end of September, which compares to 8.7% at the start of the review period. Three offices – Bedford Lakes, Heathrow, 5, The Square, Uxbridge and R+, Reading – and the Gracechurch Shopping Centre, Sutton Coldfield, account for around half of the fund's voids. The offices are best-in-class, prime assets, located in dense occupier markets and continue to generate interest from prospective occupiers who, on becoming tenants, should underpin the assets' value and income generated by the fund.

In normal commercial property market conditions, we aim to keep the amount of cash held in the portfolio between 7.5% and 12.5% of the value of the fund. However, in the short to medium term, the cash holding on the fund is likely to remain around 15%, above our normal stated desired range, as a precautionary measure given the uncertain economic climate at present. The fund's cash position declined from 18.3% at the start of the review period to 15.5% at the end of September 2018.

#### Investment activities\*\*

Investment activity during the 12-month period was guided with portfolio positioning in mind, and with the aim of ensuring that going forward, the fund was aligned with those sectors forecast to outperform.

Consequently, we took the decision to increase the fund's allocation to South East Industrials, where the demand/supply imbalance is most acute and, correspondingly, rental growth forecasts are the most positive. We made three purchases: Orbital One Trading Estate, Dartford; Industrial units 2 and 7 at Millington Road, West London and Leatherhead Trade Park, London.

Orbital One Trading Estate, Dartford was bought for £12.8 million and is situated in an established industrial location within the M25 which benefits from excellent road and public transport links to surrounding areas and beyond. Rents across Greater London have continued to be pushed upwards over the past year and we think this will continue for the foreseeable future. The individual units are detached and benefit from self-contained yards, a feature which is becoming increasingly rare in Greater London.

Industrial units 2 and 7 at Millington Road, West London (value £38.3 million) were acquired via an asset exchange of the Premier Inn, Stansted (value £42.5 million). Meanwhile, the investment in Leatherhead Trade Park, purchased for £10.6 million, represented a great opportunity to acquire a multi-let industrial estate. Situated in a prominent South East location, the trade park benefits from being in a supply-constrained location facing strong levels of occupier demand, which translates into upward pressure on rents. Bought with a vacant unit, there is scope for some asset management to boost the value in the near term.

We also bought 78-92, Great Portland Street, an office building in the West End of London for £49.5 million. With strong demand from overseas investors supporting pricing at the prime end of the market, the investment rationale behind the purchase is multi-faceted: it provides the opportunity to acquire a highly liquid, newly built, mixed-use building (office, residential apartments and retail), where no medium-term capex will be required. The investment increases the fund's weighting in the sector (although the fund remains underweight in West End Offices) and reduces its tracking error.

As well as the sale of Premier Inn, Stansted, we sold several other properties, the largest of which were: 3, Hardman Square, an office building in Manchester; Acergy UK Regional Campus, an out-of-town office park near Aberdeen; and Springfield Retail Park, in Haverfordwest.

3, Hardman Square, a Grade A office building in Manchester city centre, was sold for £107.3 million, representing a substantial premium to its carrying value. This gives an indication of the latent value within the portfolio and confirms wider data which shows that prime property prices have maintained their appeal to domestic and overseas investors alike. It also supports our decision to focus on selling good secondary assets over the past 18 months, where prices have been slow to stabilise. As the property had part empty floors, equal to 0.8% of the fund's total estimated rental value, the sale has therefore had the added benefit of reducing the overall vacancy rate on the fund as well as providing a substantial profit on the acquisition price of £87.5 million in 2015.

Acergy UK Regional Campus, an out-of-town office park near Aberdeen, was sold for £39.1 million. The decision to sell Acergy was driven by the desire to reduce the fund's exposure to Aberdeen, where the long-term prospect of the oil & gas sector is of concern. The fund has two other office buildings in Aberdeen, both of which are fully let. One of these is The Capitol, an award-winning Grade A building developed by the fund and located in the city centre.

Following strong capital growth in 2017, Springfield Retail Park, a retail park in Haverfordwest, was sold for £17.8 million – a 10% premium to its carrying value. The decision to sell the property was partly due to positive asset management activity over the past year – two units that had been vacant for some time were let to DFS and Currys in 2017 – and over concerns that the WAULT (weighted average unexpired lease term) on the park was declining. In addition, we feel the town has an oversupply of retail units.

Other sales during the review period included Mill Court, an office building in St Peter Port, Guernsey for £12.3 million and a shop in Hounslow for £5.3 million. We also sold two properties in Scotland: a shop in Glasgow at 70/76 Argyle Street for £9.1 million and Souterhead Industrial Estate in Aberdeen for £4.2 million.

\*\* The prices of these transactions exclude related costs.

# M&G Property Portfolio

## Authorised Corporate Director's Report

### Investment review

#### Asset management

Active asset management continued during the review period so as to enhance the performance of the portfolio by maintaining values through securing and strengthening rental income.

#### Retail

At Parc Trostre Retail Park, Llanelli, we completed three initiatives. The first involved the surrender of Monsoon's lease on a unit, while exchanging an 'agreement for lease' with Superdrug. (An 'agreement for lease' is a binding agreement between a landlord and prospective tenant to grant and/or to accept a lease in the future.) At the same time, we agreed to carry out minor works on the unit. Superdrug took a 10-year protected lease from March 2018, with a 12-month rent-free period and a tenant break in year 5 with a six-month notice period. (A protected lease gives the tenant a statutory right to request a new lease from their landlord on similar terms to their existing lease when it expires.) This activity improved the WAULT on the unit by 10 years and increased its rental value.

We also completed a rent review with Carphone Warehouse, which led to an uplift in rental value and completed a reversionary lease (a lease that takes effect when an existing lease has expired) for five years with Sportsworld (trading as Card Factory). The new lease now expires in June 2024.

At 3 Royal Baths, Harrogate we agreed a lease with a regional pub operator, which provides casual dining as part of its business model. The operation will be run under the Potting Shed Bar brand and comprises around 8,100 sq ft of space with additional external seating. The lease is for 20 years, starting in March 2018 and is subject to five-yearly upward-only rent reviews.

At Lisnagelvin Retail Park, Londonderry, an existing lease to TK Maxx was surrendered. The lease had two years to expiry. A new 15-year lease with an increased rent of just over 10% has been put in place and is subject to five-yearly upward-only rent reviews. In exchange, the tenant receives a three-month rent-free period and there is a tenant-only break option in year 10.

At Fremlin Walk Shopping Centre, Maidstone, we surrendered a lease with New Look and signed an Agreement for Lease with Roman Originals, a women's fashion retailer. The five-year lease includes a rent-free period of three months and Roman will take occupation in October 2018. The unit is approximately 3,400 sq ft in size and is arranged over two floors.

We also agreed terms with SportsDirect on behalf of House of Fraser. (SportsDirect has recently acquired House of Fraser.) The new lease is for 24 months and has a landlord break option after six months on three months' notice, and a tenant break option after 12 months on three months' notice.

#### Offices

At 3 Temple Quay, Bristol we completed two new lettings: one to Bluefield for 4,000 sq ft and the other to Quilter Cheviot for 7,100 sq ft. We also agreed a re-gear of a lease with Womble Bond Dickinson. This included the surrender of the second, third and fourth floor leases, where we inherited existing sub-tenants and some vacant space. In addition, on the fifth to eighth floors (which represent over 50,000 sq ft), there was a variation in the lease to allow for a 15-year term. The activity at 3 Temple Quay produced an uplift in valuation of £1.4 million.

At 120 Edmund Street, Birmingham, we completed a re-gear of the lease which removed the 2019 break clause and increased the rent. In return, we granted a 36-month half-rent incentive period to the tenant. The re-gear led to an uplift in valuation of over £5 million.

Asset management activity also took place at offices at R+, Reading, 5, The Square, Stockley Park, Uxbridge and Alder Castle in the City of London. At R+, contracts were exchanged on a new lease with Northgate Plc. Northgate has taken c10,000 sq ft of space on the fourth floor for its head office, which has been relocated from the north of England. We also completed a new letting of the whole of the ground floor (c16,100 sq ft) to Central Working, on a 15-year lease. Central Working is a serviced office/co-working business that will create a new hub at R+.

We completed two new lettings at 5, The Square, Stockley Park an out-of-town office park. Contracts were exchanged on a new lease with Mitsubishi, who has taken 7,000 sq ft on the ground floor and a new 10-year lease was agreed with Canon Europe Ltd, who has taken 8,480 sq ft of space. This activity helps to underpin the value of the asset where we have undertaken significant development, a decision which resulted in a vacancy during a challenging period after the EU referendum. Encouragingly, businesses continue to take space at 5, The Square, Stockley Park, as the asset is best in class.

At Alder Castle, an office building in the City, Drax Group plc has taken the third floor of the building, representing 13,000 sq ft of space.

#### Industrial

In the industrial and logistics sector we were active at two sites. At Hartlebury Trading Estate, we completed a 20-year reversionary lease on a unit with Weinberger to commence in September 2023. Rent reviews are every five years with the first at the start of the lease. The new terms have resulted in an uplift to the valuation.

At Brackmills Trade Park, we let the final three units at the site. The new tenants are National Windscreens, Cubico (UK), a bathroom stockist/showroom, and Dulux. This speculative development was practically completed in February 2017 and consists of 14 warehouse/trade/retail units totalling 65,200 sq ft of space. Other tenants include Screwfix, Howdens, Topps Tiles, Costa and Subway.

# M&G Property Portfolio

## Authorised Corporate Director's Report

### Investment review

#### Outlook

Two years on from the result of the UK referendum on EU membership, commercial property continues to deliver attractive returns. Despite the negative sentiment following the vote, the decision to leave the EU made hardly a dent in the medium-term performance of commercial property. By the end of 2016, capital values had all but recovered their summer losses. This was down to an asset class financed by relatively low levels of debt and supported by healthy investor and occupier demand.

The same property fundamentals that provided that resilience remain largely in place today. While the possibility of an acrimonious Brexit appears on the rise, transaction volumes – a gauge of investor appetite for risk – suggest a collectively more pragmatic outlook.

Arguably, the economic expansion since the financial crisis is long in the tooth, with market commentary increasingly focused on potential destabilising risks. This is true too of the property cycle; and yet, while interest rate risk, Brexit, investor confidence in UK property and occupier strength are tabled as worries, data and sentiment suggest that near term, these concerns are somewhat unfounded.

