



M&G European Index Tracker Fund

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

Interim Short Report February 2019

For the six months ended 28 February 2019

Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (1) presents its Interim Short Report for M&G European Index Tracker 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 (1), incorporating all the sub-funds and a Glossary of terms is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations on 0800 390 390.

ACD

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(Authorised and regulated by the Financial Conduct Authority. M&G Securities Limited is a member of the Investment Association and of the Tax Incentivised Savings Association.)

Investment objective and policy

The fund is designed to track the FTSE World Europe ex UK Index.

Investment approach

The M&G European Index Tracker Fund is a European ex UK fund that tracks the performance of the FTSE World Europe ex UK Index* using a technique called stratified sampling.

The fund will normally hold the largest 100 stocks in the index as well as a selection of the remaining smaller stocks to ensure that the fund's capitalisation and industry weights are in line with the index weightings.

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Risk profile

The fund is designed to track the performance of the FTSE World Europe ex UK Index, which represents a broad spread of European company shares. Its performance, therefore, reflects the price volatility of the European stockmarket and the performance of individual companies.

The fund will typically hold around 350 stocks, including the largest 100 stocks in the index, as well as a selection of the remaining smaller stocks to ensure that the fund's market capitalisation and industry weights are in line with the index. 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 March 2019, for the six months ended 28 February 2019

Performance against objective

The M&G European Index Tracker Fund is designed to track the FTSE World Europe ex UK Index. Between 3 September 2018 (the start of the review period) and 1 March 2019, the fund's Sterling Class 'A' shares returned -6.4%, while the Euro Class 'A' shares returned -2.0%.* The difference in returns between the share classes reflects currency movements over the period. Meanwhile, the FTSE World Europe ex UK Index returned -6.6% and -2.0% in sterling and euro terms, respectively.

* 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 (1).

To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period for Sterling Class 'A' (Accumulation) shares. Calculated on a price to price basis with income reinvested.

Long-term performance				
	Six months 03.09.18 % [a]	Three years 01.03.16 % p.a.	Five years 03.03.14 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	-6.4	+10.7	+6.8	+4.6 [c]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 31 January 2000, the end of the initial offer period of the predecessor unit trust.

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 M&G European Index Tracker Fund tracks the performance of the FTSE World Europe ex UK Index using a technique called 'stratified sampling', which is a two-part strategy. Firstly, the portfolio contains the largest European companies in the index in the same proportion as the index. Secondly, we hold shares in some of the

remaining companies listed in the index in such a way as to reflect the characteristics of the index. In our opinion, using this method of tracking the index is the best way of minimising the fund's dealing costs and therefore represents good value for shareholders. As the fund tracks the index, its overall performance can largely be explained by market developments over the period under review.

The six months under review was an unsettling period for most major stockmarkets, due to concerns about rising US interest rates and expectations of further moves towards the 'normalisation' of monetary policy. Persistent unease about international trade wars and heightened concerns about the potential for a global recession also dampened investor sentiment.

Global stockmarkets saw significant volatility during October 2018 due to a sharper-than-expected increase in borrowing costs driven by the US bond market. At the same time, some disappointing earnings guidance weighed on investors' mood. Investors were also concerned that monetary policy tightening by the US Federal Reserve (Fed) may dampen the US economy. Despite a modest rebound across most stockmarkets in November, December saw further sharp swings in asset prices as global political and economic uncertainty again troubled investors.

Meanwhile, a row over Italy's controversial budget for 2019 led to market jitters before a revised version was finally approved in December by the European Commission, the European Union's (EU) executive arm. In terms of politics, Sweden finally formed a centre-left minority government four months after an inconclusive general election. Meanwhile, in France, sentiment was affected at times by demonstrations in Paris, initially a protest against the rising price of fuel but the focus subsequently spread to include the cost of living and other demands.

The new year brought a welcome stockmarket rally after the US Federal Reserve indicated a slower approach to interest rate hikes, given the global economic slowdown, lower oil prices and generally muted domestic inflation. However, investors' renewed optimism in the early months of 2019 was not enough to offset the earlier declines and the European stockmarket, like many global markets, declined over the six months under review.

