



M&G Dividend Fund

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

Interim Short Report December 2018
For the six months ended 31 December 2018

Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (3) presents its Interim Short Report for M&G Dividend Fund which contains a review of the fund's investment activities and investment performance during the period. The ACD's Interim Long Report and unaudited 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

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 mainly in a range of UK equities with the aim of achieving a steadily increasing income stream. The fund will target a yield higher than that of the FTSE All-Share Index. Subject to this, the aim will be to maximise total return (the combination of income and growth of capital).

Investment approach

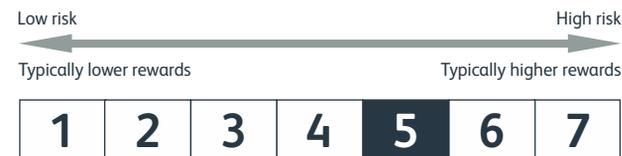
The M&G Dividend Fund employs a bottom-up stockpicking approach, driven by the fundamental analysis of individual companies. The fund manager seeks to invest in companies with excellent capital discipline and long-term dividend growth potential. The fund manager believes rising dividends create upward pressure on the value of shares. Dividend yield is not the primary consideration for stock selection.

The fund manager aims to create a diversified portfolio with exposure to a broad range of sectors. He selects stocks with different drivers of dividend growth to construct a portfolio that has the potential to cope in a variety of market conditions. The fund invests with a long-term investment view and a typical holding period of three to five years.

Risk profile

The fund invests in the shares of 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 shares of companies that have the potential to grow their dividends over the long term. Income distributions from the fund's holdings, however, are not guaranteed and may vary. 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.

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 2 January 2019, for the six months ended 31 December 2018

Distribution summary

Over the six-month review period, the fund distributed income of 0.80 pence per Sterling Class 'A' (Income) share. This distribution matches the payment made in the same period last year. The distribution represents a yield (distributed income as a percentage of the share price as at 2 January 2019) of 5.47% versus a yield of 4.45% for the FTSE All-Share Index, a comparative index, reflecting a yield premium of 22.9% for the fund.

The lack of a high dividend payout among the UK's largest companies has remained a recurrent theme, as large companies often struggle to increase their dividends when growth proves elusive or is simply more challenging, once companies have reached maturity. (Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.) Another recurrent theme has been Brexit, which represented a formidable headwind over the course of 2018, casting an enduring shadow over the UK stockmarket. The uncertainty surrounding Brexit's outcome has meant that many companies have lacked the visibility needed to make operational decisions.

The period under review stood in stark contrast to the first half of 2018, which had withstood the unexpected return of extreme market turbulence, also called volatility, in February, to subsequently deliver a strong recovery of the UK market. However, this temporary respite was to be short-lived. The market's benign mood turned sour and we witnessed a seemingly inexorable downward slide of investors' appetite for UK equities (company shares). The last quarter of the year was particularly painful, as investors' risk aversion increased to exceptional levels, almost irrespective of companies' underlying fundamentals. Anxiety levels were fuelled by an endless series of agonising political twists on the outcome of Brexit, concerns about slowing global growth, worries over the trade dispute between the US and China and the near-term evolution of US interest rates – all of which conspired to bring global financial markets to a bruising close. Volatility indeed had returned in 2018.

In this context, we continued to avoid stocks whose dividends are volatile as a result of their sensitivity to external factors – ultimately beyond their control – and continued to look for companies with sustainable earnings and financial discipline, with the aim of delivering a reliable dividend stream.

As a result, a majority of the fund's holdings delivered good dividend growth, in line with their long-term commitment. Dividends were particularly healthy across our financial holdings, with St. James's Place raising its payout by 20%, Jupiter Fund Management by over 16% and insurer Sampo delivering a 13% rise. Not all financials fared so well, however, as Lloyds Banking Group delivered a more moderate 7% dividend growth and HSBC Holdings kept its dividend flat.

Some of our real estate-linked holdings also delivered solid dividend growth, with UNITE Group, a student accommodation company, delivering an impressive uplift of 30%, while IWG, a temporary office provider, announced a less stellar, but still solid increase of nearly 12%.

Our holdings within food services registered resilient performances as well, with dividend increases of over 12% and 11% respectively for Compass Group and Hilton Food Group.

Not all of our holdings delivered growth, however, and we saw DS Smith cutting its dividend by 3% on the back of the capital increase linked to the acquisition of European competitor Europac, but we expect to see the company return to dividend growth next year.

