

# M&G Global Select Fund

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

Annual Short Report August 2017  
For the year ended 31 August 2017



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](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

Please note that with effect from 16 December 2016:

- We have discounted the initial charge to zero on all new investments into sterling share classes that currently carry such a charge.
- We have waived the exit charges on future withdrawals from all Sterling Class 'X' shares.

### Investment objective

The Fund aims to maximise long term total return (the combination of capital growth and income) by investing mainly in a wide range of global equities.

### Investment policy

The Fund will invest globally (including the UK) in the equities of companies across a wide range of geographies, sectors and market capitalisations. Income is of secondary importance to capital growth when investments are selected. The Fund may at any time be concentrated in a limited number of equities.

### Investment approach

The M&G Global Select Fund is a core global equity fund, investing in quality companies, with advantageous characteristics, or 'economic moats', to protect their profitability and an element of change helping to drive their value. Importantly, the fund manager invests in businesses where short-term 'disruptions' have provided a clear valuation opportunity.

The fund manager believes that a focus on both quality and value offers a powerful combination, providing the long-term growth in returns that quality businesses can deliver, as well as the potential boost to a company's share price when a 'disruption' has been resolved and the shares revert to a more appropriate level. Key to his approach is remaining patient and taking a long-term view, both in the entry and exit points of the fund's holdings.

The manager keeps the portfolio focused, generally holding between 30 and 40 well-understood stocks, which broadly fall into one of two 'buckets' – 'stable growth' and 'opportunities'. Stable growth companies are those that have a proven track record of producing stable earnings, tending to have very strong market positions or powerful brands, for example. Opportunities companies sit in out-of-favour corners of the market where change is not appreciated or risk is overstated. These tend to be less predictable, but with significant growth potential.

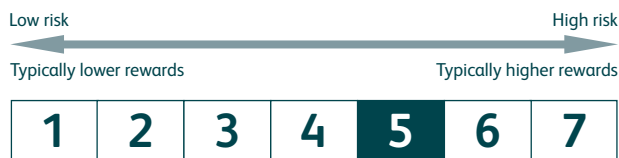
### Risk profile

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 companies undergoing positive internal change leading to improvements in return on capital, but where the change is not yet reflected in the share price. These stocks could potentially experience a degree of illiquidity in times of market distress. However, the fund is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. The fund also invests in the shares of smaller companies, which can be more unpredictable and difficult to buy and sell. Diversification across countries, industries and market capitalisation is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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 1 September 2017, for the year ended 31 August 2017

### Performance against objective

Between 1 September 2016 (the start of the review period) and 1 September 2017, the M&G Global Select Fund delivered positive total returns (the combination of income and growth of capital) across all of its share classes.\* All share classes, however, finished behind a comparable index, the MSCI World Index. Over the 12 months, returns from the index were 19.9%, 10.2% and 16.9% 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.

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 01.09.16 % <sup>[a]</sup>	Three years 01.09.14 % p.a.	Five years 03.09.12 % p.a.	Since launch % p.a.
<b>Sterling <sup>[b]</sup></b>				
Class 'A'	+14.2	+13.7	+12.7	+10.6 <sup>[c]</sup>
Class 'I'	+15.1	+14.6	+13.6	+13.8 <sup>[d]</sup>

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

<sup>[b]</sup> Price to price with income reinvested.

<sup>[c]</sup> 19 December 1967, the end of the initial offer period of the predecessor unit trust.

<sup>[d]</sup> 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

The period under review was eventful for stockmarkets in developed countries. As we started the period, investors had broadly switched their attention to elections in the US, having previously been focused on the aftermath of the UK referendum on EU membership. Markets were turbulent in the run-up to November's presidential contest, but then rose steadily following the surprise election of Donald Trump, as the potential for reduced taxes and regulation, as well as a prospective boost to spending on infrastructure, cheered investors. Following a lull as we entered the new year, markets then maintained their upward trajectory for much of the period under review. From a regional perspective, confidence in US markets rose and fell as investors pondered President Donald Trump's ability to push through his pro-growth policies, while political and economic developments in Europe helped to drive sentiment on the continent.

