



M&G Japan Smaller Companies Fund

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

Annual Short Report August 2018

For the year ended 31 August 2018

The Authorised Corporate Director (ACD) of M&G Investment Funds (1) presents its Annual Short Report for M&G Japan Smaller Companies 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 Japan Smaller Companies 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 and policy

The fund invests wholly or predominantly in securities of smaller Japanese companies, the universe for which is the bottom third in terms of total market capitalisation of all publicly listed equity in Japan. When not wholly invested as above, the fund may also invest in medium sized and larger companies in order to enhance its liquidity. Its sole objective is long term capital growth.

Investment approach

The M&G Japan Smaller Companies Fund invests in listed smaller Japanese companies to achieve sound capital growth over the long term. The fund manager applies disciplined and rigorous fundamental analysis during the selection process to ensure a high level of conviction around the valuation for each of the companies held in the fund.

The fund holds shares in companies that have attractive valuations relative to the earnings they are likely to generate over the medium to long term. These companies are quite often out of favour with the market for one reason or another. The fund's investment approach therefore tends to be contrarian in nature.

The fund manager sees investing as a price-sensitive process that takes advantage of the mis-pricing of a company's shares by the market. Whilst recognising that markets are generally efficient, the fund manager believes that market mis-pricings can and often do occur because human characteristics (such as fear and greed) may prevent investors from always assessing investments rationally. As a result, market prices do not always reflect fundamental values since they may over-shoot and under-shoot.

For example, shares in companies become mis-priced when investors are willing to pay a high price for the 'comfort' of strong near-term earnings momentum and to be associated with success, whilst they will sell 'unfashionable' securities regardless of inherent attractiveness, such as healthy balance sheets and the likely level of longer term earnings.

Such behavioural biases are evident in Japan's equity markets today and can be systemically exploited. The fund manager aims to take advantage of these biases by adopting a disciplined, long-term investment approach.

Risk profile

The fund invests in the shares of smaller Japan-listed companies and is, therefore, subject to the price volatility of the Japanese 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 smaller companies where the share price movement can be more unpredictable and the shares more difficult to buy and sell compared to those of larger companies. Diversification 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.



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 Japan Smaller Companies Fund produced a positive total return (the combination of income and growth of capital) across all its share classes.* However, the fund's returns lagged a comparative index, the Russell Nomura Mid-Small Index. Over the year, returns from the index were 7.2%, 8.8% and 6.5% in sterling, euros and US dollars, respectively.

Over five years and since launch, the fund has achieved its objective of long-term capital growth.

* 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'	+1.5	+20.8	+16.3	+7.7 ^[c]
Class 'I'	+2.3	+21.7	+17.1	+19.3 ^[d]

^[a] Absolute basis.

^[b] Price to price with income reinvested.

^[c] 15 May 1984, 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 Japanese stockmarket witnessed some sharp movements during the 12 months under review – share prices initially staged a strong rally, before falling markedly from mid-January 2018 onwards and then remaining volatile throughout the rest of the period on the back of trade concerns.

In October 2017, Prime Minister Shinzo Abe won a sweeping victory in the Japanese general election, giving him the mandate to continue his accommodative economic policy of fiscal and monetary stimulus. These policies have delivered Japan's strongest jobs market since the mid-1970s, while the economy remains in good shape.

The Japanese stockmarket had reached its highest level for 26 years in January, prior to its decline during the first quarter of 2018. The drop coincided with a stronger yen, which usually weighs on the country's stockmarket, as a stronger currency can reduce the value (in yen terms) of the overseas revenues and profits of Japanese companies. Industrial and manufacturing companies also came under pressure due to fears that US President Trump's trade tariffs would damage exports.

The stockmarket saw further volatility as uncertainties over trade tariffs weighed on market sentiment throughout the review period. However, we are seeing signs that investors are now looking at the drivers of company profits more rationally and reconciling some of the excessive share price movements we have seen, with the fundamentals of the underlying businesses. This coincided with better-than-expected end-June 2018 quarterly results, and served as a reminder that the real driver of stock prices is not short-term sentiment, but the profitability of the underlying businesses.

