



M&G Smaller Companies Fund

a sub-fund of M&G Investment Funds (3)

Annual Short Report June 2019

For the year ended 30 June 2019

The Authorised Corporate Director (ACD) of M&G Investment Funds (3) presents its Annual Short Report for M&G 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 (3), 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 mentioned in the shareholder letter on 17 June 2019, we are making changes to the way we charge for M&G funds based in the UK, starting on Thursday 1 August 2019. The annual charge should be simpler to understand and easier to compare with other fund charges. We are combining all the charges that make up the current ongoing charge figure (OCF) into a single annual charge. Only exceptional items such as unforeseen legal and tax expenses, also known as extraordinary expenses, will be excluded from the annual charge. To find out the new annual charge and the OCF which are shown in the Key Investor Information Document (KIID) for the share class(es) you are invested in, visit our website www.mandg.co.uk.

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

Investment objective

The fund aims to deliver a higher total return (the combination of capital growth and income) than the Numis Smaller Companies Index (excluding Investment Companies), net of the ongoing charge figure, over any five year period.

Investment policy

At least 80% of the fund is invested in UK smaller companies. These are UK listed companies which, at the initial time of purchase, are:

- in the bottom 10% (by market capitalisation) of the FTSE All-Share index, or
- in the Numis Smaller Companies Index (excluding Investment Companies), or
- listed on the Alternative Investment Market.

The fund may also invest in collective investment schemes and other transferable securities. Cash and near cash may be held for ancillary purposes and derivatives, including warrants, may be used for efficient portfolio management and hedging purposes.

Investment approach

The fund manager takes a bottom-up approach to stockpicking and aims to construct a well-diversified portfolio. A long-term perspective is adopted with particular focus placed on 'growth drivers', competitive advantage, change, quality of management and valuation.

When a company held by the fund grows such that it no longer has the characteristics of a smaller company, the fund manager will reduce the holding in a manner and timescale best suited to meeting the fund's objective.

Risk profile

The fund invests in the shares of smaller UK-listed companies and is, therefore, subject to the price volatility of the UK stockmarket and the performance of individual companies. The fund's focus is on smaller companies and it can also invest in the shares of AIM-listed companies. Shares in both types of company can be more unpredictable and 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 (3).

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 July 2019, for the year ended 30 June 2019

Performance against objective

Between 2 July 2018 (the start of the review period) and 1 July 2019, the M&G Smaller Companies Fund delivered a negative total return (the combination of income and growth of capital) across all of its share classes.* The fund finished the period ahead of a comparative index, the Numis Smaller Companies Index (excluding Investment Companies), which returned -4.7%.

The fund met its investment objective of delivering a higher total return than the Numis Smaller Companies Index (excluding Investment Companies) over any five-year period for all share classes. The index returned 6.2% in the five years to 1 July 2019.

* 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 (3).

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 02.07.18 % [a]	Three years 01.07.16 % p.a.	Five years 01.07.14 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	-2.2	+12.8	+7.8	+12.2 [c]
Class 'I'	-1.5	+13.7	+8.6	+12.2 [d]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 27 September 1967, the end of the initial offer period of the predecessor unit trust.

[d] 3 August 2012, the launch date of the share class.

Please note past performance is not a guide to future performance and the value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and you may not get back the original amount you invested.

Investment performance

The UK stockmarket was volatile over the 12 months under review. Like other major stockmarkets, the UK market fell sharply during October 2018 as investors became concerned that the US economy was slowing, just as the effect of tax cuts was beginning to wane. Sentiment was also hurt due to the ongoing trade war between the US and China, despite some encouraging signs that some form of agreement was imminent in the spring.

Investors' risk appetite improved significantly in the new year after the US Federal Reserve indicated a slower approach to interest rate hikes, due to the global economic slowdown, lower oil prices and muted domestic inflation. Heightened trade tensions between the US and China led to stockmarket weakness late in the period under review, before hopes of lower US interest rates, as well as some reconciliation on trade, led to a partial recovery. Against this backdrop, the UK stockmarket and the fund fell over the 12 months.

In terms of political developments, the UK's Brexit talks continued to dominate the headlines over the period under review. Prime Minister Theresa May secured a Withdrawal Treaty with the European Union, but members of parliament rejected the treaty three times. The original date for Brexit came and went, and a new deadline of 31 October 2019 was agreed. In other developments, Theresa May announced her resignation in May, triggering a multi-candidate leadership contest, and Boris Johnson became leader of the Conservative Party and prime minister in July.