In political terms, the tide of populism – highlighted in 2016 by the 'Brexit' decision in the UK and Donald Trump's presidency in the US – was stemmed in Europe, with elections in Holland and France failing to elect candidates from the extremes of the political spectrum; this had a positive effect on markets. Investors were also enlivened by strong business sentiment and accelerating economic activity, which helped to drive earnings. The euro's value, as well, was boosted by Emmanuel Macron's clear-cut win in the French presidential election, while strong economic data from across the region helped to extend gains. With a sharp decrease in eurozone unemployment and business confidence surveys continuing their positive trend, Europe has appeared to be in the midst of a broad-based upturn, helping to further improve investor confidence. The currency strength, however, had ramifications for euro-denominated investments – while stockmarkets continued to deliver positive returns in sterling and US dollar terms, returns in euro flattened as we moved through the end of the period under review, reflecting the euro's relative rise in value.

Against this background, the information technology, financial and materials sectors delivered strong performance, while some of the more defensive sectors (that is, those that have relatively predictable and stable earnings regardless of the state of the overall economy) lagged, including telecoms, consumer staples and healthcare. The worst performing sector for the period under review was energy, in light of continued weakness in the oil price. For the fund, stock selection among financials hurt relative performance, as some of our holdings – including insurers AIG in the US and Tokio Marine in Japan, as well as US-listed direct banking and payments company Discover Financial

Services – delivered positive returns, but lagged the very strong performance of the wider financial sector. Positioning among information technology also weighed on relative returns, both in terms of the fund's below-index position, as well as stock selection within the sector (this included not holding shares in US tech giant Apple, which outpaced the wider market by a considerable degree). On the upside, overall stockpicking within the consumer sectors, as well as the fund's below-index positions in energy and telecoms, was supportive.

At an individual stock level, the fund's largest detractor for the period was Israeli pharmaceutical company Teva. Investor sentiment in the business has been hit by a number of ongoing factors, including US prosecutors investigating potential collusion in the pricing of generic drugs, legal challenges around patents on Teva's branded multiple sclerosis treatment, Copaxone, and the departure of its chief executive. Having been relatively weak from the beginning of the period under review, the company's share price dropped sharply near the end of the period as investors sold their holdings. This followed the release of lacklustre quarterly results and a reduced outlook for the year, in light of increased competition in the US generic drug space.

US retailer operator L Brands (which owns Victoria's Secret and Bath & Body Works, among others) dragged on returns as well, with good results from its Bath & Body Works stores overshadowed by declines in like-for-like sales at Victoria's Secret. This was, in part, due to the company's decision to stop selling swimwear and some other lines, but also reflected a difficult retail environment in the US. This, combined with new competition among 'less sophisticated' types of women's underwear, and reduced profit margins in light of discounting, hurt performance.

Other laggards, from within the industrials space, included US waste service provider Stericycle and German food processing technology and component maker GEA. Stericycle's share price had been suppressed for some time, as concerns over organic growth potential and the difficult integration of document disposal company Shred-it, acquired in 2015, weighed on sentiment. Stericycle's share price then rose near the end of the period on good results, but subsequently fell sharply in light of potential legal action against the company. GEA's shares, meanwhile, rapidly declined near the start of the period under review when the company confounded investors by reducing its guidance for the year, having already earlier confirmed a positive outlook. Its share price then moved generally sideways for the remainder of the period.

On the upside, the fund's largest contributor was diversified managed healthcare company UnitedHealth, the largest medical insurer in the US (which technically falls under healthcare). UnitedHealth's shares rose steadily throughout the review period, as the business continued to deliver ongoing operational success, including the timely scaling back of its participation in the loss-making Obamacare exchanges. UnitedHealth had warned in 2016 that it expected to lose more than US\$800 million on the exchanges, and subsequently reduced its participation from 34 states to three. This helped to generate earnings that exceeded forecasts, further buoying sentiment in the company. Also related to financials, the fund's holdings in regional lender M&T Bank, Dutch financial institution ING and US financial institution Bank of New York Mellon all benefited from the positive investor mood concerning the financial sector.