On a macro level, we are also seeing a continuous flow of data that points to a healthy economy, with sustained growth in gross domestic product (GDP) and rising wages. We are also finally seeing signs of inflation taking hold after decades of falling prices.

There has also been a record amount of capital expenditure by corporate Japan, which should give a further boost to economic growth. In summary, we believe the economic data provides a favourable backdrop for Japanese company shares (equities) as a whole.

The fund's top contributor was Chiyoda, an engineering company that specialises in industrial facilities, particularly oil and LNG (liquid natural gas) refineries. Shares in the company have performed very strongly after new management improved the quality of its order book and restructured the business. We have since exited the holding as we believe Chiyoda's share price now more fairly reflects the underlying value of the business.

In financials, online securities broker Monex Group was another notable contributor. The Japanese stockmarket rally has led to significantly higher trading volumes, which has been to the company's benefit. Furthermore, Monex's share price surged after the company said it was planning to take a majority stake in cryptocurrency exchange Coincheck. This holding has now been sold.

The fund's relative performance was also aided by a holding in logistics firm Hamakyorex, which reported good quarterly results. Hamakyorex continues to integrate past acquisitions of smaller delivery and logistics operators, which is leading to an improvement in earnings quality and fuelling growth.

In consumer discretionary, Nikon, which specialises in cameras and imaging products, as well as optical equipment, also contributed to relative returns. The company is acting to streamline its business and improve margins on digital single-lens reflex cameras. Furthermore, Nikon is benefiting from huge demand for high-end liquid crystal displays, an area of the market it dominates, and is launching a new camera, for which there has been a large volume of pre-orders. The company reported solid results and raised its dividend guidance, which we believe demonstrates the health of the underlying business.

Meanwhile, the share price of Seiko Holdings made significant gains after the manufacturer of watches and electronic devices reported better-than-expected results.

On the other hand, investor sentiment towards several holdings, including Mazda Motor and Mitsui O.S.K. Lines was hurt by a potential trade war between the US and its trading partners. While the prospect of the implementation of trade tariffs has dented sentiment in Mazda, we are still seeing many initiatives by the company that should yield medium-term results.

Shares in Mitsui O.S.K. Lines, a company that provides marine transportation, warehousing and cargo handling services, were equally weak as it was affected by the same market uncertainty.

The fund's largest detractor was Cookpad, Japan's most popular online recipe sharing firm. It has recently undergone a change of management and shift in business strategies – focusing more on the content and moving away from some of their sideline businesses. While the market is questioning the direction of the firm, we still see solid revenue coming from the business, especially now that it is placing more focus on its domestic core product offering.

Other holdings that held back returns included Leoplace21 and Dowa Holdings. Shares in real estate developer Leoplace21 have been weak on the back of poor sentiment towards the real estate sector and concerns over the cost of replacing defective partition walls in some of the company's properties. However, we would point out that the estimated liability to redress this issue is well within the free cash the company generates. We believe the market is overreacting to the negative news on the stock and ignoring the strength of its ongoing business.

Dowa's share price has been hit by both the market's unwillingness to attribute long-term value to the company and the indiscriminate nature of the sell-off in commodity-related names. Concerns over a slowdown in the materials industry has exacerbated the situation. Nonetheless, the company has a solid business model and we believe other investors will eventually recognise its intrinsic value, once the short-term challenges recede.

Investment activities

Investment activity during the review period focused on the recycling of cash out of holdings where we believed share prices better reflected fundamentals. We also added to holdings where an 'episode' was still apparent. We define 'episode' as an occasion when investors allow emotions to drive their investment decisions, so that a company's share price moves away from its underlying value.

Among the newcomers to the fund were Dowa Holdings and Asahi. Dowa is a non-ferrous metals and mining company. One of its main activities is the reprocessing of electronic circuit boards to reclaim zinc, which is a high-precision activity. Shares in the company declined when investors lost confidence in management, who postponed the construction of a zinc processing plant. However, in our view,

management was taking a sensible step at the time, as the zinc market was oversupplied. Supply has since fallen, and recently, management gave the go ahead to begin construction of the plant.

