M&G European Smaller Companies Fund

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

Interim Short Report February 2018
For the six months ended 28 February 2018

M&G INVESTMENTS

Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (1) presents its Interim Short Report for M&G European Smaller Companies 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.)

Important information

On 25 May 2018 the M&G European Smaller Companies Fund will amend its investment objective and policy. It will also change its name to M&G Pan European Select Smaller Companies Fund.

Investment objective and policy

The fund invests in smaller companies in Europe, with the sole objective of long term capital growth. It will invest wholly or mainly in securities of European companies which constitute the bottom third in terms of total market capitalisation of all publicly listed equity in Europe. When not wholly invested as above, the fund may only invest in medium and larger capitalised companies in order to enhance the liquidity of the fund.

Investment approach

The M&G European Smaller Companies Fund invests in smaller quality companies, with advantageous characteristics, or 'economic moats', to protect their profitability and an element of change helping to drive their value. Importantly, the fund manager invests in businesses where short-term 'disruptions' have provided a clear valuation opportunity, and will engage with management where appropriate, to help bring about positive change.

The fund manager believes that a focus on both quality and value offers a powerful combination, providing the long-term growth in returns that quality businesses can deliver, as well as the potential boost to a company's share price when a 'disruption' has been resolved and the shares revert to a more appropriate level. Key to his approach is remaining patient and taking a long-term view, both in the entry and exit points of the fund's holdings. The fund manager keeps the portfolio focused, generally holding fewer than 50 well-understood stocks from a diverse universe of smaller companies, which is often less well-covered and understood than a universe of larger businesses.

Holdings in the fund generally fall into one of two 'buckets' – 'stable growth' and 'opportunities'. The manager sees stable growth companies as those that generate high levels of cash with a visible reinvestment plan, and represent lower business risk. Opportunities companies tend to be improving their returns on capital, have more potential for internal change and are more attractively valued at the point of investment.

Fund information

Risk profile

The fund invests in the shares of smaller Europe-listed companies and is, therefore, subject to the price volatility of the European stockmarket and the performance of individual companies. The fund may also be subject to fluctuations in currency exchange rates.

The fund's focus is on smaller companies where the share price movement can be more unpredictable and the shares more difficult to buy and sell compared to those of larger companies. Diversification across countries, industries and market capitalisation 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.

Low risk — High risk

Typically lower rewards — Typically higher rewards

1	2	3	4	**5**	6	7

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.

Investment review

As at 1 March 2018, for the six months ended 28 February 2018

Performance against objective

Between 1 September 2017 (the start of the review period) and 1 March 2018, the M&G European Smaller Companies Fund delivered positive capital growth across all of its euro and US dollar denominated share classes, while its sterling denominated share classes declined.* The majority of share classes finished behind a comparable index, the EMIX Smaller European Companies Index. Over the six months, returns from the index were -0.3%, 2.8% and 5.4% in sterling, euros and US dollars, respectively.

Over five years and since launch, the fund has delivered positive capital growth, and has remained invested in a diversified portfolio of smaller company shares from across Europe, including the UK, thus meeting its investment 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 (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 and Sterling Class 'I' (Accumulation) shares. Calculated on a price to price basis with income reinvested.

Long-term performance

	Six months 01.09.17 % [a]	Three years 02.03.15 % p.a.	Five years 01.03.13 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	-1.4	+16.4	+12.2	+10.9 [c]
Class 'I'	-1.0	+17.3	+13.0	+17.0 [d]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 30 September 1996, 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

For the six months under review, smaller European companies delivered positive returns in euro and US dollar terms, while sterling returns were negative – this was a reflection of relative currency strengths for the period. Markets began the review period on shaky ground, as investors grappled with a number of issues, including a series of destructive hurricanes, ongoing tensions with North Korea and the outlook for interest rates on both sides of the Atlantic. As we moved through the period, Europe also experienced a degree of political discord, driven by uncertain German elections and a Catalonian independence vote in Spain, both of which unnerved markets to a degree. Investor sentiment was supported, though, by solid earnings and robust economic growth, with the overall global macroeconomic environment continuing to improve. Markets were further boosted near the end of 2017 by hopes for US tax reforms, and a somewhat euphoric mood took us into the New Year.

As we passed into February, however, markets moved violently at a level not experienced since the Chinese stockmarket rout in 2015, before a degree of calm eventually returned. Wild market swings were apparently triggered by a pick-up in wage inflation in the US, which led to rising interest rate expectations. The subsequent reaction was extreme, infecting markets globally and giving back those euphoric gains from January.