UK economic activity is uninspiring, with domestic companies affected by uncertainty relating to Brexit as well as slower growth in the global economy. Meanwhile, domestic interest rates stand at 0.75%, after the Bank of England raised levels by a quarter of a percentage point in August 2018. Future changes are likely to be closely connected to developments in the Brexit negotiations and prospects for economic activity.

Share prices in both large and small companies declined over the 12-month period, with generally solid gains for much of 2019 to date failing to outweigh the sharp falls in the final quarter of 2018. The largest UK companies held up best with the smallest decline while medium-sized companies were behind the broader market. Meanwhile, small caps were the weakest size grouping over the period under review.

Within the smaller companies universe, utilities and telecommunications were among the strongest performing sectors over the period. In contrast, oil & gas and healthcare were among the weakest.

Against this background, the M&G Smaller Companies Fund finished the 12-month period ahead of the Numis Smaller Companies ex Investment Companies Index. Performance was supported by stock selection and, to a lesser extent, asset allocation. A below-index weighting in oil & gas and basic materials was beneficial for performance, as was an above-index allocation to technology. Meanwhile, a below-index presence in consumer services and telecommunications cost some performance.

At the stock selection level, stocks in financials, industrials and technology supported performance. However, performance was held back by stocks in basic materials.

Contributors to performance included exhibition and events firm Tarsus, healthcare software provider EMIS, Games Workshop, a miniature wargaming manufacturing company, and corporate foreign exchange specialist Alpha FX.

Shares in Tarsus rose in value after the firm received a takeover bid, which is scheduled to close in August. A number of firms benefited from positive financial results: EMIS issued encouraging full-year figures in March, while investors also favoured the firm's new management and strategy. Games Workshop is trading strongly, with its latest two trading statements ahead of expectations, while Alpha FX also produced some strong results, driven in particular by investments beyond its traditional small and medium-sized customer base into new service lines.

Other contributors to fund performance included 4imprint, a US firm supplying branded goods to corporate customers. 4imprint issued a positive trading outlook, which was well received by investors.

Meanwhile, Softcat, a value-added reseller of software products, was boosted by IT spending in the UK. Despite a challenging market environment, Softcat is benefiting from customers' need to invest to keep up with technology changes in areas such as anti-virus and cloud-related software.

In contrast, detractors included Staffline, a UK blue collar temporary recruitment business, branded clothing retailer Superdry, and specialty chemicals manufacturer Synthomer.

Shares in Staffline were suspended earlier in 2019 due to accounting queries; confidence in the firm subsequently declined, and more recently, Staffline issued a profit warning and announced refinancing measures. Meanwhile, Superdry's trading figures have been disappointing, largely reflecting the difficulties of the broader retail sector. Superdry's shares were also hurt in the spring when the original founder of the company led a shareholder revolt in April, which led to the removal of the existing management. Synthomer is very sensitive to prospects for the economy and was hurt by concerns about the pace of global growth, rather than any stock-specific concerns. We remain supportive of the company's investment case.

Similarly, Elementis, which is also a specialist chemicals business, detracted because of investors' worries over the global economy. Elementis was a new holding during the period but, in our opinion, following an acquisition, the company has run up excessive levels of debt and we reduced the holding.

Meanwhile, private hospital operator Spire Healthcare was weak after issuing a disappointing trading update.

Investment activities

In addition to starting new holdings in Games Workshop and 4imprint, both mentioned previously, we initiated new positions in Marshalls, Essentra and TT Electronics.

Games Workshop is a well-run niche business, which is pursuing a wide range of initiatives to expand its top-line and is trading at a reasonable valuation, while 4imprint has a high-growth business model and looks attractively valued given its growth prospects.

Marshalls, a UK-based manufacturer of paving stones, is growing strongly given the strength of its residential and public-infrastructure end markets. Meanwhile, Essentra is a global supplier of industrial products manufactured from plastic and fibre and we were able to start the holding at a good price. We also initiated a holding in TT Electronics, a global manufacturer of electronic components.

Turning to complete sales, trading software firm Fidessa left the portfolio in connection with its takeover by Irish rival Ion.