Other supportive holdings included US fluid-handling system maker Graco and Anglo-Dutch consumer goods giant Unilever. Graco delivered solid performance, publishing record quarterly sales and earnings numbers during the period, while raising its outlook for 2017. This reflected broad-based demand across Graco's products and geographies, exceeding the company's, and the market's, expectations. Unilever, meanwhile, was a new holding during the review period, its share price having been suppressed for some time (as investors rotated away from 'defensive' companies), thus providing us with the investment opportunity. Unilever's share price subsequently rose sharply on news that competitor Kraft Heinz was seeking a £115 billion bid for the company. Unilever rejected the bid, while upgrading its profit margin expectations for the year, and announcing a "comprehensive review of options" to improve value for shareholders; its share price then continued to rise following the news.

### Investment activities

We run a concentrated portfolio of between 30 and 40 holdings, maintaining a watchlist of around 300 quality 'moated' companies that we would like to own when the timing and price are right (moated companies are those where we feel the business model is well protected from competition). We monitor our watchlist closely, waiting patiently for short-term issues, or 'disruptions', to create buying opportunities.

During the review period, four such opportunities presented themselves. The first was Linde, the world's second-largest supplier of industrial gases. Following a series of beneficial acquisitions, we believe Linde possesses some of the best assets in the industry, with the potential to improve the profitability of those assets. The company

is engaged in highly visible long-term projects in captive markets, generates a lot of cash and is very profitable.

We added a position in Unilever, a high-quality producer of household and beauty products, as well as food and beverages. Unilever is very long term, making strategic acquisitions over time to grow and diversify its business, and is stakeholder, not just shareholder, focused.

We bought shares in Manhattan Associates, a supply chain systems IT specialist. We think the company offers the market-leading IT solution for traditional retailers that will have to adapt to modern distribution – many retailers have postponed IT investment in light of disruption from e-commerce, and this created the share price disruption that allowed us to acquire the stock at, what we believe was, an attractive valuation.

Finally we added a new holding in Ball Corporation, the world's leading supplier of metal packaging to the beverage, food and household products markets. The company has a 135-year history, with a strong culture focused on innovation. It is the number one producer of cans globally, providing it with great scale advantages compared to most of its peers.

In addition, there were several changes to the portfolio resulting from corporate activity. US efficiency specialist Johnson Controls re-joined the portfolio, having completed its takeover of security systems maker Tyco, which was held in the fund (we originally sold Johnson to fund the purchase of Tyco). Johnson subsequently spun off its automotive seating and interiors business, Adient, and we sold the resultant small position in that company. The holding in biopharma business Shire was closed as well, having entered the portfolio after taking over rival Baxalta, which had been held in the fund.

In terms of other positions closed, we exited the fund's holding in cigarette maker British American Tobacco. This was in light of tougher regulations, new technologies – including 'vaping' – leading to increased competition and uncertainty, and a belief that tobacco companies were increasingly unlikely to produce the same level of returns as they have in the past. We also sold our shares in UK-listed bank Standard Chartered, whose share price had nearly doubled since its lows in February 2016, using the sale to fund the purchase of the aforementioned Ball Corp. Finally, we sold the fund's C shares in Alphabet (the parent of Google), but maintained the A shares (shares with voting rights) in the company.

## Outlook

In recent months we have seen certain investment 'styles' outperforming the wider market; namely 'growth', particularly in the technology sector, and 'momentum', where investors focus in the short term on outperforming stocks. We think that this style performance has been exacerbated by machine trading, with algorithms making investment 'decisions' based on price movements, without regard for company fundamentals – we do not believe that this is the basis for long-term wealth creation. Again, we invest in quality companies that we believe have sustainable business models, and we invest in these companies for the long term.

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 disruptions to their share prices that could result in attractive buying opportunities.

Despite the valuations in some areas of the market, particularly in the US, looking somewhat stretched, we think that our new purchases for the period under review demonstrate that, with hard work, there is still value to be found in that market. We will continue to stay disciplined, and focus on trying to create sustainable wealth for our customers.