Taking each in turn, the unanimous vote to raise the UK's base rate in August 2018 was perhaps less a vote of confidence in an economy that continues to perform well in the face of a challenging political outlook, than a need for rates to 'normalise' after a decade of very accommodative monetary policy. While the US Federal Reserve began tightening in 2015, thus far there has been little impact on property yields, where the spread over US Treasuries remains considerably higher than its long-run average. This feature can also be found in the UK and provides a cushion in the face of rising interest rates, illustrating the relative attractiveness of property to other income-generating assets.

Some of the reaction to Brexit – for example, the exodus of investors from daily-dealt UK property retail funds in the summer of 2016, including our own – appears to be born more out of fear than fact, given the rise in capital values since the vote.

The office sector was expected to fare the worst, with estimates that over 100,000 city workers would be relocated to Europe in short order. However, recent estimates suggest that the figure is much smaller and the exodus will take place over several years.

It should be remembered that UK property fundamentals remain strong: transactions are expected to reach £55 billion in 2018; rental growth is positive in all but the retail sector; and this property cycle has been fuelled predominantly by equity, rather than debt. Collectively, these fundamental characteristics point to a more benign than bleak course for property values over the medium term, in our view.

We would argue that the challenges facing UK commercial property come more from a technology-led industrial revolution, rather than an overheating asset class exposed to political uncertainty.

New tenant behaviour, as a result of the 21st century influences, is affecting all sectors, but in different ways. In the office sector, serviced office buildings are becoming more popular and disrupting the way we work. Meanwhile, the view that a retailer needs an extensive, multi-faceted retail footprint is being challenged. Instead, will an online presence with new-age retail-distribution stores and third-party supply chains be sufficient?

There is no blueprint, however, and understanding your customer has never been more important – as recently demonstrated by IKEA. Formerly synonymous with big blue and yellow out-of-town boxes, IKEA is breaking with tradition with a move into shopping centres and the high street.

Looking ahead, we expect UK commercial property to generate low, mid-single-digit returns over the next five years, with some weakness in capital values moderating returns. In the near term, this weakness is expected to come predominantly from Retail and Central London Offices, with a softening in Industrials towards the latter part of the period.

#### Fiona Rowley and Justin Upton

Co-fund managers

Employees of M&G Limited which is an associate of M&G Securities Limited. At the start of the review period Fiona Rowley was the sole fund manager.

Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

# M&G Property Portfolio

## Authorised Corporate Director's Report

### Investments

Portfolio statement			
as at 30 September	2018	2018	2017 <sup>[a]</sup>
Location	£'000	%	%
<b>Retail properties</b>	<b>1,329,121</b>	<b>36.77</b>	<b>36.89</b>
<b>Values between £100 million and £150 million</b>	<b>369,646</b>	<b>10.23</b>	<b>10.11</b>
Llanelli Parc Trostre Retail Park			
Bridgend Wales Designer Outlet, The Derwen			
Maidstone 19-21 Fremlin Walk			
<b>Values between £50 million and £100 million</b>	<b>426,294</b>	<b>11.79</b>	<b>11.57</b>
Northampton Riverside Retail Park			
Sutton Coldfield The Gracechurch Centre			
London, N18 Ravenside Retail Park			
Lincoln Linds Retail Park, Tritton Road			
High Wycombe Wycombe Retail Park			
Romford The Brewery (25% of Trust for Land)			
<b>Values between £20 million and £50 million</b>	<b>350,849</b>	<b>9.71</b>	<b>9.60</b>
Tyne And Wear Newcastle Shopping Park, Fossway, Heaton, Byker			
High Wycombe Tesco Supermarket, London Road, Loudwater			
London, E4 Corktree Retail Park, Hall Lane, Chingford			
Petersfield 1-20 Rams Walk & 11-13 The Square			
Ayr Ayr Central Shopping			
Bolton Bolton Shopping Park, Trinity Street			
Cannock Orbital Retail Park, Voyager Drive			
Scarborough Brunswick Shopping Centre			
Blandford St Mary Tesco Supermarket, Stour Road			
Croydon Trafalgar Way Retail Park, Purley Way			
Birmingham The Fort Retail Park (12.5% of Trust for Land)			
<b>Values up to £20 million</b>	<b>182,332</b>	<b>5.04</b>	<b>5.61</b>
Sheffield Debenhams, The Mall and Charter Square			
Londonderry Lisnagelvin Retail Park			
Harrogate Royal Baths and Harrogate House			
York 3/7 Coney Street			
Cannock Orbital Retail Park			
Northampton Tungsten Business Park, Caswell Road			
Belfast 17-21 Donegall Place			
Newcastle 46/48 Northumberland Street & 1/5 Saville Row			
Harrow Debenhams, 275 Station Road			
Southampton 57/61 Above Bar Street			
Worcester 48-50 High Street & 3-6 The Shambles			
London, N1 359 Upper Street, The Mall			
St Albans Lockey House, St Peters Street			
Brighton 45 East Street & 10-12 Castle Square			
Chester 43 Eastgate Street			
Peterborough Barclays Bank, 1/3 Church Street			
Winchester 71/73 St Georges Street & 126 High Street			
Leeds 27-28 Commercial Street			
Leeds 25-26 Commercial Street			

### Portfolio statement (continued)

as at 30 September	2018	2018	2017 <sup>[a]</sup>
Location	£'000	%	%
<b>Office properties</b>	<b>900,901</b>	<b>24.92</b>	<b>24.81</b>
<b>Values between £150 million and £200 million</b>	<b>178,178</b>	<b>4.93</b>	<b>4.67</b>
Heathrow 1-8 New Square Bedford Lakes Office Park			
<b>Values between £100 million and £150 million</b>	<b>106,548</b>	<b>2.95</b>	<b>0.00</b>
London, EC2 Alder Castle, 10 Noble Street			
<b>Values between £50 million and £100 million</b>	<b>251,413</b>	<b>6.95</b>	<b>8.41</b>
Glasgow Aurora Building, 120 Bothwell Street			
Uxbridge Enterprises House, Bakers Road			
Reading Aldwych House, Blagrave Street			
Birmingham 120 Edmund Street			
<b>Values between £20 million and £50 million</b>	<b>315,751</b>	<b>8.73</b>	<b>10.66</b>
London, W1 Portland & Riding Estate			
Maidenhead Quantum Business Park			
Bristol 3 Temple Quay			
Uxbridge Stockley Park, 5 The Square			
Milton Keynes Wavendon Business Park			
Aberdeen The Capitol, 431 Union Street			
Staines 20 Kingston Road			
London, E14 8 Greenwich View Place			
Brighton 2 City Park			
London, W8 2 Kensington Square			
<b>Values up to £20 million</b>	<b>49,011</b>	<b>1.36</b>	<b>1.07</b>
Aberdeen City View, Craigshaw Drive			
Glasgow 23 Cadogan Street			
London, N1 Units 1-4 The Yard, 122 East Road			
<b>Industrial properties</b>	<b>613,042</b>	<b>16.96</b>	<b>13.62</b>
<b>Values between £50 million and £100 million</b>	<b>82,250</b>	<b>2.28</b>	<b>1.86</b>
Belvedere Iron Mountain Distribution Warehouse, Isis Reach, Norman Road			
<b>Values between £20 million and £50 million</b>	<b>388,134</b>	<b>10.73</b>	<b>7.36</b>
Hayes Unit 2 & 7a/b/c Millington Road			
Birmingham Units 2-12, 14 & 15, Junction 6 Industrial Estate, Electric Avenue			
Enfield Heritage House, Southbury Road			
Bristol Plot 4000, Western Approach Distribution Park			
Southampton Tesco Distribution Unit, Main Site, Nursling Industrial Estate			
Didcot Booker Unit, Foxhall Road			
Aberdeen Sites A1, A7-A10, A12, A15-A25 & A29, Altens Industrial Estate			
Walsall TK Maxx Distribution Centre, Green Lane			
Aberdeen Sites WT1-WT5 & WT8-WT18 & WT20, West Tullos Industrial Estate			
Warrington Royal Mail Distribution Centre, Orion Boulevard			
Rainham Wincanton Distribution Unit			
Coalville Canon Unit, 22 Beveridge Lane, Bardon Hill			

# M&G Property Portfolio

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at 30 September	2018	2018	2017 <sup>[a]</sup>	
Location	£'000	%	%	
<b>Industrial properties (continued)</b>				
<b>Values up to £20 million</b>				
Tamworth	DSV, Kingsbury Link, Trinity Road	142,658	3.95	4.40
Normanton	Royal Mail Distribution Centre, Tuscany Way, Wakefield Europort			
Thrapston	Units HP1 & HP2, Halden's Parkway			
Lutterworth	Plot 3320, Magna Park			
Leatherhead	Leatherhead Trade Park			
Southampton	Norbert Dentressangle Recycling Plant, Site 1b, Nursling Industrial Estate			
Hartlebury	Unit 100, Hartlebury Trading Estate			
Fareham	11 Barnes Wallis Road			
Nottingham	Unit 10, Blenheim Park			
Tamworth	Inalfa Unit Kingsbury Link			
Aberdeen	Portfolio of 7 Ground Leases, Murcar Industrial Estate			
Normanton	Unit 1000, Normanton Industrial Estate			
Aberdeen	Units 1-4 Howe Moss Drive, Kirkhill Industrial Estate			
Liverpool	Britonwood			
<b>Leisure properties</b>				
<b>Values between £20 million and £50 million</b>				
Rochester	Medway Valley Leisure Park	152,884	4.23	5.05
Telford	Southwater Square	93,439	2.59	3.51
Blackburn	Peel Retail & Leisure Centre, Lower Audley Street			
<b>Values up to £20 million</b>				
Swansea	Premier Inn Hotel, The Waterfront Development	59,445	1.64	1.54
Birmingham	Travelodge - 2225 Coventry Road			
Milton Keynes	Travelodge - Burchard Crescent			
Slough	Travelodge - 399 London Road, Langley			
Northampton	Travelodge - London Road			
Walton on Thames	Travelodge - Ashley Park Road			
Redhill	Travelodge - 2 Redstone Hill			
Woodford Green	Travelodge - 735 Chigwell Road			
Borehamwood	Travelodge - Studio Way			
London, E11	Travelodge - 73 Hollybush Hill, Snaresbrook			
Arundel	Travelodge - Fontwell Avenue			
Northolt	Travelodge - Mandeville Road			
Eastbourne	Travelodge - Highfield Park, Willingdon Drove			
London, N14	Travelodge - The Green, Southgate			
Portsmouth	Travelodge - 1 Whichers Gate Road, Rowland's Castle			

### Portfolio statement (continued)

as at 30 September	2018	2018	2017 <sup>[a]</sup>	
Location	£'000	%	%	
<b>Other properties</b>				
<b>Values between £20 million and £50 million</b>				
Birmingham	Selly Oak Student Quarter	34,800	0.96	0.77
<b>Total direct properties</b>				
<b>Indirect properties</b>				
Kames Target Healthcare I LP				
Octopus Healthcare Fund				
<b>Portfolio of investments</b>				
<b>'AA' credit rated bonds <sup>[b]</sup></b>				
£50,000,000 Treasury 0% 2018 (1 Oct 2018)				
£50,000,000 Treasury 0% 2018 (8 Oct 2018)				
£50,000,000 Treasury 0% 2018 (5 Nov 2018)				
£50,000,000 Treasury 0% 2018 (19 Nov 2018)				
£50,000,000 Treasury 0% 2018 (26 Nov 2018)				
£50,000,000 Treasury 0% 2018 (31 Dec 2018)				
<b>Total portfolio</b>				
<b>Net other assets</b>				
<b>Net assets attributable to shareholders</b>				

<sup>[a]</sup> The comparatives reflect the properties in the bands based on the value and ownership at 30 September 2017.