Overall, smaller European companies outpaced the broader European market, but did not keep up with the wider global indices, which were led by Japan and the US. Among the larger European constituents, smaller companies in Germany and Switzerland outpaced the index – the fund's above-index position in both countries was therefore supportive of returns, as was stock selection within them. The below-index position in Sweden, an underperforming market for the period, was also beneficial. At a country level, the largest drag on returns came from stockpicking in France, reflecting the aggregate underperformance of consumer products company BIC, automotive component maker Lisi and warehouse outsourcing specialist ID Logistics, as well as targeted web advertising specialist Criteo, highlighted below.

Against this background, within the smaller companies space, the technology, retail providers and industrial goods sectors all outperformed the wider market – stockpicking within technology led to the largest drag on returns for the period, while selection among retail providers and industrial goods was supportive. At the other end of the spectrum, basic materials and consumer goods underperformed, with stockpicking in the former adding value, and the latter detracting from relative performance.

At an individual stock level, the fund's largest detractor was Criteo, mentioned above. The company's shares were hit earlier in the year, after Apple introduced 'intelligent tracking prevention' (ITP), which automatically deletes cookies over time. Criteo developed a work-around to the technology, but a new ITP release meant the company would need to develop an alternative solution. This uncertainty, combined with new data protection legislation in the EU, due to come into force in the spring of 2018, hit sentiment in the company, and its shares fell as a result. We think the market reaction was excessive as, in reality, Apple is only a small percentage of the business. We do not believe ITP will be a problem for the company, and because of its position in the market, will actually strengthen its competitive advantages – as, for example, less established players are not as capable of developing workarounds.

International payments company Earthport, a new holding for the period (see below), dragged on returns as well. Delays in two projects that were meant to be completed by the end of 2017 led to reduced payment volumes, resulting in a profit warning. It was also announced that the chairman and chief executive officer would be swapping roles, which the market did not believe was an effective means of dealing with difficulties the company is facing – its shares fell sharply as a result. We have been in contact with management and believe their long-term strategy remains sound, and that the company will ultimately provide a socially beneficial solution to international payments – a historically inefficient process that does not favour the consumer.

Other detractors included allergy immunotherapy specialist ALK-Abelló, whose share price fell following a private placement fundraising (where shares are sold directly to a private investor, rather than as part of a public offering) in which we took part, and household goods manufacturer Leifheit, which reported earnings that fell below expectations.

On the upside, the fund's largest contributor was German online brokerage leader FinTech. The company has continued to follow through on its operational plans, and investors are realising the potential of the company. This perception has been aided by Brexit, as FinTech is one of the largest online brokers in Germany and stands to benefit from business shifting from London to Frankfurt – a potential outcome of the UK's vote to leave the European Union. During the period under review the company published strong results, including the expectation of some 40% growth in 2018 net profit.

UK-listed retailer WH Smith bolstered returns as well. Just prior to the start of the review period, the company reported that its travel business, which includes concessions in airports and train stations, had continued to deliver robust sales across all of its channels, reaching the inflection point at which those sales had surpassed the high street. Its high street stores, meanwhile, have delivered cost savings and margin improvements. Investors were cheered by this news, and the company's shares maintained their upward momentum for much of the period under review.

Other supportive holdings included high-performance sensor maker AMS and maritime services and technology company Kongsberg. AMS reported strong guidance for the fourth quarter of 2017, against a background of uncertainty over demand for Apple's latest iPhone, which had led to turbulence in the share prices of Apple suppliers. Investors were comforted by the news, and the company's shares subsequently rose. Kongsberg, meanwhile, published good results in light of ongoing operational success, including a solid increase in new orders, and its share price reacted well.

Investment activities

We run a concentrated portfolio of fewer than 50 holdings, maintaining a watchlist of around 200 quality 'moated' companies that we would like to own when the timing and price are right (moated companies are those where we feel the business model is well protected from competition). We monitor our watchlist closely, waiting patiently for short-term issues to create buying opportunities.

During the period under review, four such opportunities presented themselves. The first was Georgia's second largest lender, BGEO. We think the company has a strong branch network and clear funding advantages, delivering strong returns in a duopolistic market (where two banks control 70% of the market). We believe the bank is run by a solid, shareholder friendly management team, punctuated by a good governance framework and long-term incentives. The bank's investment arm is also widely diversified, buying businesses across healthcare, power, water and elsewhere, helping to drive improvement in Georgian infrastructure. We do not feel that investors have realised the inherent value in the bank, and in particular in its investment vehicle, allowing us to purchase the shares at what we believe to be an attractive valuation.

