



M&G Dividend Fund

a sub-fund of M&G Investment Funds (3)

Annual Short Report June 2019

For the year ended 30 June 2019

The Authorised Corporate Director (ACD) of M&G Investment Funds (3) presents its Annual Short Report for M&G Dividend Fund which contains a review of the fund's investment activities and investment performance during the period. The ACD's Annual Long Report and audited Financial Statements for M&G Investment Funds (3), incorporating all the sub-funds and a Glossary of terms is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations on 0800 390 390.

ACD

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(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.)

Important information

As mentioned in the shareholder letter on 17 June 2019, we are making changes to the way we charge for M&G funds based in the UK, starting on Thursday 1 August 2019. The annual charge should be simpler to understand and easier to compare with other fund charges. We are combining all the charges that make up the current ongoing charge figure (OCF) into a single annual charge. Only exceptional items such as unforeseen legal and tax expenses, also known as extraordinary expenses, will be excluded from the annual charge. To find out the new annual charge and the OCF which are shown in the Key Investor Information Document (KIID) for the share class(es) you are invested in, visit our website www.mandg.co.uk.

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

Investment objective and policy

The fund invests mainly in a range of UK equities with the aim of achieving a steadily increasing income stream. The fund will target a yield higher than that of the FTSE All-Share Index. Subject to this, the aim will be to maximise total return (the combination of income and growth of capital).

Investment approach

The M&G Dividend Fund employs a bottom-up stockpicking approach, driven by the fundamental analysis of individual companies. The fund manager seeks to invest in companies with excellent capital discipline and long-term dividend growth potential. The fund manager believes rising dividends create upward pressure on the value of shares. Dividend yield is not the primary consideration for stock selection. The fund manager aims to create a diversified portfolio with exposure to a broad range of sectors. He selects stocks with different drivers of dividend growth to construct a portfolio that has the potential to cope in a variety of market conditions. The fund invests with a long-term investment view and a typical holding period of three to five years.

Risk profile

The fund invests in the shares of UK-listed companies and is, therefore, subject to the price volatility of the UK stockmarket and the performance of individual companies. The fund's focus is on shares of companies that have the potential to grow their dividends over the long term. Income distributions from the fund's holdings, however, are not guaranteed and may vary. Diversification is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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Please note that the risk management policies are set out in full in the financial statements and notes sections of the Annual Long Report and audited Financial Statements of M&G Investment Funds (3).

The following table shows the risk number associated with the fund and is based on Sterling Class 'A' shares.



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has not changed during this period.

As at 1 July 2019, for the year ended 30 June 2019

Distribution summary

Over the 12-month period under review, the fund distributed income of 2.97p per Sterling Class 'A' (Income) share, an increase of 4.3% over the 2.85p payment made in the same period last year. The payout represented a yield (distributed income as a percentage of the published share price on 1 July 2019) of 5.19% versus a yield of 4.10% for the FTSE All-Share Index, a comparative index. The inflation rate in June 2019 was 3.0%, as measured by the Retail Prices Index.

Over the longer term we would like to deliver growth in the distribution that compares favourably with the index and beats inflation. Our view is that this approach should deliver good capital growth, protecting underlying capital from the ravages of inflation, but also delivering an income that can either be taken or reinvested to compound up long-term returns.

The two drivers of the uplift were, firstly, continued strong dividend growth from a number of our holdings – Intermediate Capital Group, St James's Place and Countryside Properties amongst others. In addition, the likes of DS Smith once again resumed an upward trajectory in their latest dividend announcement – as we anticipated when we last reported. Secondly, we made reduction in the fund's exposure to some of the lower dividend payers such as Howden Joinery, Britvic, Roche and Kone, and replaced these with a higher yielding cohort of companies including Go-Ahead, ITV, Greene King and Legal & General. As a consequence of this, the number of holdings has increased, something that we are very comfortable with, particularly given our desire to see an increased distribution backed by diversification of income that should underpin the distribution and enhance its resilience to one-off company events.

