



M&G Global Themes 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 Themes 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

M&G Securities Limited, Laurence Pountney Hill,
London EC4R 0HH Telephone: 0800 390 390
(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 20 April 2018, the merger of M&G Global Leaders Fund into M&G Global Themes Fund was approved by shareholders. The effective date of the merger was 25 May 2018.

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

Investment objective and policy up to 16 November 2017

The fund is a global equity fund which invests wholly or mainly in companies operating in basic industries ('primary' and 'secondary' industries) and also in companies that service these industries. The fund may also invest in other global equities. The sole aim of the fund is long term capital growth.

Investment objective from 17 November 2017

The fund aims to provide a higher total return (the combination of capital growth and income) than that of the MSCI All Country World Index over any five-year period.

Investment policy from 17 November 2017

The fund will invest at least 80% of its Net Asset Value in the equity securities of companies across any sectors and market capitalisations that are domiciled in any country, including emerging markets.

The fund may also invest in collective investment schemes, other transferable securities and may hold cash for liquidity purposes.

Derivatives may be used for efficient portfolio management.

Investment approach

The investment process of the fund combines top-down and bottom-up analysis. The fund manager aims to identify themes arising from long-term structural shifts, changes or trends. Stocks that can benefit from these themes are then selected on the basis of their quality, growth and valuation.

Themes are identified through the analysis of global macroeconomics, demographics, government policies and spending, and technological innovation, among other considerations.

The bottom-up stock selection process is designed to identify well-run companies which can benefit from those themes and which are trading on attractive valuations with good, sustainable growth prospects.

The fund is invested across the market-cap spectrum and is geographically diversified.

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.

Given its direct and indirect exposure to emerging markets, the fund may be more volatile compared to a fund that invests mainly in the securities of companies in developed countries. The reasons for this greater volatility include: the financial infrastructure in emerging markets is typically less mature, the regulatory systems and disclosure standards are less developed and adverse market and political circumstances are more likely to occur in these markets.

However, the fund is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. Moreover, the fund is diversified across countries, industries and market capitalisation, which 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.



1	2	3	4	5	6	7
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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 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 Themes Fund produced a positive total return (the combination of income and growth of capital) across all its share classes.* However, the fund's returns in all share classes lagged that of the comparative index. Over the 12 months, returns from the comparative index were 12.5%, 14.1% and 11.7% in sterling, euros and US dollars respectively.

On 17 November 2017, the fund changed its objective and policy, and the performance comparator changed. The comparative index was the FTSE Global Basics Composite Index (comprising all subsectors of the FTSE World Index except media, IT, telecommunications, financials and healthcare) between 1 September 2017 and 16 November 2017. Between 17 November 2017 and 3 September 2018, it was the MSCI ACWI World Index.

The fund's new objective is to outperform the MSCI ACWI World Index over any five-year period. The past performance achieved before the change in November 2017 was therefore attained under circumstances that no longer apply.

* 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'	+5.7	+17.2	+7.7	+7.8 ^[c]
Class 'I'	+6.5	+18.1	+8.5	+9.0 ^[d]

^[a] Absolute basis.

^[b] Price to price with income reinvested.

^[c] 28 February 1973, 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

The 12 months under review was a positive one for global stockmarkets on the whole, however, the overall performance disguises a sharp divergence in fortunes amongst the different markets.

For the first few months of the review period, share prices made steady gains on the back of good economic data and robust company earnings. Indeed, ahead of a sharp decline towards the end of January 2018, many stockmarkets had risen to all-time highs, whilst others reached their highest levels for many years.

However, signs of a pick-up in wage inflation in the US led to rising interest rate expectations, which triggered a sudden sell-off in stockmarkets. Investors' nerves were further unsettled by fears of a potential global trade war, as President Trump proposed tariffs on various imports into the US, prompting China, his main target, to retaliate.

Politics was also on many investors' minds, with elections in Italy, Russia and Turkey causing bouts of volatility. Meanwhile, in the UK, uncertainty over Brexit continued.