Turning to the economy, eurozone activity is expanding – although growth has been softer of late. Quarter-on-quarter growth in the region was 0.1% in the third quarter of 2018 and 0.2% in the final quarter of the year. This compares with growth of 0.4% in each of the first two

quarters of 2018. In the most recent quarter, Germany's economy was flat, narrowly avoiding recession following a 0.2% decline in the third quarter. Exports form a significant part of Germany's economy and the global trade disputes and weaker activity in the global economy has hurt domestic growth. Elsewhere, Spain and France recorded economic growth of 0.7% and 0.3%, respectively, while the Italian economy entered recession, with activity dipping 0.1% in each of the final two quarters of 2018. Despite softer economic growth, the European Central Bank (ECB) announced in the summer that it would halve its bond purchases in September and halt them altogether in December.

In other data, inflation in the eurozone has dipped below the ECB's target level of 2.0%, from its peak of 2.3% in October 2018 – standing at 1.4% in January 2019, compared with 1.3% a year earlier. Meanwhile, unemployment levels continue to improve, reaching 7.8% in January 2019. This was stable compared with the previous month and compares with 8.6% in January 2018. The Czech Republic and Germany had the lowest levels, with 2.1% and 3.2%, respectively, while the highest rates were recorded by Greece (18.5% in November 2018), Spain (14.1%) and Italy (10.5%). The rate of youth unemployment in the eurozone is also improving, standing at 16.5%, compared with 17.7% in January 2018.

In terms of sector performance, the strongest areas included certain 'defensive' stocks, which tend not to respond much to swings in economic cycles. For example, food and drug retailers, food producers, electricity and other utilities gained in an overall falling market. At the other end of the range, industrial metals, general industrials and support services lagged the broader market.

Investment activities

A number of companies were added to the index and we subsequently initiated holdings in the fund. New entrants included German real estate firm Aroundtown, Scout24, a German services company specialising in the real estate and automotive sectors, Danish hearing aid manufacturer GN Store Nord, Denmark's Ambu, which develops and markets diagnostics and medical equipment, and speciality biopharmaceutical firm Swedish Orphan Biovitrum.

Meanwhile, we also started a new holding in Swedish firm Elekta, which provides treatment for cancer and brain disorders. Previously included in the index, Elekta rejoined the FTSE World Europe ex UK Index during the period.

In terms of sales, we sold the holding in Linde, a German industrial gases firm, prior to its merger with US firm Praxair and subsequent deletion from the index.

A number of transactions related to cashflow management. Examples of specific transactions involved Swiss food and beverage company Nestlé, Swiss healthcare firm Roche, and pharmaceutical businesses Novartis (Switzerland) and Sanofi (France).

Outlook

Although overall economic growth in the eurozone remains positive, activity has weakened and the risks to the region have increased. A slowdown in China is hurting the global economy, and consequently also activity in the eurozone, while international trade disputes have led to heightened uncertainty. Meanwhile, negotiations for the UK to leave the European Union continue with a notable lack of progress or clarity.

Against a backdrop of slower economic activity, shortly after the end of the period under review, the ECB reduced its growth forecast for 2019 to 1.1%, compared with a previous estimate of 1.7%. Inflation is also expected to be lower than previously thought, at 1.2%, rather than a previous forecast of 1.6%. Just two months after stopping bond purchases, the ECB also unexpectedly announced new plans to support economic activity in the region; interest rates are now likely to remain at very low levels until 2020, while the bank also plans a series of loans to encourage banks to lend.

In a challenging environment, businesses will continue to benefit from very low interest rates, while unemployment levels are still improving. The fresh loans for banks are at favourable rates and this should provide some support. Meanwhile, recent stockmarket weakness means that valuations are attractive.