Against this backdrop, we were happy with the overall dividend growth across the portfolio, considering the current economic context, and encouraged after a tougher year last year which saw distribution cut by 3%. We also maintained a yield above that of the FTSE All-Share Index while continuing to avoid highly leveraged companies (i.e. companies with high levels of debt). We remain selective about our dividend streams and endeavour to strike a sensible balance between long-term dividend progression and attractive valuations. This is in full recognition that the combination of a high yield and rising distribution is important to our investors. We remain committed to delivering on these twin income objectives.

The fund's distribution and distribution yield are shown in the 'Specific share class performance' tables in the Interim Long Report and unaudited Financial Statements for M&G Investment Funds (3). The distribution is subject to changes in the market environment and there is no guarantee that the fund will increase the distribution in every reporting period.

Performance against objective

Between 2 July 2018 (the start of the review period) and 2 January 2019, the fund delivered a negative total return (the combination of income and capital growth) across all its share classes and lagged the FTSE All-Share Index, which registered a negative performance of -9.8% over the six-month period.

Over this period the fund did not achieve its objective of growing the distribution (albeit over a relatively short period) or generating capital growth. However, it did achieve its objective in terms of delivering a distribution yield above that of the FTSE All-Share Index. Over a longer period of five years, the fund has achieved all aspects of its objective.*

* 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 Interim Long Report and unaudited 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				
	Six months 02.07.18 % [a]	Three years 04.01.16 % p.a.	Five years 02.01.14 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	-12.3	+0.4	+1.3	+10.7 [c]
Class 'I'	-12.0	+1.1	+2.1	+5.2 [d]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 6 May 1964, 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.

Performance review

In a very challenging period for the UK stockmarket, healthcare was the only sector to produce a positive return, while telecommunications and technology also proved more resilient than the wider market. The worst performer for the period was industrials, while the consumer sectors, as well as oil & gas, also underperformed the index. For the fund, stockpicking within industrials, as well as the above-index position in the sector, led to the largest drag on relative returns. Stock selection within the consumer goods and basic materials sectors also weighed on relative performance, as did the below-index position in healthcare. On the upside, selection within consumer services, financials and technology was supportive.

From a stock-specific perspective, DS Smith was the largest detractor for the period under review – despite publishing strong operational results, the stock fell by nearly 40% during the period. This was primarily based on fears of overcapacity in the cardboard market. We believe, however, that these concerns are overdone in the short term, as the US market offers a roadmap for long-term consolidation and structurally higher returns in the European market. With regard to short-term operating performance, management confirmed that 70% of their customers are in the 'fast-moving consumer goods' (FMCG) segment – a stable sector – which means the company has high visibility over its order book. We also anticipate support from the growth of internet shopping and from consumers and retailers alike switching from single use plastic towards renewable, recyclable materials.

Other detractors included online gaming company GVC Holdings and packaging company Essentra. GVC was hurt by the UK government bringing forward previously announced plans to increase the level of taxation in the UK. We continue, however, to see significant potential in the US market as, in May 2018, the US Supreme Court repealed the 'Gambling Prohibition Act' which had prohibited online gaming and gambling. A number of US individual states have since legalised gambling on sporting events. GVC bolstered its 'first mover' advantage by striking an early and strategic deal with MGM resorts, which will enable it to combine MGM's brand and GVC's online capabilities. The biggest market in the world has just opened up yet valuations do not reflect this. We expect to see earnings and dividends continuing to grow over the next few years, along with the demand for online gaming.

With regard to Essentra, we have continued to engage with the company regularly and our meetings with senior management have given us comfort that the company is refocusing on its core business, which we think should bring a rebound in revenue and profitability. We see significant upside for the stock, as we anticipate that the company is at an inflexion point for a recovery in profits and believe that the recovery thesis remains intact.

On the upside, the fund's largest contributor was Luxembourg-based satellite company SES FDR. Having been one of our largest detractors during the previous review period, the company delivered strong turnaround performance, justifying our decision to hold on to the stock after a couple of quarters of disappointing performance.

Other supportive holdings included pharmaceutical company Roche Holding and insurance provider Admiral Group. Roche was boosted by the combination of a very strong set of results and investors' aversion to risk, which led to healthcare outperforming in the US and Europe alike. The resilience of Roche's product pipeline surprised investors who had anticipated the demise of some of the company's blockbuster drugs as their patents reached expiry. Finally, we believe Admiral will benefit as the motor insurance industry is structurally becoming more disciplined than it has been in previous cycles. Admiral has strong competitive advantages and a positive corporate culture which we believe has also accounted for a big part of its success.