Despite geopolitical noise, global economic growth appears to be intact, albeit moderating somewhat from the high levels seen in 2017 and becoming less synchronised. Furthermore, corporate profitability is holding up well.

To date, the US is the only major economy to have raised interest rates to any significant degree – a reflection of the health of its economy. Elsewhere, central bank monetary policy remains supportive.

Against this backdrop, the fund lagged its comparative index, with financial holdings, including MetLife and Erste Group, amongst the detractors. However, the fund's below-index position in financials overall was advantageous, which offset the losses to an extent.

Shares in life assurance company MetLife fell after the company issued earnings guidance which disappointed investors; the US company is behind schedule on initiatives to cut costs. We have now sold the holding.

Erste Group is an Austria-listed bank with significant exposure to the fast-growing economies of Central and Eastern Europe (CEE). However, fears over the impact that rising interest rates in the US might have on emerging markets, coupled with specific worries about Turkey, have had an adverse effect on Erste Group and the European banking sector in general.

On a positive note, US banks fared relatively better and the fund's holding in First Republic, a US West Coast private bank and wealth manager, aided performance. The company's business mix offers robust growth, low credit risk (meaning the risk a borrower may not repay the loan is low) and strong returns.

Threats by the US administration to impose tariffs on cars imported from the European Union dented sentiment towards car manufacturers; shares in Porsche weakened as a result. We have been reducing the fund's exposure to the company, as we are concerned about the effect trade tariffs could have on sales and the pressure it could put on profits. Furthermore, car sales can slow as interest rates rise, as they have in the US.

Consumer staples lagged the broader market during the review period, and the fund's above-index position in the sector hurt performance, notably the holding in PZ Cussons. UK-based personal care company PZ Cussons reported tough trading in its core markets of Nigeria and the UK, and reduced guidance for full-year profits.

The fund's below-index position in technology overall also held back returns, as did a holding in NXP; however, the holding in Microsoft was the fund's top contributor.

Shares in semiconductor manufacturer NXP fell after rival Qualcomm decided to scrap its bid. The two companies apparently abandoned the deal because China's regulators delayed approving the merger. We believe the valuation continues to look reasonable and have held on to the shares.

Conversely, US software giant Microsoft's recent quarterly results topped analysts' estimates, with strong momentum in its commercial cloud business driving profitability.

Other holdings that added value included BYD Company and Genus. Shares in Hong Kong-listed, Chinese manufacturer of automobiles (including electric cars) and rechargeable batteries, BYD rallied sharply in the last quarter of 2017 following news that China is working on a timetable to ban production and sales of fossil fuelled cars. We have subsequently reduced this position.

Meanwhile, Genus, a manufacturer of biotechnology products for cattle and pigs, reported first-half results at the end of February 2018, showing strong revenue and profit growth as well as a substantial increase in dividends.

Investment activities

The M&G Global Themes Fund's investment process aims to identify the companies that are set to benefit from long-term structural changes within economies, industries and societies that happen over time. This is achieved through the analysis of global macroeconomic trends, demographics and government policies and spending, among other considerations. In this way, our aim is to avoid investing in companies which operate in industries that are structurally challenged.

At present, we are focusing on four main themes: Health (the challenges and opportunities posed by an ageing population); Security (particularly cyber and food security); Infrastructure (the growing need for transport links such as rail); and Environment (the increasing requirement for energy efficiency and pollution control).

The stock selection process is designed to identify well-run companies that are attractively valued and have sustainable growth prospects.

During the review period, we initiated a position in UK-listed global pharmaceutical company AstraZeneca. This company has a portfolio of products for major disease areas including cancer, cardiovascular, infection, respiratory and inflammation. Management has a strong focus on the productivity of research and development and the company should benefit from strong growth in its emerging markets-based business.