Nigel Booth

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	28.02.19	28.02.19	31.08.18
Holding	€'000	%	%
EQUITIES	86,389	99.10	97.98
Austria	452	0.52	0.51
1,450 Andritz	63	0.07	
4,185 Erste Group Bank	134	0.15	
2,214 OMV	103	0.12	
1,956 Raiffeisen International Bank	44	0.05	
4,152 Telekom Austria	27	0.03	
1,114 Vienna Insurance	23	0.03	
2,113 Voestalpine	58	0.07	
Belgium	1,872	2.14	2.22
514 Ackermans & van Haaren	71	0.08	
3,141 Ageas	136	0.16	
11,871 Anheuser-Busch InBev	823	0.94	
989 bpost	8	0.01	
1,365 Bruxelles Lambert	115	0.13	
4,237 KBC	272	0.31	
2,246 Proximus	52	0.06	
1,008 Solvay	98	0.11	
757 Telenet	30	0.04	
2,051 UCB	151	0.17	
3,078 Umicore	116	0.13	
Czech Republic	86	0.10	0.11
1,745 CEZ	37	0.04	
1,318 Komerční banka	49	0.06	
Denmark	3,312	3.80	3.61
2,000 Ambu	41	0.05	
166 AP Moller-Maersk	194	0.22	
1,474 Carlsberg	157	0.18	
1,642 Chr. Hansen	147	0.17	
2,558 Coloplast	221	0.25	
10,339 Danske Bank	180	0.21	
2,845 DSV	207	0.24	
954 Genmab	147	0.17	
1,500 GN Store Nord	63	0.07	
2,892 ISS	79	0.09	
1,339 JYSKE Bank	45	0.05	
26,597 Novo-Nordisk	1,142	1.31	
3,120 Novozymes	125	0.14	
2,265 Orsted	144	0.17	
1,874 Pandora	87	0.10	
2,333 Tryg	56	0.06	
3,248 Vestas Wind Systems	238	0.27	
1,500 William Demant	39	0.05	

Portfolio statement (continued)			
as at	28.02.19	28.02.19	31.08.18
Holding	€'000	%	%
Finland	2,499	2.87	2.38
2,585 Elisa	96	0.11	
6,514 Fortum	125	0.14	
1,013 Huhtamaki	32	0.04	
1,292 Kesko	67	0.08	
6,033 Kone	256	0.29	
1,797 Metso	53	0.06	
2,250 Neste	192	0.22	
81,609 Nokia	433	0.50	
1,479 Nokian Renkaat	46	0.05	
50,014 Nordea Bank	398	0.46	
1,554 Orion Corporation	48	0.06	
7,378 Sampo	313	0.36	
8,332 Stora Enso	99	0.11	
8,346 UPM-Kymmene	224	0.26	
8,213 Wartsila	117	0.13	
France	20,085	23.04	22.55
3,142 Accor	117	0.14	
443 Aéroports de Paris	76	0.09	
35 Air Liquide	4	0.00	
6,379 Air Liquide (prime de fidélité 2012)	700	0.80	
8,391 Airbus	951	1.09	
2,409 Alstom	90	0.10	
800 Amundi	47	0.05	
1,006 Arkema	89	0.10	
1,438 AtoS	121	0.14	
29,098 AXA	645	0.74	
686 BioMérieux	49	0.06	
16,516 BNP Paribas	740	0.85	
14,068 Bolloré	54	0.06	
77 Bolloré (RFD)	0	0.00	
3,551 Bouygues	118	0.14	
4,518 Bureau Veritas	94	0.11	
2,396 Capgemini	252	0.29	
8,735 Carrefour	158	0.18	
1,028 Casino Guichard Perrachon	47	0.05	
2,656 CNP Assurances	53	0.06	
777 Covivio REIT	68	0.08	
18,184 Crédit Agricole	204	0.23	
9,161 Danone	607	0.70	
52 Dassault Aviation	76	0.09	
2,128 Dassault Systemes	275	0.32	
4,157 Edenred	160	0.18	

Portfolio statement (continued)