In order to deliver long-term total returns in excess of the index and IA UK Equity Income peer group, we need to balance the high yield of the fund with growth prospects of the dividends from the underlying companies. A balance of both is critical for the performance of the fund. Growth is not essential in any one single year, because we can afford to wait while a company holds a dividend flat for a couple of years (especially given the starting yield for many of the fund's investments). However, in order to justify their inclusion in the fund, we would want to believe that there is a path back to dividend growth, or that the distribution of future dividends will outstrip the capital that we pay up front to access that stream of cash returns. Both approaches work and deliver significant value to the patient dividend investor over the long term.

The fund's distribution and distribution yield are as shown in the 'Specific share class performance' tables in the Annual Long Report and audited Financial Statements for M&G Investment Funds (3). The distribution is subject to changes in the market environment and there is no guarantee that the fund will increase the distribution in every reporting period. In keeping with prior years, special dividends formed a key component of the fund's income and these dividends should be seen as special and not necessarily recurring.

Performance against objective

Between 2 July 2018 (the start of the review period) and 1 July 2019, the fund delivered a broadly flat total return (the combination of income and growth of capital) across its share classes. This compared with a FTSE All-Share Index return of 2.7% over the same period.*

Over this period the fund achieved its objective of growing the distribution, but generated very little capital growth. The fund also achieved its objective in terms of delivering a distribution yield above that of the FTSE All-Share Index.

* For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Fund performance' section of the Annual Long Report and audited Financial Statements for M&G Investment Funds (3).

To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period for Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares. Calculated on a price to price basis with income reinvested.

Long-term performance

	One year 02.07.18 % ^[a]	Three years 01.07.16 % p.a.	Five years 01.07.14 % p.a.	Since launch % p.a.
Sterling ^[b]				
Class 'A'	+0.1	+4.2	+4.0	+10.8 ^[c]
Class 'I'	+0.9	+5.0	+4.8	+6.9 ^[d]

^[a] Absolute basis.

^[b] Price to price with income reinvested.

^[c] 6 May 1964, the end of the initial offer period of the predecessor unit trust.

^[d] 3 August 2012, the launch date of the share class.

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.

Investment performance

UK company shares (equities) were volatile over the 12 months. Like other major stockmarkets, the UK was in decline during the second half of 2018 as investors became concerned that the US economy was slowing, just as the effect of President Trump's tax cuts was beginning to wane. Sentiment was also hurt due to the ongoing trade war between the US and China, despite encouraging signs that some form of agreement was imminent in the spring.

Investors' risk appetite improved significantly at the start of 2019 after the US Federal Reserve indicated a slower approach to interest rate hikes, due to the global economic slowdown, lower oil prices and muted domestic inflation. Heightened trade tensions between the US and China led to stockmarket weakness late in the period under review, before hopes of lower US interest rates, as well as some reconciliation on trade, led to a partial recovery. Against this backdrop, the UK stockmarket made very modest progress over the 12 months.

In terms of political developments, the UK's Brexit talks continued to dominate the headlines. Former prime minister Theresa May secured a withdrawal agreement with the European Union, but the House of Commons rejected the deal three times. The original date for Brexit passed, along with its successor in April, and a new deadline of 31 October 2019 was agreed. In other developments, Mrs May announced her resignation in May, triggering a leadership contest, with a new prime minister expected to take over in July.

UK economic activity is uninspiring, with domestic companies affected by uncertainty relating to Brexit as well as slower growth in the global economy. Meanwhile, interest rates stand at 0.75% after the Bank of England raised them by a quarter of a percentage point in August 2018. Future changes are likely to be closely connected to developments in the Brexit negotiations and prospects for the economy.

Larger companies outperformed over the 12 months as they benefited from the boost to their overseas revenues from the pound's Brexit-related weakness. Conversely, more domestically focused medium-sized and smaller companies underperformed, reflecting the flagging economy, higher import costs and a slowdown in business investment.

