



## **M&G European Index Tracker Fund**

a sub-fund of M&G Investment Funds (1)

Annual Short Report August 2019

For the year ended 31 August 2019

The Authorised Corporate Director (ACD) of M&G Investment Funds (1) presents its Annual Short Report for M&G European Index Tracker 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 (1), 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](http://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 per the shareholder letter issued 17 June 2019, we have made 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 be easier to compare to other fund charges. We have combined 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 on the KIID for the share class(es) you are invested in, visit our website [www.mandg.co.uk](http://www.mandg.co.uk).

### Investment objective and policy

The fund is designed to track the FTSE World Europe ex UK Index.

### Investment approach

The M&G European Index Tracker Fund is a European ex UK fund that tracks the performance of the FTSE World Europe ex UK Index\* using a technique called stratified sampling.

The fund will normally hold the largest 100 stocks in the index as well as a selection of the remaining smaller stocks to ensure that the fund's capitalisation and industry weights are in line with the index weightings.

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### Benchmark

Benchmark: FTSE World Europe ex UK Index.

The fund is passively managed. The index is a constraining benchmark for the fund. The fund aims to track the return of the index. The fund's portfolio holdings are therefore unlikely to significantly deviate from the index's constituent parts.

### Risk profile

The fund is designed to track the performance of the FTSE World Europe ex UK Index, which represents a broad spread of European company shares. Its performance, therefore, reflects the price volatility of the European stockmarket and the performance of individual companies.

The fund will typically hold around 350 stocks, including the largest 100 stocks in the index, as well as a selection of the remaining smaller stocks to ensure that the fund's market capitalisation and industry weights are in line with the index. The fund's risks are measured and managed as an integral part of the investment process.

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 (1).

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 2 September 2019, for the year ended 31 August 2019

### Performance against objective

The M&G European Index Tracker Fund is designed to track the FTSE World Europe ex UK Index. Between 3 September 2018 (the start of the review period) and 2 September 2019, the fund's Sterling Class 'A' shares returned 3.6%, while the Euro Class 'A' (Accumulation) shares returned 2.8%. The difference in returns between the share classes reflects currency movements over the period. Meanwhile, the FTSE World Europe ex UK Index returned 4.8% and 4.0% in sterling and euro terms, respectively.\*

\* 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 (1).

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. Calculated on a price to price basis with income reinvested.

Long-term performance				
	One year 03.09.18 % [a]	Three years 02.09.16 % p.a.	Five years 02.09.14 % p.a.	Since launch % p.a.
<b>Sterling [b]</b>				
Class 'A'	+3.6	+9.6	+8.4	+5.0 [c]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 31 January 2000, the end of the initial offer period of the predecessor unit trust.

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

The fund is managed to closely match the performance of the FTSE World Europe ex UK Index and minimise deviations in return performance (the 'tracking error') compared to the index.

There are several factors that can result in the fund underperforming or outperforming the index over specific periods.

**Fund charges** – the fees we charge for managing the fund, as well as the costs incurred when we buy and sell underlying investments, will mean the fund's return after charges is below that of the index (which does not reflect the costs of investing).

**Tracking error** – this refers to the difference in performance, positive or negative, due to the fund not fully replicating the composition of the index.

**Price swings** – this is a dilution adjustment within the share price, which aims to protect existing shareholders from a dilution in performance resulting from deals placed to buy or sell shares. This pricing method has the effect of moving the single price up or down from the mid-price.

**Timing** – this reflects the fact that the fund is priced at midday while the index is priced at close of business day.

As the fund tracks the index, its overall performance can largely be explained by market developments over the period under review.

Like most global markets, the European stockmarket was volatile for much of the 12-month period under review. October 2018 saw many major stockmarkets decline due to a sharper-than-expected increase in borrowing costs. Concerns that monetary policy tightening by the US Federal Reserve (Fed) may dampen the US economy and international trade tensions also weighed on sentiment towards the end of the year.

Investors' risk appetite improved significantly at the start of 2019 after the Fed indicated a slower approach to interest rate hikes, due to the global economic slowdown, lower oil prices and muted domestic inflation.

However, heightened trade tensions between the US and China led to stockmarket weakness in May 2019. In June, investors were encouraged as a weaker US jobs report increased expectations of a cut in US interest rates, which duly occurred at the end of July. Subsequently, an escalation in the US/China trade talks led to increased risk aversion amid concerns about slowing growth in the global economy and reduced demand for European goods.

More specifically for the European stockmarket, Italy's controversial budget for 2019 caused unease in the autumn of 2018. Political uncertainty in Italy also weighed on sentiment in August 2019 when nationalist League leader Matteo Salvini withdrew support for the populist coalition and Prime Minister Giuseppe Conte resigned. Shortly after the end of the period under review, in an unusual pairing, the

centre-left Democratic Party and the populist Five Star Movement agreed to form a coalition government, with Mr Conte continuing as prime minister. Meanwhile, in Germany, mainstream parties held on in some regional elections, although the far right Alternative for Germany party made advances.