Asahi is a bicycle manufacturer with good distribution channels in the domestic market. While it has traditionally focused on the mass market, it is leveraging its current stores to place more focus on the high end of the market. We believe demand for high-end bikes, such as those manufactured from carbon fibre and electric bikes, should be strong, given the changing demographic. The firm also has a solid business model for its cheaper range of bikes, where demand is still solid.

We also bought shares in Miraca Holdings and Yamatane. Investors have been dissatisfied at the significant costs incurred by the company to exit its underperforming US business, which is no longer considered core. We see upside in this holding because of Miraca's dominance in its domestic market, and believe the company has a good business model and is well positioned to take advantage of the increasing demands in its domestic market.

Yamatane is predominantly a warehouse business with operations in Tokyo Harbour. Because of the space constraints, it has been able to increase its prices. At the same time, it has been restructuring over the past decade to streamline its business and is now in a good shape.

We also closed the fund's position in semiconductor manufacturer Sanken Electric. When we first invested in Sanken, the company was unloved and dismissed by most investors. This was partly due to the company missing management forecasts for several years in a row. A new chief executive came on board in 2015, and since then working capital management has improved. Sanken's loss-making power module division has returned to profitability and there has been a positive shift towards higher margin products. Sanken's share price has risen sharply since we established the holding and, in our view, the 'episode' that was occurring has now unwound.

Chiyoda is another holding that has performed well for the fund. The company specialises in industrial facilities, particularly oil and LNG refineries. When we first invested, we felt the new management team could improve the quality of the company's order book and restructure its business. This has now happened, and we have exited the holding.

Online securities broker Monex Group also left the portfolio. The stock has risen sharply and we used this as an opportunity to take profits and close the position.

Outlook

We are optimistic about prospects for the Japanese stockmarket as a whole. After the shock of the global financial crisis, corporate Japan has been quietly spending the past decade restructuring its still very inefficient businesses.

We have seen many policies implemented which address some of the long-term structural problems Japan has been facing. Encouragingly, these are now bearing fruit with improved economic growth and increasing real wages; as a result consumers are finally abandoning their long-held deflationary mindset.

Many of these positive developments have been overlooked by investors because of Japan's long history of economic malaise. We believe this is short-sighted and now Japan's fortunes have reached an inflection point.

Despite the overall positive performance of Japanese shares over the past year, we believe the valuation of the stockmarket remains compelling, as it offers an attractive real earnings yield (the ratio of a company's after-tax profits to company size, adjusted for inflation) and compares favourably with other developed market equities. On a stock level, we are seeing many overlooked investment opportunities that we can exploit.

Furthermore, an environment of improved governance and profitability should lend us additional tools with which to extract value, and supplement our approach of identifying episodes in the market.

While we have witnessed a recent market setback triggered by fears of a global trade war, the real impact of the possible tariffs is yet to be seen. We have used this recent volatility as an opportunity to add to investments whose long-term profitability are shielded from the potential impact of such tariffs.

All these factors combined, we believe, put us in a strong position to generate long-term performance for the fund.