Miners, beverages, pharmaceuticals, media, non-life insurance, financial services and technology outperformed. In contrast, chemicals, industrials, tobacco, retailers, banks, travel & leisure, telecoms and utilities were among the weakest. Notably, consumer staples (excluding tobacco) companies attracted support, reflecting

their steady earnings growth characteristics. Technology was helped by the strength of the US sector, but it is a very small part of the UK market. The energy sector was lacklustre, as the oil price ended the 12-month period down slightly at US\$67 per barrel from US\$77 at the start, although this disguised a rise to above US\$86 in October, followed by a steep fall to US\$50 by the end of 2018, before supply constraints, US sanctions and tensions with Iran over tankers in the Gulf caused the trend to reverse.

Against this background, the fund's second-half performance recouped the considerable setback in the first half of its financial year. Over the 12 months, however, the fund was adversely affected by a below-market position in larger companies versus an above-market stance in medium-sized companies. In addition, at a sector level, value was surrendered through above-market positions in industrial, chemical and tobacco companies, although these are attractive sectors for dividend generation, along with a below-market exposure to drinks manufacturers, where conversely, dividends are generally low.

At the stock level, the main sources of added value included software firm Micro Focus International, mezzanine finance specialist Intermediate Capital Group, Swiss pharmaceutical company Roche, Anglo-Australian miner Rio Tinto, insurer Admiral and Luxembourg-based satellite company SES.

Micro Focus recovered from a sharp sell-off in 2018 when the market overreacted to a profit warning related to its purchase of the software arm of Hewlett-Packard – the shares were added to the portfolio on an opportunistic basis after halving in value. Intermediate Capital Group has had a good year, delivering solid results. Roche outperformed against a backdrop of weak stockmarkets, assisted by Swiss franc strength against sterling and a resilient product pipeline. Rio Tinto benefited from disruptions to production in Brazil and Australia that have pushed up the price of iron ore, contrary to trends elsewhere in commodity markets. Admiral is one of the stronger car insurers, performing well in a tough market, and investors have been expecting to benefit when the motor insurance cycle turns upward. SES, having been one of the largest detractors during the fund's previous year, delivered a strong turnaround in performance.

Amongst the main individual detractors were online gaming company GVC, paper and packaging business DS Smith, cigarette manufacturers Imperial Brands and British American Tobacco, methanol producer Methanex, and medical equipment manufacturer ConvaTec.

Ladbrokes owner GVC was affected by the UK government bringing forward previously announced plans to increase the level of taxation on the betting industry. These issues were compounded recently when the chairman and chief executive of GVC both sold stock in the company and the chairman also stood down. Nevertheless, GVC is a strong business and remains an attractive opportunity, particularly given the gradual liberalisation of the US gaming market. DS Smith was affected by concerns about a supply glut and the debt required to fund its US\$2 billion acquisition of rival Europac. Cigarette manufacturers remain under pressure from the authorities in the US and the UK over their vaping products, added to which there was an adverse court ruling in Canada in a class action earlier this year; nevertheless, yields are attractive and cashflow is strong. Methanex in Canada was affected by weaker energy prices. ConvaTec's results were disappointing in 2018 and the chief executive has been replaced; the company, which makes colostomy bags and wound dressings, is under margin pressure from lower priced rivals, and in response has launched a US\$150 million, three-year turnaround strategy.

Investment activities

The 12 months under review were covered by two managers, with Phil Cliff running the fund up to 28 February 2019 and Michael Stiasny thereafter. In the first phase, amongst the new positions established were two financial sector companies – HSBC and St James's Place – along with miner Rio Tinto, high street retailer WH Smith and speciality chemicals manufacturer Victrex. The addition of the financial firms and the miner was intended to reduce the fund's below-index weightings in two significant market sectors. Meanwhile, WH Smith and Victrex are both strong dividend growers – despite a subdued high street, the former enjoys strong revenue growth from its outlets in stations and international airports.

