M&G Global Convertibles Fund

a sub-fund of M&G Investment Funds (7)

Annual Short Report January 2019
For the year ended 31 January 2019

Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (7) presents its Annual Short Report for M&G Global Convertibles 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 (7), 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

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

Following the successful extraordinary resolution at the shareholder meeting held on 4 October 2018, the non-sterling share classes of the M&G Global Convertibles Fund merged into the M&G (Lux) Global Convertibles Fund (a sub-fund of M&G (Lux) Investment Funds (1)) on 9 November 2018. For further details of the mergers, please refer to www.mandg.com/brexitmergerdocumentation.

The investment objective and policy change for the M&G Global Convertibles Fund takes place on 1 March 2019.

Investment objective up to 28 February 2019

The fund aims to maximise long term total return (the combination of income and growth of capital) to investors by investing mainly in global convertible assets.

Investment policy up to 28 February 2019

The fund seeks to maximise the risk-reward profile through investment in convertible assets whose issuers may be in any country, including emerging markets. Global convertible assets includes all assets that either directly or via a combination of instruments achieve exposure of a convertible bond nature. Such exposure can be achieved by investing directly or through the use of derivative instruments. Additionally, derivative instruments may be used to manage the risk characteristics of the fund. The remainder of the fund may be invested in securities in support of the fund objective, such as, equities, bonds, collective investment schemes, derivative instruments, money market instruments, cash and near cash.

Investment approach up to 28 February 2019

Convertibles are investments that share the characteristics of both shares and fixed income securities issued by companies. They are initially issued as a fixed interest instrument, usually with regular interest payments and a fixed date when they will be repaid. Importantly, however, they also give the holder the opportunity to convert into a set number of company shares. This means that convertibles have the potential to participate when share prices are rising but can also provide a degree of protection against share price falls since they will eventually be repaid.

The fund manager aims to take advantage of the special characteristics of convertibles, which can mean they participate to a greater extent in share price rises than in share price falls. The fund manager invests in convertibles that he expects will provide the best combination of risk and reward, giving the maximum potential gains in the event of higher share prices while minimising the potential losses if share prices fall.

The fund has no set geographical or industry sector guidelines and no target return. The fund manager takes a global approach to selecting his investments, based on a thorough assessment of the individual characteristics of each convertible, rather than an overall view of the economic background. The fund is diversified in terms of region, industry and currency. At least 70% of the fund will be held in convertibles, although it can also hold company shares, fixed income investments and derivatives, which are financial instruments whose value is linked to the expected future price movements of an underlying asset.

Investment objective from 1 March 2019

The fund aims to provide a higher total return (the combination of capital growth and income), net of the Ongoing Charge Figure, than the Thomson Reuters Global Focus Convertible Bond Index over any five-year period.

Investment policy from 1 March 2019

At least 70% of the fund is invested in the convertible securities of companies across any sector and market capitalisations that are domiciled in any country, including emerging markets.

Exposure to these securities is achieved, either directly or indirectly, through various combinations of corporate bonds, equities and derivatives.

The convertible securities may be denominated in any currency.

The fund may also invest in other transferable securities directly or via collective investment schemes (including funds managed by M&G).

The fund may also hold cash and near cash for liquidity purposes.

Derivatives may be used for investment purposes, efficient portfolio management and hedging.

Investment approach from 1 March 2019

The fund employs a disciplined approach to investment which concentrates on the selection of convertible securities based upon fundamental analysis of individual companies, and their bond and equity characteristics.

The fund manager focuses on convertible securities that provide the best risk-reward features in their view. For these convertible securities, the fund manager expects that the potential gain from the option on the underlying share price exceeds the potential loss from the share price falling.

Risk profile

The fund invests globally in a diversified portfolio of convertible bonds. These are a form of debt issued by companies that can be converted into shares, either of the issuer or another company. It is, therefore, subject to the price volatility of the global stocks and fixed income markets as well as the performance of individual issuers. The fund is also subject to fluctuations in currency exchange rates.

The fund may use derivatives to achieve the manager's desired exposure to convertibles. Additionally, derivative instruments may be used to manage the risk characteristics of the fund. In association with the use of derivatives, including those instruments not traded through an exchange, collateral is deposited, in order to mitigate the risk that a counterparty may default on its obligations or become insolvent.