Investment activities

We completed six new purchases and six complete sales during the period under review, consistent with our long-term investment horizon of three years or more. Our investment decisions are based on the detailed analysis of company fundamentals and the thorough assessment of valuation to determine whether a stock merits its place in the fund. Understanding corporate culture and strategy is another prerequisite to understanding the value creation that a company can potentially deliver. This entails regular meetings and engagement with senior management, as well as site visits to their operational facilities. It is through the methodical application of this iterative process that we aim to identify new ideas.

Over the period in review, we purchased shares in HSBC Holdings, Lancashire Holdings and St James's Place, thus increasing our positions in financial companies. We believe Lancashire Holdings, the Bermuda-based insurer, is mispriced and will offer growth opportunities without any need for additional financing thanks to its robust balance sheet and surplus capital. We think St James's Place

has a unique business model within the asset management segment and believe the company will continue to deliver superior growth and returns.

Our investment in mining company Rio Tinto represented a tactical allocation to decrease our below-index positioning in materials, while Tritax EuroBox provides exposure to the fast-growing market of logistics and warehousing estates, which are benefiting from the strong growth of online retail.

Finally, market volatility gave us an opportunity to build a position in Unilever – one of the most stable, highest quality companies in our investment universe – at an advantageous valuation.

In terms of sales, we took profits on Prudential to rotate into more attractive opportunities elsewhere.

Other sales included Domino's Pizza, as the rollout of new locations was slower than expected. We also felt that the lack of stability in key management positions was likely to further increase the execution risk.

Outlook

What a difference a year makes. The FTSE All-Share Index had ended 2017 at an all-time high, despite ongoing macroeconomic uncertainties: lower forecasts for economic growth, the first interest rate increases in 10 years and inflation on the rise following Brexit-induced sterling weakness. In contrast, 2018 was a year of two halves which met a brutal end, as evidenced by the FTSE All-Share's near 10% plunge over the period under review.

We want to remind our investors that the UK stockmarket is not just UK-centric and that the punishment inflicted by investors on the UK market seems disproportionate. This is particularly so when we consider that its constituent companies are, for the most part, linked to international markets and opportunities, demonstrating that they reach well beyond the confines of the domestic economy.

With this in mind, we remain firmly focused on our mandate, which is the analysis of company fundamentals and valuation, in the conviction that these factors drive returns over the long term. In the current context, we believe the UK market continues to offer long-term significant growth opportunities and what will hopefully – retrospectively – reveal itself as a unique opportunity for stockpickers. Medium-sized companies in particular are still a source of attractive opportunities, given their potential to deliver long-term growth for the benefit of shareholders, even among more domestically biased businesses. Selectivity, though, remains paramount.

We remain committed to our dividend growth strategy and our conviction-based approach, and believe that the cash-generative nature of the fund's holdings, their ability to grow dividends over the long term and their attractive valuation will be positive for the fund. The fund's current yield of 5.47% (as at 2 January 2019), which we aim to grow over time, offers, we believe, a favourable proposition for long-term investors.

Phil Cliff 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 Holding	31.12.18 £'000	31.12.18 %	30.06.18 %
EQUITIES	1,064,824	99.23	101.01
Oil & gas producers	78,789	7.34	6.95
15,803,606 BP	78,789	7.34	
Oil equipment, services & distribution	3,632	0.34	0.42
2,990,875 Prosafe	3,632	0.34	
Chemicals	18,989	1.77	2.33
506,796 Methanex	18,989	1.77	
Mining	30,426	2.84	0.00
808,234 Rio Tinto	30,426	2.84	
Construction & materials	2,656	0.25	0.26
807,204 Polypipe	2,656	0.25	
Aerospace & defence	27,268	2.54	3.51
5,922,608 BAE Systems	27,268	2.54	
General industrials	53,104	4.95	5.60
11,270,407 DS Smith	33,507	3.12	
223,425 Siemens	19,597	1.83	
Industrial engineering	49,826	4.64	5.02
1,762,815 IMI	16,720	1.56	
889,491 Kone	33,106	3.08	
Support services	59,683	5.56	6.76
10,621,378 Essentra	36,431	3.40	
3,549,595 Howden Joinery Group	15,583	1.45	
3,706,623 IWG	7,669	0.71	