In terms of complete sales during the first phase, notably these included fast food firm Domino's Pizza, medical equipment manufacturer ConvaTec, defence contractor BAE and German conglomerate Siemens. The rollout of new locations by Domino's Pizza was slower than expected; it was also felt that the lack of stability in key management positions was likely to further increase the execution risk. Confidence was lost in the investment case for ConvaTec. Delays in the award of US government contracts are acting as a constraint on BAE, along with cashflow concerns, as well as its reliance on deals with Saudi Arabia and worries about the threat of a Labour government. The sale of Siemens reflected a move to reduce the portfolio's sensitivity to the economic cycle.

Trading activity on the fund since the March 2019 manager changeover was focused on broadening the number of stocks, which had the benefit of diversifying the portfolio's income base, but more importantly, allowing the income to be driven up for the 2018/19 year. This activity profile will continue and our intention is to have a diversified portfolio that will help reduce its exposure to stock-specific risk, but maximise the opportunity to grow the income each year – starting from a high base.

Consequently, there was an increase in the fund's holdings across a broad spectrum of the higher yielding areas of the market, such as pharmaceuticals (GlaxoSmithKline, AbbVie), energy companies (Royal Dutch Shell, Total), utilities (Pennon, SSE), telecoms (Vodafone, BT), financials (Legal & General, Standard Life Aberdeen), real estate (Warehouse REIT (real estate investment trust), NewRiver REIT) and consumer services (Greene King, ITV).

Funds were raised for the purpose in the second phase by reducing a number of the portfolio's larger positions (Kone, Essentra, Nordea Bank, DS Smith) and lower yielding holdings (RELX, Roche, Howden Joinery, Intermediate Capital Group).

Outlook

The UK stockmarket has proved to be remarkably sanguine so far this year, notwithstanding a deterioration in the economic outlook at home and abroad, an increase in trade tensions between the US and its major trading partners, sabre rattling in the Strait of Hormuz and concerns around Brexit.

The main reasons behind the market's support have been the Bank of England's maintenance of a low interest rate policy together with the ultra-low level of bond yields – the 10-year benchmark gilt is currently at 0.56%.

Another factor, however, has been a remarkably resilient consumer until now, helped by unemployment at a 44-year low and wage growth that has finally overtaken the inflation rate. In addition, UK equities began 2019 looking relatively cheap as investors reacted to the increased uncertainty over Brexit. Despite this year's rally, though, the UK stockmarket still represents fair value compared to other markets, but it is likely to remain at a discount to them until the complex Brexit process has run its course.

Sterling has tended to be more immediately reflective of the Brexit outlook and it is expected to rally if 'no deal' is avoided, and sell off sharply in the wake of a hard Brexit. A deal would also support the equity market, especially domestic stocks, and may potentially reduce the risk of a Labour government, worries about which have also acted as a restraint on the market's upward progress. But even in the circumstances of a no-deal scenario, with 75% of FTSE 100 companies' earnings derived from overseas, the market should find some support.

Longer term, UK companies' balance sheets are well capitalised, and earnings and dividend growth supportive, assisted by the Bank of England's stimulative monetary policy.

Michael Stiasny Fund manager

An employee of M&G Limited which is an associate of M&G Securities Limited. At the start of the review period Phil Cliff was the 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.