as at Holding	28.02.19 €'000	28.02.19 %	31.08.18 %
France (continued)			
4,307 EDF	55	0.06	
3,522 EDF (prime de fidélité 2017)	45	0.05	
1,245 Eiffage	106	0.12	
3,000 Elis	42	0.05	
4,056 ENGIE	55	0.06	
22,798 ENGIE (prime de fidélité)	307	0.35	
4,314 EssilorLuxottica	457	0.52	
598 Eurazeo	40	0.05	
220 Eurofins Scientific	82	0.09	
3,283 Eutelsat Communications	57	0.07	
1,404 Faurecia	58	0.07	
940 Gecina REIT	121	0.14	
1,570 Gemalto	80	0.09	
7,126 Getlink	93	0.11	
485 Hermes International	269	0.31	
352 Iliad	32	0.04	
835 Imerys	42	0.05	
944 Ingenico	55	0.06	
587 Ipsen	73	0.08	
1,159 Kering	559	0.64	
3,192 Klepierre REIT	97	0.11	
2,991 LafargeHolcim	130	0.15	
2,137 Lagardère	49	0.06	
4,280 Legrand	246	0.28	
231 L'Oréal	51	0.06	
3,416 L'Oréal (prime de fidélité 2012)	752	0.86	
3,764 LVMH	1,135	1.30	
2,649 Michelin	279	0.32	
13,227 Natixis	63	0.07	
29,501 Orange	396	0.45	
873 Orpea	89	0.10	
3,304 Pernod Ricard	497	0.57	
6,692 Peugeot	150	0.17	
1,180 Plastic Omnium	29	0.03	
3,502 Publicis	171	0.20	
2,777 Renault	168	0.19	
5,263 Rexel	57	0.07	
1,549 Rubis	80	0.09	
4,823 Safran	576	0.66	
7,597 Saint-Gobain	241	0.28	
16,486 Sanofi	1,202	1.38	
8,087 Schneider Electric	549	0.63	
1,961 SCOR	77	0.09	
461 SEB	68	0.08	

Portfolio statement (continued)

as at Holding	28.02.19 €'000	28.02.19 %	31.08.18 %
France (continued)			
5,836 SES FDR	104	0.12	
577 Société BIC	48	0.06	
10,589 Société Générale	284	0.33	
1,500 Sodexo (prime de fidélité)	144	0.17	
9,763 STMicroelectronics	142	0.16	
3,139 Suez	35	0.04	
6,956 TechnipFMC	136	0.16	
839 Teleperformance	131	0.15	
1,607 Thales	173	0.20	
38,473 Total	1,918	2.20	
1,264 Ubisoft	81	0.09	
3,748 Valeo	104	0.12	
7,794 Veolia Environnement	150	0.17	
7,250 Vinci	605	0.69	
15,083 Vivendi	386	0.44	
621 Wendel	69	0.08	
Germany			
	16,308	18.70	20.06
3,113 adidas	663	0.76	
6,525 Allianz	1,268	1.45	
849 Axel Springer	42	0.05	
14,106 BASF	945	1.08	
14,602 Bayer	1,014	1.16	
5,259 Bayerische Motoren Werke	391	0.45	
159 Bayerische Motoren Werke Preference Shares	10	0.01	
1,209 Beiersdorf	98	0.11	
2,685 Brenntag	117	0.13	
3,410 Ceconomy	17	0.02	
17,101 Commerzbank	122	0.14	
1,758 Continental	252	0.29	
2,443 Covestro	122	0.14	
13,833 Daimler	728	0.84	
1,200 Delivery Hero	41	0.05	
28,489 Deutsche Bank	228	0.26	
3,082 Deutsche Börse	341	0.39	
4,178 Deutsche Lufthansa	95	0.11	
15,007 Deutsche Post	406	0.47	
50,655 Deutsche Telekom	735	0.84	
5,512 Deutsche Wohnen	226	0.26	
32,143 E.ON	309	0.35	
2,417 Evonik Industries	60	0.07	
665 Fraport	47	0.05	
6,771 Fresenius	330	0.38	
3,355 Fresenius Medical Care	228	0.26	

Portfolio statement (continued)