In terms of the current portfolio, we remain confident in the quality of our holdings, and think that as the market increasingly focuses on fundamentals, the embedded value within the fund will be further realised. As long-term investors, our focus is on the ability of our holdings to generate long-term value for the fund, 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.

\* 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).

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	2017 \$'000	2017 %	2016 %
<b>Oil equipment, services &amp; distribution</b>	<b>15,344</b>	<b>1.50</b>	<b>1.90</b>
504,067 National Oilwell Varco	15,344	1.50	
<b>Chemicals</b>	<b>47,558</b>	<b>4.64</b>	<b>2.85</b>
154,239 Bayer	19,697	1.92	
145,307 Linde	27,861	2.72	
<b>General industrials</b>	<b>71,594</b>	<b>6.98</b>	<b>9.13</b>
928,537 Ball	36,687	3.58	
364,229 GEA Group	15,975	1.56	
166,644 Graco	18,932	1.84	
<b>Electronic &amp; electrical equipment</b>	<b>28,027</b>	<b>2.73</b>	<b>1.93</b>
348,985 Schneider Electric	28,027	2.73	
<b>Food producers</b>	<b>80,388</b>	<b>7.83</b>	<b>4.81</b>
543,749 Nestlé (Regd.)	45,979	4.48	
581,020 Unilever CVA	34,409	3.35	
<b>Household goods &amp; home construction</b>	<b>18,490</b>	<b>1.80</b>	<b>2.05</b>
196,501 Reckitt Benckiser	18,490	1.80	
<b>Personal goods</b>	<b>26,374</b>	<b>2.57</b>	<b>2.72</b>
300,933 Tiffany & Co	26,374	2.57	
<b>Tobacco</b>	<b>0</b>	<b>0.00</b>	<b>2.99</b>
<b>Healthcare equipment &amp; services</b>	<b>109,531</b>	<b>10.68</b>	<b>12.34</b>
277,925 Becton Dickinson	54,996	5.36	
278,522 UnitedHealth Group	54,535	5.32	
<b>Pharmaceuticals &amp; biotechnology</b>	<b>107,066</b>	<b>10.43</b>	<b>10.53</b>
6,586,907 Indivior	35,231	3.43	
1,312,866 Novo-Nordisk	62,054	6.05	
632,660 Teva Pharmaceuticals ADR	9,781	0.95	
<b>General retailers</b>	<b>79,258</b>	<b>7.73</b>	<b>7.69</b>
261,566 L Brands	9,427	0.92	
250,910 Stericycle	18,131	1.77	
2,178,629 WH Smith	51,700	5.04	
<b>Media</b>	<b>26,653</b>	<b>2.60</b>	<b>2.68</b>
262,955 Time Warner	26,653	2.60	
<b>Banks</b>	<b>47,124</b>	<b>4.59</b>	<b>6.63</b>
1,556,241 ING Groep	27,486	2.68	
131,598 M&T Bank	19,638	1.91	
<b>Non-life insurance</b>	<b>67,482</b>	<b>6.58</b>	<b>8.37</b>
573,110 American International Group	34,490	3.36	
831,300 Tokio Marine Holding	32,992	3.22	