Portfolio statement			
as at 30 June	2019	2019	2018 ^[a]
Holding	£'000	%	%
EQUITIES	1,163,698	102.55	101.01
Software & computer services	23,955	2.11	1.10
1,161,440 Micro Focus International	23,955	2.11	
Telecommunication service providers	20,118	1.77	0.00
5,000,000 BT	9,803	0.86	
8,000,000 Vodafone	10,315	0.91	
Medical equipment & services	0	0.00	2.04
Pharmaceuticals & biotechnology	92,991	8.20	7.30
50,000 AbbVie	2,758	0.24	
801,032 AstraZeneca	51,546	4.54	
1,750,000 GlaxoSmithKline	27,671	2.45	
50,000 Roche	11,016	0.97	
Banks	90,352	7.97	5.34
7,000,000 HSBC	45,933	4.05	
57,943,709 Lloyds Banking	32,982	2.91	
2,000,000 Nordea Bank	11,437	1.01	
Investment banking & brokerage services	69,572	6.13	5.04
1,041,208 3i	11,572	1.02	
1,639,553 Brewin Dolphin	5,050	0.45	
2,300,000 Intermediate Capital	31,464	2.77	
3,000,000 Jupiter Fund Management	12,702	1.12	
3,000,000 Standard Life Aberdeen	8,784	0.77	
Equity investment instruments	9,620	0.85	0.00
10,000,000 Tritax EuroBox	9,620	0.85	
Non-equity investment instruments	12,650	1.11	1.06
1,150,000 Honeycomb Investment Trust	12,650	1.11	
Life insurance	66,248	5.83	7.46
2,750,000 Aviva	11,385	1.00	
2,150,000 Chesnara	7,256	0.64	
3,000,000 Legal & General	8,106	0.71	
3,500,000 Phoenix	24,731	2.18	
1,345,184 St. James's Place	14,770	1.30	
Non-life insurance	68,857	6.07	6.67
700,000 Admiral	15,421	1.37	
5,000,000 Hastings	9,645	0.85	
1,121,283 Hiscox	18,961	1.67	
4,383,177 Sabre Insurance	11,856	1.04	
350,000 Sampo	12,974	1.14	
Real estate investment & services	4,746	0.42	0.00
4,396,075 Grit Real Estate Income	4,746	0.42	

Portfolio statement (continued)			
as at 30 June	2019	2019	2018 ^[a]
Holding	£'000	%	%
Real estate investment trusts	50,653	4.45	3.49
3,000,000 NewRiver REIT	5,388	0.47	
818,283 Segro	5,941	0.52	
9,500,000 Tritax Big Box	14,573	1.28	
2,034,734 UNITE	19,767	1.74	
4,839,161 Warehouse REIT	4,984	0.44	
Automobiles & parts	5,551	0.49	0.00
225,306 Nokian Renkaat	5,551	0.49	
Household goods & home construction	10,942	0.97	2.16
3,674,223 Countryside Properties	10,942	0.97	
Personal goods	19,496	1.72	0.00
400,000 Unilever	19,496	1.72	
Media	73,478	6.46	7.14
2,000,000 Informa	16,708	1.47	
6,500,000 ITV	6,978	0.61	
1,000,000 Moneysupermarket.com	4,112	0.36	
7,500,000 Reach	5,594	0.49	
750,000 RELX	14,359	1.27	
900,000 SES FDR	10,937	0.96	
1,500,000 WPP	14,790	1.30	
Retailers	9,234	0.82	0.00
297,112 DFS Furniture	752	0.07	
500,000 Halfords	1,125	0.10	
373,049 WH Smith	7,357	0.65	
Travel & leisure	80,566	7.10	7.09
1,501,514 Compass	28,349	2.50	
450,000 Go-Ahead	8,843	0.78	
900,000 Greene King	5,568	0.49	
4,040,375 GVC	26,028	2.29	
6,000,000 Marston's	7,008	0.62	
708,586 Restaurant	940	0.08	
500,000 TUI	3,830	0.34	
Beverages	17,780	1.57	1.72
2,000,000 Britvic	17,780	1.57	
Food producers	10,863	0.96	0.52
1,144,652 Hilton Food	10,863	0.96	
Tobacco	84,617	7.46	10.63
1,647,579 British American Tobacco	45,481	4.01	
2,100,000 Imperial Brands	39,136	3.45	
Construction & materials	4,862	0.43	0.26
1,200,000 Kier	1,304	0.11	
807,204 Polypipe	3,558	0.32	

