



## **M&G Positive Impact Fund**

a sub-fund of M&G Investment Funds (10)

Annual Short Report March 2019

For the period from 20 November 2018  
to 31 March 2019

## Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (10) presents its Annual Short Report for M&G Positive Impact 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 (10), 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

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

On 20 November 2018, the M&G Positive Impact Fund was launched as a sub-fund of M&G Investment Funds (10).

### Investment objective

The fund has two aims:

- To provide a higher total return (the combination of capital growth and income), net of the ongoing charges figure, than the MSCI ACWI Index over any five-year period; and
- To invest in companies that aim to have a positive societal impact through addressing the world's major social and environmental challenges.

### Investment policy

At least 80% of the fund is invested in the equity securities of companies across any sector and market capitalisation that are domiciled in any country, including emerging markets. The fund has a concentrated portfolio and usually holds fewer than 40 stocks.

Assessment and measurement of the ability to deliver positive social and/or environmental impact and generate financial returns will be conducted at a company level using M&G's impact assessment methodology. This focuses on three criteria:

- Investment credentials: the quality and durability of the company's business model and its ability to produce sustainable economic returns;
- Intention: the company's purpose as evidenced by the alignment of its mission statement with its corporate actions and strategy; and
- Impact: the scale of the net positive societal impact and the company's progress towards addressing specified social and environmental challenges.

Certain investments which are considered by M&G to conflict with the fund's aim to invest in companies with a positive societal impact are excluded from the investment universe. The following are excluded:

- Companies that are assessed to be in breach of the United Nations Global Compact principles on human rights, labour rights, the environment and anti-corruption; and
- Companies involved in the production of tobacco, alcohol, adult entertainment, controversial weapons, oil sands, nuclear power or coal-fired power, or the provision of gambling services.

# Fund information

The fund manager has discretion to invest in companies with limited exposure to fossil fuels but which are driving or significantly participating in the transition to a more sustainable economy.

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

Derivatives may be used for efficient portfolio management and hedging.

## Investment approach

The fund is a concentrated portfolio of global stocks, investing over the long term in companies that make a positive social and/or environmental impact alongside a financial return, using a disciplined stock selection process. Sustainability and impact considerations are fundamental in determining the fund's investment universe and assessing business models. The fund embraces the United Nations Sustainable Development Goals framework and invests in companies focused on areas including climate action, pollution reduction, circular economy, health and wellbeing, education and innovation, and working conditions.

The fund invests in three categories of positive impact companies:

- "Pioneers", whose products or services have a transformational effect on society or the environment;
- "Enablers", which provide the tools for others to deliver positive social or environmental impact; and
- "Leaders", which spearhead the development of sustainability in their industries.

Investing in these categories provides diversification across industries and maturity of business models.

Dialogue with the companies in which the fund invests is fundamental to the investment approach. The objective is to support and influence their contribution to the world's major social and environmental challenges.

## 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 businesses that have a positive impact on society through addressing the world's major social and/or environmental challenges.

The fund is a concentrated portfolio, usually holding fewer than 40 stocks. The fund mainly invests in the shares of large and medium-sized companies, which are normally traded with relative ease, however these stocks could potentially experience a degree of illiquidity in times of market distress.

The fund may also invest in emerging markets which are generally more sensitive to economic and political factors, and where investments may be less easily bought and sold.

Diversification across countries, industries and market capitalisation is key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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 April 2019, for the period from 20 November 2018 (the launch date of the fund) to 31 March 2019

The M&G Positive Impact Fund was launched on 20 November 2018. The fund is a concentrated portfolio of global stocks, making long-term investments in companies that aim to generate a positive social and/or environmental impact alongside a financial return, using a disciplined stock selection process.

Both sustainability and impact considerations are fundamental in determining the fund's investment universe and assessing business models, while engagement with companies is a key element of the investment strategy. Environmental, Social and Governance (ESG) factors are integrated within the investment process.

The fund generally holds around 30 stocks from around the world, with a Positive Impact team consensus-approved watchlist of around 150 impactful companies in which the fund manager can invest if the timing and price are right. The team undertakes a 'triple i' approach to identifying these impactful businesses, analysing the Investment quality, Intentionality and Impact of a company to assess its suitability for the fund. As part of this analysis, the team internally scores companies on these 'III' credentials, and requires above-average results for inclusion in the fund's watchlist, as well as consensus agreement of a company's merits from the entire Positive Impact team. The fund manager can then invest in these businesses when they are trading at a discount to what the team believes to be their intrinsic value, derived from scenario-valuation analysis.