## Portfolio statement (continued)

as at 31 August	2017	2017	2016
Holding	\$'000	%	%
<b>Financial services</b>	<b>94,624</b>	<b>9.22</b>	<b>9.01</b>
293,767 American Express	25,167	2.45	
766,096 Bank of New York Mellon	40,113	3.91	
497,616 Discover Financial Services	29,344	2.86	
<b>Software &amp; computer services</b>	<b>143,333</b>	<b>13.97</b>	<b>14.23</b>
38,409 Alphabet A	36,241	3.53	
196,507 Ansys	25,131	2.45	
135,022 International Business Machines	19,249	1.88	
476,723 Manhattan Associates	19,803	1.93	
579,854 Microsoft	42,909	4.18	
<b>Technology hardware &amp; equipment</b>	<b>26,821</b>	<b>2.61</b>	<b>0.00</b>
685,420 Johnson Controls International	26,821	2.61	
<b>Portfolio of investments</b>	<b>989,667</b>	<b>96.46</b>	<b>99.86</b>
<b>'AAA' rated money market funds [a]</b>	<b>41,266</b>	<b>4.02</b>	<b>0.13</b>
41,266,000 Northern Trust Global Fund - US dollar	41,266	4.02	
<b>Total portfolio</b>	<b>1,030,933</b>	<b>100.48</b>	<b>99.99</b>
<b>Net other assets / (liabilities)</b>	<b>(4,960)</b>	<b>(0.48)</b>	<b>0.01</b>
<b>Net assets attributable to shareholders</b>	<b>1,025,973</b>	<b>100.00</b>	<b>100.00</b>

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

[a] 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 2017

	\$'000
<b>Largest purchases</b>	
Ball	37,871
Novo-Nordisk	29,945
Unilever CVA	25,018
Linde	24,314
Manhattan Associates	22,777
WH Smith	16,821
Schneider Electric	10,428
Nestlé (Regd.)	6,477
Indivior	6,185
Microsoft	5,663
Other purchases	65,876
<b>Total purchases</b>	<b>251,375</b>
<b>Largest sales</b>	
British American Tobacco	24,350
Graco	23,243
UnitedHealth Group	19,305
M&T Bank	13,895
Standard Chartered	13,137
Shire	9,753
Tokio Marine Holding	9,680
Ansys	7,183
Bayer	6,527
Microsoft	5,918
Other sales	38,109
<b>Total sales</b>	<b>171,100</b>

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

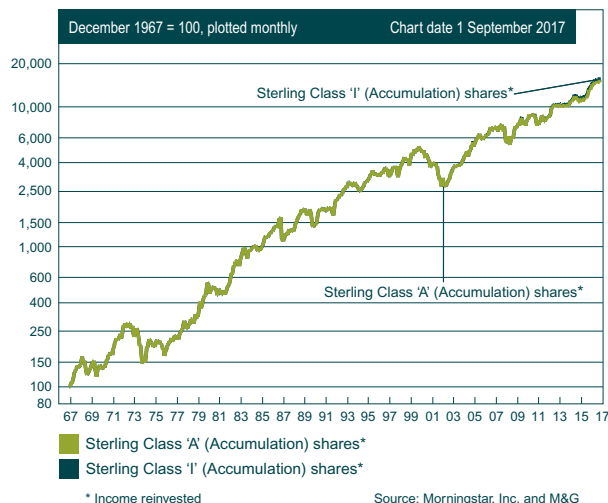
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations. 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](http://www.mandg.co.uk/reports) or by calling M&G Customer Relations.

## Fund level performance

Fund net asset value			
	2017	2016	2015
as at 31 August	\$'000	\$'000	\$'000
Fund net asset value (NAV)	1,025,973	820,854	990,484

## 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.



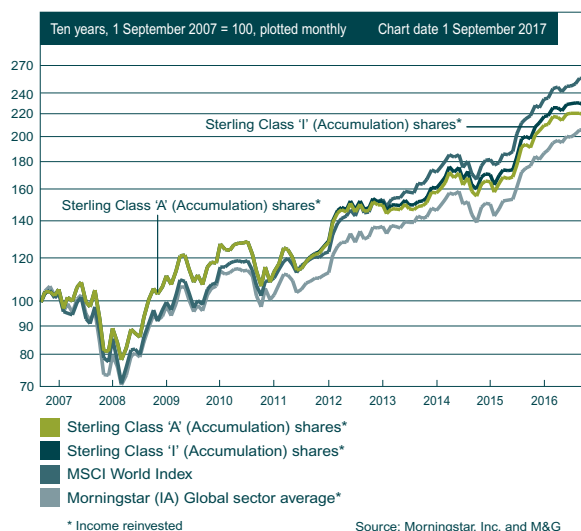


# Financial highlights

## Fund performance

### Ten-year performance

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



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

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 19 December 1967.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	654.86	538.55	504.41
Return before operating charges and after direct portfolio transaction costs	105.22	125.80	43.19
Operating charges	(11.88)	(9.49)	(9.05)
Return after operating charges	93.34	116.31	34.14
Distributions	(1.43)	(3.20)	(1.36)
Retained distributions	1.43	3.20	1.36
Closing NAV	748.20	654.86	538.55