Portfolio statement (continued)			
as at 30 June	2019	2019	2018 ^[a]
Holding	£'000	%	%
Aerospace & defence	0	0.00	3.51
General industrials	23,374	2.06	5.60
6,500,000 DS Smith	23,374	2.06	
Industrial engineering	31,161	2.74	5.02
1,646,079 IMI	17,160	1.51	
300,000 Kone	14,001	1.23	
Industrial support services	42,127	3.72	6.76
6,250,000 Essentra	26,537	2.34	
3,706,623 IWG	12,662	1.12	
300,000 PayPoint	2,928	0.26	
Industrial metals & mining	51,943	4.58	0.00
500,000 Central Asia Metals	1,070	0.09	
1,050,000 Rio Tinto	50,873	4.49	
Chemicals	26,379	2.33	2.33
465,852 Methanex	16,512	1.46	
456,797 Victrex	9,867	0.87	
Non-renewable energy	124,323	10.95	7.37
14,941,281 BP	82,058	7.23	
2,990,875 Prosafe	3,105	0.27	
1,300,000 Royal Dutch Shell	33,664	2.97	
125,000 Total	5,496	0.48	
Electricity	1,398	0.12	0.00
125,000 SSE	1,398	0.12	
Gas, water & multi-utilities	35,842	3.16	1.40
450,000 ENGIE	5,317	0.47	
2,670,000 National Grid	22,295	1.96	
980,000 Pennon	7,250	0.64	
125,000 United Utilities	980	0.09	
Unquoted / unlisted ^[b]	0	0.00	0.00
377,518 Izodia	0	0.00	
CURRENCY	(369)	(0.03)	(0.04)
Forward currency contracts	(369)	(0.03)	(0.04)
\$(14,656,407) Sold for £11,177,644 (expires 10.07.19)	(369)	(0.03)	
Portfolio of investments	1,163,329	102.52	100.97
CASH EQUIVALENTS	7,801	0.69	0.75
'AAA' rated money market funds ^[c]	7,801	0.69	0.75
7,801,000 Northern Trust Global Fund - Sterling	7,801	0.69	

Portfolio statement (continued)			
as at 30 June	2019	2019	2018 ^[a]
Holding	£'000	%	%
Total portfolio	1,171,130	103.21	101.72
Net other assets / (liabilities)	(36,419)	(3.21)	(1.72)
Net assets attributable to shareholders	1,134,711	100.00	100.00

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

^[a] The portfolio has been reclassified to more appropriately reflect how the fund is managed. 2018 comparatives have been restated to reflect this.

^[b] Suspended.

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

Top ten portfolio transactions

for the year to 30 June 2019

	£'000
Largest purchases	
HSBC	46,229
Rio Tinto	41,096
Royal Dutch Shell	32,634
GlaxoSmithKline	27,326
Unilever	17,847
St. James's Place	15,734
Informa	14,525
WPP	13,750
Lancashire	12,962
Micro Focus International	12,416
Other purchases	311,129
Total purchases	545,648
Largest sales	
AstraZeneca	32,951
BAE Systems	31,200
Kone	30,911
SES FDR	29,873
RELX	27,941
Siemens	27,317
Prudential ^[a]	26,997
Aviva	20,492
Roche	19,725
Admiral	18,775
Other sales	263,385
Total sales	529,567

^[a] Related party to the fund.

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

Financial highlights

Fund performance

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

The following charts 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 sterling share classes. Performance is shown after deduction of this charge. All UK 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.

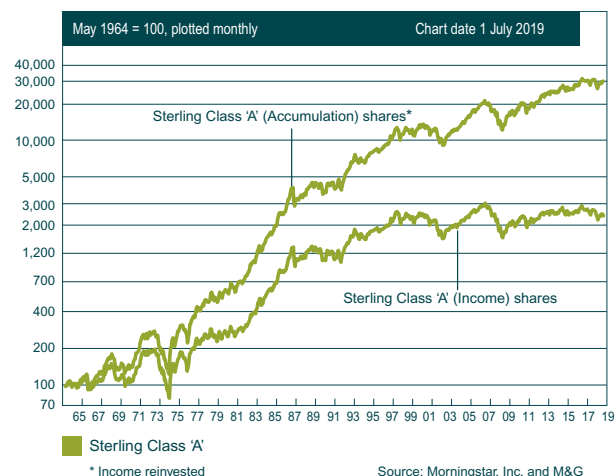
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations. For the specific performance tables of all share classes, please refer to the Annual Long Report and audited Financial Statements for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 30 June	2019 £'000	2018 £'000	2017 £'000
Fund net asset value (NAV)	1,134,711	1,204,479	1,288,318