as at Holding	28.02.19 €'000	28.02.19 %	31.08.18 %
Germany (continued)			
374 Fuchs Petrolub	13	0.02	
1,397 Fuchs Petrolub Preference Shares	55	0.06	
2,659 GEA	55	0.06	
937 Hannover Rueck	122	0.14	
2,460 HeidelbergCement	159	0.18	
4,150 Henkel Preference Shares	364	0.42	
228 Hochtief	32	0.04	
934 HUGO BOSS	61	0.07	
17,539 Infineon Technologies	338	0.39	
1,977 Innogy	74	0.08	
3,971 K&S	67	0.08	
991 Kion	52	0.06	
1,244 LANXESS	59	0.07	
1,019 LEG Immobilien	100	0.11	
683 MAN	62	0.07	
2,006 Merck	183	0.21	
4,029 Metro AG	59	0.07	
801 MTU Aero Engines	152	0.17	
2,343 Munich Re	480	0.55	
1,709 OSRAM Licht	65	0.08	
2,594 Porsche Automobil Preference Shares	151	0.17	
3,925 ProSiebenSat.1 Media	62	0.07	
107 Puma	52	0.06	
3,915 QIAGEN	131	0.15	
500 Rheinmetall	47	0.05	
570 RTL	28	0.03	
8,119 RWE	174	0.20	
14,749 SAP	1,386	1.59	
300 Sartorius Preference Shares	42	0.05	
1,500 Scout24	69	0.08	
11,855 Siemens	1,138	1.31	
1,800 Siemens Healthineers	64	0.07	
1,729 Südzucker	22	0.03	
2,022 Symrise	157	0.18	
11,445 Telefónica Deutschland	33	0.04	
7,236 ThyssenKrupp	95	0.11	
3,272 Uniper	83	0.10	
2,146 United Internet	69	0.08	
1,250 Volkswagen	194	0.22	
2,148 Volkswagen Preference Shares	324	0.37	
7,531 Vonovia	321	0.37	
1,780 Wirecard	211	0.24	
2,167 Zalando	68	0.08	

Portfolio statement (continued)

as at Holding	28.02.19 €'000	28.02.19 %	31.08.18 %
Greece			
26,395 Alpha Bank	32	0.04	
3,141 FF	0	0.00	
2,568 Hellenic Petroleum	20	0.02	
4,617 Hellenic Telecommunications	52	0.06	
1,807 Jumbo	26	0.03	
12,171 National Bank of Greece	19	0.02	
3,338 OPAP	30	0.03	
6,750 Piraeus Bank	8	0.01	
Hungary			
5,015 MOL Hungarian Oil & Gas	52	0.06	
3,963 OTP Bank	146	0.17	
3,103 Richter Gedeon	53	0.06	
Ireland			
12,064 AIB	49	0.06	
16,629 Bank of Ireland	92	0.10	
3,306 Glanbia	59	0.07	
16,490 Irish Bank Resolution Corporation ^[a]	0	0.00	
2,317 Kerry	210	0.24	
2,161 Kingspan	87	0.10	
Italy			
20,193 Assicurazioni Generali	315	0.36	
8,615 Atlantia	181	0.21	
7,715 Banca Mediolanum	47	0.05	
26,896 Banco BPM	57	0.07	
1,563 Buzzi Unicem	27	0.03	
13,834 CNH Industrial	132	0.15	
10,963 Davide Campari Milano	91	0.11	
122,027 Enel	646	0.74	
38,432 Eni	582	0.67	
1,958 EXOR	106	0.12	
1,967 Ferrari	222	0.25	
16,260 Fiat Chrysler Automobiles	211	0.24	
5,687 FinecoBank	60	0.07	
234,111 Intesa Sanpaolo	510	0.59	
6,526 Italgas	35	0.04	
8,596 Leonardo	77	0.09	
8,891 Mediaset	25	0.03	
7,809 Mediobanca	68	0.08	
2,934 Moncler	99	0.11	
7,706 Pirelli	45	0.05	
3,982 Prysmian	72	0.08	
1,519 Recordati	50	0.06	

Portfolio statement (continued)