<sup>[b]</sup> Cash equivalents.

# M&G Property Portfolio

## 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 you may not get back the original amount you invested.

The following chart and tables show the performance for two of the fund's share classes – Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

We show performance for these two share classes because:

- The performance of the Sterling Class 'A' (Accumulation) share is what most individuals investing directly with M&G have received. It has the highest ongoing charge of all the share classes. Performance is shown after deduction of this charge. All investors in the fund therefore received this performance or better.
- The performance of the Sterling Class 'I' (Accumulation) share is the most appropriate to compare with the average performance of the fund's comparative sector. It is the share class used by the Investment Association in the calculation of the comparative sector's average performance. This share class is available for direct investment with M&G subject to minimum investment criteria, or via third parties who may charge additional fees. The performance shown takes the deduction of the ongoing charge for this share class into account but it does not take account of charges applied by any other party through which you may have invested.

The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Property Portfolio, which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

### Fund level performance

Fund net asset value			
as at 30 September	2018 £'000	2017 £'000	2016 £'000
Fund net asset value (NAV)	3,614,786	3,701,686	4,102,611

### Performance since launch

To give an indication of how the fund has performed since launch, the chart below shows total return of Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.



To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period. Calculated on a bid to bid basis with income reinvested.

Sterling <sup>[b]</sup>	One year 02.10.17 % <sup>[a]</sup>	Three years 01.10.15 % p.a.	Five years 01.10.13 % p.a.	Since launch % p.a.
	Class 'A'	+5.7	+1.2	+5.2
Class 'D'	+6.5	+1.9	+5.9	+5.8 <sup>[c]</sup>
Class 'F'	+7.1	+2.4	+6.4	+6.2 <sup>[c]</sup>
Class 'I'	+6.4	+1.8	+5.8	+5.7 <sup>[c]</sup>
Class 'R'	+6.2	+1.6	+5.6	+5.4 <sup>[c]</sup>
Class 'X'	+5.7	+1.2	+5.1	+4.9 <sup>[c]</sup>

<sup>[a]</sup> Absolute basis.

<sup>[b]</sup> Bid to bid with income reinvested.

<sup>[c]</sup> 18 January 2013, the launch date of the fund.

# M&G Property Portfolio

## 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, comprising 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).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.
- **Property expenses:** Costs associated with the management and operation of the property portfolio itself, including day-to-day property management and rent collection.

The operating charges paid by each share class 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). The charging structures of share classes may differ, and therefore the operating charges may differ.

Operating charges are the same as the ongoing charges shown in the Key Investor Information 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, unless disclosed under the specific share class performance table.

### 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.

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 shares in the fund.

Portfolio transaction costs include the costs of acquiring or disposing of, as the case may be, all the assets forming the scheme property, being agents' commissions, legal, fiscal and financial advisory fees and additionally in the case of acquisitions, surveyors' fees and taxes, including Stamp Duty Land Tax (SDLT).

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares 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.

Further information on this process is in the Prospectus, which is available free of charge on request either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

Portfolio transaction costs				
for the year to 30 September	2018	2017	2016	Average <sup>[a]</sup>
Direct portfolio transaction costs <sup>[b]</sup>	%	%	%	%
Agents' fees	0.01	0.01	0.04	0.02
Legal fees	0.07	0.18	0.09	0.12
Stamp Duty Land Tax	0.16	0.00	0.12	0.09
Survey fees	0.01	0.00	0.00	0.00
Costs before dilution adjustments	0.25	0.19	0.25	0.23
Dilution adjustments <sup>[c]</sup>	(0.08)	(0.13)	(0.17)	(0.13)
Total direct portfolio transaction costs	0.17	0.06	0.08	0.10

<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.

# M&G Property Portfolio

## Financial highlights

### Specific share class performance

The following tables show the performance of each share class. 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 share (NAV). 'Dilution adjustments' are only in respect of direct portfolio transaction costs.

Interest distributions payable to holders of sterling Income shares are shown gross, including any income tax. Retained interest distributions in respect of sterling Accumulation shares are shown net of income tax, with the income tax payable shown as distributions.

Historic yields for the current year are calculated as at 12 October 2018.

#### Sterling Class 'A' Income share performance

The share class was launched on 18 January 2013.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	115.34	111.46	116.80
Return before operating charges and after direct portfolio transaction costs	9.54*	9.34	0.90
Operating charges	(2.43)*	(2.70)	(2.48)
Return after operating charges	7.11	6.64	(1.58)
Distributions	(4.00)	(2.76)	(3.76)
Closing NAV	118.45	115.34	111.46
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.29	0.22	0.29
Dilution adjustments <sup>[a]</sup>	(0.10)	(0.15)	(0.20)
Total direct portfolio transaction costs	0.19	0.07	0.09
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.17	0.06	0.08
Operating charges excluding property expenses	1.69	1.70	1.67
Property expenses	0.37*	0.69	0.46
Operating charges	2.06*	2.39	2.13
Return after operating charges	+6.16	+5.96	-1.36
Historic yield <sup>[c]</sup>	4.05	2.38	3.43
Effect on yield of charges offset against capital	1.65	0.00	0.00

#### Other information

Closing NAV (£'000)	128,120	134,878	133,178
Closing NAV percentage of total fund NAV (%)	3.54	3.64	3.25
Number of shares	108,167,298	116,936,298	119,486,298
Highest share price (UK p)	125.64	124.77	132.22
Lowest share price (UK p)	121.12	118.35	119.44

\* Restated.

#### Sterling Class 'A' Accumulation share performance

The share class was launched on 18 January 2013.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	131.74	124.77	127.32
Return before operating charges and after direct portfolio transaction costs	10.96*	10.53	0.87
Operating charges	(2.80)*	(3.02)	(2.67)
Return after operating charges	8.16	7.51	(1.80)
Distributions	(3.47)	(3.12)	(4.13)
Retained distributions	2.87	2.58	3.38
Closing NAV	139.30	131.74	124.77*
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.34	0.24	0.33
Dilution adjustments <sup>[a]</sup>	(0.12)	(0.17)	(0.22)
Total direct portfolio transaction costs	0.22	0.07	0.11
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.17	0.06	0.08
Operating charges excluding property expenses	1.69	1.70	1.67
Property expenses	0.37*	0.67	0.41
Operating charges	2.06*	2.37	2.08
Return after operating charges	+6.19	+6.02	-1.41
Historic yield	2.35	2.35	3.36
Effect on yield of charges offset against capital	0.00	0.00	0.00

#### Other information

Closing NAV (£'000)	56,327	74,592	89,664
Closing NAV percentage of total fund NAV (%)	1.56	2.02	2.19
Number of shares	40,434,668	56,620,668	71,862,668
Highest share price (UK p)	146.44	139.66	146.05
Lowest share price (UK p)	138.32	131.07	132.85

\* Restated.

#### Sterling Class 'D' Income share performance

The share class was launched on 18 January 2013.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,153.68	1,114.79	1,168.34
Return before operating charges and after direct portfolio transaction costs	95.38*	93.60	8.77
Operating charges	(13.64)*	(16.84)	(14.25)
Return after operating charges	81.74	76.76	(5.48)
Distributions	(45.28)	(37.87)	(48.07)
Closing NAV	1,190.14	1,153.68	1,114.79
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	2.92	2.17	2.95
Dilution adjustments <sup>[a]</sup>	(1.01)	(1.52)	(2.02)
Total direct portfolio transaction costs	1.91	0.65	0.93
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.17	0.06	0.08
Operating charges excluding property expenses	0.79	0.79	0.77
Property expenses	0.36*	0.69	0.46
Operating charges	1.16*	1.48	1.23
Return after operating charges	+7.09	+6.89	-0.47
Historic yield <sup>[c]</sup>	4.03	3.26	4.37
Effect on yield of charges offset against capital	0.75	0.00	0.00

#### Other information

Closing NAV (£'000)	45,376	60,210	61,361
Closing NAV percentage of total fund NAV (%)	1.25	1.63	1.50
Number of shares	3,812,637	5,218,937	5,504,237
Highest share price (UK p)	1,261.80	1,217.32	1,284.31
Lowest share price (UK p)	1,211.55	1,183.87	1,159.41

\* Restated.

# M&G Property Portfolio

## Financial highlights

### Specific share class performance

#### Sterling Class 'D' Accumulation share performance

The share class was launched on 18 January 2013.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,362.53	1,281.24	1,298.06
Return before operating charges and after direct portfolio transaction costs	113.72*	108.38	8.11
Operating charges	(16.44)*	(19.20)	(14.53)
Return after operating charges	97.28	89.18	(6.42)
Distributions	(48.68)	(43.94)	(55.68)
Retained distributions	39.96	36.05	45.28
Closing NAV	1,451.09	1,362.53	1,281.24
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	3.51	2.54	3.37
Dilution adjustments <sup>[a]</sup>	(1.21)	(1.78)	(2.31)
Total direct portfolio transaction costs	2.30	0.76	1.06
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.17	0.06	0.08
Operating charges excluding property expenses	0.79	0.79	0.76
Property expenses	0.37*	0.66	0.33
Operating charges	1.16*	1.45	1.09
Return after operating charges	+7.14	+6.96	-0.49
Historic yield	3.21	3.21	4.39
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	3,139	1,290	1,270
Closing NAV percentage of total fund NAV (%)	0.09	0.03	0.03
Number of shares	216,300	94,700	99,100
Highest share price (UK p)	1,525.51	1,430.03	1,451.11
Lowest share price (UK p)	1,430.72	1,364.55	1,321.57

\* Restated.

