M&G Global Select Fund

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

Annual Short Report August 2018
For the year ended 31 August 2018

Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (1) presents its Annual Short Report for M&G Global Select 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 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 a result of the Extraordinary General Meetings of Shareholders held on 4 October 2018, the non-GBP share classes of the M&G Global Select Fund will be merged into corresponding share classes of M&G (Lux) Investment Funds 1 sub-funds.

For further details on the mergers and the date at which these will occur, please refer to:
https://www.mandg.com/BrexitMergerDocumentation

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

Investment objective

The fund aims to provide a total return (the combination of capital growth and income).

Investment policy

At least 80% of the fund is invested in companies globally across a wide range of geographies, sectors and market capitalisations. The fund has a concentrated portfolio and usually holds fewer than 40 stocks.

The fund is based on an investment process that uses fundamental analysis to identify competitively advantaged companies with sustainable business models.

Sustainability considerations play an important role in determining the investment universe and assessing business models. Companies that are assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment and anti-corruption are excluded from the investment universe. Industries such as tobacco and controversial weapons are also excluded.

The fund may also invest in other transferable securities, directly or via collective investment schemes, and may hold cash for liquidity purposes. Collective investment schemes may include funds managed by M&G. Derivatives may be used for efficient portfolio management.

Investment approach

The fund is a focused core global equity fund, making long-term investments in companies with sustainable business models and competitively advantageous characteristics to protect their profitability. Importantly, the fund manager invests in these businesses where short-term issues have provided a clear valuation opportunity.

Sustainability considerations are fully integrated into the investment process.

The fund manager believes that this approach offers a powerful combination, providing the long-term compounded value of quality businesses, as well as the potential boost to a company's share price when a short-term issue has been resolved.

Fund information

Risk profile

The fund invests globally in the shares of listed companies and is, therefore, subject to the price volatility of the global stockmarket and the performance of individual companies. The fund may also be subject to fluctuations in currency exchange rates.

The fund's focus is on quality businesses where an element of change is helping to drive their value, and these stocks could potentially experience a degree of illiquidity in times of market distress. The fund is a concentrated portfolio of between 30 and 40 holdings, but is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. Diversification across countries, industries and market capitalisation is key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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.

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.

Investment review

As at 3 September 2018, for the year ended 31 August 2018

Performance against objective

Between 1 September 2017 (the start of the review period) and 3 September 2018, the M&G Global Select Fund delivered positive total returns (the combination of income and growth of capital) across all its share classes.* All share classes finished broadly in line with a comparable index, the MSCI World Index. Over the 12 months, returns from the index were 14.0%, 15.7% and 13.3% in sterling, euros and US dollars, respectively.

Over five years and since launch, the fund has delivered positive total returns, and has remained invested in a diversified portfolio of company shares from anywhere in the world, thus meeting its investment objective.

* 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 and Sterling Class 'I' (Accumulation) shares. Calculated on a price to price basis with income reinvested.

Long-term performance

	One year 01.09.17 % [a]	Three years 03.09.15 % p.a.	Five years 03.09.13 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	+13.9	+16.3	+11.4	+10.7 [c]
Class 'I'	+14.7	+17.1	+12.2	+14.0 [d]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 19 December 1967, 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

Stockmarkets in developed countries delivered positive returns for the period under review, but the journey was far from smooth. Markets were shaky as we began the review period, as investors grappled with a number of issues, including a series of destructive hurricanes, ongoing tensions with North Korea and the outlook for interest rates on both sides of the Atlantic. As some of these concerns dissipated and the mood improved, various markets went on to reach record highs. Investor sentiment was supported by solid earnings and robust economic growth, with the overall global macroeconomic environment continuing to improve. Markets were further boosted near the end of 2017 by hopes for US tax reforms, and a somewhat euphoric mood took us into the New Year.

As we moved into February, however, markets moved violently at a level not experienced since the Chinese stockmarket rout in 2015, before a degree of calm eventually returned. Wild market swings were apparently triggered by a pick-up in wage inflation in the US, which led to rising interest rate expectations. The subsequent market reaction was extreme, giving back those euphoric gains from January.

Markets further declined as investor sentiment became dominated by fears that import tariffs announced by the US would precipitate an all-out trade war with China. This became a recurring theme, with various regions and sectors falling under President Trump's tariff spotlight, causing wide fluctuations in sentiment depending on the perception of how positively, or not, trade talks were progressing.