Johan du Preez

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	2018	2018	2017
Holding	¥'000	%	%
EQUITIES	34,215,257	99.35	98.43
Chemicals	2,655,932	7.71	7.26
349,600 DIC	1,377,424	4.00	
593,000 JSR	1,278,508	3.71	
Industrial metals & mining	2,245,239	6.52	3.43
372,300 Dowa Holdings	1,236,036	3.59	
732,900 Sankyo Tateyama	1,009,203	2.93	
General industrials	1,175,918	3.41	2.81
1,086,800 Sumitomo Riko	1,175,918	3.41	
Electronic & electrical equipment	1,430,619	4.15	7.37
266,200 Denki Kogyo	905,080	2.63	
1,055,300 Wacom	525,539	1.52	
Industrial engineering	3,284,615	9.54	10.27
1,690,400 Hitachi Zosen	808,011	2.35	
156,600 Mars Engineering	361,120	1.05	
770,700 Mitsui E&S Holdings	1,337,165	3.88	
215,900 Sumitomo Heavy Industries	778,319	2.26	
Industrial transportation	1,193,605	3.47	3.43
399,600 Mitsui O.S.K. Lines	1,193,605	3.47	
Support services	1,773,751	5.15	4.06
261,400 Hamakyorex	976,329	2.83	
405,400 Yamatane	797,422	2.32	
Automobiles & parts	2,867,040	8.33	8.11
140,500 KYB	639,275	1.86	
1,197,800 Mazda Motor	1,542,766	4.48	
117,900 Riken	684,999	1.99	
Household goods & home construction	304,064	0.88	0.00
475,100 Janome Sewing Machine	304,064	0.88	
Leisure goods	1,396,955	4.06	3.64
657,700 Nikon	1,396,955	4.06	
Personal goods	965,129	2.80	2.51
1,313,100 Onward Holdings	965,129	2.80	
Pharmaceuticals & biotechnology	1,042,713	3.03	0.00
340,200 Miraca Holdings	1,042,713	3.03	
Food & drug retailers	0	0.00	1.67
General retailers	3,391,232	9.85	8.23
674,500 Asahi	969,931	2.82	
1,997,500 Cookpad	942,820	2.74	
359,500 DeNA	689,880	2.00	
38,900 Escrit	30,537	0.09	
185,800 United Arrows	758,064	2.20	

Portfolio statement (continued)

as at 31 August	2018	2018	2017
Holding	¥'000	%	%
Media	623,084	1.81	2.81
431,200 Relia	623,084	1.81	
Banks	1,076,000	3.12	2.60
430,400 Tokyo Kiraboshi (formerly Tokyo Ty Financial Group)	1,076,000	3.12	
Real estate investment & services	2,654,767	7.71	8.09
505,700 Iida Group	1,037,191	3.01	
1,666,000 Leoplace21	981,274	2.85	
571,700 Sanyo Housing Nagoya	636,302	1.85	
Real estate investment trusts	1,248,338	3.62	3.08
1,010,800 NTT Urban Development	1,248,338	3.62	
Financial services	2,535,548	7.36	9.08
847,400 Credit Saison	1,557,521	4.52	
337,600 IBJ Leasing Company	978,027	2.84	
Technology hardware & equipment	2,350,708	6.83	9.98
106,100 Daikoku Denki	189,070	0.55	
1,043,900 OKI Electric Industry	1,461,460	4.25	
225,500 Seiko Holdings	700,178	2.03	
Portfolio of investments	34,215,257	99.35	98.43
CASH EQUIVALENTS	0	0.00	0.35
'AAA' rated money market funds ^[a]	0	0.00	0.35
Total portfolio	34,215,257	99.35	98.78
Net other assets / (liabilities)	223,169	0.65	1.22
Net assets attributable to shareholders	34,438,426	100.00	100.00

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 2018

Largest purchases	¥'000
Dowa Holdings	1,813,030
Mitsui E&S Holdings	1,471,996
Credit Saison	1,268,023
Miraca Holdings	1,238,267
Asahi	1,049,487
Hitachi Zosen	1,039,001
Yamatane	1,001,477
Cookpad	859,644
KYB	823,670
Mazda Motor	693,505
Other purchases	5,225,009
Total purchases	16,483,109
Largest sales	¥'000
Chiyoda	2,184,509
Monex Group	2,080,565
Wacom	1,453,063
Ebara	1,344,043
Sanken Electric	959,728
Seiko Holdings	817,365
Relia	725,498
Cocokara fine	704,479
United Arrows	664,087
Nikon	640,776
Other sales	7,835,005
Total sales	19,409,118

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.

