

December 2018

Dear Unitholder

The Equities Investment Fund For Charities (Charifund)

Charifund has been helping charities meet their funding requirements since 1960 and I am pleased to be able to inform you that over £59 million has been distributed in total to unitholders in 2018.

After distributing 31.25p per Income unit in two quarterly payments in the first half of the year, the third and fourth payments in the second half amounted to 47.75p, bringing the total distribution for 2018 to 79.00p. This represents a 5.7 % increase on the 74.75p distributed in 2017 and is well ahead of RPI inflation in October of 3.3 %. The 2018 distribution builds on last year's return to a peak payout as earnings by UK companies have continued to be supportive, with the result that the market's dividend cover has increased. This has partly been due to the translational effect on UK companies with overseas revenues of a weak pound, but also because the domestic market is home to some very big dividend payers in the oil & gas and mining sectors which have benefited from a recovery in commodity prices.

Turning to capital performance, it is disappointing to be reporting at Charifund's year end that it has made no progress over the past 12 months. I commented at the halfway stage about the increase in markets' volatility in 2018 and this continued through the summer and autumn. Against this background, investors have naturally become risk averse, an environment that generally suits the fund's defensive, dividend-focused investment approach. It is pleasing, however, that the portfolio has delivered a significant rise in income this year, which has facilitated a healthy distribution and at the same time permitted the reserves to be built up as a sensible precaution.

Investment is for the long term, though, and Charifund's performance to 31 October 2018 places it ahead of the FTSE All-Share Index over five, seven and 10 years, but slightly behind over three years. Against the IA (Investment Association) UK Equity Income sector average, the fund is in the top quartile over one, three and five years, and second quartile over seven and 10 years (Source: Morningstar, Inc. price to price basis with income reinvested).

The income and performance data for the 12 months is summarised in the table below:

	Performance 12 months to 01.11.18 %	Distribution 2018 (2017) p	Yield ^[a] %
Charifund Income units (capital growth only)	-5.5	79.00 (74.75)	5.2
FTSE All-Share Index (capital growth only)	-5.2	–	4.0
Charifund Accumulation units (capital growth and income)	-0.7		
FTSE All-Share Index (capital growth and income)	-1.4		
Retail Prices Index (RPI) ^[b]	3.3		

^[a] The historic yield reflects distributions declared over the past 12 months as a percentage of the mid-market price, as at the date shown. Investors may be subject to tax on their distributions. In the case of a stockmarket index, such as the FTSE All-Share Index, the yield is the annual income of the underlying equity constituents as a percentage of the index level. The amount of income earned by Charifund will fluctuate.

^[b] October 2018 (annual percentage change).

Source: M&G and Datastream. The performance of Charifund units is shown on a price to price basis.

Advisory Committee: D S S Chichester (Chairman), A W Behrens, B S Bostrom, S M Corbett LVO, A F Gibbs, L E Linaker, G A Prescott BA FCA, N C Talbot Rice.

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Registered Office as above. Charifund is registered with the Charity Commission for England and Wales: No. 249958.

Against the fund's 10-year investment objective, a period still dominated by the global financial crisis, Charifund's capital performance is ahead of RPI inflation by 1.9 % per annum.

Please note that past performance is not a guide to future performance. The price of Charifund's units and the income from them may go down as well as up and a charity may not receive back all its original investment.

It is worth elaborating on Charifund's income reserve, for which we obtained approval in 2014 from HMRC. At the end of 2017, Charifund's reserves stood at 6.67p per unit. After adding 2.84p this year, the income reserve today stands at 9.51p – 12 % of the 2018 distribution. This reserve facility provides some protection should the dividend environment prove challenging. Given the uncertainty surrounding Brexit, and the possibility of weaker economic growth going forward, building a supportive buffer would seem a prudent approach.

With regard to our plans to convert Charifund to a new Charity Authorised Investment Fund (CAIF), M&G has been making good progress and is currently waiting to receive the approval of the Charity Commission, before a final submission to the Financial Conduct Authority.

The benefits charities derive from investing in Charifund for the equity portion of their portfolio are considerable. First, by investing via a collective investment scheme, charities are able to minimise their administrative burden. Second, investing in a fund with a clear, consistent strategy and comprising more than 100 holdings limits risk. Third, Charifund has no initial charge and the annual management charge is low at only 0.47 %, which compares favourably with other similar funds. Fourth, no minimum restrictions apply to the size of a holding, so that all qualifying charities, regardless of size, can gain access to Charifund on equal terms. Finally, Charifund's Advisory Committee consists of external investment professionals of long standing, many of whom have extensive experience as charity trustees, and they give their services for the benefit of unitholders.

Turning to administrative matters, one copy of this letter is sent to the registered address of each charity holding Charifund. We would be delighted to send additional copies along with the full report to trustees on request. You may also download the report from our website at www.mandg.co.uk/charities/forms-and-literature/ or call the **Charities Helpline** on **0800 917 4472**.

If you have any queries regarding Charifund's investment policy, I would ask you to contact Richard Macey, Director of Charities, on 020 7548 3731. If you have any administrative queries, please write to the M&G Charity Team at PO Box 9038, Chelmsford CM99 2XF; alternatively, you may email the team at charities@mandg.co.uk or call the Charities Helpline.

Yours sincerely



D S S Chichester

Chairman of the Advisory Committee of Charifund

Single year performance (5 years ending October)					
From	01.11.17	01.11.16	01.11.15	01.11.14	01.11.13
To	31.10.18	31.10.17	31.10.16	31.10.15	31.10.14
	%	%	%	%	%
Charifund *	-1.3	+12.8	+10.2	+5.7	+4.9

* Income units, price to price with income reinvested.

Source: Morningstar, Inc.

Past performance is not a guide to future performance.

The value of stockmarket investments, and the income from them, will fluctuate. This will cause the fund unit price to fall as well as rise and a charity may not receive back the amount it originally invested.