We also saw geopolitical tensions in the Middle East, as well as difficulties in Spain, Italy, Germany and Turkey, the latter of which experienced a melt-down in its currency that drove a wave of risk aversion, hitting banks particularly hard. In the UK, meanwhile, 'Brexit' uncertainties continued to weigh on investors' minds. Despite this varied newsflow hitting short-term sentiment, markets generally rose through the second half of the period under review.

Among the larger index constituents, performance was driven by the US, where an encouraging macroeconomic environment, as well as good corporate earnings and the general dominance of large, in-favour technology companies, helped markets reach new heights. Meanwhile Japan, the UK and most of Europe underperformed the wider index, with Spain and Italy the worst performers for the period against a backdrop of political difficulties in those countries.

In this environment, the information technology and energy sectors delivered the strongest returns, and while stockpicking within both was supportive, our below index positions in these sectors weighed on relative performance. Stockpicking within the consumer discretionary sector, namely retailers, as well as industrials also dragged on returns. Conversely, our lack of holdings within telecoms and utilities – both of which declined for the review period – proved helpful, as did stock selection within healthcare and materials.

At an individual stock level, the largest contributor for the period under review was US tech giant Microsoft. Against a backdrop of generally positive sentiment in the technology sector, Microsoft has delivered ongoing operational success helping to further bolster its share price. This has included strengthening its cloud and service offerings, meaning it is now much less reliant on the sale of PCs, and hence windows, to drive revenues.

Within US healthcare, both diversified managed healthcare company UnitedHealth Group and medical equipment manufacturer Becton Dickinson continued to deliver good performance for the fund. United saw ongoing enrolment growth in its Medicare and Medicaid plans, as well as strong performance within its very profitable Optum business units (Optum provides pharmacy benefits management and technology services to insurers and medical providers, and also operates its own clinics under the OptumCare brand). Becton, meanwhile, reported solid results, including good numbers from medical device company C.R. Bard, acquired by Becton at the end of 2017. Becton has a history of successfully integrating acquisitions, including medical technology firm CareFusion acquired in 2015.

Other supportive holdings included supply chain systems IT specialist Manhattan Associates and luxury jeweller Tiffany & Co, both US companies. Following a bumpy start to the year, sentiment in Manhattan Associates picked up strongly after the company unveiled its upgraded warehouse management system (WMS) – this was well received by investors. It then went on to publish solid results while boosting its guidance for the full year, partly aided by continued take-up of its cloud services, with sentiment further encouraged by signs of increasing consumer confidence in the US and growing interest in omnichannel retailing. We maintain our belief that the company offers the market-leading IT solution for traditional retailers wishing to adapt to modern distribution and are confident in its long-term prospects.

Tiffany saw its shares rise sharply following the publication of robust results that beat expectations, reporting solid sales growth across most geographic regions and all product categories and a better-than-expected full-year outlook. Tiffany has been modernising its operations, including enhancing the customer experience, increasing the rate of new product introductions, optimising the store network, and improving business operations and processes.

On the downside, the fund's largest detractor was Dutch financial institution ING Groep. Along with other European banks, sentiment in the company was hit by the political situation in Italy, along with weaker economic data out of Europe. This was despite ING publishing good quarterly results, with a sizable increase in core lending, a substantial rise in its customer base and increased profitability. The bank's shares were further hit by the general sell-off in reaction to Turkey's deepening currency crisis spreading to other emerging markets.

UK-listed addiction cessation drug maker Indivior dragged on returns as well. The company's shares fell sharply after it warned that it would miss its full-year profit target, as its best-selling opioid addiction drug Suboxone Film was facing new competitors in the US, as well as slower early uptake of its new injectable treatment Sublocade. Indivior's shares had been under pressure before this, particularly hard hit on news that Indian drug maker Dr Reddy's was set to launch its own generic version of Suboxone Film.

Other detractors included US insurer AIG and retail operator L Brands. AIG was hit by a US$3.0 billion impact from unprecedented catastrophic events, including hurricanes Harvey, Irma and Maria. We closed our position in the company near the end of the period under review (please see below). L Brands (owner of Victoria's Secret, PINK and Bath and Body works) saw its shares fall following lower than expected like-for-like store sales and margin pressure. We believe that this reflected the much-needed repositioning of Victoria's Secret away from swimwear, as well as the impact of promotion at PINK to attract customers into the stores. We think that the company is adjusting appropriately to e-commerce developments and that Victoria's Secret remains a strong brand.

Investment activities

We run a concentrated portfolio of between 30 and 40 holdings, maintaining a watchlist of around 300 quality, sustainable companies that we would like to own when the timing and price are right. We monitor our watchlist closely, waiting patiently for short-term behavioural episodes to create buying opportunities.