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.

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 (7).

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

Low risk ← → High risk

Typically lower rewards — Typically higher rewards

1	2	3	**4**	5	6	7

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 February 2019, for the year ended 31 January 2019

Performance against objective

Between 1 February 2018 (the start of the review period) and 1 February 2019, the unhedged and currency hedged sterling share classes of the M&G Global Convertibles Fund produced negative total returns (the combination of income and growth of capital).* Significant strength in the US dollar during the period improved returns for the unhedged share classes, as assets denominated in US dollars make up the majority of the universe for convertible bonds (convertibles). Convertibles are fixed income securities (essentially, loans) that can be exchanged for predetermined amounts of company shares (equities) at certain times during their life. The hedged share classes are designed to minimise the effect of currency movements.

The fund's returns lagged a comparative index, the Thomson Reuters Global Focus Convertible Index. Over the 12 months, returns for the index in sterling terms were +4.2% (hedged -2.4%).

Between 1 February 2018 and 9 November 2018, the fund's euro, Swiss franc and US dollar share classes delivered negative returns that were behind the returns of the Thomson Reuters Global Focus Convertible Index. On 9 November 2018, the fund's non-sterling share classes merged into the M&G (Lux) Global Convertibles Fund, a Luxembourg-authorised SICAV that launched on that date.

During the period under review, the fund continued to invest mainly in global convertibles, with the aim of maximising long-term total return (the combination of income and growth of capital). The fund achieved this objective, with a positive performance in terms of total return across all its share classes over five years and since launch.

* 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 (7).

To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period to 1 February 2019 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 01.02.18 % [a]	Three years 01.02.16 % p.a.	Five years 03.02.14 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	-1.3	+5.6	+5.1	+6.0 [c]
Class 'I'	-0.5	+6.3	+5.8	+6.7 [c]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 13 July 2007, the launch date of the fund.

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

Investor sentiment became increasingly negative towards the end of 2018, as the news was dominated by a variety of worrying factors, including higher US interest rates, signs of weakness in global economic growth and the imposition of trade tariffs. Brexit, as well as crises in Turkey, Argentina and Italy, also unsettled investors from time to time. Despite a substantial recovery in the first month of the new year, when some of these concers eased and it appeared that US interest rates may have approached a ceiling, most asset classes fell during the review period, in local terms. In sterling and euro terms, however, global equities rose modestly, helped by significant strength in the US dollar, which improved the returns from US assets to sterling and euro-based investors.

One of the most notable aspects of the period was the return of significant volatility (the variability of prices), in equity markets after a period when it had been remarkably low. Indices for most major stockmarkets experienced sharp sell-offs in February, March, October and December. Some of the falls seemed to be prompted by marked setbacks in bond markets, as bond yields (measures of return that move inversely to bond prices) increased. Bonds are loans in the form of a security, usually issued by a government (government bonds) or company (corporate bonds), which normally pay a fixed rate of interest over a given period of time, at the end of which the initial amount borrowed is also repaid.

Signs of economic slowdown and concern about international trade meant that the stockmarkets of Germany and China were among the weakest in sterling and euro terms, while those of the US rose, helped by the effect of currency movements. This volatility was reflected to a lesser degree in the world's main government bond markets. Whereas yields on most US government bonds (Treasuries) rose substantially through most of 2018, they dropped sharply later in the year, meaning that US bond prices ended the period generally higher than when they began. German government bonds, which are typically considered to represent the core of the European government bond market, were among the better performing assets, despite only offering historically low yields, joined by government bonds from Spain and the UK. Meanwhile, corporate bonds generally weakened, as investors shunned assets seen as risky.

Against this background, global convertibles performed relatively well, participating in the equity market rallies that took place in the middle months of 2018 and in January 2019 but holding up better in the sell-offs in the first and final quarters of 2018.

As mentioned, the strength of the US dollar relative to most other major currencies boosted returns in sterling and euros. As most convertibles are denominated in US dollars, when the US currency strengthens or weakens significantly, it can have a meaningful impact on returns measured in other currencies. Hedged currency share classes aim to mitigate the impact of currency movements on holdings of the fund that are denominated in currencies other than the currency of the hedged share class, and therefore did not benefit from the effect of the US dollar's strength.