In terms of the eurozone economy, the pace of expansion eased in the second quarter of 2019. According to official estimates, quarter-on-quarter growth in the region was 0.2%, compared with 0.4% in the first three months of the year. Germany's economy shrank by 0.1% in the second quarter, compared with the previous three-month period, due to weaker exports against a backdrop of a global slowdown. An export-led economy, Germany has seen its manufacturing sector hurt by global trade tensions, slower Chinese growth, tougher emissions standards in its automotive industry and Brexit-related uncertainty. However, shortly after the end of the review period, the news that German exports in July were stronger than had been expected has provided some optimism. In other markets, Spain and France recorded growth of 0.5% and 0.3% in the second quarter, compared with 0.7% and 0.3%, respectively, in the preceding three months. Italy expanded by 0.1% in the first quarter and was flat in the second.

Eurozone inflation remains below the European Central Bank's (ECB) target level of 2.0%, standing at 1.0% in July 2019, compared with 2.2% a year earlier. More positively, unemployment levels continue to decline, standing at 7.5% in July 2019, down from 8.1% in July 2018. The Czech Republic and Germany have the lowest levels, at 2.1% and 3.0%, respectively. The highest rates were recorded by Greece and Spain (17.2% in May 2019, and 13.9%). Meanwhile, the rate of youth unemployment continues to improve, standing at 15.6% in July 2019, compared with 16.7% in July 2018.

Weaker economic data led to heightened expectations that the European Central Bank (ECB) would announce further monetary easing measures, which duly transpired after the end of the period under review.

Turning to sector performance, the strongest returns came from certain 'defensive' stocks, which tend not to respond much to swings in economic cycles. Specific examples included utilities, beverages, food producers and telecommunications. Meanwhile, 'cyclical' stocks are more sensitive to economic cycles and tended to be weak over the period, with industrial metals & mining, banks and autos & components recording the largest declines.

## Investment activities

In terms of transactions over the period, we sold our holdings in German mechanical engineering business Man and Dutch digital security firm Gemalto, which were bought by German automotive manufacturing company Volkswagen and French aerospace firm Thales, respectively.

Various companies were added to or left the index and certain changes to the portfolio reflect these moves. For example, entrants to the index and therefore the portfolio included Norway's Leroy Seafood Group, Belgian-Dutch pharmaceutical research company Galapagos and Italian biotechnology firm DiaSorin.

Other entrants to the portfolio included Aroundtown, a German real estate firm, Germany's Rational, which manufactures cooking appliances for large and commercial kitchens, Swedish automobile company Saab and Swiss cocoa producer Barry Callebout.

Meanwhile, we sold some holdings in connection with their departure from the index, including French Netherlands-based telecoms and mass media firm Altice, Austria's AMS, which produces advanced sensor solutions, and German consumer electronics firm Ceconomy.

Elsewhere, we decreased our holding in French oil & gas company Total to reflect a reduction in the stock's weighting in the index.

A number of transactions related to cashflow management. Specific examples include Danish pharmaceutical firm Novo Nordisk, Norway's media group Schibsted, Spanish transport infrastructure company Ferrovial and Swiss food and beverage firm Nestle.

## Outlook

Prospects for the eurozone have been clouded by slower economic growth, both in the eurozone and the wider global economy, as well as international trade tensions. Economic activity in the eurozone is lacklustre, while inflation remains below the ECB's target level.

Against this backdrop, shortly after the end of the period under review, the ECB announced a string of measures designed to support the region's economy. The steps include cutting a key interest rate and restarting a bond purchase scheme just nine months after a similar arrangement was halted. The ECB will buy €20 billion of debt every month, starting on 1 November 2019. The bank also plans to keep main interest rates at current levels, or lower, until inflation is sufficiently close to, but below, its 2% target level.

Meanwhile, investor sentiment is still troubled by considerable uncertainty regarding the UK's plans to leave the European Union, although some degree of clarity about the way forward should hopefully emerge in the coming weeks and months.