During the review period, two such opportunities presented themselves. The first was Bank of Georgia Group, Georgia's second largest lender. We think the company has a strong branch network and clear funding advantages, delivering strong returns in a duopolistic market (where two banks control 70% of the market). We believe the bank is run by a solid, shareholder friendly management team, punctuated by a good governance framework and long-term incentives. The bank's investment arm is also widely diversified, buying businesses across healthcare, power, water and elsewhere, helping to drive improvement in Georgian infrastructure. Shortly after we bought shares in the bank, it split out its investment arm, forming a new company, Georgia Capital, of which we also own shares.

Our second new holding is Denmark-listed facility services business ISS. Founded in 1901, the company is one of only two global players that can provide complete service across the full range of facility management – this includes cleaning, catering, security, energy management and so on. As customers are increasingly moving towards more integrated services, this provides the company with distinct competitive advantages. ISS also has the ability to service customers globally, enabling it to target global corporate clients across their facilities. In terms of sustainability, ISS has set out measurable targets for environmental impacts, and has strong social policies in place; of obvious importance for a company with over 500,000 employees.

To facilitate the purchase of ISS, we closed the position in German food processing technology and component maker GEA Group. While the company's valuation had been attractive and there was good growth potential in its end markets, we believed there were better opportunities available for a global, concentrated portfolio.

We additionally closed four other positions during the review period. We sold our shares in multinational media company Time Warner. In 2016 US telecom conglomerate AT&T agreed to acquire the company, and as the closure of that deal approached, the potential upside did not compensate for the risk of possible interference from the regulator. This was particularly relevant as it was never our intention to hold the stock post transaction.

We closed the position in German chemical and pharmaceutical company Bayer. We did not believe that its proposed acquisition of US agribusiness Monsanto was a good allocation of capital and would rather deploy investors' money elsewhere – we took advantage of a share price rise to sell.

We also sold our shares in tech giant International Business Machines (IBM) and insurer American International Group (AIG), both US companies. For IBM, we lost faith in management's ability to carry out the company's transformation towards the 'cloud'. AIG was also a matter of our investment thesis not developing as expected. We originally invested in the company as we believed it was going through a period of positive change, but we do not think the restructuring benefits have come through, and we do not anticipate them doing so in the foreseeable future.

Outlook

We look for companies that can generate persistent cashflows, and given the climate for much of last year, this may be considered boring compared to rapidly growing tech companies or deep value stocks. ISS, mentioned above, is probably as boring as you can get, but has the ability to deliver long-term compounding returns and create wealth, sustainably, for our investors.

We believe that it is not worth being too aggressive on risk when everyone else is. It can sometimes feel like you are missing out, when you see investors making massive returns speculating on Bitcoin, or when already expensive tech stocks keep going up. However, that is when you need to be the most disciplined. We continue to carry out fundamental research on the companies within our watchlist – those stocks we would like to own when the timing and price is right – and have stayed vigilant of behavioural episodes affecting their share prices that could result in attractive buying opportunities.

In terms of the current fund, we remain confident in the quality of the stocks within the portfolio. As long-term investors, our focus is on the ability of our holdings to generate long-term value for the fund and for our investors, and we continue to be optimistic about their prospects.

John William Olsen
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		2018 $'000	2018 %	2017 [a] %
	EQUITIES	968,907	99.75	96.46
	Energy equipment & services	**23,777**	**2.45**	**1.50**
504,067	National Oilwell Varco	23,777	2.45	
	Chemicals	**36,076**	**3.71**	**2.72**
158,103	Linde	36,076	3.71	
	Containers & packaging	**43,650**	**4.49**	**3.58**
1,043,504	Ball	43,650	4.49	
	Building products	**25,806**	**2.66**	**2.61**
685,420	Johnson Controls International	25,806	2.66	
	Electrical equipment	**28,603**	**2.94**	**2.73**
348,985	Schneider Electric	28,603	2.94	
	Machinery	**23,497**	**2.42**	**3.40**
499,932	Graco	23,497	2.42	
	Commercial services & supplies	**42,744**	**4.40**	**1.77**
841,630	ISS	29,557	3.04	
213,689	Stericycle	13,187	1.36	
	Media	**0**	**0.00**	**2.60**
	Specialty retail	**97,651**	**10.05**	**8.53**
451,370	L Brands	11,970	1.23	
239,284	Tiffany & Co	29,458	3.03	
2,082,395	WHSmith	56,223	5.79	
	Food products	**30,480**	**3.14**	**4.48**
363,145	Nestlé (Regd.)	30,480	3.14	
	Household products	**21,845**	**2.25**	**1.80**
255,115	Reckitt Benckiser	21,845	2.25	
	Personal products	**28,756**	**2.96**	**3.35**
497,065	Unilever	28,756	2.96	
	Health care equipment & supplies	**66,514**	**6.85**	**5.36**
255,520	Becton Dickinson	66,514	6.85	
	Health care providers & services	**67,476**	**6.95**	**5.32**
251,392	UnitedHealth Group	67,476	6.95	
	Pharmaceuticals	**75,740**	**7.80**	**12.35**
3,228,932	Indivior	11,351	1.17	
1,005,244	Novo-Nordisk	49,762	5.12	
632,660	Teva Pharmaceutical Industries ADR	14,627	1.51	
	Banks	**49,276**	**5.07**	**4.59**
401,827	Bank of Georgia Group	8,764	0.90	
1,556,241	ING Groep	21,221	2.18	
109,397	M&T Bank	19,291	1.99	