as at Holding	28.02.19 €'000	28.02.19 %	31.08.18 %
Italy (continued)			
12,040 Saipem	55	0.06	
27,101 Snam	117	0.13	
145,178 Telecom Italia	77	0.09	
119,508 Telecom Italia (Savings shares)	57	0.07	
8,165 Tenaris	97	0.11	
22,884 Terna	125	0.14	
15,009 UBI Banca	39	0.05	
33,649 UniCredit	401	0.46	
Luxembourg			
8,000 Arountown	59	0.07	0.00
Netherlands			
	6,457	7.40	7.56
1,400 Aalberts Industries	45	0.05	
6,736 ABN Amro GDR	142	0.16	
28,991 Aegon	136	0.16	
3,606 Akzo Nobel	288	0.33	
11,900 Altice	24	0.03	
9,191 ArcelorMittal	186	0.21	
6,283 ASML	1,009	1.16	
2,516 ASR Nederland	96	0.11	
1,973 Boskalis Westminster	48	0.05	
2,801 DSM	264	0.30	
4,331 Heineken	382	0.44	
1,281 Heineken Holding	108	0.12	
58,997 ING	685	0.79	
18,740 Koninklijke Ahold Delhaize	424	0.49	
50,352 KPN	137	0.16	
5,768 NN	220	0.25	
14,423 Philips	501	0.57	
2,068 Randstad	96	0.11	
2,010 Unibail-Rodamco-Westfield REIT	286	0.33	
22,956 Unilever	1,085	1.24	
1,161 Vopak	50	0.06	
4,269 Wolters Kluwer	245	0.28	
Norway			
	1,380	1.59	1.50
17,074 DnB	287	0.33	
15,955 Equinor	317	0.36	
3,895 Gjensidige Forsikring	61	0.07	
6,327 Mowi	129	0.15	
16,352 Norsk Hydro	60	0.07	
14,141 Orkla	98	0.11	
1,651 Schibsted 'A'	58	0.07	
2,013 Schibsted 'B'	65	0.08	
10,831 Telenor	186	0.21	
3,213 Yara International	119	0.14	

Portfolio statement (continued)

as at Holding	28.02.19 €'000	28.02.19 %	31.08.18 %
Poland			
	679	0.78	0.96
2,120 Bank Pekao	55	0.06	
1,496 CD Projekt	67	0.08	
2,335 KGHM Polska Miedz	55	0.06	
22 LPP	42	0.05	
369 mBank	37	0.04	
12,048 PGE Polska Grupa Energetyczna	33	0.04	
35,447 PGNiG	56	0.06	
4,617 PKN Orlen	110	0.13	
12,046 PKO Bank Polski	106	0.12	
8,031 PZU	76	0.09	
480 Santander Bank Polska	42	0.05	
Portugal			
	318	0.36	0.38
41,873 EDP - Energias de Portugal	134	0.15	
9,316 Galp Energia	134	0.15	
3,706 Jerónimo Martins	50	0.06	
Spain			
	5,810	6.67	6.36
455 Acciona	39	0.04	
4,058 Acerinox	38	0.04	
4,061 ACS Actividades	158	0.18	
982 Aena	154	0.18	
6,526 Amadeus IT	438	0.50	
93,808 Banco de Sabadell	93	0.11	
240,758 Banco Santander	1,021	1.17	
21,278 Bankia	57	0.06	
10,644 Bankinter	76	0.09	
99,967 BBVA	539	0.62	
55,332 CaixaBank	173	0.20	
2,621 Cellnex Telecom	60	0.07	
4,071 Enagas	102	0.12	
5,921 Endesa	130	0.15	
7,889 Ferrovial	159	0.18	
7,053 Grifols	160	0.18	
394 Grifols Preference Shares	6	0.01	
92,542 Iberdrola	679	0.78	
15,901 Inditex	419	0.48	
17,345 Mapfre	43	0.05	
1,534 Mediaset España Comunicación	10	0.01	
6,335 Merlin Properties REIT	71	0.08	
4,656 Naturgy Energy	111	0.13	
7,697 Red Elctrica	146	0.17	
18,955 Repsol	286	0.33	
4,367 Siemens Gamesa Renewable Energy	59	0.07	
71,673 Telefónica	543	0.62	
5,557 Zardoya Otis	40	0.05	

Portfolio statement (continued)