At the same time, we exited Welltower, a US company providing premium long-term assisted care for the elderly in the US, Canada and the UK. In our view, Welltower's strategy of growing through the development of properties will come under pressure as interest rates rise. Furthermore, rising borrowing costs will also impact the ability of potential acquirers to purchase developed and non-core properties from Welltower.

We also began positions in several financial companies, including Erste Group and DBS. We believe Erste Group should benefit from interest rate rises and loan growth in CEE countries and a better economic backdrop in core European countries, as well as reap the gains from recent heavy investment in technology.

Singapore's largest bank DBS should be a long-term beneficiary of China's economic growth, in our view. We believe the bank should also benefit from rising net interest margins in the near term and, as recent results show, DBS's cost efficiency is improving.

In the energy sector, we closed the fund's position in BP and initiated a holding in Royal Dutch Shell. In our opinion, Shell is more attractively valued and has generated a better return on capital over the past 12 months.

At the same time, we sold the stake in global miner BHP into what feels to us like an unsustainable rally in diversified miners. In particular, BHP has benefited from a significant increase in the oil price and an activist investor pushing for change.

Elsewhere in the materials sector, we began positions in precious metals companies Franco Nevada, a Canada-based miner which should profit from the spin-off of its oil & gas business, and Polymetal, a quality Russian name which we believe is led by good management.

We initiated a position in South Korea's Samsung Electronics as well. Samsung offers exposure to the rapid global growth in electronic consumer goods and smartphones. The company also has a very strong position in memory chips, where the three key players currently enjoy reasonable pricing power and significant market share. Demand for memory chips is coming from multiple sources: cloud/data storage, artificial intelligence/autonomous vehicles, the 'smart' factory, and online gaming.

In addition, on 25 May 2018 the M&G Global Leaders Fund merged into the M&G Global Themes Fund, which led to several new holdings joining the portfolio.

Outlook

After finishing the first half of 2018 largely flat, stockmarkets have since struggled to make any meaningful progress. While many companies reported healthy earnings growth, markets were overshadowed by US protectionist threats, wider geopolitical risk and a backdrop of rising interest rates in some countries. US company shares continue to post the strongest returns, helped by technology stocks.

We believe that stockmarkets have factored in further interest rate rises from the Federal Reserve, but that the continuing withdrawal of liquidity by central banks (reversing the purchase of assets that took place after the global financial crisis) will provide a headwind in some cases. In particular, we have been reducing our exposure to shares in smaller companies which we think may encounter headwinds in this environment.

We continue to focus on good quality, well-run companies that have sustainable growth prospects and are trading on reasonable valuations.

Jamie Horvat

Fund manager

An employee of M&G Limited which is an associate of M&G Securities Limited. At the start of the review period Jamie Horvat and Randeep Somel were co-fund managers.

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	2018	2018	2017
Holding	\$'000	%	%
EQUITIES	3,040,955	98.81	99.47
United Kingdom	308,916	10.04	16.99
728,478 AstraZeneca	55,159	1.79	
1,819,939 Genus	67,741	2.20	
878,467 MD Medical Group GDR	5,930	0.19	
1,325,289 Polymetal International	11,173	0.37	
13,160,000 PZ Cussons	41,248	1.34	
363,725 Randgold Resources	24,002	0.78	
1,812,354 Unilever	103,663	3.37	
Austria	51,229	1.66	0.00
1,273,684 Erste Group	51,229	1.66	
Belgium	37,096	1.21	0.00
520,667 KBC Groep	37,096	1.21	
France	0	0.00	1.83
Germany	361,164	11.74	10.76
1,088,816 GEA Group	41,672	1.35	
373,994 Henkel Pref.	48,200	1.57	
210,185 Linde	47,960	1.56	
1,047,702 Porsche Pref.	67,067	2.18	
282,595 Scout24	14,667	0.48	
704,558 Siemens	92,175	2.99	
524,078 Symrise	49,423	1.61	
Ireland	97,036	3.15	3.68
860,427 Kerry Group	97,036	3.15	
Netherlands	118,222	3.84	3.19
390,000 NXP Semiconductors	35,938	1.17	
2,504,182 Royal Dutch Shell 'A'	82,284	2.67	
Spain	55,615	1.81	1.14
594,445 Amadeus IT Group (formerly Amadeus IT Holdings)	55,615	1.81	
Switzerland	113,408	3.69	3.56
454,126 Roche Holding 'Genusschein'	113,408	3.69	
United States	1,254,567	40.76	37.24
768,406 Agnico Eagle Mines	26,779	0.87	
93,887 Alphabet	116,322	3.78	
450,384 Avery Dennison	47,403	1.54	
241,868 Becton Dickinson	62,961	2.05	
423,378 Booz Allen Hamilton	21,635	0.70	
1,134,401 Bunge	73,339	2.38	
456,414 Compass Minerals International	28,845	0.94	
799,880 First Republic Bank San Francisco	80,364	2.61	
568,520 Honeywell International	90,656	2.95	
1,206,618 Hutchison China MediTech ADR	35,414	1.15	