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.37	0.39	0.22
Dilution adjustments <sup>[a]</sup>	(0.17)	(0.11)	(0.05)
Total direct portfolio transaction costs	0.20	0.28	0.17

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.03	0.05	0.03
Operating charges	1.66	1.67	1.66
Return after operating charges	+14.25	+21.60	+6.77
Historic yield	0.19	0.49	0.25
Effect on yield of charges offset against capital	0.00	0.00	0.00

### Other information

Closing NAV (\$'000)	159,000	132,082	227,053
Closing NAV percentage of total fund NAV (%)	15.50	16.09	22.92
Number of shares	16,504,330	15,353,780	27,398,188
Highest share price (UK p)	769.64	665.09	597.42
Lowest share price (UK p)	634.88	501.57	472.61

## Financial highlights

### Fund performance

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

The share class was launched on 3 August 2012.

for the year to 31 August	2017	2016	2015
Change in NAV per share	UK p	UK p	UK p
Opening NAV	1,693.41	1,382.15	1,284.81
Return before operating charges and after direct portfolio transaction costs	272.91	324.74	110.13
Operating charges	(16.97)	(13.48)	(12.79)
Return after operating charges	255.94	311.26	97.34
Distributions	(17.41)	(20.40)	(14.26)
Retained distributions	17.41	20.40	14.26
Closing NAV	1,949.35	1,693.41	1,382.15

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.97	1.01	0.57
Dilution adjustments <sup>[a]</sup>	(0.45)	(0.28)	(0.14)
Total direct portfolio transaction costs	0.52	0.73	0.43

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.03	0.05	0.03
Operating charges	0.91	0.92	0.91
Return after operating charges	+15.11	+22.52	+7.58
Historic yield	0.90	1.21	1.03
Effect on yield of charges offset against capital	0.00	0.00	0.00

#### Other information

Closing NAV (\$'000)	92,385	79,279	53,096
Closing NAV percentage of total fund NAV (%)	9.00	9.66	5.36
Number of shares	3,680,718	3,563,837	2,496,472
Highest share price (UK p)	2,002.25	1,719.29	1,528.83
Lowest share price (UK p)	1,642.16	1,291.65	1,204.97

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

<sup>[b]</sup> 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, comprised of 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.

Operating charges do not include portfolio transaction costs or any entry and exit charges (also known as initial and redemption charges). The charging structures of share classes may differ, and therefore the operating charges may differ.

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

For this fund there is no difference between operating charges and ongoing charges figures, unless disclosed under the specific share class performance table.

# Financial highlights

## Operating charges and portfolio transaction costs

### Portfolio transaction costs

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

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

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

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a '**dilution adjustment**' to the price they pay or receive. The table below shows direct portfolio transaction costs paid by the fund before and after that part of the dilution adjustment relating to direct portfolio transaction costs. To give an indication of the indirect portfolio dealing costs the table also shows the average portfolio dealing spread.

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

Portfolio transaction costs				
<b>for the year to 31 August</b>	<b>2017</b>	<b>2016</b>	<b>2015</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	0.03	0.06	0.03	0.04
Taxes	0.02	0.01	0.01	0.01
Costs before dilution adjustments	0.05	0.07	0.04	0.05
Dilution adjustments <sup>[c]</sup>	(0.02)	(0.02)	(0.01)	(0.02)
<b>Total direct portfolio transaction costs</b>	<b>0.03</b>	<b>0.05</b>	<b>0.03</b>	<b>0.03</b>
<b>as at 31 August</b>	<b>2017</b>	<b>2016</b>	<b>2015</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	0.03	0.03	0.10	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.



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

\*\* 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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