## Nigel Booth

Fund manager

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

Please note that the views expressed in this Report should not be taken as a recommendation or advice 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 31 August Holding	2019 €'000	2019 %	2018 %
<b>EQUITIES</b>	<b>89,992</b>	<b>99.88</b>	<b>97.98</b>
<b>Austria</b>	<b>409</b>	<b>0.45</b>	<b>0.51</b>
1,450 Andritz	46	0.05	
4,185 Erste Group Bank	123	0.14	
2,214 OMV	103	0.11	
1,956 Raiffeisen International Bank	39	0.04	
4,152 Telekom Austria	29	0.03	
1,114 Vienna Insurance	25	0.03	
2,113 Voestalpine	44	0.05	
<b>Belgium</b>	<b>2,077</b>	<b>2.31</b>	<b>2.22</b>
514 Ackermans & van Haaren	68	0.07	
3,141 Ageas	153	0.17	
11,871 Anheuser-Busch InBev	1,026	1.14	
1,365 Bruxelles Lambert	116	0.13	
500 Galapagos	77	0.09	
4,237 KBC	223	0.25	
2,246 Proximus	60	0.07	
1,008 Solvay	92	0.10	
757 Telenet	34	0.04	
2,051 UCB	139	0.15	
3,078 Umicore	89	0.10	
<b>Czech Republic</b>	<b>98</b>	<b>0.11</b>	<b>0.11</b>
1,745 CEZ	35	0.04	
1,318 Komerční banka	42	0.05	
7,000 Moneta Money Bank	21	0.02	
<b>Denmark</b>	<b>3,468</b>	<b>3.85</b>	<b>3.61</b>
2,000 Ambu	31	0.03	
166 AP Moller-Maersk	160	0.18	
1,474 Carlsberg	198	0.22	
1,642 Chr. Hansen	125	0.14	
2,558 Coloplast	275	0.31	

## Portfolio statement (continued)

as at 31 August Holding	2019 €'000	2019 %	2018 %
<b>Denmark (continued)</b>			
10,339 Danske Bank	124	0.14	
1,500 Demant	42	0.05	
332 Drilling Co of 1972	17	0.02	
2,845 DSV	256	0.28	
954 Genmab	178	0.20	
1,500 GN Store Nord	57	0.06	
2,892 ISS	67	0.07	
1,339 JYSKE Bank	34	0.04	
25,997 Novo-Nordisk	1,229	1.36	
3,120 Novozymes	122	0.14	
2,265 Orsted	198	0.22	
1,874 Pandora	75	0.08	
2,333 Tryg	63	0.07	
3,248 Vestas Wind Systems	217	0.24	
<b>Finland</b>	<b>2,323</b>	<b>2.58</b>	<b>2.38</b>
2,585 Elisa	118	0.13	
6,514 Fortum	130	0.15	
1,013 Huhtamaki	35	0.04	
1,292 Kesko	74	0.08	
6,033 Kone	318	0.35	
1,797 Metso	61	0.07	
6,750 Neste	196	0.22	
81,609 Nokia	368	0.41	
1,479 Nokian Renkaat	37	0.04	
50,751 Nordea Bank	228	0.32	
1,554 Orion Corporation	53	0.06	
7,378 Sampo	267	0.30	
8,332 Stora Enso	84	0.09	
8,346 UPM-Kymmene	202	0.22	
8,213 Wartsila	92	0.10	
<b>France</b>	<b>21,027</b>	<b>23.34</b>	<b>22.55</b>
3,142 Accor	123	0.14	
443 Aéroports de Paris	70	0.08	
35 Air Liquide	4	0.00	
6,379 Air Liquide (prime de fidélité 2012)	806	0.89	
8,391 Airbus	1,057	1.17	
2,409 Alstom	93	0.10	
800 Amundi	47	0.05	
1,006 Arkema	80	0.09	
1,477 AtoS	102	0.11	
29,098 AXA	613	0.68	
686 BioMérieux	51	0.06	
16,516 BNP Paribas	682	0.76	
14,298 Bolloré	55	0.06	

## Portfolio statement (continued)

as at 31 August Holding	2019 €'000	2019 %	2018 %
<b>France (continued)</b>			
3,551 Bouygues	124	0.14	
4,650 Bureau Veritas	102	0.11	
2,396 Capgemini	262	0.29	
9,006 Carrefour	141	0.16	
1,028 Casino Guichard Perrachon	39	0.04	
2,656 CNP Assurances	44	0.05	
820 Covivio REIT	79	0.09	
18,184 Crédit Agricole	190	0.21	
9,161 Danone	750	0.83	
52 Dassault Aviation	67	0.07	
2,128 Dassault Systemes	275	0.31	
4,254 Edenred	189	0.21	
4,428 EDF	49	0.05	
3,522 EDF (prime de fidélité 2017)	39	0.04	
1,245 Eiffage	119	0.13	
3,000 Elis	49	0.05	
4,056 ENGIE	56	0.06	
22,798 ENGIE (prime de fidélité Regd.)	316	0.35	
4,314 EssilorLuxottica	580	0.64	
627 Eurazeo	38	0.04	
220 Eurofins Scientifc	91	0.10	
3,283 Eutelsat Communications	52	0.06	
1,404 Faurecia	57	0.06	
940 Gecina REIT	134	0.15	
7,126 Getlink	91	0.10	
485 Hermes International	302	0.34	
352 Iliad	33	0.04	
835 Imerys	31	0.03	
960 Ingenico	86	0.10	
587 Ipsen	56	0.06	
1,159 Kering	514	0.57	
3,192 Klepierre REIT	88	0.10	
3,124 LafargeHolcim	136	0.15	
2,137 Lagardère	42	0.05	
4,280 Legrand	275	0.31	
231 L'Oréal	58	0.06	
3,416 L'Oréal (prime de fidélité 2012)	857	0.95	
3,764 LVMH	1,373	1.52	
2,649 Michelin	256	0.28	
13,227 Natixis	47	0.05	
29,501 Orange	408	0.45	
873 Orpea	101	0.11	
3,304 Pernod Ricard	573	0.64	
6,692 Peugeot	136	0.15	