Share class performance since launch

To give an indication of how the fund has performed since launch, the chart below shows performance of Sterling Class 'A' (Accumulation) shares and Sterling Class 'A' (Income) shares. With Accumulation shares, income received from an investment is reinvested, while with Income shares, the income is paid out to shareholders.

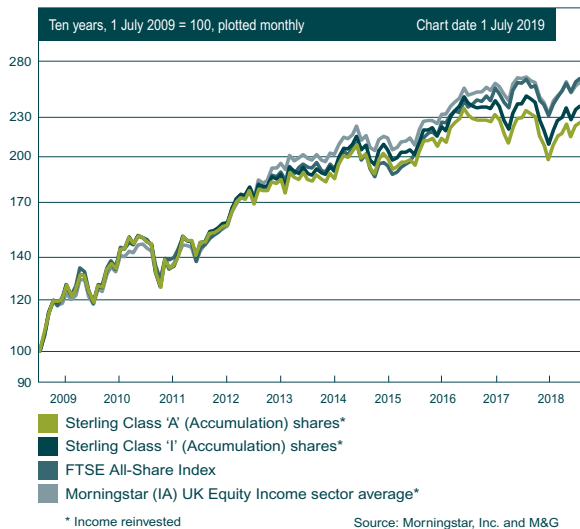


Financial highlights

Fund performance

Ten-year performance

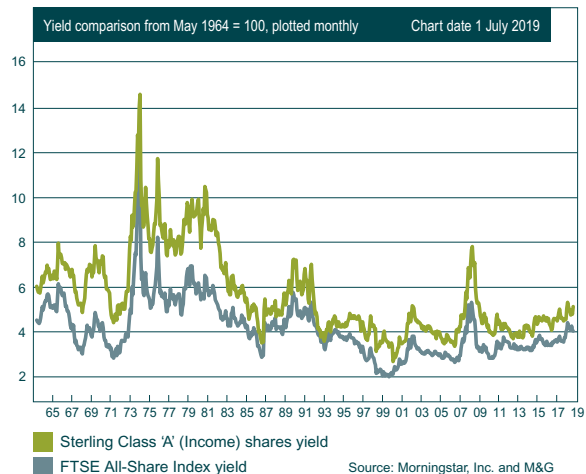
Please note that comparative data is not available from fund launch. Therefore a ten-year comparable performance chart is shown below.



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

Historic yield

The chart below shows the historic yield of Sterling Class 'A' (Income) shares against that of a comparative index.



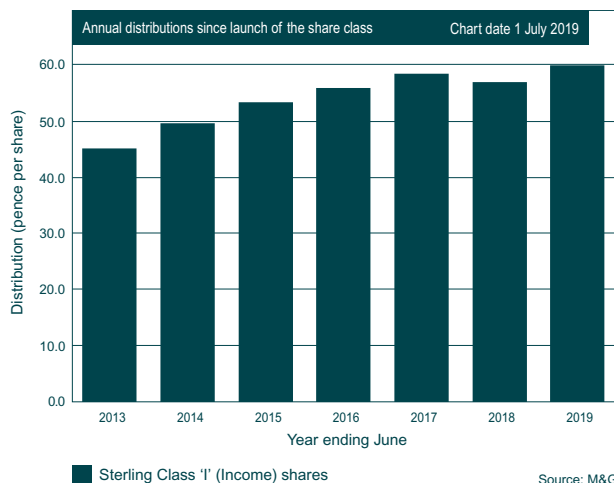
Historic yield: The historic yield reflects distributions declared over the past twelve months as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions.