Portfolio statement (continued)

as at 31 August Holding		2018 $'000	2018 %	2017 [a] %
	Consumer finance	**62,110**	**6.39**	**5.31**
269,833	American Express	28,662	2.95	
429,701	Discover Financial Services	33,448	3.44	
	Capital markets	**36,879**	**3.80**	**3.91**
535,385	Bank of New York Mellon	27,963	2.88	
669,472	Georgia Capital	8,916	0.92	
	Insurance	**36,954**	**3.80**	**6.58**
781,900	Tokio Marine Holding	36,954	3.80	
	Internet software & services	**48,173**	**4.96**	**3.53**
38,409	Alphabet	48,173	4.96	
	IT services	**0**	**0.00**	**1.88**
	Software	**122,900**	**12.66**	**8.56**
144,419	Ansys	26,771	2.76	
587,652	Manhattan Associates	34,160	3.52	
553,540	Microsoft	61,969	6.38	
Portfolio of investments		**968,907**	**99.75**	**96.46**
	CASH EQUIVALENTS	**4,828**	**0.50**	**4.02**
	'AAA' rated money market funds [b]	**4,828**	**0.50**	**4.02**
4,828,000	Northern Trust Global Fund - US dollar	4,828	0.50	
Total portfolio		**973,735**	**100.25**	**100.48**
Net other assets / (liabilities)		**(2,470)**	**(0.25)**	**(0.48)**
Net assets attributable to shareholders		**971,265**	**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. 2017 comparatives have been restated to reflect this.

[b] 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 2018

Largest purchases	$'000
ISS	32,423
Bank of Georgia Group	19,065
L Brands	7,793
Reckitt Benckiser	5,627
Novo-Nordisk	5,147
Manhattan Associates	4,921
Ball	4,730
Georgia Capital	3,897
Linde	2,670
Unilever	206
Other purchases	161
Total purchases	**86,640**

Largest sales	$'000
American International Group	30,460
Time Warner	26,595
Novo-Nordisk	20,706
Indivior	20,370
Bayer	20,290
International Business Machines	19,169
GEA Group	17,607
Nestlé (Regd.)	14,407
Bank of New York Mellon	12,339
Ansys	8,033
Other sales	44,589
Total sales	**234,565**

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 (1), 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 (1), which is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations.

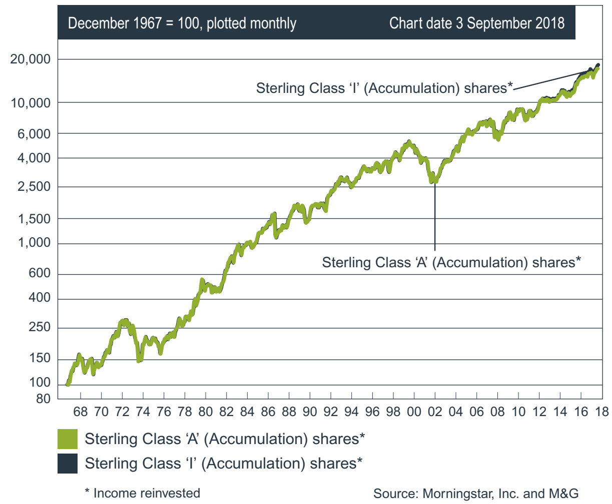
Fund level performance

Fund net asset value

as at 31 August	2018 $'000	2017 $'000	2016 $'000
Fund net asset value (NAV)	971,265	1,025,973	820,854