We sold some positions on valuation grounds following good performance. Such disposals included Victrex, a hi-tech plastics manufacturer, and global specialty insurer Lancashire.

After some difficult trading and a change of management, we reassessed the position in financial publishing and training business Wilmington. In our opinion, prospects remain challenging for the firm and we sold the holding.

We also sold the holding in construction, services and property business Kier. We had initially supported Kier's emergency fundraising, but sold the position as it emerged that an accounting restatement was necessary for the firm. Subsequent to leaving the portfolio, Kier issued a further profit warning and the shares fell significantly.

We also exited the positions in Spire Healthcare, Staffline and Superdry, mentioned earlier.

Outlook

At the time of writing, the UK's economic outlook is still relatively uncertain due to a lack of clarity about Brexit, while the global economy appears to be decelerating amid a continuation of international trade wars. These factors may weigh on the UK economy, in the short term at least. Longer term, we are more optimistic about prospects for the domestic economy, given the UK's broadly positive fundamentals of low inflation and high employment. Furthermore, some form of clarity regarding Brexit is expected to emerge in the coming months, which should reduce the present uncertainty.

Against this backdrop, we will continue to adopt a relatively cautious approach to new investments. Nevertheless, it is encouraging that corporate earnings have so far held up well and that, in the main, company balance sheets remain well capitalised. Longer term we continue to believe that smaller companies remain the most dynamic part of the UK stockmarket, with the potential to offer attractive investment returns.

Garfield Kiff

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 30 June	2019	2019	2018 ^[a]
Holding	£'000	%	%
EQUITIES	397,268	95.96	96.00
Software & computer services	53,355	12.89	11.82
766,747 accesso Technology ^[b]	5,060	1.22	
311,836 Computacenter	4,203	1.02	
930,744 EMIS ^[b]	11,132	2.69	
690,725 FDM	6,313	1.52	
1,229,956 GB ^[b]	6,802	1.64	
1,701,161 SDL	8,387	2.03	
1,168,545 Softcat	11,458	2.77	
Medical equipment & services	12,919	3.12	4.74
872,577 Consort Medical	7,417	1.79	
4,891,152 Medica	5,502	1.33	
Pharmaceuticals & biotechnology	5,643	1.36	1.51
2,475,000 PureTech Health	5,643	1.36	
Finance & credit services	11,839	2.86	3.74
2,043,480 Charter Court Financial Services	6,120	1.48	
1,564,949 OneSavings Bank	5,719	1.38	
Investment banking & brokerage services	28,637	6.92	6.06
1,242,574 Alpha FX ^[b]	9,568	2.31	
3,255,772 Arrow Global	7,443	1.80	
2,337,500 Brewin Dolphin	7,199	1.74	
199,868 Rathbone Brothers	4,427	1.07	
Non-life insurance	8,910	2.15	3.48
3,294,020 Sabre Insurance	8,910	2.15	
Real estate investment & services	9,048	2.19	1.65
2,396,759 Helical	9,048	2.19	
Real estate investment trusts	22,118	5.34	5.82
6,704,784 Hansteen	6,544	1.58	
3,781,627 LondonMetric Property	7,858	1.90	
879,309 Workspace	7,716	1.86	
Household goods & home construction	22,902	5.53	5.79
1,990,834 Countryside Properties	5,929	1.43	
807,115 Galliford Try	5,044	1.22	
773,366 Redrow	4,184	1.01	
3,750,569 Watkin Jones ^[b]	7,745	1.87	
Leisure goods	9,183	2.22	0.79
183,877 Games Workshop	9,183	2.22	
Personal goods	0	0.00	1.53