Lower volatility relative to shares is a basic feature of convertibles. When share prices are weak, convertibles are supported by the value of their regular interest payments and potential repayment, known as the bond value. When share prices recover, however, convertible prices increase due to the rise in value of the shares that would be received on conversion.

We have to acknowledge that the performance of the fund during the review period was very disappointing, with returns adversely affected by various challenges, including unsuccessful stock selection and a bias towards lower-valued rather than expensive convertibles.

Several convertibles from the US and Germany, particularly in the healthcare and basic materials sectors, hampered the returns of the fund. Not only was absolute performance affected by price weakness in several of our convertible holdings, but certain convertibles that we did not own weighed on performance relative to the comparative index.

NXP Semiconductors was the holding with the most significant negative impact, declining when the chip-maker's previously agreed acquisition by Qualcomm was abandoned. We believe the company continues to offer a good value opportunity, so maintain the holding in the fund. In Germany, substantial losses were incurred by holdings of bonds converting into chemical companies Evonik and Covestro. These convertibles had performed well until investors became increasingly concerned about economic activity in Europe, souring their mood towards the producers of basic goods, such as chemicals. Kidney dialysis group Fresenius Medical Care also detracted, with the shares and convertible declining after a profit warning.

While unexpected adverse developments on individual holdings are always challenging, the possibility of such events is inherent in a bottom-up stock-picking approach such as ours.

Our investment process depends on identifying good value convertibles, which we believe are those that will participate well when the underlying equity rallies, but will also deliver a degree of support when share prices fall. In our view, it is also important to avoid convertibles that we think are expensive and vulnerable to price falls. This includes issues that have risen strongly in price, become highly sensitive to moves in the underlying share price (equity-sensitive) and moved a long way from the support of their bond values.

During the review period, many such highly valued stocks rose even further in price as many investors were prepared to pay up for anticipated growth in sales and earnings. This was particularly true in the technology sector, where many convertibles appeared too expensive to satisfy our selection criteria. This included convertibles from US companies such as Workday, Atlassian and Twilio, all issued by companies whose shares traded on very high sales and earnings multiples. These convertibles are all held in the fund's comparative index and performed well during the period, which hurt our performance relative to that index. Similarly, not owning a convertible from global nutrition company Herbalife was a major detractor to relative performance.

Another aspect of keeping relatively low exposure to convertibles that have become highly equity-sensitive is that we reduce the size of holdings that have gone up and moved above their bond values, so as to minimise the risk from potential price falls. In some cases, prices continued to rally after we had trimmed our stakes, which cost some performance. In hindsight, we may have sold some of our stakes in convertibles from Citrix Systems, Red Hat and Booking Holdings a little too soon, but had become concerned they were vulnerable to changes in sentiment.

We remain convinced that our strategy of analysing the technical qualities of convertibles, along with the credit quality and equity valuation of the issuer, will enable us to identify attractively valued convertibles and help the fund's performance to recover over the coming months. Indeed, during the past 12 months, several of our holdings have performed well. Among the investments that added particular value were convertibles from software groups Citrix Systems and RingCentral and real estate investment trust Extra Space Storage, all from the US, and Japanese personal care products manufacturer Unicharm. Meanwhile, not owning a convertible from US pay-TV group Dish Network, which we ruled out since the issuer has extensive borrowings, proved correct and boosted relative performance.

Investment activities

As well as purchasing convertibles that we had identified as offering the required combination of likely asymmetric returns, – that is, participating more in upward share price moves than in falls – much of the portfolio activity undertaken was to adjust the risk/reward profile of the portfolio. We want the fund to maintain sufficient sensitivity to equity price moves without compromising the distance to the bond value, and so we altered technical characteristics where necessary.

For example, we reduced holdings of some convertible bonds whose prices had become too sensitive to the price of the underlying equity, such as those from Citrix Systems and Altaba, the equity investment company that has ownership stakes in Yahoo and Alibaba. Both convertibles were eventually sold completely.

At the same time, we also disposed of holdings that had become less sensitive to share price moves and were trading at or near to their bond support levels, since we believed that they would be unlikely to participate in any potential share price recovery. This included bonds convertible into German chemical companies Evonik and Covestro, as well as communications group Veon, based in the Netherlands.