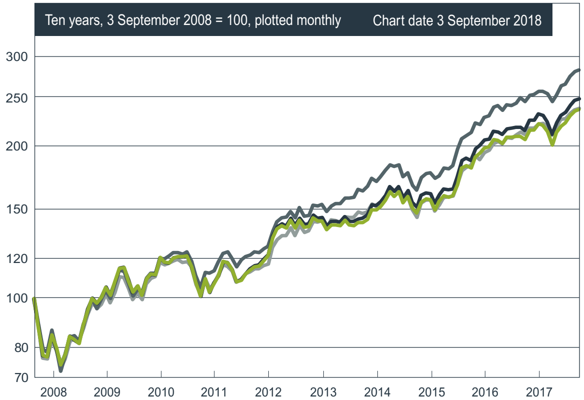
Performance since launch

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.



Ten-year performance

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



Sterling Class ‘A’ (Accumulation) shares*
Sterling Class ‘I’ (Accumulation) shares*
MSCI World Index**
Morningstar (IA) Global sector average*

* Income reinvested

** Past performance shown from 3 September 2008 to 29 September 2008 is the FTSE World Index ex UK Index. Past performance shown from 30 September 2008 to 31 December 2011 is the FTSE World Index. Past performance shown from 1 January 2012 to 31 December 2015 is the MSCI ACWI Index. Past performance shown from 1 January 2016 to 3 September 2018 is the MSCI World Index.

Source: Morningstar, Inc. and M&G

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.

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 14 September 2018.

Sterling Class ‘A’ Accumulation share performance

The share class was launched on 19 December 1967.

for the year to 31 August Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	748.20	654.86	538.55
Return before operating charges and after direct portfolio transaction costs	103.61	105.22	125.80
Operating charges	(12.81)	(11.88)	(9.49)
Return after operating charges	90.80	93.34	116.31
Distributions	0.00	(1.43)	(3.20)
Retained distributions	0.00	1.43	3.20
Closing NAV	839.00	748.20	654.86
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.20	0.37	0.39
Dilution adjustments [a]	(0.11)	(0.17)	(0.11)
Total direct portfolio transaction costs	0.09	0.20	0.28
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.02	0.03	0.05
Operating charges	1.66	1.66	1.67
Return after operating charges	+12.14	+14.25	+21.60
Historic yield	0.00	0.19	0.49
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	115,527	159,000	132,082
Closing NAV percentage of total fund NAV (%)	11.89	15.50	16.09
Number of shares	10,587,533	16,504,330	15,353,780
Highest share price (UK p)	848.18	769.64	665.09
Lowest share price (UK p)	710.03	634.88	501.57

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,949.35	1,693.41	1,382.15
Return before operating charges and after direct portfolio transaction costs	271.50	272.91	324.74
Operating charges	(18.50)	(16.97)	(13.48)
Return after operating charges	253.00	255.94	311.26
Distributions	(14.29)	(17.41)	(20.40)
Retained distributions	14.29	17.41	20.40
Closing NAV	2,202.35	1,949.35	1,693.41
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.54	0.97	1.01
Dilution adjustments [a]	(0.29)	(0.45)	(0.28)
Total direct portfolio transaction costs	0.25	0.52	0.73
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.02	0.03	0.05
Operating charges	0.91	0.91	0.92
Return after operating charges	+12.98	+15.11	+22.52
Historic yield	0.68	0.90	1.21
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	101,913	92,385	79,279
Closing NAV percentage of total fund NAV (%)	10.49	9.00	9.66
Number of shares	3,558,078	3,680,718	3,563,837
Highest share price (UK p)	2,226.36	2,002.25	1,719.29
Lowest share price (UK p)	1,858.10	1,642.16	1,291.65

[a] In respect of direct portfolio transaction costs.

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

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

Operating charges

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

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.
- **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:

Financial highlights

Operating charges and 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 August **Direct portfolio transaction costs** [b]	**2018** **%**	**2017** **%**	**2016** **%**	**Average** [a] **%**
Broker commission	0.01	0.03	0.06	0.03
Taxes	0.02	0.02	0.01	0.02
Costs before dilution adjustments	0.03	0.05	0.07	0.05
Dilution adjustments [c]	(0.01)	(0.02)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.02	0.03	0.05	0.03

as at 31 August **Indirect portfolio transaction costs**	**2018** **%**	**2017** **%**	**2016** **%**	**Average** [a] **%**
Average portfolio dealing spread	0.03	0.03	0.03	0.03

[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.

Notes

Notes

Contact

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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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