#### Sterling Class 'F' Income share performance

The share class was launched on 18 January 2013.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	115.38	111.49	116.85
Return before operating charges and after direct portfolio transaction costs	9.61*	9.36	0.88
Operating charges	(0.67)*	(1.00)	(0.74)
Return after operating charges	8.94	8.36	0.14
Distributions	(4.88)	(4.47)	(5.50)
Closing NAV	119.44	115.38	111.49
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.29	0.22	0.29
Dilution adjustments <sup>[a]</sup>	(0.10)	(0.15)	(0.20)
Total direct portfolio transaction costs	0.19	0.07	0.09
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.17	0.06	0.08
Operating charges excluding property expenses	0.19	0.20	0.17
Property expenses	0.37*	0.68	0.47
Operating charges	0.57*	0.88	0.64
Return after operating charges	+7.75	+7.50	+0.12
Historic yield <sup>[c]</sup>	4.01	3.86	4.99
Effect on yield of charges offset against capital	0.15	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	2,262,467	2,374,784	2,602,552
Closing NAV percentage of total fund NAV (%)	62.59	64.15	63.43
Number of shares	1,894,270,913	2,058,143,808	2,334,238,573
Highest share price (UK p)	126.59	121.89	126.03
Lowest share price (UK p)	121.18	116.85	113.72

\* Restated.

#### Sterling Class 'I' Income share performance

The share class was launched on 18 January 2013.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,153.68	1,114.73	1,168.20
Return before operating charges and after direct portfolio transaction costs	95.36*	93.56	9.08
Operating charges	(15.50)*	(18.45)	(16.24)
Return after operating charges	79.86	75.11	(7.16)
Distributions	(44.38)	(36.16)	(46.31)
Closing NAV	1,189.16	1,153.68	1,114.73
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	2.92	2.17	2.94
Dilution adjustments <sup>[a]</sup>	(1.00)	(1.52)	(2.02)
Total direct portfolio transaction costs	1.92	0.65	0.92
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.17	0.06	0.08
Operating charges excluding property expenses	0.94	0.95	0.92
Property expenses	0.38*	0.68	0.48
Operating charges	1.32*	1.63	1.40
Return after operating charges	+6.92	+6.74	-0.61
Historic yield <sup>[c]</sup>	4.03	3.12	4.21
Effect on yield of charges offset against capital	0.90	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	850,949	803,243	923,501
Closing NAV percentage of total fund NAV (%)	23.54	21.70	22.51
Number of shares	71,558,627	69,624,227	82,845,327
Highest share price (UK p)	1,260.86	1,216.89	1,283.86
Lowest share price (UK p)	1,211.47	1,183.79	1,159.13

\* Restated.

#### Sterling Class 'I' Accumulation share performance

The share class was launched on 18 January 2013.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,354.88	1,275.54	1,293.93
Return before operating charges and after direct portfolio transaction costs	113.15*	108.11	9.47
Operating charges	(18.43)*	(21.30)	(18.27)
Return after operating charges	94.72	86.81	(8.80)
Distributions	(46.31)	(41.77)	(51.55)
Retained distributions	38.11	34.30	41.96
Closing NAV	1,441.40	1,354.88	1,275.54
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	3.46	2.51	3.30
Dilution adjustments <sup>[a]</sup>	(1.19)	(1.76)	(2.26)
Total direct portfolio transaction costs	2.27	0.75	1.04
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.17	0.06	0.08
Operating charges excluding property expenses	0.94	0.95	0.92
Property expenses	0.38*	0.68	0.48
Operating charges	1.32*	1.63	1.40
Return after operating charges	+6.99	+6.81	-0.68
Historic yield	3.07	3.07	4.10
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	250,575	234,627	269,877
Closing NAV percentage of total fund NAV (%)	6.93	6.34	6.58
Number of shares	17,384,104	17,317,204	21,157,904
Highest share price (UK p)	1,515.33	1,422.00	1,445.19
Lowest share price (UK p)	1,422.67	1,358.18	1,315.85

\* Restated.

# M&G Property Portfolio

## Financial highlights

### Specific share class performance

#### Sterling Class 'R' Income share performance

The share class was launched on 18 January 2013.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	115.39	111.50	116.82
Return before operating charges and after direct portfolio transaction costs	9.53*	9.30	0.63
Operating charges	(1.84)*	(2.08)	(1.71)
Return after operating charges	7.69	7.22	(1.08)
Distributions	(4.29)	(3.33)	(4.24)
Closing NAV	118.79	115.39	111.50
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.29	0.22	0.29
Dilution adjustments <sup>[a]</sup>	(0.10)	(0.15)	(0.20)
Total direct portfolio transaction costs	0.19	0.07	0.09
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.17	0.06	0.08
Operating charges excluding property expenses	1.19	1.20	1.17
Property expenses	0.37*	0.64	0.30
Operating charges	1.57*	1.84	1.47
Return after operating charges	+6.66	+6.48	-0.93
Historic yield <sup>[c]</sup>	4.04	2.87	3.86
Effect on yield of charges offset against capital	1.15	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	3,119	2,457	3,865
Closing NAV percentage of total fund NAV (%)	0.09	0.07	0.09
Number of shares	2,626,058	2,129,058	3,466,058
Highest share price (UK p)	125.96	121.65	128.15
Lowest share price (UK p)	121.17	118.40	115.90

\* Restated.

#### Sterling Class 'R' Accumulation share performance

The share class was launched on 18 January 2013.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	134.25	126.64	128.53
Return before operating charges and after direct portfolio transaction costs	11.20*	10.76	1.12
Operating charges	(2.18)*	(2.47)	(2.11)
Return after operating charges	9.02	8.29	(0.99)
Distributions	(4.23)	(3.82)	(4.84)
Retained distributions	3.50	3.14	3.94
Closing NAV	142.54	134.25	126.64
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.34	0.25	0.33
Dilution adjustments <sup>[a]</sup>	(0.12)	(0.17)	(0.23)
Total direct portfolio transaction costs	0.22	0.08	0.10
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.17	0.06	0.08
Operating charges excluding property expenses	1.19	1.20	1.17
Property expenses	0.38*	0.70	0.46
Operating charges	1.58*	1.90	1.63
Return after operating charges	+6.72	+6.55	-0.77
Historic yield	2.84	2.83	3.88
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	3,100	829	792
Closing NAV percentage of total fund NAV (%)	0.09	0.02	0.02
Number of shares	2,174,648	617,648	625,648
Highest share price (UK p)	149.85	140.89	143.55
Lowest share price (UK p)	140.96	134.78	130.66

\* Restated.

#### Sterling Class 'X' Income share performance

The share class was launched on 18 January 2013.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	115.34	111.46	116.81
Return before operating charges and after direct portfolio transaction costs	9.52*	9.33	0.88
Operating charges	(2.43)*	(2.69)	(2.47)
Return after operating charges	7.09	6.64	(1.59)
Distributions	(3.99)	(2.76)	(3.76)
Closing NAV	118.44	115.34	111.46
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.29	0.22	0.29
Dilution adjustments <sup>[a]</sup>	(0.10)	(0.15)	(0.20)
Total direct portfolio transaction costs	0.19	0.07	0.09
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.17	0.06	0.08
Operating charges excluding property expenses	1.69	1.70	1.67
Property expenses	0.37*	0.68	0.46
Operating charges	2.06*	2.38	2.13
Return after operating charges	+6.15	+5.96	-1.37
Historic yield <sup>[c]</sup>	4.04	2.38	3.42
Effect on yield of charges offset against capital	1.65	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	11,614	14,776	16,551
Closing NAV percentage of total fund NAV (%)	0.32	0.40	0.40
Number of shares	9,805,210	12,810,210	14,849,210
Highest share price (UK p)	125.64	121.48	125.61
Lowest share price (UK p)	121.12	116.74	113.47

\* Restated.

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

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

<sup>[c]</sup> Following the change in charging structure, you may see variances between the comparative and current year figures.

# M&G Property Portfolio

## Financial statements and notes

### Financial statements

#### Statement of total return

for the year to 30 September	Note	2018		2017	
		£'000	£'000	£'000	£'000
<b>Income</b>					
Net capital gains / (losses)	4		125,376		127,140
Revenue	6	168,136		186,347	
Expenses	7	(33,232)		(46,210)	
Interest on unsecured borrowing		0		(178)	
Net revenue / (expense) before taxation		134,904		139,959	
Taxation	8	(89)		(204)	
Net revenue / (expense) after taxation			134,815		139,755
<b>Total return before distributions</b>			<b>260,191</b>		<b>266,895</b>
Distributions	9		(142,781)		(140,566)
<b>Change in net assets attributable to shareholders from investment activities</b>					
			<b>117,410</b>		<b>126,329</b>

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

for the year to 30 September	Note	2018		2017	
		£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>					
			<b>3,701,686</b>		<b>4,102,611</b>
Amounts received on issue of shares		78,675		90,206	
Amounts paid on cancellation of shares		(294,030)		(630,457)	
			(215,355)		(540,251)
Dilution adjustments			3,093		5,172
Change in net assets attributable to shareholders from investment activities (see above)			117,410		126,329
Retained distributions on Accumulation shares			7,951		7,824
Unclaimed distributions			1		1
<b>Closing net assets attributable to shareholders</b>					
			<b>3,614,786</b>		<b>3,701,686</b>

#### Balance sheet

as at 30 September	Note	2018 £'000	2017 £'000
<b>Assets</b>			
<b>Fixed assets</b>			
Tangible assets			
Land and buildings	13	3,030,748	3,003,577
Investments		31,218	28,746
<b>Current assets</b>			
Debtors	10	61,893	67,379
Cash and bank balances	11	276,173	290,027
Cash equivalents	11	299,749	399,862
<b>Total assets</b>		<b>3,699,781</b>	<b>3,789,591</b>
<b>Creditors</b>			
Distribution payable		(38,541)	(30,479)
Other creditors	12	(46,454)	(57,426)
<b>Total liabilities</b>		<b>(84,995)</b>	<b>(87,905)</b>
<b>Net assets attributable to shareholders</b>		<b>3,614,786</b>	<b>3,701,686</b>