## Portfolio statement (continued)

as at 31 August Holding	2019 €'000	2019 %	2018 %
<b>France (continued)</b>			
1,180 Plastic Omnium	26	0.03	
3,662 Publicis	160	0.18	
2,777 Renault	145	0.16	
5,263 Rexel	50	0.06	
1,610 Rubis	84	0.09	
4,823 Safran	637	0.71	
7,597 Saint-Gobain	249	0.28	
16,486 Sanofi	1,294	1.44	
8,087 Schneider Electric	618	0.69	
1,961 SCOR	71	0.08	
461 SEB	65	0.07	
5,836 SES FDR	86	0.10	
577 Société BIC	34	0.04	
10,589 Société Générale	246	0.27	
1,500 Sodexo (prime de fidélité regd)	155	0.17	
9,763 STMicroelectronics	158	0.18	
3,139 Suez	44	0.05	
6,956 TechnipFMC	158	0.18	
839 Teleperformance	167	0.19	
1,607 Thales	168	0.19	
38,372 Total	1,746	1.94	
1,264 Ubisoft	93	0.10	
3,748 Valeo	94	0.10	
7,794 Veolia Environnement	169	0.19	
7,250 Vinci	723	0.80	
15,083 Vivendi	384	0.43	
621 Wendel	79	0.09	
575 Worldline	36	0.04	
<b>Germany</b>	<b>16,563</b>	<b>18.38</b>	<b>20.06</b>
3,113 adidas	840	0.93	
6,525 Allianz	1,312	1.46	
8,244 Aroundtown	63	0.07	
849 Axel Springer	53	0.06	
14,106 BASF	852	0.95	
14,602 Bayer	988	1.10	
5,259 Bayerische Motoren Werke	320	0.36	
159 Bayerische Motoren Werke Preference Shares	8	0.01	
1,209 Beiersdorf	138	0.15	
2,685 Brenntag	117	0.13	
17,101 Commerzbank	89	0.10	
1,758 Continental	194	0.22	
2,443 Covestro	100	0.11	
13,833 Daimler	594	0.66	

## Portfolio statement (continued)

as at 31 August Holding	2019 €'000	2019 %	2018 %
<b>Germany (continued)</b>			
1,950 Delivery Hero	90	0.10	
28,489 Deutsche Bank	188	0.21	
3,082 Deutsche Börse	418	0.46	
4,178 Deutsche Lufthansa	59	0.07	
15,007 Deutsche Post	450	0.50	
50,655 Deutsche Telekom	771	0.86	
5,512 Deutsche Wohnen	183	0.20	
32,143 E.ON	272	0.30	
2,417 Evonik Industries	56	0.06	
665 Fraport	51	0.06	
6,771 Fresenius	300	0.33	
3,355 Fresenius Medical Care	205	0.23	
374 Fuchs Petrolub	12	0.01	
1,397 Fuchs Petrolub Preference Shares	44	0.05	
2,659 GEA	65	0.07	
937 Hannover Rueck	137	0.15	
2,460 HeidelbergCement	156	0.17	
4,150 Henkel Preference Shares	381	0.42	
228 Hochtief	23	0.03	
934 HUGO BOSS	48	0.05	
17,539 Infineon Technologies	276	0.31	
1,977 Innogy	74	0.08	
3,971 K&S	57	0.06	
991 Kion	44	0.05	
500 Knorr-Bremse	42	0.04	
1,244 LANXESS	68	0.08	
1,019 LEG Immobilien	109	0.12	
2,006 Merck	195	0.21	
4,029 Metro	57	0.06	
801 MTU Aero Engines	201	0.22	
2,343 Munich Re	511	0.57	
1,709 OSRAM Licht	63	0.07	
2,594 Porsche Automobil Preference Shares	149	0.17	
3,925 ProSiebenSat.1 Media	47	0.05	
1,070 Puma	75	0.08	
3,915 QIAGEN	123	0.14	
70 Rational	44	0.05	
500 Rheinmetall	54	0.06	
570 RTL	24	0.03	
8,119 RWE	211	0.23	
14,749 SAP	1,613	1.79	
300 Sartorius Preference Shares	54	0.06	
1,500 Scout24	80	0.09	
11,855 Siemens	1,078	1.19	