From a portfolio construction perspective, the fund invests in three categories of positive impact companies: 'Pioneers', whose products or services have a transformational effect on society or the environment; 'Enablers', which provide the tools for others to deliver positive social or environmental impact; and 'Leaders', which tend to be larger, more mature businesses that are driving sustainability and positive impact through more mainstream sectors. Investing in these categories provides diversification across industries and maturity of business models.

The fund will not invest in negative impact companies, and screens out any companies deemed to be in breach of the United Nations Global Compact Principles on human rights, labour, the environment and corruption. It also screens out companies involved in the production of tobacco, alcohol, adult entertainment, controversial weapons, oil sands, nuclear power or coal-fired power, or the provision of gambling services (i.e. companies that are not capable of delivering a demonstrable positive impact to society).

The fund embraces the United Nations Sustainable Development Goals (SDG) framework and invests in companies focused on six key areas, mapped against the SDGs. On the environmental side, these are: climate actions (9.7% of the portfolio at the end of the period under review); environmental solutions (19.4%); and circular economy (9.7%). On the social side, these are: improving health, saving lives (35.5%); better working conditions (3.2%); and social inclusion (22.5%).

### **John William Olsen**

Fund manager

An employee of M&G Limited which is an associate of M&G Securities Limited.

Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

## Portfolio statement

as at 31 March	2019	2019
Holding	\$'000	%
<b>EQUITIES</b>	<b>26,786</b>	<b>95.05</b>
Containers & packaging	763	2.71
174,049 DS Smith	763	2.71
<b>Building products</b>	<b>866</b>	<b>3.07</b>
23,462 Johnson Controls International	866	3.07
<b>Electrical equipment</b>	<b>845</b>	<b>3.00</b>
10,807 Schneider Electric	845	3.00
<b>Commercial services &amp; supplies</b>	<b>2,403</b>	<b>8.53</b>
104,811 Brambles	874	3.10
23,063 ISS	703	2.50
10,256 Republic Services	826	2.93
<b>Road &amp; rail</b>	<b>790</b>	<b>2.80</b>
8,200 East Japan Railway	790	2.80
<b>Diversified consumer services</b>	<b>1,345</b>	<b>4.77</b>
6,591 Bright Horizons Family Solutions	831	2.95
188,320 Kroton Educacional ADR	514	1.82
<b>Health care equipment &amp; supplies</b>	<b>796</b>	<b>2.82</b>
3,224 Becton Dickinson	796	2.82
<b>Health care providers &amp; services</b>	<b>2,523</b>	<b>8.95</b>
13,339 Fresenius Medical Care	1,068	3.79
8,323 Quest Diagnostics	741	2.63
2,947 UnitedHealth	714	2.53
<b>Biotechnology</b>	<b>738</b>	<b>2.62</b>
36,609 Grifols	738	2.62
<b>Pharmaceuticals</b>	<b>2,076</b>	<b>7.37</b>
5,314 ALK-Abelló	883	3.14
23,097 Novo-Nordisk	1,193	4.23
<b>Life sciences tools &amp; services</b>	<b>3,503</b>	<b>12.43</b>
12,533 Agilent Technologies	999	3.54
2,601 Illumina	793	2.81
2,601 Lonza	802	2.85
3,365 Thermo Fisher Scientific	909	3.23
<b>Banks</b>	<b>2,070</b>	<b>7.35</b>
38,252 Bank of Georgia	832	2.95
10,894 HDFC Bank ADR	1,238	4.40
<b>Insurance</b>	<b>1,937</b>	<b>6.88</b>
124,600 AIA	1,239	4.40
139,344 Sanlam	698	2.48
<b>Software</b>	<b>945</b>	<b>3.35</b>
5,242 Ansys	945	3.35