Portfolio statement (continued)

as at Holding	31.12.18 £'000	31.12.18 %	30.06.18 %
Beverages	21,144	1.97	1.72
2,639,648 Britvic	21,144	1.97	
Food producers	10,378	0.97	0.52
1,153,140 Hilton Food Group	10,378	0.97	
Household goods & home construction	18,088	1.69	2.16
5,942,026 Countryside Properties	18,088	1.69	
Personal goods	17,786	1.66	0.00
431,588 Unilever	17,786	1.66	
Tobacco	89,029	8.30	10.63
1,647,579 British American Tobacco	41,354	3.86	
2,011,168 Imperial Brands	47,675	4.44	
Healthcare equipment & services	9,617	0.90	2.04
6,879,346 ConvaTec	9,617	0.90	
Pharmaceuticals & biotechnology	63,859	5.95	7.30
631,097 AstraZeneca	36,812	3.43	
139,620 Roche Holding 'Genussscheine'	27,047	2.52	
Media	62,073	5.78	7.14
2,450,000 RELX	39,653	3.69	
1,501,826 SES FDR	22,420	2.09	
Travel & leisure	60,759	5.66	7.09
2,129,005 Compass Group	34,916	3.25	
3,865,805 GVC Holdings	25,843	2.41	
Gas, water & multi-utilities	19,399	1.81	1.40
2,545,095 National Grid	19,399	1.81	
Banks	88,559	8.25	5.34
5,229,615 HSBC Holdings	33,736	3.14	
57,943,709 Lloyds Banking Group	29,893	2.79	
3,818,794 Nordea Bank	24,930	2.32	
Non-life insurance	94,802	8.83	6.67
1,404,891 Admiral Group	28,631	2.67	
1,121,283 Hiscox	18,008	1.68	
1,883,911 Lancashire Holdings	11,445	1.06	
4,383,177 Sabre Insurance Group	12,010	1.12	
720,264 Sampo	24,708	2.30	
Life insurance	46,280	4.31	7.46
1,575,970 Aviva	5,911	0.55	
4,932,333 Phoenix Group	27,730	2.58	
1,345,184 St. James's Place	12,639	1.18	

Portfolio statement (continued)			
as at	31.12.18	31.12.18	30.06.18
Holding	£'000	%	%
Real estate investment trusts	45,424	4.23	3.49
14,470,457 Tritax Big Box	19,043	1.77	
10,800,000 Tritax EuroBox	10,001	0.93	
2,034,734 UNITE Group	16,380	1.53	
Financial services	50,784	4.73	5.04
1,041,208 3i Group	8,082	0.75	
2,773,306 Intermediate Capital Group	25,944	2.42	
5,669,115 Jupiter Fund Management	16,758	1.56	
Equity investment instruments	12,765	1.19	1.06
1,150,000 Honeycomb Investment Trust	12,765	1.19	
Software & computer services	29,705	2.77	1.10
2,154,065 Micro Focus International	29,705	2.77	
Unlisted	0	0.00	0.00
377,518 Izodia ^[a]	0	0.00	
CURRENCY	(726)	(0.07)	(0.04)
Forward currency contracts	(726)	(0.07)	(0.04)
\$21,138,668 Bought for £16,579,152 (expires 09.01.19)	(28)	0.00	
\$(35,795,075) Sold for £27,329,145 (expires 09.01.19)	(698)	(0.07)	
Portfolio of investments	1,064,098	99.16	100.97
CASH EQUIVALENTS	18,037	1.68	0.75
'AAA' rated money market funds ^[b]	18,037	1.68	0.75
18,036,965 Northern Trust Global Fund - Sterling	18,037	1.68	
Total portfolio	1,082,135	100.84	101.72
Net other assets / (liabilities)	(9,019)	(0.84)	(1.72)
Net assets attributable to shareholders	1,073,116	100.00	100.00

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

^[a] Suspended.

^[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 six months to 31 December 2018	
Largest purchases	£'000
HSBC Holdings	34,460
Rio Tinto	30,400
Unilever	17,847
Micro Focus International	17,118
St. James's Place	15,734
Lancashire Holdings	12,962
Tritax EuroBox	10,800
Phoenix Group	10,230
National Grid	8,339
DS Smith	8,199
Other purchases	54,385
Total purchases	220,474
Largest sales	£'000
AstraZeneca	32,951
Prudential ^[a]	26,997
SES FDR	22,446
Aviva	20,492
Domino's Pizza	13,116
British American Tobacco	10,867
Phoenix Group	8,598
ConvaTec	7,862
Kone	7,385
Countryside Properties	4,733
Other sales	40,920
Total sales	196,367

^[a] Related party to the fund.