#### Cashflow statement

for the year to 30 September	Note	2018		2017	
		£'000	£'000	£'000	£'000
<b>Operating activities</b>					
Net revenue / (expense) before taxation		134,904		139,959	
Adjustments for					
Amortised income		(1,194)		(266)	
Movement in debtors		(741)		(10,982)	
Movement in creditors		(7,375)		(8,450)	
Net cash generated from operating activities			125,594		120,261
<b>Investing activities</b>					
Capital expenditure		(11,287)		(16,719)	
Debt security purchases		(1,148,691)		(1,147,567)	
Debt security sales		1,149,885		1,147,800	
Tangible assets: acquisitions <sup>[a]</sup>		(117,624)		(640)	
Tangible assets: disposals <sup>[a]</sup>		227,314		886,373	
Transaction charges		(9)		(4)	
Net cash from investing activities			99,588		869,243
<b>Financing activities</b>					
Amounts received on issue of shares		82,582		85,574	
Amounts paid on cancellation of shares		(298,967)		(627,396)	
Dilution adjustments		3,093		5,172	
Distributions paid		(102,503)		(118,583)	
Interest paid		0		(178)	
Taxation		(23,355)		(31,767)	
Unclaimed distributions received		1		1	
Net cash used in financing activities			(339,149)		(687,177)
<b>Net (decrease) / increase in cash and cash equivalents</b>					
			<b>(113,967)</b>		<b>302,327</b>
Cash and cash equivalents at the beginning of the year	11		689,889		387,562
Net (decrease) / increase in cash for the year			(113,967)		302,327
<b>Cash and cash equivalents at the end of the year</b>					
	11		<b>575,922</b>		<b>689,889</b>

<sup>[a]</sup> For transaction costs associated with these assets please refer to note 5 on page 22.

# M&G Property Portfolio

## Financial statements and notes

### 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 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 of M&G Property Portfolio 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 of M&G Property Portfolio is UK sterling.

##### c) Fixed assets - recognition and valuation

###### (i) Land and buildings and property under construction

Initially land and buildings and property under construction are recognised at cost, including SDLT and other transaction costs, and reduced for amounts received from the vendor associated with the purchase of the asset. Acquisitions and disposals are accounted for on exchange of contracts or thereafter when all conditions have been met. Additions to land and buildings and property under construction consist of costs of a capital nature.

Land and buildings and property under construction are subsequently measured at fair value and are valued by an independent valuer at fair value as defined in the Appraisal and Valuation Standards manual issued by the Royal Institution of Chartered Surveyors of the United Kingdom.

###### (ii) Investments – recognition and valuation

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 28 September 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.

Collective investments operate by another manager included at either their bid price for dual priced funds or their single price for single priced funds.

##### d) Recognition of income and expenses

Rental income and contingent rents, being those that are not fixed at the inception of the lease, are recorded as income in the period in which earned. Rent reviews are recorded as income, based on estimates, when it is reasonable to assume they will be received. In accordance with Section 20 of FRS 102 (Leases), benefits to lessees in the form of rent free periods are treated as a reduction in the overall return on the leases on a straight line basis over the non-cancellable period for which the lessee has contracted to lease the asset and capital contributions granted to tenants are recognised as a debtor then amortised over the non-cancellable period for which the lessee has contracted to lease the asset.

Distributions from collective investment schemes are recognised when the scheme is priced ex-distribution.

Interest income and other income, including coupons from debt securities and bank interest is recognised on an accruals basis.

All income is accounted for on an accruals basis net of VAT.

If it is expected that revenue receivable at the balance sheet date will not be received, a provision is recognised for the amount that is considered irrecoverable.

Distributions received are accounted for in the period in which they are declared.

Expenses are recognised on an accruals basis.

##### e) Treatment of income and expenses

Any increases or decreases in the fair value of land and buildings, property under construction and investments and gains and losses realised on their sales are treated as capital and recognised in net capital gains / (losses).

Rental income is treated as revenue.

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 debt securities and treated as capital.

Other interest income, such as bank interest is treated as revenue.

Expenses relating to the purchase and sale of land and buildings and property under construction are treated as capital; all other expenses are treated as revenue.

##### f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and demand deposits with an original maturity of three months or less and other short-term, highly liquid investments that are readily convertible to a known amount of cash.

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.

### Notes to the financial statements

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

##### g) Revolving credit facility

Drawdowns from the revolving credit facility are recognised initially at fair value, net of transaction costs incurred and subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of total return over the period of the revolving credit facility using the effective interest method. An interest expense is recognised within expenses in the statement of total return using the effective interest method. The direct issue costs of raising finance are amortised over the life of the leveraged facility.

##### h) Tax

Dividends and similar income receivable are 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.

The fund qualifies as a Property Authorised Investment Fund (PAIF) for tax purposes. Accordingly the income generated by its property investment business will be exempt from tax.

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 that the asset will be recovered.

##### i) Allocation of returns to share classes

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

All available net revenue accounted for in accordance with the above policies, is distributed to holders of Income shares or retained and reinvested for holders of Accumulation shares.

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 shareholders for more than six years are credited to the capital property of the fund.

##### j) Distribution policy

The policy of the fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue.

With effect from 1 April 2018, the distribution policy has been changed so that in determining the amount available for distribution to Income shares, the annual management charge and administration charge are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investments Schemes sourcebook.

#### 3 Risk management policies

In pursuing the fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts liquidity risk, market price risk, credit risk and interest rate risk. The ACD and the Investment Manager monitor and seek to manage these risks by using appropriate reporting mechanisms which identify risk activities and allow the fund to control or avoid risks identified.

a) **Liquidity risk:** The fund will encounter liquidity risk when attempting to realise assets or otherwise raise funds to meet financial commitments.

The fund's liquidity can be affected by unexpected or high levels of share redemptions. In order to mitigate this risk, the ACD may borrow for the account of the fund but only for the purpose of meeting redemption requests and to meet timing differences in connection with the purchase and sale of property investments. Under normal market conditions the fund will hold between 7.5 and 12.5% unencumbered cash. However, under certain market conditions where liquidity risk may be deemed to be elevated, the level of cash held by the fund may be higher.

b) **Market price risk:** The fund's exposure to market price risk is comprised mainly of movements in the value of the fund's investments in properties. Property investments are inherently difficult to value and difficult to transform into cash due to the individual nature of each property. As a result, valuations are subject to uncertainty. There is no assurance that the actual sale price will reflect the estimates resulting from the valuation process even where such sales occur shortly after the valuation date. Where it is necessary for the fund to sell properties in order to meet redemptions, the amounts realised from the sales may be materially less than the current valuation.

During the year under review, the fund has not hedged against movements in the value of its investments. However, the Prospectus permits the fund to use derivative instruments for hedging such risks and the ACD may from time to time employ such instruments.

c) **Credit risk:** In the event of default by an occupational tenant, the fund will suffer a rental shortfall and incur additional cost, including legal expenses, in maintaining, insuring and re-letting the property. This risk is minimised by investing in a diversified portfolio of properties. Additionally, the revenue from any one tenant or tenants within the same group must not exceed 25% of the aggregate revenue in relation to the property investments in any accounting period unless the tenant is the UK Government or guaranteed by the UK Government. Rent is collected from tenants in advance, usually quarterly. Cash is placed on deposit with reputable financial institutions and is subject to limits as disclosed in the Prospectus.

d) **Interest rate risk:** The fund is subject to interest rate risk in respect of cash deposits, Treasury Bills, overdrafts held.

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 generally not undertaken.

These accounting policies have been consistently applied since the beginning of the financial year.

# M&G Property Portfolio

## Financial statements and notes

### Notes to the financial statements

#### 4 Net capital gains / (losses)

for the year to 30 September	2018 £'000	2017 £'000
Land and buildings and property under construction	122,846	125,210
Non-derivative securities	2,539	1,934
Transaction charges <sup>[a]</sup>	(9)	(4)
<b>Net capital gains / (losses) <sup>[b]</sup></b>	<b>125,376</b>	<b>127,140</b>

<sup>[a]</sup> This is applicable to indirect property investments only.

<sup>[b]</sup> Includes realised gains of £17,099,000 and unrealised gains of £108,277,000 (30 September 2017: realised gains of £17,334,000 and unrealised gains of £109,806,000). Certain realised gains and losses in the current year were unrealised in the prior year.

#### 5 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 15.

for the year to 30 September	2018 £'000	% of transaction	2017 £'000	% of transaction
<b>a) Purchases</b>				
<b>Property acquisitions</b>				
Property acquisitions excluding transaction costs	111,632		0	
Agents' fees	100	0.09	412	0.00
Legal fees	462	0.41	70	0.00
Stamp Duty Land Tax	5,764	5.16	0	0.00
Survey fees	359	0.32	158	0.00
<b>Total transaction costs</b>	<b>6,685</b>		<b>640</b>	
<b>Total property acquisitions after transaction costs</b>	<b>118,317</b>		<b>640</b>	
<b>Debt securities</b>	<b>1,148,691</b>		<b>1,547,429</b>	
<b>Total purchases after transaction costs</b>	<b>1,148,691</b>		<b>1,547,429</b>	

for the year to 30 September	2018 £'000	% of transaction	2017 £'000	% of transaction
<b>b) Sales</b>				
<b>Property disposals</b>				
Property disposals excluding transaction costs	232,712		763,553	
Agents' fees	(87)	0.04	(62)	0.01
Legal fees	(2,219)	0.95	(6,669)	0.87
Marketing fees	0	0.00	(2)	0.00
Retained sum	0	0.00	(6)	0.00
<b>Total transaction costs</b>	<b>(2,306)</b>		<b>(6,739)</b>	
<b>Total property disposals after transaction costs</b>	<b>230,406</b>		<b>756,814</b>	
<b>Debt securities</b>	<b>1,250,000</b>		<b>1,147,800</b>	
<b>Total sales after transaction costs</b>	<b>1,250,000</b>		<b>1,147,800</b>	

c) Direct portfolio transaction costs	2018 £'000	% of average NAV	2017 £'000	% of average NAV
Agents' fees	187	0.01	474	0.01
Legal fees	2,681	0.07	6,739	0.18
Marketing fees	0	0.00	2	0.00
Retained sum	0	0.00	6	0.00
Stamp Duty Land Tax	5,764	0.16	0	0.00
Survey fees	359	0.01	158	0.00
<b>Total direct portfolio transaction costs</b>	<b>8,991</b>	<b>0.25</b>	<b>7,379</b>	<b>0.19</b>

Single prices are only available for property investments and therefore there is no portfolio dealing spread.