Portfolio statement (continued)			
as at 31 August	2018	2018	2017
Holding	\$'000	%	%
United States (continued)			
318,728 Johnson & Johnson	43,012	1.40	
1,747,071 Microsoft	195,585	6.35	
306,826 Motorola Solutions	39,133	1.27	
342,711 National Oilwell Varco	16,166	0.53	
1,297,004 Newmont Mining	40,246	1.31	
914,873 Nomad Foods	18,956	0.62	
323,754 Parker Hannifin	56,686	1.84	
427,101 Raytheon	85,061	2.76	
364,788 ResMed	41,006	1.33	
712,085 Schlumberger	45,808	1.49	
318,643 Xperi	5,019	0.16	
982,154 Yum! Brands	84,171	2.73	
Canada	143,701	4.67	4.66
20,185,500 Bonterra Resources	4,735	0.16	
650,153 Franco Nevada	42,567	1.38	
5,191,821 Iamgold Corporation	21,285	0.69	
112,582 Osisko Gold Royalties wts. 2019	9	0.00	
6,703,367 Roxgold	4,640	0.15	
1,820,900 SEMAFO	4,370	0.14	
1,396,731 Suncor Energy	58,271	1.89	
13,746,751 Trevali Mining	7,824	0.26	
Mexico	0	0.00	1.06
Japan	122,566	3.98	6.42
2,364,500 Honda Motor	70,232	2.28	
1,615,800 Japan Tobacco	42,625	1.38	
66,800 Nidec	9,709	0.32	
Australia	86,842	2.82	4.59
2,461,744 Ansell	44,678	1.45	
326,423 Erin Barr ^[a]	0	0.00	
45,186,512 Starpharma	42,164	1.37	
Hong Kong	65,812	2.14	1.30
6,558,368 AIA Group	56,525	1.84	
1,564,220 BYD	9,287	0.30	
Singapore	82,014	2.66	0.69
4,504,833 DBS Group Holdings	82,014	2.66	
South Korea	81,618	2.65	0.00
1,877,134 Samsung Electronic	81,618	2.65	
United Arab Emirates	61,149	1.99	2.36
2,857,429 DP World	61,149	1.99	
Portfolio of investments	3,040,955	98.81	99.47

Portfolio statement (continued)			
as at 31 August	2018	2018	2017
Holding	\$'000	%	%
CASH EQUIVALENTS			
'AAA' rated money market funds ^[b]	17	0.00	0.21
13,002 Northern Trust Global Fund - Sterling	17	0.00	
Total portfolio	3,040,972	98.81	99.68
Net other assets / (liabilities)	36,712	1.19	0.32
Net assets attributable to shareholders	3,077,684	100.00	100.00