Financial highlights

Fund performance

Distribution since launch

The charts below show the annual distribution of Sterling Class 'A' (Income) shares and Sterling Class 'I' (Income) shares since launch.



To give an indication of how the fund has performed during the period the tables below show the performance of Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

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.

Historic yields for the current year are calculated as at 12 July 2019.

Sterling Class 'A' Accumulation share performance

The share class was launched on 6 May 1964.

for the year to 30 June	2019	2018	2017
Change in NAV per share	UK p	UK p	UK p
Opening NAV	702.83	714.80	594.58
Return before operating charges and after direct portfolio transaction costs	(3.77)	(0.34)	131.29
Operating charges	(11.42)	(11.63)	(11.07)
Return after operating charges	(15.19)	(11.97)	120.22
Distributions	(23.50)	(20.17)	(20.18)
Retained distributions	23.50	20.17	20.18
Closing NAV	687.64	702.83	714.80

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.47	1.07	0.93
Dilution adjustments ^[a]	(0.23)	(0.21)	(0.13)
Total direct portfolio transaction costs	1.24	0.86	0.80

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.19	0.13	0.12
Operating charges	1.70	1.68	1.66
Return after operating charges	-2.16	-1.67	+20.22
Historic yield	3.40	2.83	2.83
Effect on yield of charges offset against capital	0.01	0.01	0.01

Other information			
Closing NAV (£'000)	67,252	74,303	88,701
Closing NAV percentage of total fund NAV (%)	5.93	6.17	6.89
Number of shares	9,780,117	10,571,996	12,409,112
Highest share price (UK p)	726.56	724.97	736.85
Lowest share price (UK p)	600.55	639.57	601.50

Financial highlights

Fund performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June	2019	2018	2017
Change in NAV per share	UK p	UK p	UK p
Opening NAV	1,593.43	1,608.51	1,327.98
Return before operating charges and after direct portfolio transaction costs	(8.19)	(0.55)	294.13
Operating charges	(14.54)	(14.53)	(13.60)
Return after operating charges	(22.73)	(15.08)	280.53
Distributions	(64.98)	(57.32)	(56.52)
Retained distributions	64.98	57.32	56.52
Closing NAV	1,570.70	1,593.43	1,608.51

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	3.35	2.42	2.09
Dilution adjustments ^[a]	(0.53)	(0.48)	(0.30)
Total direct portfolio transaction costs	2.82	1.94	1.79

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.19	0.13	0.12
Operating charges	0.95	0.93	0.91
Return after operating charges	-1.43	-0.94	+21.12
Historic yield	4.11	3.55	3.52
Effect on yield of charges offset against capital	0.01	0.01	0.01

Other information

Closing NAV (£'000)	20,241	22,216	19,636
Closing NAV percentage of total fund NAV (%)	1.78	1.84	1.52
Number of shares	1,288,692	1,394,209	1,220,766
Highest share price (UK p)	1,648.33	1,632.10	1,657.16
Lowest share price (UK p)	1,366.64	1,447.45	1,343.61

^[a] In respect of direct portfolio transaction costs.

^[b] As a percentage of average net asset value.

Financial highlights

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 depository, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

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.

Financial highlights

Operating charges and portfolio transaction costs

Portfolio transaction costs

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

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

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

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. To give an indication of the indirect portfolio dealing costs the table also shows the average portfolio dealing spread.

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

Portfolio transaction costs				
for the year to 30 June	2019	2018	2017	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.04	0.04	0.04	0.04
Taxes	0.18	0.12	0.10	0.13
Costs before dilution adjustments	0.22	0.16	0.14	0.17
Dilution adjustments ^[c]	(0.03)	(0.03)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.19	0.13	0.12	0.15
as at 30 June	2019	2018	2017	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.11	0.10	0.12	0.11

^[a] Average of first three columns.

^[b] As a percentage of average net asset value.

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

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

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