Portfolio statement (continued)			
as at 31 August	2019	2019	2018
Holding	€'000	%	%
<b>Germany (continued)</b>			
1,800 Siemens Healthineers	65	0.07	
1,729 Südzucker	26	0.03	
2,022 Symrise	171	0.19	
11,445 Telefónica Deutschland	27	0.03	
7,236 ThyssenKrupp	81	0.09	
3,272 Uniper	90	0.10	
2,146 United Internet	64	0.07	
1,250 Volkswagen	187	0.21	
2,148 Volkswagen Preference Shares	317	0.35	
7,775 Vonovia	352	0.39	
1,780 Wirecard	260	0.29	
2,167 Zalando	97	0.11	
	<b>218</b>	<b>0.24</b>	<b>0.24</b>
<b>Greece</b>			
26,395 Alpha Bank	42	0.05	
3,141 FF <sup>[a]</sup>	0	0.00	
2,568 Hellenic Petroleum	24	0.03	
4,617 Hellenic Telecommunications	56	0.06	
1,807 Jumbo	31	0.03	
12,171 National Bank of Greece	31	0.03	
3,526 OPAP	34	0.04	
	<b>235</b>	<b>0.26</b>	<b>0.24</b>
<b>Hungary</b>			
5,015 MOL Hungarian Oil & Gas	44	0.05	
3,963 OTP Bank	144	0.16	
3,103 Richter Gedeon	47	0.05	
	<b>459</b>	<b>0.51</b>	<b>0.60</b>
<b>Ireland</b>			
12,064 AIB	28	0.03	
16,629 Bank of Ireland	58	0.06	
3,306 Glanbia	32	0.04	
16,490 Irish Bank Resolution <sup>[a]</sup>	0	0.00	
2,317 Kerry	250	0.28	
2,161 Kingspan	91	0.10	
	<b>4,868</b>	<b>5.40</b>	<b>5.13</b>
<b>Italy</b>			
20,193 Assicurazioni Generali	333	0.37	
8,615 Atlantia	195	0.22	
7,715 Banca Mediolanum	51	0.06	
26,896 Banco BPM	50	0.06	
1,563 Buzzi Unicem	30	0.03	
13,834 CNH Industrial	129	0.14	
10,963 Davide Campari Milano	94	0.10	
400 DiaSorin	44	0.05	
122,027 Enel	813	0.90	
38,432 Eni	527	0.58	
1,958 EXOR	121	0.13	

Portfolio statement (continued)			
as at 31 August	2019	2019	2018
Holding	€'000	%	%
<b>Italy (continued)</b>			
1,967 Ferrari	284	0.32	
16,260 Fiat Chrysler Automobiles	193	0.21	
8,187 FincoBank	78	0.09	
12,000 Hera	44	0.05	
234,111 Intesa Sanpaolo	472	0.52	
6,526 Italgas	39	0.04	
8,596 Leonardo	96	0.11	
8,891 Mediaset	25	0.03	
7,809 Mediobanca	70	0.08	
2,934 Moncler	101	0.11	
7,706 Pirelli	37	0.04	
3,982 Prysmian	80	0.09	
1,519 Recordati	61	0.07	
12,040 Saipem	53	0.06	
27,101 Snam	127	0.14	
145,178 Telecom Italia	71	0.08	
119,508 Telecom Italia (Savings shares)	56	0.06	
8,165 Tenaris	82	0.09	
22,884 Terna	133	0.15	
15,009 UBI Banca	36	0.04	
33,649 UniCredit	343	0.38	
	<b>6,836</b>	<b>7.59</b>	<b>7.56</b>
<b>Netherlands</b>			
1,400 Aalberts	48	0.05	
6,736 ABN AMRO Bank	110	0.12	
130 Adyen	86	0.10	
30,026 Aegon	104	0.12	
3,606 Akzo Nobel	292	0.32	
9,191 ArcelorMittal	121	0.13	
6,283 ASML	1,267	1.41	
2,516 ASR Nederland	80	0.09	
1,973 Boskalis Westminster	36	0.04	
2,863 DSM	324	0.36	
4,331 Heineken	422	0.47	
1,281 Heineken Holding	116	0.13	
58,997 ING	516	0.57	
18,740 Koninklijke Ahold Delhaize	401	0.45	
50,352 KPN	145	0.16	
5,970 NN	182	0.20	
14,769 Philips	633	0.70	
2,068 Randstad	88	0.10	
2,010 Unibail-Rodamco-Westfield REIT	240	0.26	
22,956 Unilever	1,295	1.44	
1,161 Vopak	50	0.06	
4,269 Wolters Kluwer	280	0.31	