We bought shares in French consumer products company Bic, best known for producing lighters, pens and razors. We believe that Bic operates under a strong company culture with very little bureaucracy, concentrated on innovation and service delivery for its customers – it benefits from scale advantages, manufacturing expertise and a unique distribution channel, all of which help to protect its competitive advantage. The company is also very focused on both its employees and the environment – with clear targets for internal promotion and fuel efficiency, for example – as well as governance, where it is highly disciplined on cash and capital allocation. Short-term underperformance across its business units worried investors, providing our buying opportunity.

We established a holding in Denmark-listed facility services business ISS. Founded in 1901, the company is one of only two global players that can provide complete service across the full range of facility management – this includes cleaning, catering, security, energy management and so on. As customers are increasingly moving towards more integrated services, this provides the company with distinct competitive advantages. ISS also has the ability to service customers globally, enabling it to target global corporate clients across their facilities. In terms of sustainability, ISS has set out measurable targets for environmental impacts, and has strong social policies in place; of obvious importance for a company with over 500,000 employees. The loss of two contracts and some short-term cost pressures weighed on the share price.

Our other new purchase was UK-based funeral services provider Dignity. The company has a leading position in the fragmented UK funeral services market, where most businesses are smaller, local operations, giving the company clear scale advantages. Dignity also operates its own crematoria, which provides a distinct competitive advantage. We believe Dignity is an excellent company, producing high returns, with a very well-protected business model. It's shares sold off following a profit warning linked to management's decision to reduce prices of low end funerals, in response to increased competition – this provided our investment entry point.

Conversely, we further concentrated the portfolio by closing six positions, using proceeds to fund the review period's new purchases. These included Austrian construction company Porr, branded jewellery creator Pandora, Irish building materials company Kingspan, multinational flavour and fragrance creator Frutarom Industries, restructuring specialist Mutares and forklift truck and logistics systems business Jungheinrich.

Outlook

We think that the growth part of the market has continued to do well on the back of earnings upgrades, and we are generally happy to allow our holdings in this space to rise with the tide. AMS, for example (mentioned above), over the course of 2017 more than trebled in value, while Jungheinrich saw its share price rise by some 44% in local currency, to the point where it was looking quite expensive and we took the decision to sell. As growth areas of the market are starting to look crowded, we are not currently looking to invest new money there.

Meanwhile, any stock reporting an earnings downgrade has been hit hard, with the market being totally unforgiving; this is more interesting for smaller company investors, especially if we bear in mind that recovery is relatively young in Europe and that there will be pauses on the way. Leifheit, for example, was down 30% after a recent profit warning – we think this is quite an extreme market reaction. With this in mind, the more boring the company the more interested we are, while a few countries have also attracted our attention. Spain in particular is throwing up opportunities after the post referendum wobble. Likewise, Italy is of interest following the evaporation of the hype surrounding the PIR (Piano Individuale di Risparmio – tax breaks on small cap investment if held for five years). Otherwise, both Eastern Europe and the UK remain on our radar.

In terms of the current portfolio, we remain confident in the quality of our holdings, and firmly believe that they will generate long-term value for the fund. As long-term investors, this is our focus, and we continue to be optimistic about their prospects.