Demonstrating the diversity of opportunities that are available in the convertibles market, our largest new additions to the fund during the period included convertibles from French oil and gas company Total, Japanese consumer electronics manufacturer Sony and German sportswear group Adidas. All appeared attractively valued, while offering a good combination of risk and reward as well as robust credit quality. In the US, we purchased bonds convertible into shares in two pharmaceutical developers, Supernus Pharmaceuticals and Jazz Pharmaceuticals, both of which have promising pipelines of new drugs.

Outlook

We remain positive on the outlook for the convertibles market as we move through 2019. Typically, convertibles benefit as volatility increases in the markets, with their bond characteristics providing some support when share prices are falling. We think that the asymmetric risk/reward profile of the asset class – participating when share prices rise but receiving some protection when shares fall – could prove worthwhile to investors if 2019 proves to be as turbulent as some fear.

With most central banks moving towards a 'normalisation' of interest rates after a long period of very low borrowing costs, it is useful to note that as interest rates increase, convertibles tend to perform better than other corporate bonds. If interest rates were to rise further in the US, or start to increase elsewhere, this should be a helpful influence on our market. Also, if interest rates are increased for the 'right reasons' – that is, because the economy is expanding – the convertibles market has the potential to deliver good returns as rising share prices more than offset any weakness in bond prices.

The pace of new convertible issuance was strong for most of the review period, and we expect this to continue, which would be a positive influence on our market. Issuance was encouraged by rising interest rates, higher stockmarket levels and increased volatility. An increase in short-term interest rates makes the issuance of convertibles appealing for companies, because they usually pay lower interest rates than conventional bonds, due to the potential benefits to investors of the link to higher equity prices. Tax incentives in the US have also pushed companies towards lower cost financing methods. Encouragingly, a high proportion of global convertible launches came from first-time visitors to the market. Most new issues are 'balanced' at launch, meaning that they provide reasonable levels of equity sensitivity – not too high and not too low - so become worthy of consideration for inclusion in the fund. We see any increase in choice and diversity within the market as a positive factor.

While we acknowledge that the recent performance of the fund has been disappointing, we believe the convertibles universe continues to offer compelling opportunities for stock picking, enabling us to gain exposure to under-researched companies in a wide variety of countries and sectors. We will continue to search for those convertibles that offer the best balance of risk and reward by rigorous analysis of the convertibles universe, focusing on the basic characteristics of the issuing companies and by developing a deep understanding of the underlying business. We believe this approach has the potential to deliver healthy returns to investors over time.

Léonard Vinville
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.

Classification spread of investments

The table below shows the percentage holding per sector.

as at 31 January	% of fund 2019	% of fund 2018
EQUITIES		
Europe		
European equities	1.74	3.72
North America		
North American equities	1.82	2.36
North American equity options	0.04	0.12
Japan		
Japanese equities	0.69	0.98
Asia Pacific (ex Japan)		
Asia Pacific equities	0.31	1.74
Other		
Other equities	0.44	0.57
FIXED INCOME		
United Kingdom		
UK investment grade corporate bonds	0.00	0.43
UK below investment grade corporate bonds	0.28	0.80
UK corporate bonds with no credit rating	0.00	0.18
Europe		
European investment grade corporate bonds	18.52	13.51
European below investment grade corporate bonds	4.33	2.55
European corporate bonds with no credit rating	11.17	17.31
North America		
North American investment grade corporate bonds	6.13	16.38
North American below investment grade corporate bonds	16.00	12.40
North American corporate bonds with no credit rating	16.31	11.77
Japan		
Japanese investment grade corporate bonds	2.53	0.52
Japanese corporate bonds with no credit rating	4.08	2.40
Asia Pacific (ex Japan)		
Asia Pacific investment grade corporate bonds	3.64	1.84
Asia Pacific corporate bonds with no credit rating	7.90	4.46
Other		
Other corporate bonds with no credit rating	3.22	2.60
CURRENCY		
Forward currency contracts	0.39	0.00
CASH EQUIVALENTS		
'AAA' rated money market funds [a]	1.27	3.80
SHARE CLASS HEDGING		
Forward currency contracts for share class hedging	0.21	0.66

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

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 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.