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.

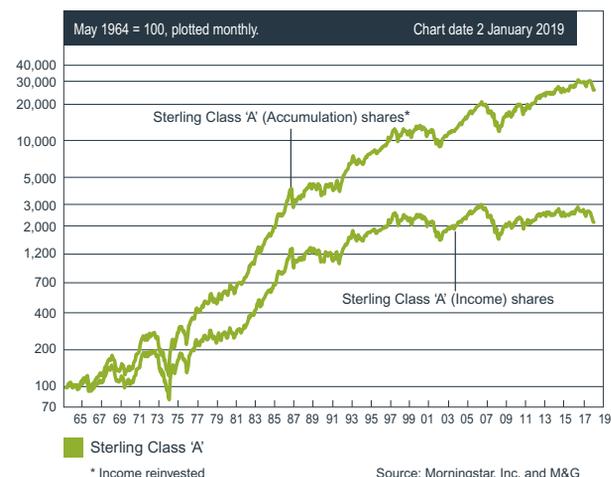
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations. For the specific performance tables of all share classes, please refer to the Interim Long Report and unaudited 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			
as at	31.12.18 £'000	30.06.18 £'000	30.06.17 £'000
Fund net asset value (NAV)	1,073,116	1,204,479	1,288,318

Share class performance since launch

To give an indication of how the fund has performed since launch, the chart below shows performance of Sterling Class 'A' (Accumulation) shares and Sterling Class 'A' (Income) shares. With Accumulation shares, income received from an investment is reinvested, while with Income shares, the income is paid out to shareholders.

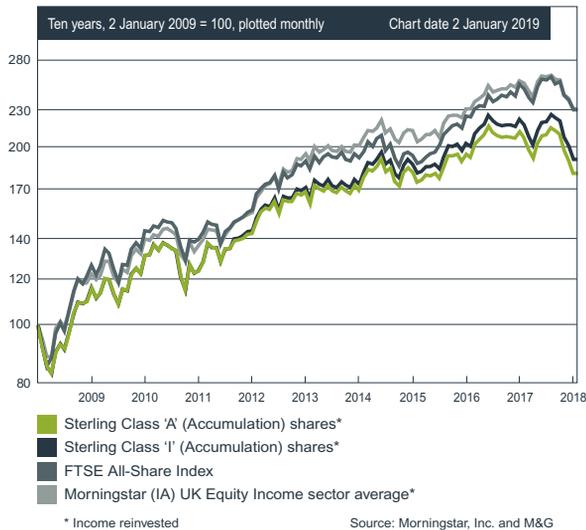


Financial highlights

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.

Historic yield

The chart below shows the historic yield of Sterling Class 'A' (Income) shares against that of a comparative index.



Source: Morningstar, Inc. and M&G

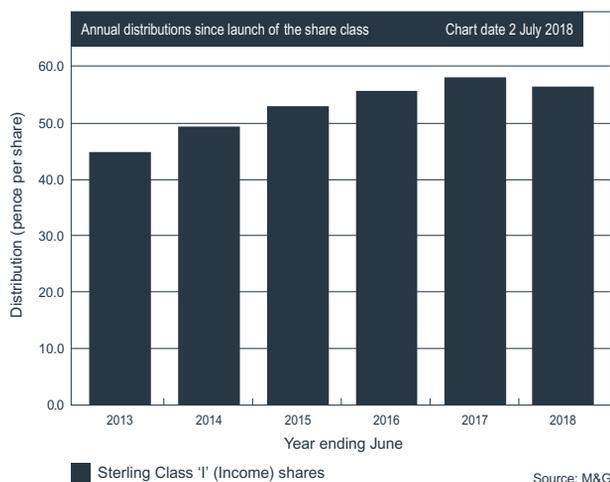
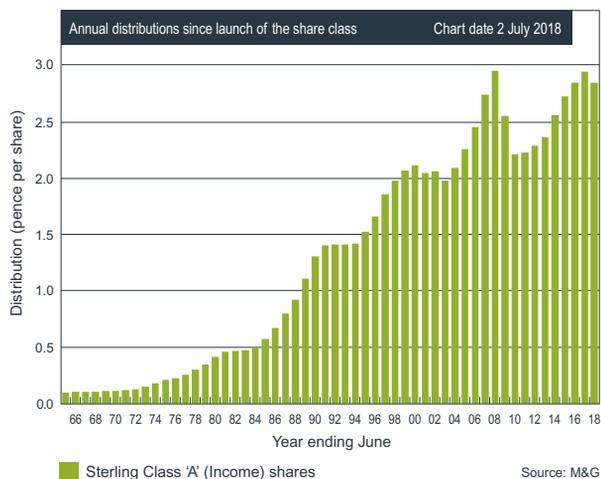
Historic yield: The historic yield reflects distributions declared over the past twelve months as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions.