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

^[a] Unlisted

^[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
DBS Group Holdings	93,655
Royal Dutch Shell 'A'	81,811
First Republic Bank San Francisco	78,257
Samsung Electronic	77,583
Alphabet	70,068
AIA Group	57,455
Parker Hannifin	57,313
Erste Group	56,440
AstraZeneca	50,398
Avery Dennison	48,389
Other purchases	882,852
Total purchases	1,554,221
Largest sales	\$'000
Kirin Holdings	105,142
Rockwell Automation	95,079
Symrise	54,678
Ansell	52,292
BHP Billiton	50,675
BP	49,929
MetLife	49,274
BYD	46,825
Microsoft	45,865
The Scotts Miracle-Gro	44,631
Other sales	776,933
Total sales	1,371,323

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 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 (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			
	2018	2017	2016
as at 31 August	\$'000	\$'000	\$'000
Fund net asset value (NAV)	3,077,684	2,680,467	2,675,498

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.



When the fund's objective changed, the comparable index of the fund also changed, and to make a fair comparison the chart above shows performance since the fund's change of objective.

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.

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.

Historic yields for the current period are calculated as at 14 September 2018.

Sterling Class 'A' Accumulation share performance

The share class was launched on 28 February 1973.

for the year to 31 August Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,358.67	1,184.36	908.28
Return before operating charges and after direct portfolio transaction costs	106.95	195.57	292.46
Operating charges	(23.11)	(21.26)	(16.38)
Return after operating charges	83.84	174.31	276.08
Distributions	(2.45)	(4.29)	(5.41)
Retained distributions	2.45	4.29	5.41
Closing NAV	1,442.51	1,358.67	1,184.36

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.84	0.42	0.65
Dilution adjustments ^[a]	(0.12)	(0.11)	(0.22)
Total direct portfolio transaction costs	0.72	0.31	0.43

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.02	0.05
Operating charges	1.67	1.67	1.67
Return after operating charges	+6.17	+14.72	+30.40
Historic yield	0.17	0.31	0.46
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	322,760	271,142	287,167
Closing NAV percentage of total fund NAV (%)	10.50	10.12	10.73
Number of shares	17,204,174	15,498,977	18,457,412
Highest share price (UK p)	1,467.51	1,364.86	1,226.59
Lowest share price (UK p)	1,295.40	1,153.67	860.56

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	1,570.26	1,358.59	1,034.05
Return before operating charges and after direct portfolio transaction costs	124.19	225.15	334.91
Operating charges	(14.78)	(13.48)	(10.37)
Return after operating charges	109.41	211.67	324.54
Distributions	(15.38)	(15.79)	(15.55)
Retained distributions	15.38	15.79	15.55
Closing NAV	1,679.67	1,570.26	1,358.59

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.97	0.48	0.75
Dilution adjustments ^[a]	(0.14)	(0.13)	(0.26)
Total direct portfolio transaction costs	0.83	0.35	0.49

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.02	0.05
Operating charges	0.92	0.92	0.91
Return after operating charges	+6.97	+15.58	+31.39
Historic yield	0.91	0.99	1.14
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	283,442	258,543	269,001
Closing NAV percentage of total fund NAV (%)	9.21	9.64	10.06
Number of shares	12,975,200	12,787,325	15,072,530
Highest share price (UK p)	1,707.96	1,577.42	1,406.61
Lowest share price (UK p)	1,503.81	1,323.72	980.30

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

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

Financial highlights

Operating charges and portfolio transaction costs

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

Operating charges

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

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include 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 August	2018	2017	2016	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.04	0.02	0.06	0.04
Taxes	0.02	0.01	0.01	0.01
Costs before dilution adjustments	0.06	0.03	0.07	0.05
Dilution adjustments ^[c]	(0.01)	(0.01)	(0.02)	(0.01)
Total direct portfolio transaction costs	0.05	0.02	0.05	0.04
as at 31 August	2018	2017	2016	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.17	0.27	0.22	0.22

^[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



Customer Relations*

0800 390 390



Write to us at:**

M&G Securities Limited

PO Box 9039

Chelmsford

CM99 2XG



Our website:

www.mandg.co.uk



Email us with queries:†

info@mandg.co.uk

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