as at Holding	28.02.19 €'000	28.02.19 %	31.08.18 %
Sweden	4,761	5.46	5.74
4,929 Alfa Laval	94	0.11	
14,151 Assa Abloy	257	0.29	
14,376 Atlas Copco	339	0.39	
4,222 Boliden	101	0.12	
4,032 Electrolux	92	0.11	
5,000 Elekta	51	0.06	
15,092 Epiroc	132	0.15	
45,833 Ericsson	367	0.42	
9,401 Essity	229	0.26	
1,760 Fastighets AB Balder	46	0.05	
13,773 Hennes & Mauritz	183	0.21	
3,693 Hexagon	169	0.19	
6,957 Husqvarna	49	0.06	
1,261 ICA	43	0.05	
5,807 Industrivarden	107	0.12	
3,572 Investment AB Latour	41	0.05	
8,280 Investor	322	0.37	
4,206 Kinnevik	93	0.11	
3,465 Lundin Petroleum	102	0.12	
16,983 Sandvik	243	0.28	
4,722 Securitas	65	0.07	
21,045 Skandinaviska Enskilda Banken	186	0.21	
6,480 Skanska	102	0.12	
5,877 SKF	86	0.10	
8,611 Svenska Cellulosa	69	0.08	
21,799 Svenska Handelsbanken	219	0.25	
15,437 Swedbank	248	0.28	
2,849 Swedish Match	118	0.14	
1,500 Swedish Orphan Biovitrum	29	0.03	
4,969 Tele2	58	0.07	
43,715 Telia	167	0.19	
4,929 Trelleborg	71	0.08	
21,975 Volvo	283	0.32	
Switzerland	16,180	18.57	17.37
28,558 ABB	495	0.57	
2,589 Adecco	116	0.13	
908 ams	24	0.03	
676 Baloise	96	0.11	
63 Banque Cantonale Vaudoise	45	0.05	
2,660 Clariant	50	0.06	
39,083 Credit Suisse	424	0.49	
646 Dufry	58	0.07	
101 EMS-Chemie	51	0.06	
286 Flughafen Zurich	45	0.05	

Portfolio statement (continued)

as at Holding	28.02.19 €'000	28.02.19 %	31.08.18 %
Switzerland (continued)			
565 Geberit	199	0.23	
60 Georg Fischer	47	0.05	
142 Givaudan	312	0.36	
126 Helvetia	66	0.07	
3,014 Julius Baer	115	0.13	
851 Kuehne & Nagel	97	0.11	
4,366 LafargeHolcim	190	0.22	
3 Lindt & Sprüngli	193	0.22	
2,628 Logitech	87	0.10	
1,115 Lonza	276	0.32	
46,116 Nestlé	3,675	4.22	
33,599 Novartis	2,698	3.10	
865 Pargesa	62	0.07	
257 Partners	163	0.19	
738 PSP Swiss Property	66	0.08	
7,705 Richemont	516	0.59	
10,931 Roche	2,664	3.06	
946 Schindler	184	0.21	
83 SGS	185	0.21	
1,988 Sika	236	0.27	
849 Sonova	138	0.16	
179 Straumann	122	0.14	
384 Sulzer	33	0.04	
568 Swatch	147	0.17	
523 Swiss Life	199	0.23	
1,282 Swiss Prime Site	95	0.11	
4,770 Swiss Re	414	0.46	
359 Swisscom	145	0.17	
980 Temenos	123	0.14	
53,715 UBS	599	0.68	
696 Vifor Pharma	76	0.09	
2,262 Zurich Insurance	654	0.75	
Turkey	570	0.65	0.39
26,709 Akbank	30	0.03	
7,086 Anadolu Efes Biracilik Ve Malt Sanayii	24	0.03	
4,055 BIM Birlesik Magazalar	58	0.07	
13,970 Emlak Konut REIT	4	0.00	
11,298 ENKA	9	0.01	
25,696 Eregli Demir Celik Fabrikalari	39	0.04	
2,369 Ford Otomotiv Sanayi	22	0.03	
24,329 Hacı Ömer Sabancı	37	0.04	
18,764 Koç	58	0.07	

Portfolio statement (continued)

as at Holding	28.02.19 €'000	28.02.19 %	31.08.18 %
Turkey (continued)			
6,105 Tofaş Türk Otomobil Fabrikası	21	0.02	
2,754 Tüpraş	66	0.08	
19,783 Turkcell İletişim Hizmetleri	47	0.05	
2,099 Türk Hava Yolları	5	0.01	
34,312 Türkiye Garanti Bankası	50	0.06	
19,423 Türkiye Halk Bankası	25	0.03	
31,496 Türkiye İş Bankası	30	0.03	
26,528 Türkiye Şişe ve Cam Fabrikaları	29	0.03	
18,551 Türkiye Vakıflar Bankası	16	0.02	
United States	0	0.00	0.07
EQUITY DERIVATIVES	24	0.03	(0.04)
Equity futures contracts	24	0.03	(0.04)
10 Euro Stoxx 50 Index Mar 2019	24	0.03	
Portfolio of investments	86,413	99.13	97.94
CASH EQUIVALENTS	294	0.34	2.16
'AAA' rated money market funds ^[b]	294	0.34	2.16
252,000 Northern Trust Global Fund - Sterling	294	0.34	
Total portfolio	86,707	99.47	100.10
Net other assets / (liabilities)	462	0.53	(0.10)
Net assets attributable to shareholders	87,169	100.00	100.00

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

^[a] Delisted.