Portfolio statement (continued)			
as at 30 June	2019	2019	2018 ^[a]
Holding	£'000	%	%
Media	28,714	6.94	5.25
382,121 4imprint	10,202	2.46	
1,905,240 Ascential	6,817	1.65	
2,738,842 Tarsus	11,695	2.83	
Retailers	0	0.00	2.03
Travel & leisure	14,071	3.40	1.31
2,016,343 Loungers ^[b]	4,355	1.05	
1,835,578 On the Beach	8,668	2.10	
255,709 Trainline	1,048	0.25	
Beverages	7,016	1.70	1.30
3,146,091 Stock Spirits	7,016	1.70	
Food producers	0	0.00	1.33
Construction & materials	36,798	8.89	7.70
3,385,076 Forterra	9,969	2.41	
1,292,963 Marshalls	8,812	2.13	
2,185,040 Polypipe	9,632	2.33	
3,472,244 Tyman	8,385	2.02	
Aerospace & defence	14,217	3.43	1.90
2,541,420 Senior	5,383	1.30	
539,999 Ultra Electronics	8,834	2.13	
Electronic & electrical equipment	8,629	2.08	1.05
3,672,041 TT Electronics	8,629	2.08	
General industrials	11,561	2.79	2.81
9,000,000 Coats	7,303	1.76	
780,488 Vesuvius	4,258	1.03	
Industrial engineering	18,162	4.39	4.08
860,625 Hill & Smith	10,250	2.48	
685,000 Vitec	7,912	1.91	
Industrial support services	47,167	11.39	11.64
3,697,971 Alpha Financial Markets Consulting ^[b]	8,283	2.00	
4,655,211 Boku ^[b]	5,121	1.24	
2,006,192 Essentra	8,518	2.06	
6,408,639 Kin & Carta	6,505	1.57	
1,235,000 PageGroup	6,354	1.53	
1,899,444 Restore ^[b]	7,465	1.80	
697,045 Sanne	4,921	1.19	
Industrial transportation	8,217	1.99	2.02
434,753 James Fisher & Sons	8,217	1.99	

Portfolio statement (continued)

as at 30 June	2019	2019	2018 ^[a]
Holding	£'000	%	%
Chemicals	11,321	2.73	4.80
2,051,069 Elementis	2,825	0.68	
2,282,706 Synthomer	8,496	2.05	
Non-renewable energy	6,841	1.65	1.85
3,958,901 Cairn Energy	6,841	1.65	
Portfolio of investments	397,268	95.96	96.00
CASH EQUIVALENTS	20,372	4.92	4.05
'AAA' rated money market funds ^[c]	20,372	4.92	4.05
20,371,858 Northern Trust Global Fund - Sterling	20,372	4.92	
Total portfolio	417,640	100.88	100.05
Net other assets / (liabilities)	(3,630)	(0.88)	(0.05)
Net assets attributable to shareholders	414,010	100.00	100.00

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

^[a] The portfolio has been reclassified to more appropriately reflect how the fund is managed. 2018 comparatives have been restated to reflect this.

^[b] AIM quoted.

^[c] 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 30 June 2019

	£'000
Largest purchases	
Essentra	8,349
Watkin Jones ^[a]	8,326
Elementis	7,663
4imprint	7,597
TT Electronics	7,525
Games Workshop	6,991
PageGroup	6,687
accesso Technology ^[a]	6,058
Senior	5,969
Marshalls	5,806
Other purchases	73,966
Total purchases	144,937
Largest sales	
Greencore	9,467
Lancashire	7,862
Victrex	7,792
Equiniti	7,204
Fidessa	7,170
Dechra Pharmaceuticals	7,111
Wilmington	7,037
Kier	6,520
Safestore	6,448
Renewi	4,909
Other sales	87,394
Total sales	158,914

^[a] AIM quoted.

Purchases and sales exclude the cost and proceeds of 'AAA' rated money market funds.

Financial highlights

Fund performance

Please note past performance is not a guide to future performance and the value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and you may not get back the original amount you invested.

The following charts and tables show the performance for two of the fund's share classes – Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

We show performance for these two share classes because:

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

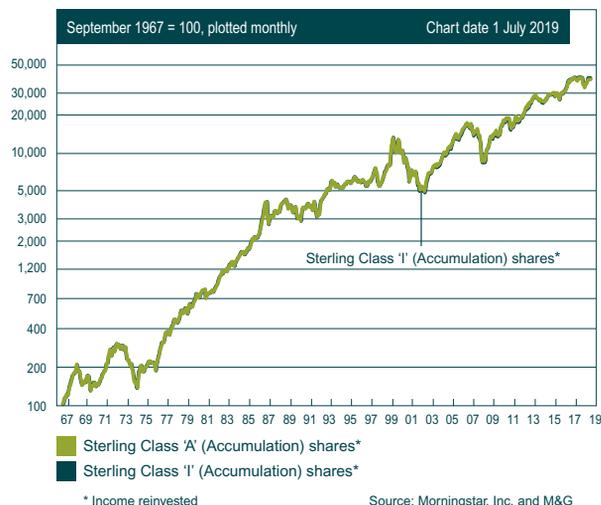
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer 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 (3), 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			
	2019	2018	2017
as at 30 June	£'000	£'000	£'000
Fund net asset value (NAV)	414,010	449,970	432,033

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.