Financial highlights

Fund performance

Distribution since launch

The charts below show the annual distribution of Sterling Class 'A' (Income) shares and Sterling Class 'I' (Income) shares since launch.



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 11 January 2019.

Sterling Class 'A' Accumulation share performance

The share class was launched on 6 May 1964.

	Six months to 31.12.18 UK p	Year to 30.06.18 UK p	Year to 30.06.17 UK p
Change in NAV per share			
Opening NAV	702.83	714.80	594.58
Return before operating charges and after direct portfolio transaction costs	(87.48)	(0.34)	131.29
Operating charges	(5.96)	(11.63)	(11.07)
Return after operating charges	(93.44)	(11.97)	120.22
Distributions	(4.63)	(20.17)	(20.18)
Retained distributions	4.63	20.17	20.18
Closing NAV	609.39	702.83	714.80
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.56	1.07	0.93
Dilution adjustments ^[a]	(0.18)	(0.21)	(0.13)
Total direct portfolio transaction costs	0.38	0.86	0.80
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.11	0.13	0.12
Operating charges	1.70	1.68	1.66
Return after operating charges	-13.29	-1.67	+20.22
Historic yield	3.26	2.83	2.83
Effect on yield of charges offset against capital	0.01	0.01	0.01
Other information			
Closing NAV (£'000)	61,770	74,303	88,701
Closing NAV percentage of total fund NAV (%)	5.76	6.17	6.89
Number of shares	10,136,372	10,571,996	12,409,112
Highest share price (UK p)	726.56	724.97	736.85
Lowest share price (UK p)	600.55	639.57	601.50

Financial highlights

Fund performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.18 UK p	Year to 30.06.18 UK p	Year to 30.06.17 UK p
Change in NAV per share			
Opening NAV	1,593.43	1,608.51	1,327.98
Return before operating charges and after direct portfolio transaction costs	(198.90)	(0.55)	294.13
Operating charges	(7.67)	(14.53)	(13.60)
Return after operating charges	(206.57)	(15.08)	280.53
Distributions	(15.25)	(57.32)	(56.52)
Retained distributions	15.25	57.32	56.52
Closing NAV	1,386.86	1,593.43	1,608.51
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.28	2.42	2.09
Dilution adjustments ^[a]	(0.41)	(0.48)	(0.30)
Total direct portfolio transaction costs	0.87	1.94	1.79
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.11	0.13	0.12
Operating charges	0.95	0.93	0.91
Return after operating charges	-12.96	-0.94	+21.12
Historic yield	4.04	3.55	3.52
Effect on yield of charges offset against capital	0.01	0.01	0.01
Other information			
Closing NAV (£'000)	18,895	22,216	19,636
Closing NAV percentage of total fund NAV (%)	1.76	1.84	1.52
Number of shares	1,362,450	1,394,209	1,220,766
Highest share price (UK p)	1,648.33	1,632.10	1,657.16
Lowest share price (UK p)	1,366.64	1,447.45	1,343.61

^[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.

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 or by calling M&G Customer Relations.

Portfolio transaction costs

	Six months to 31.12.18	Year to 30.06.18	Year to 30.06.17	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.02	0.04	0.04	0.03
Taxes	0.14	0.12	0.10	0.12
Costs before dilution adjustments	0.16	0.16	0.14	0.15
Dilution adjustments ^[c]	(0.05)	(0.03)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.11	0.13	0.12	0.12
as at	31.12.18	30.06.18	30.06.17	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.13	0.10	0.12	0.12

^[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.

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* For security purposes and to improve the quality of our service, we may record and monitor telephone calls. You will require your M&G client reference. Failure to provide this will affect your ability to transact with us.

** Please remember to quote your name and M&G client reference and sign any written communication to M&G. Failure to provide this may affect your ability to transact with us.

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