## Portfolio statement (continued)

as at 31 August	2019	2019	2018
Holding	€'000	%	%
<b>Norway</b>	<b>1,349</b>	<b>1.50</b>	<b>1.50</b>
1,051 Adevinta 'A' Shares	12	0.01	
2,013 Adevinta 'B' Shares	22	0.02	
17,074 DnB	250	0.28	
15,955 Equinor	248	0.28	
3,895 Gjensidige Forsikring	68	0.08	
6,000 Leroy Seafood	36	0.04	
6,327 Mowi	140	0.16	
16,352 Norsk Hydro	47	0.05	
14,141 Orkla	118	0.13	
1,051 Schibsted 'A'	28	0.03	
2,013 Schibsted 'B'	52	0.06	
10,831 Telenor	202	0.22	
3,213 Yara International	126	0.14	
<b>Poland</b>	<b>603</b>	<b>0.67</b>	<b>0.96</b>
2,120 Bank Pekao	47	0.05	
1,496 CD Projekt	88	0.10	
2,335 KGHM Polska Miedz	42	0.04	
22 LPP	37	0.04	
369 mBank	27	0.03	
12,048 PGE Polska Grupa Energetyczna	21	0.02	
35,447 PGNiG	38	0.04	
4,617 PKN Orlen	96	0.11	
12,046 PKO Bank Polski	106	0.12	
8,031 PZU	68	0.08	
480 Santander Bank Polska	33	0.04	
<b>Portugal</b>	<b>320</b>	<b>0.36</b>	<b>0.38</b>
41,873 EDP - Energias de Portugal	144	0.16	
9,316 Galp Energia	121	0.14	
3,706 Jerónimo Martins	55	0.06	
<b>Spain</b>	<b>5,626</b>	<b>6.24</b>	<b>6.36</b>
455 Acciona	45	0.05	
4,058 Acerinox	30	0.03	
4,223 ACS Actividades	147	0.16	
982 Aena	162	0.18	
6,526 Amadeus IT	440	0.49	
93,808 Banco de Sabadell	73	0.08	
240,758 Banco Santander	839	0.93	
21,278 Bankia	35	0.04	
10,644 Bankinter	57	0.06	
99,967 BBVA	434	0.48	
55,332 CaixaBank	115	0.13	
3,369 Cellnex Telecom	123	0.14	

## Portfolio statement (continued)

as at 31 August	2019	2019	2018
Holding	€'000	%	%
<b>Spain (continued)</b>			
4,071 Enagas	81	0.09	
5,921 Endesa	139	0.15	
7,303 Ferrovial	190	0.21	
7,053 Grifols	203	0.23	
394 Grifols Preference Shares	8	0.01	
94,694 Iberdrola	891	0.99	
15,901 Inditex	445	0.49	
17,345 Mapfre	41	0.05	
6,335 Merlin Properties REIT	77	0.09	
4,656 Naturgy Energy	111	0.12	
7,697 Red Electrica	139	0.15	
19,631 Repsol	262	0.29	
4,367 Siemens Gamesa Renewable Energy	54	0.06	
71,673 Telefónica	450	0.50	
5,557 Zardoya Otis	35	0.04	
<b>Sweden</b>	<b>4,914</b>	<b>5.45</b>	<b>5.74</b>
4,929 Alfa Laval	82	0.09	
14,151 Assa Abloy	267	0.30	
14,376 Atlas Copco	389	0.43	
4,222 Boliden	83	0.09	
5,000 Castellum	97	0.11	
4,032 Electrolux	82	0.09	
5,000 Elekta	58	0.06	
15,092 Epiroc	142	0.16	
45,833 Ericsson	325	0.36	
9,401 Essity	266	0.30	
1,760 Fastighets AB Balder	60	0.07	
13,773 Hennes & Mauritz	240	0.27	
3,693 Hexagon	148	0.16	
6,957 Husqvarna	49	0.05	
1,261 ICA	57	0.06	
5,807 Industrivarden	113	0.13	
3,572 Investment AB Latour	43	0.05	
8,280 Investor	351	0.39	
4,206 Kinnevik	103	0.11	
3,465 Lundin Petroleum	94	0.10	
4,000 Nibe Industrier	45	0.05	
1,500 Saab	38	0.04	
16,983 Sandvik	221	0.25	
4,722 Securitas	64	0.07	
21,045 Skandinaviska Enskilda Banken	164	0.18	
6,480 Skanska	110	0.12	
5,877 SKF	86	0.10	

## Portfolio statement (continued)

as at 31 August	2019	2019	2018
Holding	€'000	%	%
<b>Sweden (continued)</b>			
8,611 Svenska Cellulosa	66	0.07	
21,799 Svenska Handelsbanken	173	0.19	
15,437 Swedbank	179	0.20	
2,849 Swedish Match	101	0.11	
2,900 Swedish Orphan Biovitrum	43	0.05	
4,969 Tele2	64	0.07	
43,715 Telia	173	0.19	
4,929 Trelleborg	61	0.07	
21,975 Volvo	277	0.31	
<b>Switzerland</b>	<b>18,102</b>	<b>20.09</b>	<b>17.37</b>
28,558 ABB	493	0.55	
2,589 Adecco	124	0.14	
6,719 Alcon	371	0.41	
676 Baloise	105	0.12	
63 Banque Cantonale Vaudoise	44	0.05	
25 Barry Callebaut	46	0.05	
2,660 Clariant	44	0.05	
39,083 Credit Suisse	416	0.46	
646 Dufry	48	0.05	
101 EMS-Chemie	54	0.06	
286 Flughafen Zurich	47	0.05	
565 Geberit	235	0.26	
60 Georg Fischer	45	0.05	
142 Givaudan	348	0.39	
630 Helvetia	74	0.08	
3,014 Julius Baer	108	0.12	
851 Kuehne & Nagel	113	0.12	
4,559 LafargeHolcim	198	0.22	
3 Lindt & Sprüngli	222	0.25	
2,628 Logitech	96	0.11	
1,115 Lonza	358	0.40	
45,416 Nestlé	4,632	5.14	
33,599 Novartis	2,756	3.06	
865 Pargesa	57	0.06	
257 Partners	189	0.21	
738 PSP Swiss Property	89	0.10	
7,705 Richemont	544	0.60	
10,931 Roche	2,709	3.01	
946 Schindler	194	0.21	
83 SGS	185	0.20	
1,988 Sika	259	0.29	
849 Sonova	179	0.20	
179 Straumann	127	0.14	