#### 6 Revenue

for the year to 30 September	2018 £'000	2017 £'000
Bank interest	1	9
Distributions from collective investment schemes: non-taxable	12	0
Distributions from collective investment schemes: taxable	1,363	749
Distributions from collective investment schemes: property income dividends	1,297	741
Dividends from equity investments: non-taxable	411	0
Interest distributions	1,194	869
Prior year capital allowance adjustment	0	(203)
Property interest	14	79
Rental income	163,844	184,103
<b>Total revenue</b>	<b>168,136</b>	<b>186,347</b>

#### 7 Expenses

for the year to 30 September	2018 £'000	2017 £'000
<b>Payable to the ACD or associate</b>		
Annual management charge	11,584	11,797
Administration charge	5,443	5,772
	17,027	17,569
<b>Payable to the Depositary or associate</b>		
Depositary's charge (including VAT)	221	231
<b>Other expenses</b>		
Audit fee (including VAT)	76	78
Costs incurred from aborted acquisitions <sup>[a]</sup>	7	17
Independent valuer's fees (including VAT)	1,162	868
Interest payable	1	4
Irrecoverable service charges, insurance and rates <sup>[b]</sup>	9,148	17,296
Publishing costs	76	0
Professional fees	1	0
Regulatory fees	0	8
Tax fees (including VAT)	0	40
Additional refurbishment costs	3,266	8,080
Revolving credit facility commitment fees <sup>[c]</sup>	1,208	1,421
Revolving credit facility arrangement fees <sup>[c]</sup>	1,039	598
	15,984	28,410
<b>Total expenses</b>	<b>33,232</b>	<b>46,210</b>

<sup>[a]</sup> Costs incurred from aborted acquisitions as detailed below

Legal fees	7	0
Survey fees	0	9
Valuation fees	0	8
<b>Costs incurred from aborted acquisitions</b>	<b>7</b>	<b>17</b>

<sup>[b]</sup> Service charges are common costs which are paid to service providers by the fund and recovered from tenants. In some circumstances these service charges cannot be recovered, for example, vacant units and shared areas, resulting in an irrecoverable amount as set out below.

Service charges incurred	30,330	44,597
Service charges recoverable	(21,182)	(27,301)
<b>Irrecoverable service charges</b>	<b>9,148</b>	<b>17,296</b>

<sup>[c]</sup> Revolving credit facility was cancelled on 26 July 2018. Please refer to note 14 for further details.

# M&G Property Portfolio

## Financial statements and notes

### Notes to the financial statements

#### 8 Taxation

for the year to 30 September	2018 £'000	2017 £'000
<b>a) Analysis of charge in the year</b>		
Overseas tax expensed	89	202
Prior year adjustment	0	2
Deferred tax (note 8c)	0	0
<b>Total taxation</b>	<b>89</b>	<b>204</b>

#### b) Factors affecting taxation charge for the year

Net revenue / (expense) before taxation	134,904	139,959
Corporation tax at 20%	26,981	27,992
Effects of:		
Dividends from equity investments: non-taxable	(82)	0
Total double taxation relief	(18)	0
Capital allowances	(2,294)	(2,374)
Expenses not deductible for tax purposes	208	120
Interest distributions	(456)	(286)
Property income distributions	(24,352)	(25,452)
Overseas tax expensed	89	202
Prior year adjustment	0	2
<b>Total tax charge (note 8a)</b>	<b>89</b>	<b>204</b>

#### c) Provision for deferred taxation

Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 8a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The fund has not recognised a deferred tax asset in the current year (2017: same).

Whilst properties in which the fund invests may have capital allowances attributable to them, these allowances are dependent on the relevant properties being held at the fund's year end. Since the properties are principally held for investment purposes, there is no certainty that they will be held at the year end and as such, the fund only recognises these allowances as they crystallise. Therefore no deferred tax asset and corresponding charge is provided for.

#### 9 Distributions

for the year to 30 September	2018 <sup>[a]</sup>		2017	
	Inc <sup>[b]</sup> £'000	Acc <sup>[c]</sup> £'000	Inc <sup>[b]</sup> £'000	Acc <sup>[c]</sup> £'000
<b>PAIF distributions</b>				
First interim	26,467	1,978	29,719	2,294
Second interim	25,619	1,988	29,186	2,140
Third interim	29,921	2,110	26,158	1,934
Final	27,470	1,875	20,495	1,456
<b>Total net distributions</b>		<b>117,428</b>		<b>113,382</b>
Income tax deducted at source		24,352		25,505
Income deducted on cancellation of shares		1,383		2,050
Income received on issue of shares		(382)		(371)
<b>Distributions</b>		<b>142,781</b>		<b>140,566</b>
Net revenue / (expense) per statement of total return		134,815		139,755
Expenses offset against capital		7,971		598
Capital allowance adjustment offset against capital		0		203
Undistributed income brought forward		8		18
Undistributed income carried forward		(13)		(8)
<b>Distributions</b>		<b>142,781</b>		<b>140,566</b>

<sup>[a]</sup> With effect from 1 April 2018 the distribution policy has been changed. Please refer to note 2 j) for further details.

<sup>[b]</sup> Distributions payable on Income shares.

<sup>[c]</sup> Retained distributions on Accumulation shares.

#### 10 Debtors

as at 30 September	2018 £'000	2017 £'000
Amounts receivable on issues of shares	1,435	5,003
Distributions receivable	259	261
Sales awaiting settlement	0	2,660
Tenant debtors	60,199	59,455
<b>Total debtors</b>	<b>61,893</b>	<b>67,379</b>

#### 11 Cash and bank balances

as at 30 September	2018 £'000	2017 £'000
Cash held as bank balances	193,616	73,390
Cash held on deposit	82,557	216,637
<b>Total cash and bank balances</b>	<b>276,173</b>	<b>290,027</b>
'AA' credit rated bonds with original maturity of less than 3 months	299,749	399,862
<b>Total cash and cash equivalents</b>	<b>575,922</b>	<b>689,889</b>

#### 12 Other creditors

as at 30 September	2018 £'000	2017 £'000
ACD's annual management charge payable	573	570
Administration charge payable	269	274
Amounts payable on cancellation of shares	1,514	5,111
Expenses payable	4,520	2,673
Other creditors	39,578	48,798
<b>Total other creditors</b>	<b>46,454</b>	<b>57,426</b>

#### 13 Investment property

as at 30 September 2018	Land and buildings £'000	Total £'000
Opening fair value of investment property as at 1 October 2017	3,003,577	3,003,577
Property acquisitions	118,317	118,317
Property disposals	(230,406)	(230,406)
Additions	16,414	16,414
Net gains or losses from fair value adjustments	122,846	122,846
<b>Closing fair value of investment property as at 30 September 2018</b>	<b>3,030,748</b>	<b>3,030,748</b>

as at 30 September 2017	Land and buildings £'000	Property under construction £'000	Total £'000
Opening fair value of investment property as at 1 October 2016	3,612,857 <sup>[a]</sup>	4,965	3,617,822
Property acquisitions	640	0	640
Property disposals	(756,814)	0	(756,814)
Additions	14,866	1,853	16,719
Net gains or losses from fair value adjustments	125,373	(163)	125,210
Completion of property under construction	6,655	(6,655)	0
<b>Closing fair value of investment property as at 30 September 2017</b>	<b>3,003,577</b>	<b>0</b>	<b>3,003,577</b>

<sup>[a]</sup> Restated

The valuation has been primarily derived using comparable recent market transactions on arm's length terms. The valuation was also determined using cashflow projections based on estimates of current and future cashflows, supported by the terms of any existing lease and other contracts and by external evidence such as current market rents for similar properties in the same location and condition, and using capitalisation rates that reflect current market conditions.

The future rental rates were estimated depending on the actual location, type and quality of the property, and by taking into account market data and projections at the valuation date. In addition to the condition and repair of buildings and sites, certain assumptions were also made as to the tenure, letting, and local town planning in order to derive the valuation.

# M&G Property Portfolio

## Financial statements and notes

### Notes to the financial statements

#### 13 Investment property (continued)

The below sensitivities illustrate the impact of changes in key unobservable inputs (in isolation) on the fair value of the fund's property investments, analysed by sector in accordance with the portfolio statement.

as at 30 September 2018	Increase in yield 25bps £'000	Decrease in yield 25bps £'000
Retail	(59,116)	64,612
Office	(46,747)	51,397
Industrial	(34,025)	37,871
Leisure	(7,640)	8,345
Other	(1,670)	1,845
<b>Total</b>	<b>(149,198)</b>	<b>164,070</b>

  

as at 30 September 2017	Increase in yield 25bps £'000	Decrease in yield 25bps £'000
Retail	(60,996)	66,610
Office	(43,815)	47,715
Industrial	(24,130)	26,515
Leisure	(9,195)	10,045
Other	(1,290)	1,410
<b>Total</b>	<b>(139,426)</b>	<b>152,295</b>

Future minimum rentals receivable under non-cancellable operating leases within investment property are as follows:

	2018 £'000	2017 £'000
Not later than one year	120,547	136,393
Later than one year and not later than five years	433,349	550,474
Later than five years	721,580	964,114
<b>Total</b>	<b>1,275,476</b>	<b>1,650,981</b>

#### 14 Revolving credit facility

On the 23 June 2016 the fund entered into a £300 million, 3 year revolving credit facility agreement with Lloyds Bank plc. The agreement was subsequently cancelled on 26 July 2018.

In the period to 26 July 2018 none of the facility was drawn down and no interest charged (2017: £178,000). A commitment fee of 0.49% was paid in the period equivalent to £1,208,000 (2017: £1,421,000).

An arrangement fee of 0.60% equivalent to £1,800,000 was amortised over the life of the credit facility agreement; £1,039,000 (2017: £598,000). No additional interest or charges are payable following the cancellation of the 3 year revolving credit facility which was due to expire on 23 June 2019.