Michael Oliveros
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		28.02.18 €'000	28.02.18 %	31.08.17 %
	EQUITIES	**204,508**	**99.63**	**97.53**
	Oil & gas producers	**1,037**	**0.51**	**0.78**
1,750,509	Ophir Energy	1,037	0.51	
	Oil equipment, services & distribution	**6,220**	**3.03**	**2.52**
38,537	Schoeller Bleckmann Oilfield	3,229	1.57	
112,306	Técnicas Reunidas	2,991	1.46	
	Chemicals	**4,334**	**2.11**	**4.76**
610,461	MagForce	4,334	2.11	
	Construction & materials	**4,308**	**2.10**	**5.43**
306,813	Arbonia	4,308	2.10	
	Aerospace & defence	**4,545**	**2.21**	**2.02**
122,347	LISI	4,545	2.21	
	Electronic & electrical equipment	**7,281**	**3.55**	**3.74**
34,037	Comet	4,108	2.00	
111,711	EVS Broadcast Equipment	3,173	1.55	
	Industrial engineering	**20,825**	**10.14**	**10.26**
117,695	Cargotec	5,447	2.65	
743,275	Deutz	5,708	2.78	
263,986	Kongsberg Gruppen	4,773	2.32	
352,236	Oerlikon	4,897	2.39	
	Industrial transportation	**8,294**	**4.04**	**4.46**
28,402	ID Logistics	3,880	1.89	
235,413	Logista	4,414	2.15	
	Support services	**17,296**	**8.43**	**6.88**
95,598	CTS EVENTIM	3,833	1.87	
53,407	DCC	4,039	1.97	
1,670,306	Equiniti	5,507	2.68	
130,731	ISS	3,917	1.91	
	Automobiles & parts	**4,782**	**2.33**	**0.00**
789,564	KTM Industries	4,782	2.33	
	Food producers	**3,771**	**1.84**	**1.78**
661,610	Origin Enterprises	3,771	1.84	
	Household goods & home construction	**15,968**	**7.78**	**5.75**
2,225,839	Cairn Homes	3,927	1.91	
253,376	Leifheit	7,475	3.64	
53,283	Societe BIC	4,566	2.23	
	Leisure goods	**3,790**	**1.85**	**2.13**
212,071	Thule Group	3,790	1.85	
	Personal goods	**4,130**	**2.01**	**3.61**
56,155	HUGO BOSS	4,130	2.01	

Portfolio statement (continued)

as at Holding		28.02.18 €'000	28.02.18 %	31.08.17 %
	Healthcare equipment & services	**7,434**	**3.62**	**3.94**
558,346	Medicover	3,560	1.73	
406,147	UDG Healthcare	3,874	1.89	
	Pharmaceuticals & biotechnology	**10,185**	**4.96**	**5.00**
36,896	ALK-Abelló	3,587	1.75	
1,520,498	Indivior	6,598	3.21	
	Food & drug retailers	**3,016**	**1.47**	**2.08**
75,106	Galenica	3,016	1.47	
	General retailers	**27,093**	**13.20**	**10.41**
770,412	AcadeMedia	4,530	2.21	
411,132	Dignity	3,810	1.86	
2,821,900	Pets at Home	5,506	2.68	
254,649	TAKKT	5,513	2.68	
335,958	WH Smith	7,734	3.77	
	Banks	**9,945**	**4.84**	**1.96**
825,269	Bank of Ireland	6,342	3.09	
94,533	BGEO Group	3,603	1.75	
	Non-life insurance	**5,151**	**2.51**	**2.55**
339,308	Jardine Lloyd Thompson Group	5,151	2.51	
	Financial services	**11,816**	**5.75**	**6.65**
223,705	FinTech Group	6,398	3.11	
248,159	GAM Holding (Regd.)	3,670	1.79	
148,137	MyBucks	1,748	0.85	
	Software & computer services	**17,404**	**8.48**	**8.70**
166,584	Criteo ADR	4,035	1.97	
16,260,000	Earthport	2,192	1.07	
297,823	EMIS Group	2,436	1.19	
334,153	Indra Sistemas	3,803	1.85	
31,039	Sopra Steria	4,938	2.40	
	Technology hardware & equipment	**5,883**	**2.87**	**2.12**
61,081	ams	5,883	2.87	
Portfolio of investments		**204,508**	**99.63**	**97.53**
	CASH EQUIVALENTS	**444**	**0.22**	**3.24**
	'AAA' rated money market funds [a]	**444**	**0.22**	**3.24**
392,000	Northern Trust Global Fund - Sterling	444	0.22	
Total portfolio		**204,952**	**99.85**	**100.77**
Net other assets / (liabilities)		**320**	**0.15**	**(0.77)**
Net assets attributable to shareholders		**205,272**	**100.00**	**100.00**

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

[a] 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 2018

Largest purchases	**€'000**
Societe BIC	5,097
KTM Industries	4,628
ISS	4,245
Dignity	4,063
BGEO Group	3,799
Earthport	3,583
Bank of Ireland	2,374
Cargotec	2,367
Pets at Home	2,145
Deutz	1,999
Other purchases	20,873
Total purchases	**55,173**

Largest sales	**€'000**
Frutarom Industries	4,244
Jungheinrich Pref. (non-voting)	3,523
Kingspan Group	3,182
Mutares	3,138
PORR	2,548
Pandora	2,373
FinTech Group	2,309
Deutz	1,524
Logista	1,280
AcadeMedia	1,025
Other sales	8,478
Total sales	**33,624**

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

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 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 (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.