## Portfolio statement (continued)

as at 31 August	2019	2019	2018
Holding	€'000	%	%
<b>Switzerland (continued)</b>			
384 Sulzer	33	0.04	
568 Swatch	140	0.15	
523 Swiss Life	225	0.25	
1,282 Swiss Prime Site	116	0.13	
4,770 Swiss Re	420	0.47	
359 Swisscom	163	0.18	
980 Temenos	149	0.17	
53,715 UBS	516	0.57	
696 Vifor Pharma	100	0.11	
2,262 Zurich Insurance	731	0.81	
<b>Turkey</b>	<b>497</b>	<b>0.55</b>	<b>0.39</b>
26,709 Akbank	29	0.03	
7,086 Anadolu Efes Biracılık Ve Malt Sanayii	28	0.03	
8,110 BIM Birlesik Magazalar	59	0.07	
13,970 Emlak Konut REIT	3	0.00	
11,298 ENKA	10	0.01	
25,696 Eregli Demir Celik Fabrikalari	25	0.03	
2,369 Ford Otomotiv Sanayi	22	0.03	
24,329 Hacı Ömer Sabancı	33	0.04	
18,764 Koç	51	0.06	
6,105 Tofaş Türk Otomobil Fabrikası	17	0.02	
2,754 Tüpraş	54	0.06	
2,099 Turk Hava Yollari	4	0.00	
19,783 Turkcell Iletisim Hizmetleri	40	0.04	
34,312 Türkiye Garanti Bankası	47	0.05	
19,423 Türkiye Halk Bankası	17	0.02	
31,496 Türkiye İş Bankası	27	0.03	
26,528 Türkiye Şişe ve Cam Fabrikalari	18	0.02	
18,551 Türkiye Vakıflar Bankası	13	0.01	
<b>United States</b>	<b>0</b>	<b>0.00</b>	<b>0.07</b>
<b>EQUITY DERIVATIVES</b>	<b>15</b>	<b>0.02</b>	<b>(0.04)</b>
<b>Equity futures contracts</b>	<b>15</b>	<b>0.02</b>	<b>(0.04)</b>
22 Euro Stoxx 50 Index Sep 2019	15	0.02	
<b>Portfolio of investments</b>	<b>90,007</b>	<b>99.90</b>	<b>97.94</b>

## Portfolio statement (continued)

as at 31 August	2019	2019	2018
Holding	€'000	%	%
<b>CASH EQUIVALENTS</b>	<b>596</b>	<b>0.66</b>	<b>2.16</b>
'AAA' rated money market funds <sup>[b]</sup>	596	0.66	2.16
540,000 Northern Trust Global Fund - Sterling	596	0.66	
<b>Total portfolio</b>	<b>90,603</b>	<b>100.56</b>	<b>100.10</b>
<b>Net other assets / (liabilities)</b>	<b>(503)</b>	<b>(0.56)</b>	<b>(0.10)</b>
<b>Net assets attributable to shareholders</b>	<b>90,100</b>	<b>100.00</b>	<b>100.00</b>

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

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

<sup>[b]</sup> 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 31 August 2019

Largest purchases	€'000
Adyen	89
Castellum	85
GN Store Nord	64
Aroundtown	64
Scout24	62
Elektá	60
Swedish Orphan Biovitrum	60
Galapagos	51
Total	50
Ambu	49
Other purchases	666
<b>Total purchases</b>	<b>1,300</b>

Largest sales	€'000
Linde	705
Nestlé	542
Roche	303
RELX	282
Novartis	258
Total	228
Sanofi	183
Novo-Nordisk	181
Allianz	179
BASF	156
Other sales	8,526
<b>Total sales</b>	<b>11,543</b>

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

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 reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. For more information on the different share classes in this fund please refer to the Prospectus for M&G Investment Funds (1), 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.

## Index tracking

The tracking difference between the fund's investment return and that of the FTSE World Europe ex UK Index for the 12 month period ending 31 August 2019 was -0.09% (31 August 2018: -0.22%). The investment returns are calculated gross of fees using end of day pricing in order to be comparable with the index.