#### 15 Contingent assets, liabilities and outstanding commitments

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

#### 16 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 17 below.

Share class	Opening 01.10.17	Movements		Closing 30.09.18
		Issued	Cancelled	
<b>Sterling</b>				
Class 'A' Income	116,936,298	1,344,000	(10,113,000)	108,167,298
Class 'A' Accumulation	56,620,668	234,000	(16,420,000)	40,434,668
Class 'D' Income	5,218,937	701,700	(2,108,000)	3,812,637
Class 'D' Accumulation	94,700	288,200	(166,600)	216,300
Class 'F' Income <sup>[a]</sup>	2,058,143,808	20,593,779	(184,466,674)	1,894,270,913
Class 'I' Income	69,624,227	3,343,000	(1,408,600)	71,558,627
Class 'I' Accumulation	17,317,204	1,213,100	(1,146,200)	17,384,104
Class 'R' Income	2,129,058	694,000	(197,000)	2,626,058
Class 'R' Accumulation	617,648	1,687,000	(130,000)	2,174,648
Class 'X' Income	12,810,210	45,000	(3,050,000)	9,805,210

[a] Sterling Class 'F' Income shares are available only to M&G Feeder of Property Portfolio.

#### 17 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual management charge %
<b>Sterling</b>			
Class 'A'	nil	n/a	1.50
Class 'D'	nil	n/a	0.60
Class 'F' <sup>[a]</sup>	n/a	n/a	n/a
Class 'I'	nil	n/a	0.75
Class 'R'	nil	n/a	1.00
Class 'X'	nil	n/a	1.50

[a] Sterling Class 'F' Income shares are available only to M&G Feeder of Property Portfolio.

# M&G Property Portfolio

## Financial statements and notes

### Notes to the financial statements

#### 18 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 9. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 10 and 12 where applicable.

Amounts paid to M&G Securities Limited in respect of the ACD's annual management charge and administration charge are disclosed in note 7. Amounts due at the year end in respect of the ACD's annual management charge and administration charge are disclosed in note 12.

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 89.70% (2017: 89.39%) of the fund's shares. M&G Feeder of Property Portfolio is a related party, as M&G Securities Limited is the manager, and as disclosed in note 16 invests solely in the Sterling Class 'F' Income shares.

#### 19 Events after the balance sheet date

There has been one acquisition after the balance sheet date for consideration of £10,500,000 and there have been two disposals totalling £34,920,000 (2017: there were no acquisitions and there were disposals totalling £12,250,000 after the balance sheet date).

#### 20 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. However no such financial instruments were held.

as at 30 September	Assets	Liabilities	Assets <sup>[a]</sup>	Liabilities
Valuation technique	2018	2018	2017	2017
	£'000	£'000	£'000	£'000
Level 1	0	0	0	0
Level 2	31,218	0	28,746	0
Level 3	0	0	0	0
	<b>31,218</b>	<b>0</b>	<b>28,746</b>	<b>0</b>

[a] Restated.

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 16 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

Land and buildings and property under construction do not fall within the FRS 102 definition of financial instruments held at fair value. The balance sheet totals for these items in the current and prior year are therefore not included in the above table (these would fall under level 3 if included).

#### 21 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on page 21.

# M&G Property Portfolio

## Financial statements and notes

### Notes to the financial statements

#### 22 Property authorised investment funds (PAIF) distribution tables

This fund pays PAIF distributions. PAIF distributions are categorised into three streams: income from property, interest from cash and dividend income. Income tax is deducted from the property stream.

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

#### Quarterly distribution periods

	Start	End	Xd	Payment
First interim	01.10.17	31.12.17	02.01.18	28.02.18
Second interim	01.01.18	31.03.18	03.04.18	31.05.18
Third interim	01.04.18	30.06.18	02.07.18	31.08.18
Final	01.07.18	30.09.18	01.10.18	30.11.18

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

Group 1 shares are those purchased prior to a distribution period and therefore their net revenue rate is the same as the distribution rate.

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

#### Sterling Class 'A' Income shares

PAIF distributions for the year to 30 September	Gross revenue 2018	Income tax deducted 2018	Net revenue 2018	Equalisation 2018	Distribution 2018	Distribution 2017
<b>Group 1</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
First Interim	0.7658	0.1249	0.6409	-	0.6409	0.6461
Second interim	0.7644	0.1359	0.6285	-	0.6285	0.6546
Third interim	1.2929	0.1408	1.1521	-	1.1521	0.5753
Final	1.1730	0.1138	1.0592	-	1.0592	0.4110
<b>Group 2</b>						
First Interim	0.5710	0.0953	0.4757	0.1652	0.6409	0.6461
Second interim	0.4424	0.0794	0.3630	0.2655	0.6285	0.6546
Third interim	0.4427	0.0491	0.3936	0.7585	1.1521	0.5753
Final	0.7788	0.0743	0.7045	0.3547	1.0592	0.4110

#### Sterling Class 'A' Accumulation shares

PAIF distributions for the year to 30 September	Gross revenue 2018	Income tax deducted 2018	Net revenue 2018	Equalisation 2018	Distribution 2018	Distribution 2017
<b>Group 1</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
First Interim	0.8712	0.1420	0.7292	-	0.7292	0.7226
Second interim	0.8780	0.1561	0.7219	-	0.7219	0.7372
Third interim	0.9227	0.1636	0.7591	-	0.7591	0.6512
Final	0.7967	0.1327	0.6640	-	0.6640	0.4678
<b>Group 2</b>						
First Interim	0.4335	0.0739	0.3596	0.3696	0.7292	0.7226
Second interim	0.3912	0.0706	0.3206	0.4013	0.7219	0.7372
Third interim	0.4777	0.0844	0.3933	0.3658	0.7591	0.6512
Final	0.4279	0.0703	0.3576	0.3064	0.6640	0.4678

#### Sterling Class 'D' Income shares

PAIF distributions for the year to 30 September	Gross revenue 2018	Income tax deducted 2018	Net revenue 2018	Equalisation 2018	Distribution 2018	Distribution 2017
<b>Group 1</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
First Interim	10.2855	1.7693	8.5162	-	8.5162	8.4803
Second interim	10.2762	1.8746	8.4016	-	8.4016	8.5924
Third interim	12.9439	1.9265	11.0174	-	11.0174	7.8070
Final	11.7694	1.6673	10.1021	-	10.1021	6.1797
<b>Group 2</b>						
First Interim	5.9152	1.0431	4.8721	3.6441	8.5162	8.4803
Second interim	6.0387	1.1079	4.9308	3.4708	8.4016	8.5924
Third interim	6.7771	1.0085	5.7686	5.2488	11.0174	7.8070
Final	5.5061	0.7675	4.7386	5.3635	10.1021	6.1797

#### Sterling Class 'D' Accumulation shares

PAIF distributions for the year to 30 September	Gross revenue 2018	Income tax deducted 2018	Net revenue 2018	Equalisation 2018	Distribution 2018	Distribution 2017
<b>Group 1</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
First Interim	12.1643	2.0893	10.0750	-	10.0750	9.7356
Second interim	12.1906	2.2044	9.9862	-	9.9862	9.9498
Third interim	12.8059	2.4150	10.3909	-	10.3909	9.1057
Final	11.5232	2.0118	9.5114	-	9.5114	7.2611
<b>Group 2</b>						
First Interim	8.0115	1.4020	6.6095	3.4655	10.0750	9.7356
Second interim	1.6435	0.3068	1.3367	8.6495	9.9862	9.9498
Third interim	9.6189	1.8320	7.7869	2.6040	10.3909	9.1057
Final	5.7153	0.9871	4.7282	4.7832	9.5114	7.2611

#### Sterling Class 'F' Income shares

PAIF distributions for the year to 30 September	Gross revenue 2018	Income tax deducted 2018	Net revenue 2018	Equalisation 2018	Distribution 2018	Distribution 2017
<b>Group 1</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
First Interim	1.2029	0.2114	0.9915	-	0.9915	0.9831
Second interim	1.2036	0.2220	0.9816	-	0.9816	0.9964
Third interim	1.2961	0.2300	1.0661	-	1.0661	0.9178
Final	1.1799	0.2022	0.9777	-	0.9777	0.7563
<b>Group 2</b>						
First Interim	0.6439	0.1167	0.5272	0.4643	0.9915	0.9831
Second interim	0.4941	0.0926	0.4015	0.5801	0.9816	0.9964
Third interim	0.3050	0.0541	0.2509	0.8152	1.0661	0.9178
Final	0.3451	0.0587	0.2864	0.6913	0.9777	0.7563

# M&G Property Portfolio

## Financial statements and notes

### Notes to the financial statements

#### 22 Property authorised investment funds (PAIF) distribution tables (continued)

##### Sterling Class 'I' Income shares

PAIF distributions for the year to 30 September	Gross revenue 2018	Income tax deducted 2018	Net revenue 2018	Equalisation 2018	Distribution 2018 2017	
<b>Group 1</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
First Interim	9.8399	1.6801	8.1598	-	8.1598	8.1430
Second interim	9.8387	1.7892	8.0495	-	8.0495	8.2504
Third interim	12.9423	1.8539	11.0884	-	11.0884	7.4636
Final	11.7627	1.5787	10.1840	-	10.1840	5.8344

<b>Group 2</b>						
First Interim	5.3860	0.9473	4.4387	3.7211	8.1598	8.1430
Second interim	4.9144	0.9023	4.0121	4.0374	8.0495	8.2504
Third interim	5.3452	0.7703	4.5749	6.5135	11.0884	7.4636
Final	5.1730	0.6839	4.4891	5.6949	10.1840	5.8344

##### Sterling Class 'I' Accumulation shares

PAIF distributions for the year to 30 September	Gross revenue 2018	Income tax deducted 2018	Net revenue 2018	Equalisation 2018	Distribution 2018 2017	
<b>Group 1</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
First Interim	11.5585	1.9735	9.5850	-	9.5850	9.3142
Second interim	11.6312	2.1152	9.5160	-	9.5160	9.5074
Third interim	12.1988	2.2090	9.9898	-	9.9898	8.6626
Final	10.9172	1.8967	9.0205	-	9.0205	6.8177