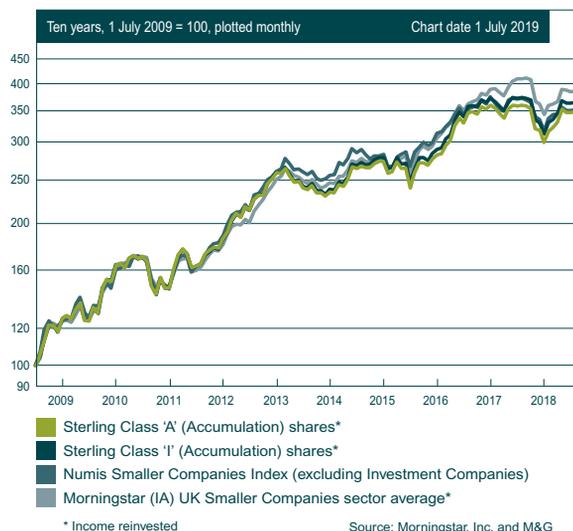


Financial highlights

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.

Historic yields for the current year are calculated as at 12 July 2019.

Sterling Class 'A' Accumulation share performance

The share class was launched on 27 September 1967.

for the year to 30 June	2019	2018	2017
Change in NAV per share	UK p	UK p	UK p
Opening NAV	949.64	875.06	628.59
Return before operating charges and after direct portfolio transaction costs	(13.18)	89.97	259.15
Operating charges	(14.83)	(15.39)	(12.68)
Return after operating charges	(28.01)	74.58	246.47
Distributions	(13.73)	(6.76)	(7.74)
Retained distributions	13.73	6.76	7.74
Closing NAV	921.63	949.64	875.06

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.44	1.24	1.11
Dilution adjustments ^[a]	(0.05)	(0.04)	(0.06)
Total direct portfolio transaction costs	1.39	1.20	1.05

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.15	0.14	0.14
Operating charges	1.66	1.66	1.66
Return after operating charges	-2.95	+8.52	+39.21
Historic yield	1.50	0.71	0.88
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	33,354	38,151	40,706
Closing NAV percentage of total fund NAV (%)	8.06	8.48	9.42
Number of shares	3,619,045	4,017,459	4,651,811
Highest share price (UK p)	965.67	977.55	900.46
Lowest share price (UK p)	784.06	870.78	606.86

Financial highlights

Fund performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June	2019	2018	2017
Change in NAV per share	UK p	UK p	UK p
Opening NAV	2,260.31	2,067.30	1,473.92
Return before operating charges and after direct portfolio transaction costs	(30.72)	213.08	609.77
Operating charges	(19.47)	(20.07)	(16.39)
Return after operating charges	(50.19)	193.01	593.38
Distributions	(48.83)	(32.55)	(31.73)
Retained distributions	48.83	32.55	31.73
Closing NAV	2,210.12	2,260.31	2,067.30

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	3.44	2.95	2.61
Dilution adjustments ^[a]	(0.12)	(0.10)	(0.14)
Total direct portfolio transaction costs	3.32	2.85	2.47

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.15	0.14	0.14
Operating charges	0.91	0.91	0.91
Return after operating charges	-2.22	+9.34	+40.26
Historic yield	2.22	1.44	1.53
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	24,091	26,197	21,077
Closing NAV percentage of total fund NAV (%)	5.82	5.82	4.88
Number of shares	1,090,021	1,158,983	1,019,549
Highest share price (UK p)	2,302.40	2,325.89	2,126.07
Lowest share price (UK p)	1,873.18	2,057.36	1,423.15

^[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 depository, 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.

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 or by calling M&G Customer Relations.

Portfolio transaction costs				
for the year to 30 June	2019	2018	2017	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.03	0.03	0.04	0.03
Taxes	0.13	0.11	0.11	0.12
Costs before dilution adjustments	0.16	0.14	0.15	0.15
Dilution adjustments ^[c]	(0.01)	0.00	(0.01)	(0.01)
Total direct portfolio transaction costs	0.15	0.14	0.14	0.14
as at 30 June	2019	2018	2017	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.67	0.67	0.50	0.61

^[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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