## Portfolio statement (continued)

as at 31 March	2019	2019
Holding	\$'000	%
<b>Electronic equipment, instruments &amp; components</b>	<b>1,816</b>	<b>6.44</b>
17,400 Horiba	962	3.41
5,764 IPG Photonics	854	3.03
<b>Semiconductors &amp; semiconductor equipment</b>	<b>1,672</b>	<b>5.93</b>
44,577 ON Semiconductor	903	3.20
20,376 SolarEdge Technologies	769	2.73
<b>Electric utilities</b>	<b>1,166</b>	<b>4.14</b>
15,262 Ørsted	1,166	4.14
<b>Independent power and renewable electricity producers</b>	<b>532</b>	<b>1.89</b>
671,000 China Everbright Greentech	532	1.89
<b>Portfolio of investments</b>	<b>26,786</b>	<b>95.05</b>
<b>Net other assets / (liabilities)</b>	<b>1,396</b>	<b>4.95</b>
<b>Net assets attributable to shareholders</b>	<b>28,182</b>	<b>100.00</b>

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

## Top ten portfolio transactions

for the period to 31 March 2019

Largest purchases	\$'000
HDFC Bank ADR	1,075
Novo-Nordisk	1,053
Ørsted	1,041
AIA	1,012
Fresenius Medical Care	969
Agilent Technologies	856
Illumina	805
Ansys	795
Thermo Fisher Scientific	794
ON Semiconductor	786
Other purchases	15,404
<b>Total purchases</b>	<b>24,590</b>

# 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 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 (10), 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 (10), 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	
as at 31 March	2019 \$'000
Fund net asset value (NAV)	28,182

### Performance since launch

As the fund has not yet operated for a 12 month period, the performance since launch graph and long-term performance figures have not been calculated.

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 12 April 2019.

#### Sterling Class 'A' Accumulation share performance

The share class was launched on 20 November 2018.

for the period to 31 March	2019
Change in NAV per share	UK p
Opening NAV	100.00
Return before operating charges and after direct portfolio transaction costs	5.48
Operating charges	(0.62)
Return after operating charges	4.86
Distributions	0.00
Retained distributions	0.00
Closing NAV	104.86
<b>Direct portfolio transaction costs</b>	<b>UK p</b>
Costs before dilution adjustments	0.08
Dilution adjustments <sup>[a]</sup>	(0.05)
Total direct portfolio transaction costs	0.03
<b>Performance and charges</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.10
Operating charges	1.72*
Return after operating charges	+4.86
Historic yield	0.00
Effect on yield of charges offset against capital	0.00
<b>Other information</b>	
Closing NAV (\$'000)	28
Closing NAV percentage of total fund NAV (%)	0.10
Number of shares	20,000
Highest share price (UK p)	105.74
Lowest share price (UK p)	93.44

\* The operating charge shown is an estimate of the charges, as the share class has not been in existence for a full financial year.

# Financial highlights

## Fund performance

### Sterling Class 'I' Accumulation share performance

The share class was launched on 20 November 2018.

for the period to 31 March	2019
Change in NAV per share	UK p
Opening NAV	100.00
Return before operating charges and after direct portfolio transaction costs	5.50
Operating charges	(0.36)
Return after operating charges	5.14
Distributions	(0.06)
Retained distributions	0.06
Closing NAV	105.14
<b>Direct portfolio transaction costs</b>	<b>UK p</b>
Costs before dilution adjustments	0.09
Dilution adjustments <sup>[a]</sup>	(0.05)
Total direct portfolio transaction costs	0.04
<b>Performance and charges</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.10
Operating charges	0.99*
Return after operating charges	+5.14
Historic yield	0.06
Effect on yield of charges offset against capital	0.00
<b>Other information</b>	
Closing NAV (\$'000)	11,460
Closing NAV percentage of total fund NAV (%)	40.66
Number of shares	8,317,546
Highest share price (UK p)	106.00
Lowest share price (UK p)	93.51

\* The operating charge shown is an estimate of the charges, as the share class has not been in existence for a full financial year.

<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, 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.

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

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

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

### Portfolio transaction costs

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

# Financial highlights

## Operating charges and portfolio transaction costs

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

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

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

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

Portfolio transaction costs	
for the period to 31 March	2019
<b>Direct portfolio transaction costs</b> <sup>[a]</sup>	%
Broker commission	0.07
Taxes	0.16
Costs before dilution adjustments	0.23
Dilution adjustments <sup>[b]</sup>	0.00
Total direct portfolio transaction costs	0.23
as at 31 March	2018
<b>Indirect portfolio transaction costs</b>	%
Average portfolio dealing spread	0.12

<sup>[a]</sup> As a percentage of average net asset value.

<sup>[b]</sup> 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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