<b>Group 2</b>						
First Interim	7.3456	1.2818	6.0638	3.5212	9.5850	9.3142
Second interim	5.4453	1.0014	4.4439	5.0721	9.5160	9.5074
Third interim	6.7408	1.2171	5.5237	4.4661	9.9898	8.6626
Final	5.1113	0.8795	4.2318	4.7887	9.0205	6.8177

##### Sterling Class 'R' Income shares

PAIF distributions for the year to 30 September	Gross revenue 2018	Income tax deducted 2018	Net revenue 2018	Equalisation 2018	Distribution 2018 2017	
<b>Group 1</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
First Interim	0.9128	0.1529	0.7599	-	0.7599	0.7581
Second interim	0.9102	0.1644	0.7458	-	0.7458	0.7687
Third interim	1.2928	0.1701	1.1227	-	1.1227	0.6884
Final	1.1744	0.1430	1.0314	-	1.0314	0.5260

<b>Group 2</b>						
First Interim	0.8118	0.1363	0.6755	0.0844	0.7599	0.7581
Second interim	0.2982	0.0549	0.2433	0.5025	0.7458	0.7687
Third interim	0.7836	0.1040	0.6796	0.4431	1.1227	0.6884
Final	0.5067	0.0610	0.4457	0.5857	1.0314	0.5260

##### Sterling Class 'R' Accumulation shares

PAIF distributions for the year to 30 September	Gross revenue 2018	Income tax deducted 2018	Net revenue 2018	Equalisation 2018	Distribution 2018 2017	
<b>Group 1</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
First Interim	1.0587	0.1735	0.8852	-	0.8852	0.8612
Second interim	1.0610	0.1886	0.8724	-	0.8724	0.8787
Third interim	1.1201	0.2014	0.9187	-	0.9187	0.7943
Final	0.9912	0.1704	0.8208	-	0.8208	0.6090

<b>Group 2</b>						
First Interim	0.7569	0.1261	0.6308	0.2544	0.8852	0.8612
Second interim	0.1593	0.0294	0.1299	0.7425	0.8724	0.8787
Third interim	0.7288	0.1314	0.5974	0.3213	0.9187	0.7943
Final	0.3336	0.0566	0.2770	0.5438	0.8208	0.6090

##### Sterling Class 'X' Income shares

PAIF distributions for the year to 30 September	Gross revenue 2018	Income tax deducted 2018	Net revenue 2018	Equalisation 2018	Distribution 2018 2017	
<b>Group 1</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
First Interim	0.7647	0.1247	0.6400	-	0.6400	0.6457
Second interim	0.7623	0.1355	0.6268	-	0.6268	0.6548
Third interim	1.2918	0.1399	1.1519	-	1.1519	0.5750
Final	1.1699	0.1132	1.0567	-	1.0567	0.4110

<b>Group 2</b>						
First Interim	0.3988	0.0691	0.3297	0.3103	0.6400	0.6457
Second interim	0.3033	0.0553	0.2480	0.3788	0.6268	0.6548
Third interim	0.4630	0.0536	0.4094	0.7425	1.1519	0.5750
Final	0.3695	0.0338	0.3357	0.7210	1.0567	0.4110

# M&G Property Portfolio

Financial statements and notes

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# M&G Property Portfolio

## Other regulatory disclosures

### Alternative Investment Fund Managers Directive (AIFMD)

In accordance with the AIFMD we are required to report to investors on the 'leverage' of the fund and any 'special arrangements' that exist in relation to the fund's assets.

### Leverage

Under AIFMD, leverage is defined as any method by which the fund increases its exposure through borrowing or the use of derivatives. This exposure must be calculated in two ways, the 'gross method' and the 'commitment method'. The fund must not exceed maximum exposures under both methods.

'Gross method' 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 30 September 2018 the total amount of leverage is as follows:

**Gross method:**

M&G Property Portfolio	86%
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**Commitment method:**

M&G Property Portfolio	86%
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The M&G Property Portfolio did not use leverage to increase its exposure and this position was unchanged throughout the period ending 30 September 2018.

### Special arrangements

A 'Special Arrangement' is an arrangement in relation to fund assets that results in an investor or group of investors receiving different redemption rights to those generally available to investors in a given share class.

The fund had no assets subject to special arrangements for the period ending 30 September 2018.

### 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: <http://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 M&G Property Portfolio 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.

# 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 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).

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

**Comparative sector:** A group of funds with similar investment objectives and/or types of investment, as classified by bodies such as the Investment Association (IA) or Morningstar™. Sector definitions are mostly based on the main assets a fund should invest in, and may also have a geographic focus. Sectors can be the basis for comparing the different characteristics of similar funds, such as their performance or charging structure.

**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.

**Convertible bonds:** Fixed income securities that can be exchanged for predetermined amounts of company shares at certain times during their life.

**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 default swaps (CDS):** Are a type of derivative, namely financial instruments whose value, and price, are dependent on one or more underlying assets. CDS are insurance-like contracts that allow investors to transfer the risk of a fixed income security defaulting to another investor.

**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.

**Derivatives:** Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded over the counter.

**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 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.

# Glossary

**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.

**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.

**Exchange traded:** Usually refers to investments traded on an exchange, such as company shares on a stock exchange.

**Ex-dividend, ex-distribution or XD date:** The date on which declared distributions officially belong to underlying investors.

**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.

**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.

**Floating rate notes (FRNs):** Securities whose interest (income) payments are periodically adjusted depending on the change in a reference interest rate.

**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'.

**Foreign exchange (FX) strategy:** Currencies can be an asset class in its own right, along with company shares, fixed income securities, property and cash. Foreign exchange strategy can therefore be a source of investment returns.

**Forward contract:** A contract between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Examples include forward currency contracts.

**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.

**Futures:** A futures contract is a contract between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Futures are traded on a regulated exchange.

**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.

**Hedging:** A method of reducing unnecessary or unintended risk.

**High water mark (HWM):** The highest level that a fund's NAV (net asset value) has reached at the end of any 12-month accounting period.

**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.

**Historic yield:** The historic yield reflects distributions declared over the past 12 months as a percentage of the share price, as at the date shown.

**Income yield:** Refers to the income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

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

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

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

**Index tracking:** A fund management strategy that aims to match the returns from a particular index.

**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 risk:** The risk that inflation will reduce the return of an investment in real terms.

**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.

**Interest rate swap:** An agreement between two parties to swap a fixed interest payment with a variable interest payment over a specified period of time.

**Investment Association (IA):** The UK trade body that represents fund managers. It works with investment managers, liaising with government on matters of taxation and regulation, and also aims to help investors understand the industry and the investment options available to them.

# Glossary

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

**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.

**Leverage:** When referring to a company, leverage is the level of a company's debt in relation to its assets. A company with significantly more debt than capital is considered to be leveraged. It can also refer to a fund that borrows money or uses derivatives to magnify an investment position.

**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.

**Long position:** Refers to ownership of a security held in the expectation that the security will rise in value.

**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.

**Modified duration:** A measure of the sensitivity of a fixed income security, 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.

**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.

**Morningstar™:** A provider of independent investment research, including performance statistics and independent fund ratings.

**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.

**Ongoing Charge Figure:** The Ongoing Charge Figure includes charges for the following items: management of the fund (also known as Annual Management Charge), administration services, services provided by external parties which include depository, custody and audit, as well as incorporating the ongoing charge figure from funds held in the portfolio (taking into account any rebates).

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

**Options:** Financial contracts that offer the right, but not the obligation, to buy or sell an asset at a given price on or before a given date in the future.

**Over-the-counter (OTC):** Whereby financial assets are traded directly between two parties. This is in contrast to exchange trading, which is carried out through exchanges set up specifically for the purpose of trading. OTC is also known as off-exchange trading.

**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.

**Physical assets:** An item of value that has tangible existence, for example, cash, equipment, inventory or real estate. Physical assets can also refer to securities, such as company shares or fixed income securities.

**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.

**Preference shares:** Preference shares are a loan to a company that may be traded in the same way as ordinary shares, but generally have a higher yield and pay dividends on fixed dates. Preference shares have varying characteristics as to the treatment of the principal and the dividend payment, which includes ranking them above ordinary shares when it comes to dividend payments.

**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.

**Property Expense Ratio (PER):** Property expenses are the operating expenses that relate to the management of the property assets in the portfolio. These include: insurance and rates, rent review and lease renewal costs and maintenance and repairs, but not improvements. They depend on the level of activity taking place within the fund. The Property Expense Ratio is the ratio of property expenses to the fund's net asset value.

**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 in prices for a basket of goods and services in the UK, including mortgage payments and council tax.

**Risk:** The chance that an investment's return will be different to what is expected. Risk includes the possibility of losing some or all of the original investment.

**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-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.

# Glossary

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

**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:** Each M&G fund has different share classes, such as A, R and I. Each has a different level of charges and minimum investment. Details on charges and minimum investments can be found in the Key Investor Information Documents.

**Share class hedging:** Activities undertaken in respect of hedged shares to mitigate the impact on performance of exchange rate movements between the fund's currency exposure and the investor's chosen currency.

**Short position:** A way for a fund manager to express his or her view that the market might fall in value.

**Short selling:** This often refers to the practice whereby an investor sells an asset they do not own. The investor borrows the asset from someone who does own it and pays a fee. The investor must eventually return the borrowed asset by buying it in the open market. If the asset has fallen in price, the investor buys it for less than they sold it for, thus making a profit. The contrary may also occur.

**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.

**Sub-investment grade bonds:** Fixed income securities issued by a company with a low rating from a recognised credit rating agency. They are considered to be at higher risk from default than those issued by companies with higher 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.

**Top-down investing:** An investment approach that analyses economic factors, ie surveys the 'big picture', before selecting which companies to invest in. The top-down investor will look at which industries are likely to generate the best returns in certain economic conditions and limit the search to that area.

**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.

**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.

**Unconstrained:** The term used to describe the mandate of a fund whereby the manager has the freedom to invest according to his or her own strategy, not being obliged to allocate capital according to the weightings of any index, for example.

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

**Underlying yield:** Refers to the income received by a managed fund, and is usually expressed annually as a percentage based on the fund's current 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.

**Warrant:** A security issued by a company that gives the holder the right to buy shares in that company at a specified price and within a certain timeframe.

**Yield:** This refers to either the interest received from a fixed income security or to the dividends received from a share. It is usually expressed as a percentage based on the investment's costs, its current market value or its face value. 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.

**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 the company and are paid out to a 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.

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

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