^[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 28 February 2019

	€'000
Largest purchases	
GN Store Nord	64
Scout24	62
Aroundtown	62
Elektro	60
Ambu	49
Sartorius Preference Shares	43
Amundi	42
William Demant	42
Investor	40
Swedish Orphan Biovitrum	37
Other purchases	46
Total purchases	547
Largest sales	
Linde	705
Nestlé	472
Roche	303
RELX	282
Novartis	258
Total	198
Sanofi	183
Allianz	179
BASF	156
Novo-Nordisk	154
Other sales	8,251
Total sales	11,141

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

Financial highlights

Fund performance

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

The following chart and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. Please refer to the Prospectus for M&G Investment Funds (1), 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 (1), which is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations.

Index tracking

The tracking difference between the fund's investment return and that of the FTSE World Europe ex UK Index for the 12 month period ending 28 February 2019 was -0.04% (28 February 2018: -0.24%). The investment returns are calculated gross of fees using end of day pricing in order to be comparable with the index.

The historic tracking error of the investment return of the fund relative to the FTSE World Europe ex UK Index for the period ending 28 February 2019 was 0.19% (28 February 2018: 0.16%), which falls within the predicted tracking error range of 0.0% to 0.50%. Historic tracking error is a measure of the monthly volatility of the investment returns relative to the index over a 36 month period.

The differences are due to the fund not fully replicating the FTSE World Europe ex UK Index.

Fund level performance

Fund net asset value			
as at	28.02.19	31.08.18	31.08.17
	€'000	€'000	€'000
Fund net asset value (NAV)	87,169	102,314	171,552

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.



Financial highlights

Fund performance

To give an indication of how the fund has performed during the period the table below shows the performance of Sterling Class 'A' (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 8 March 2019.

Sterling Class 'A' Accumulation share performance

The share class was launched on 31 January 2000.

	Six months to 28.02.19 UK p	Year to 31.08.18 UK p	Year to 31.08.17 UK p
Change in NAV per share			
Opening NAV	125.03	123.90	99.60
Return before operating charges and after direct portfolio transaction costs	(8.94)	2.01	25.09
Operating charges	(0.40)	(0.88)	(0.79)
Return after operating charges	(9.34)	1.13	24.30
Distributions	n/a	(2.76)	(2.50)
Retained distributions	n/a	2.76	2.50
Closing NAV	115.69	125.03	123.90
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.03	0.07
Dilution adjustments ^[a]	0.00	(0.03)	(0.07)
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.69	0.71	0.71
Return after operating charges	-7.47	+0.91	+24.40
Historic yield	2.37	2.21	2.01
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

	28.02.19	31.08.18	31.08.17
Closing NAV (€'000)	49,084	50,898	43,357
Closing NAV percentage of total fund NAV (%)	56.31	49.74	25.27
Number of shares	36,411,087	36,521,977	32,226,481
Highest share price (UK p)	126.37	128.46	125.38
Lowest share price (UK p)	110.08	115.24	97.13

^[a] In respect of direct portfolio transaction costs.

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

Financial highlights

Operating charges and portfolio transaction costs

We explain below the payments made to meet the ongoing costs of investing and managing the fund, comprising operating charges and portfolio transaction costs.

Operating charges

Operating charges include payments made to M&G and to providers independent of M&G:

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

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

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

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

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

	Six months to 28.02.19	Year to 31.08.18	Year to 31.08.17	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.01	0.01	0.02	0.01
Taxes	0.00	0.01	0.04	0.02
Costs before dilution adjustments	0.01	0.02	0.06	0.03
Dilution adjustments ^[c]	(0.01)	(0.02)	(0.06)	(0.03)
Total direct portfolio transaction costs	0.00	0.00	0.00	0.00
as at	28.02.19	31.08.18	31.08.17	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.05	0.05	0.05	0.05

^[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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