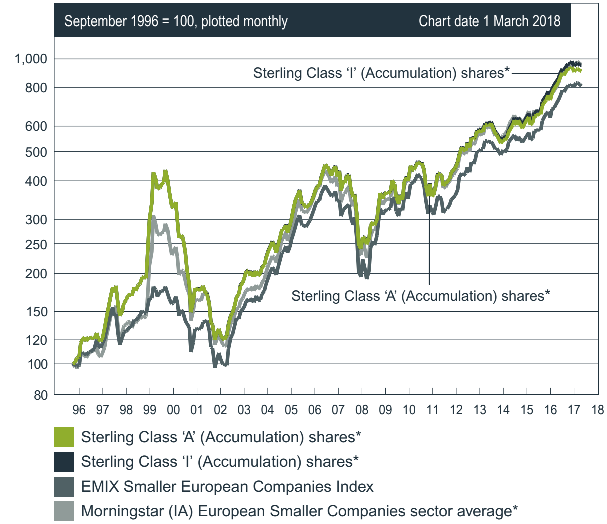
Fund level performance

Fund net asset value

as at	28.02.18 €'000	31.08.17 €'000	31.08.16 €'000
Fund net asset value (NAV)	205,272	180,695	140,323

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.



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.

Financial highlights
Fund performance

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 9 March 2018.

Sterling Class 'A' Accumulation share performance

The share class was launched on 30 September 1996.

Change in NAV per share	Six months to 28.02.18 UK p	Year to 31.08.17 UK p	Year to 31.08.16 UK p
Opening NAV	443.04	345.71	291.37
Return before operating charges and after direct portfolio transaction costs	(1.18)	103.94	59.53
Operating charges	(3.69)	(6.61)	(5.19)
Return after operating charges	(4.87)	97.33	54.34
Distributions	n/a	(0.86)	(2.12)
Retained distributions	n/a	0.86	2.12
Closing NAV	438.17	443.04	345.71
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.33	0.31	0.73
Dilution adjustments [a]	(0.11)	(0.12)	(0.14)
Total direct portfolio transaction costs	0.22	0.19	0.59
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.10	0.05	0.20
Operating charges	1.68	1.68	1.69
Return after operating charges	-1.10	+28.15	+18.65
Historic yield	0.19	0.19	0.61
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	23,851	30,550	23,174
Closing NAV percentage of total fund NAV (%)	11.62	16.91	16.52
Number of shares	4,804,549	6,349,972	5,685,714
Highest share price (UK p)	461.41	445.08	352.33
Lowest share price (UK p)	424.16	343.71	271.54

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

Change in NAV per share	Six months to 28.02.18 UK p	Year to 31.08.17 UK p	Year to 31.08.16 UK p
Opening NAV	2,419.27	1,873.64	1,567.32
Return before operating charges and after direct portfolio transaction costs	(6.74)	565.69	321.90
Operating charges	(11.18)	(20.06)	(15.58)
Return after operating charges	(17.92)	545.63	306.32
Distributions	n/a	(21.71)	(25.19)
Retained distributions	n/a	21.71	25.19
Closing NAV	2,401.35	2,419.27	1,873.64
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	1.82	1.71	3.93
Dilution adjustments [a]	(0.61)	(0.64)	(0.74)
Total direct portfolio transaction costs	1.21	1.07	3.19
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.10	0.05	0.20
Operating charges	0.93	0.93	0.94
Return after operating charges	-0.74	+29.12	+19.54
Historic yield	0.89	0.90	1.33
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	9,780	8,745	6,335
Closing NAV percentage of total fund NAV (%)	4.77	4.84	4.51
Number of shares	359,498	332,881	286,788
Highest share price (UK p)	2,521.75	2,430.38	1,908.97
Lowest share price (UK p)	2,323.73	1,863.26	1,465.56

[a] In respect of direct portfolio transaction costs.

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

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.

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

Direct portfolio transaction costs [b]	Six months to 28.02.18 %	Year to 31.08.17 %	Year to 31.08.16 %	Average [a] %
Broker commission	0.04	0.03	0.14	0.07
Taxes	0.11	0.05	0.10	0.09
Costs before dilution adjustments	0.15	0.08	0.24	0.16
Dilution adjustments [c]	(0.05)	(0.03)	(0.04)	(0.04)
Total direct portfolio transaction costs	0.10	0.05	0.20	0.12
as at Indirect portfolio transaction costs	**28.02.18 %**	**31.08.17 %**	**31.08.16 %**	**Average [a] %**
Average portfolio dealing spread	0.23	0.25	0.28	0.25

[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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