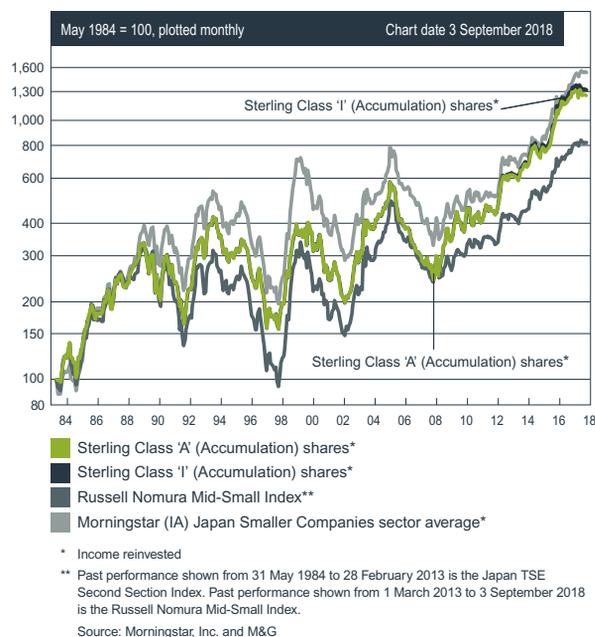
For the specific performance tables of all share classes, please refer to the Annual Long Report and audited Financial Statements for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 31 August	2018 ¥'000	2017 ¥'000	2016 ¥'000
Fund net asset value (NAV)	34,438,426	36,437,340	15,171,162

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.



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 year are calculated as at 14 September 2018.

Sterling Class 'A' Accumulation share performance

The share class was launched on 15 May 1984.

for the year to 31 August Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	582.86	449.18	349.58
Return before operating charges and after direct portfolio transaction costs	29.43	142.78	106.09
Operating charges	(10.11)	(9.10)	(6.49)
Return after operating charges	19.32	133.68	99.60
Distributions	(0.99)	(0.80)	(1.88)
Retained distributions	0.99	0.80	1.88
Closing NAV	602.18	582.86	449.18

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.28	0.31	0.61
Dilution adjustments ^[a]	(0.15)	(0.31)	(0.17)
Total direct portfolio transaction costs	0.13	0.00	0.44

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.00	0.11
Operating charges	1.68	1.68	1.69
Return after operating charges	+3.31	+29.76	+28.49
Historic yield	0.17	0.14	0.41
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	1,500,595	1,761,313	1,365,071
Closing NAV percentage of total fund NAV (%)	4.36	4.83	9.00
Number of shares	1,729,898	2,122,149	2,240,835
Highest share price (UK p)	646.78	587.52	460.15
Lowest share price (UK p)	556.19	444.71	330.60

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	2,833.31	2,167.19	1,673.96
Return before operating charges and after direct portfolio transaction costs	143.28	690.98	510.45
Operating charges	(27.31)	(24.86)	(17.22)
Return after operating charges	115.97	666.12	493.23
Distributions	(27.60)	(23.11)	(25.51)
Retained distributions	27.60	23.11	25.51
Closing NAV	2,949.28	2,833.31	2,167.19

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.38	1.54	2.94
Dilution adjustments ^[a]	(0.73)	(1.54)	(0.83)
Total direct portfolio transaction costs	0.65	0.00	2.11

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.00	0.11
Operating charges	0.93	0.93	0.94
Return after operating charges	+4.09	+30.74	+29.46
Historic yield	0.94	0.83	1.16
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	9,187,415	10,906,843	4,347,014
Closing NAV percentage of total fund NAV (%)	26.68	29.94	28.65
Number of shares	2,162,527	2,703,387	1,478,995
Highest share price (UK p)	3,152.66	2,855.86	2,219.41
Lowest share price (UK p)	2,705.55	2,146.32	1,588.52

^[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	0.05	0.06	0.16	0.09
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.05	0.06	0.16	0.09
Dilution adjustments ^[c]	(0.02)	(0.06)	(0.05)	(0.04)
Total direct portfolio transaction costs	0.03	0.00	0.11	0.05
as at 31 August	2018	2017	2016	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.25	0.22	0.24	0.24

^[a] Average of first three columns.

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

^[c] In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

Contact



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