The historic tracking error of the investment return of the fund relative to the FTSE World Europe ex UK Index for the period ending 31 August 2019 was 0.18% (31 August 2018: 0.17%), which falls within the predicted tracking error range of 0.00% to 0.50%. Historic tracking error is a measure of the monthly volatility of the investment returns relative to the index over a 36 month period.

The differences are due to the fund not fully replicating the FTSE World Europe ex UK Index.

# Financial highlights

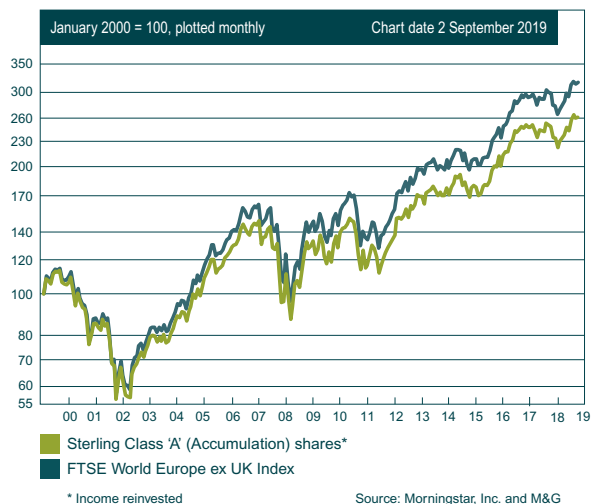
## Fund performance

### Fund level performance

Fund net asset value			
as at 31 August	2019 €'000	2018 €'000	2017 €'000
Fund net asset value (NAV)	90,100	102,314	171,552

### 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.



To give an indication of how the fund has performed during the period the table below shows the performance of Sterling Class 'A' (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 13 September 2019.

### Sterling Class 'A' Accumulation share performance

The share class was launched on 31 January 2000.

for the year to 31 August	2019	2018	2017
Change in NAV per share	UK p	UK p	UK p
Opening NAV	125.03	123.90	99.60
Return before operating charges and after direct portfolio transaction costs	5.36	2.01	25.09
Operating charges	(0.81)	(0.88)	(0.79)
Return after operating charges	4.55	1.13	24.30
Distributions	(2.95)	(2.76)	(2.50)
Retained distributions	2.95	2.76	2.50
Closing NAV	129.58	125.03	123.90
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.01	0.03	0.07
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.03)	(0.07)
Total direct portfolio transaction costs	0.00	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	0.67	0.71	0.71
Return after operating charges	+3.64	+0.91	+24.40
Historic yield	2.03	2.21	2.01
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (€'000)	51,317	50,898	43,357
Closing NAV percentage of total fund NAV (%)	56.95	49.74	25.27
Number of shares	35,904,969	36,521,977	32,226,481
Highest share price (UK p)	133.03	128.46	125.38
Lowest share price (UK p)	110.08	115.24	97.13

<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.

## Financial highlights

### Fund performance

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:

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.

For every £1 billion of a fund's net asset value, a discount of 0.02% will be applied to that fund's annual charge (up to a maximum of 0.12%).

- **Extraordinary legal and tax expenses:** Costs that specifically relate to legal or tax claims that are both exceptional and unforeseeable. Such expenses are uncommon, and would not be expected in most years. Although they result in a short-term cost to the fund, generally they can deliver longer term benefits for investors.
- **Investment management:** Charge paid to M&G for investment management of the fund. From 1 August 2019 this charge forms part of the annual charge.
- **Administration:** Charge paid for administration services in addition to investment management – any surplus from this charge will be retained by M&G. From 1 August 2019 this charge is rolled into the annual charge.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit. From 1 August 2019 these charges will be paid by M&G and rolled into the annual charge.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated. From 1 August 2019 charges from underlying funds (excluding Investment Trusts Companies and Real Estate Investment Trusts) will be rebated.

## Financial highlights

### Operating charges and portfolio transaction costs

These 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.

Once the annual charge has been operational for twelve months, operating charges will be in line with the ongoing charges shown in the Key Investor Information Document, other than where there have been extraordinary legal or tax expenses, or 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. 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](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

# Financial highlights

## Operating charges and portfolio transaction costs

<b>Portfolio transaction costs</b>				
<b>for the year to 31 August</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>Average <sup>[a]</sup></b>
<b>Direct portfolio transaction costs <sup>[b]</sup></b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Broker commission	0.00	0.01	0.02	0.01
Taxes	0.00	0.01	0.04	0.02
Costs before dilution adjustments	0.00	0.02	0.06	0.03
Dilution adjustments <sup>[c]</sup>	0.00	(0.02)	(0.06)	(0.03)
<b>Total direct portfolio transaction costs</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>as at 31 August</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>Average <sup>[a]</sup></b>
<b>Indirect portfolio transaction costs</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Average portfolio dealing spread	0.04	0.05	0.05	0.05

<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.

# Contact



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