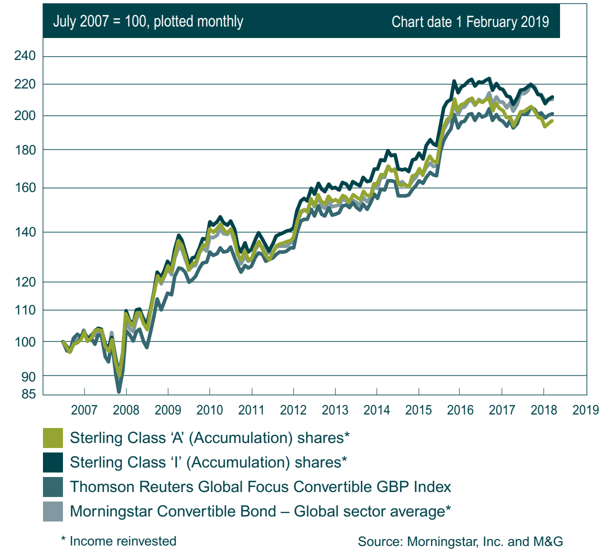
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (7), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer 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 (7), 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 31 January	2019 $'000	2018 $'000	2017 $'000
Fund net asset value (NAV)	367,330	2,452,079	2,278,773

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.



Financial highlights
Fund performance

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.

Sterling Class 'A' Accumulation share performance

The share class was launched on 13 July 2007.

for the year to 31 January Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	199.28	206.63	166.65
Return before operating charges and after direct portfolio transaction costs	(1.46)	(3.86)	43.59
Operating charges	(3.37)	(3.49)	(3.18)
Return after operating charges	(4.83)	(7.35)	40.41
Distributions	(2.42)	(2.03)	(2.12)
Retained distributions	2.42	2.03	1.69
Closing NAV	194.45	199.28	206.63
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.01	0.02	0.02
Dilution adjustments [a]	0.00	(0.01)	(0.01)
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.01	0.01
Operating charges	1.66	1.67	1.67
Return after operating charges	-2.42	-3.56	+24.25
Distribution yield	1.47	0.96	1.16
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	10,623	279,136	146,667
Closing NAV percentage of total fund NAV (%)	2.89	11.38	6.44
Number of shares	4,161,169	98,914,572	56,961,269
Highest share price (UK p)	210.00	215.03	211.73
Lowest share price (UK p)	191.52	199.00	163.01

Sterling Class 'I' Accumulation share performance

The share class was launched on 13 July 2007.

for the year to 31 January Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	212.46	218.65	175.28
Return before operating charges and after direct portfolio transaction costs	(1.60)	(4.15)	45.99
Operating charges	(1.97)	(2.04)	(1.84)
Return after operating charges	(3.57)	(6.19)	44.15
Distributions	(4.21)	(3.68)	(3.86)
Retained distributions	4.21	3.68	3.08
Closing NAV	208.89	212.46	218.65
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.01	0.02	0.02
Dilution adjustments [a]	0.00	(0.01)	(0.01)
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.01	0.01
Operating charges	0.92	0.92	0.92
Return after operating charges	-1.68	-2.83	+25.19
Distribution yield	2.21	1.70	1.91
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	58,483	78,683	88,773
Closing NAV percentage of total fund NAV (%)	15.92	3.21	3.90
Number of shares	21,323,944	26,151,460	32,580,346
Highest share price (UK p)	224.76	227.75	224.00
Lowest share price (UK p)	204.51	212.14	171.49

[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.
- **Share class hedging:** Charge paid to M&G for currency hedging services to minimise exchange rate risk for the share class.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

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. 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 31 January Direct portfolio transaction costs [b]	2019 %	2018 %	2017 %	Average [a] %
Broker commission	0.01	0.01	0.01	0.01
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.01	0.01	0.01	0.01
Dilution adjustments [c]	0.00	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01	0.01
as at 31 January **Indirect portfolio transaction costs**	**2019** **%**	**2018** **%**	**2017** **%**	**Average [a]** **%**
Average portfolio dealing spread	0.71	0.54	0.63	0.63

[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.

Contact

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