

# M&G Global Select Fund

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

Interim Short Report February 2017  
For the six months ended 28 February 2017



The Authorised Corporate Director (ACD) of M&G Investment Funds (1) presents its Interim Short Report for M&G Global Select 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](http://www.mandg.co.uk/reports) or by calling M&G Customer Relations on 0800 390 390.

### ACD

M&G Securities Limited, Laurence Pountney Hill,  
London EC4R 0HH Telephone: 0800 390 390  
(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

Please note that with effect from 16 December 2016:

- We have discounted the initial charge to zero on all new investments into Sterling shares that currently carry such a charge.
- We have waived the exit charges on future withdrawals from all Sterling Class 'X' shares.

### Investment objective

The Fund aims to maximise long term total return (the combination of capital growth and income) by investing mainly in a wide range of global equities.

### Investment policy

The Fund will invest globally (including the UK) in the equities of companies across a wide range of geographies, sectors and market capitalisations. Income is of secondary importance to capital growth when investments are selected. The Fund may at any time be concentrated in a limited number of equities.

### Investment approach

The M&G Global Select Fund is a core global equity fund, investing in 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.

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.

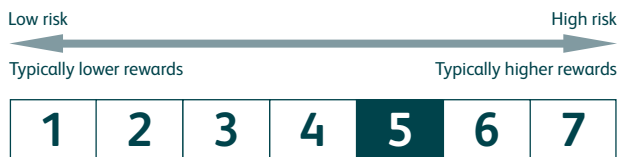
The manager keeps the portfolio focused, generally holding between 30 and 40 well-understood stocks, which broadly fall into one of two 'buckets' – 'stable growth' and 'opportunities'. Stable growth companies are those that have a proven track record of producing stable earnings, tending to have very strong market positions or powerful brands, for example. Opportunities companies sit in out-of-favour corners of the market where change is not appreciated or risk is overstated. These tend to be less predictable, but with significant growth potential.

### Risk profile

The fund invests globally in the shares of listed companies and is, therefore, subject to the price volatility of the global 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 quality businesses where an element of change is helping to drive their value, and these stocks could potentially experience a degree of illiquidity in times of market distress. The fund is a concentrated portfolio of between 30 and 40 holdings, but is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. Diversification across countries, industries and market capitalisation is 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 1 March 2017, for the six months ended 28 February 2017

### Performance against objective

Between 1 September 2016 (the start of the review period) and 1 March 2017, the M&G Global Select Fund delivered positive total returns (the combination of income and growth of capital) across all of its share classes.<sup>[a]</sup> All share classes, however, finished behind a comparable index, the MSCI World Index. Over the six months, returns from the index were 17.5%, 15.4% and 8.8% in sterling, euros and US dollars, respectively.

Over five years and since launch, the fund has delivered positive total returns, and has remained invested in a diversified portfolio of company shares from anywhere in the world, thus meeting its investment objective.

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 01.09.16 % <sup>[a]</sup>	Three years 03.03.14 % p.a.	Five years 01.03.12 % p.a.	Since launch % p.a.
<b>Sterling <sup>[b]</sup></b>				
Class 'A'	+14.1	+14.5	+12.1	+10.7 <sup>[c]</sup>
Class 'I'	+14.6	+15.4	n/a	+15.3 <sup>[d]</sup>

<sup>[a]</sup> Absolute basis.

<sup>[b]</sup> Price to price with income reinvested.

<sup>[c]</sup> 19 December 1967, the end of the initial offer period of the predecessor unit trust.

<sup>[d]</sup> 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

Stockmarkets in developed countries delivered solid returns for the period under review, with positive prospects for global economic growth and inflation, as well as a changing political landscape, helping to drive investor sentiment.

For most of the period, the market mood was arguably dominated by the run-up to, and aftermath of, the US presidential election. Following swirling speculation over what a Donald Trump victory might mean, his unexpected win sparked a significant, if not surprising, shift in investor sentiment, as the potential for reduced taxes and regulation, as well as a boost to spending on infrastructure, cheered investors. The mood was further enlivened by relatively robust economic data and good corporate results, all of which made investors more willing to take on risk. With that in mind, US stockmarkets hit record highs during the review period, and took other markets, including Europe, along for the ride.

The financial sector was the largest beneficiary of this improved mood, as depressed valuations drew investor attention, particularly in the US. Financials had been out of favour for some time, and we had taken advantage of this to add to existing positions that we thought were looking particularly attractive. At the end of the period under review, nearly a quarter of the fund was invested in the sector, primarily in quality financial institutions in the US. As financials outperformed the wider market, this proved supportive for relative returns, as did our selection of stocks within the sector.

Beyond financials, information technology and materials also delivered robust returns, and our below-index positions in these sectors weighed on performance. At the other end of the spectrum, sectors considered to be more 'defensive' (that is, those that have relatively predictable and stable earnings regardless of the state of the economy) underperformed for the period, as investors became more willing to take on risk. These included real estate, telecommunications, consumer staples and healthcare, all of which lagged against the wider market. Our below-index positions in the former three sectors proved helpful to relative performance, although our above-index position in healthcare – also representing nearly a quarter of the fund – as well as stock selection within the sector, dragged on returns for the period.

At a stock level, the two largest detractors for the period were both pharmaceutical companies – Israel-listed Teva and Danish multinational Novo Nordisk. Teva's shares, along with other generic drug makers, fell sharply in November on news that US prosecutors

investigating potential collusion in the pricing of generic drugs could file charges by the end of 2016 – Teva was among those caught in the investigation's net. The company has also experienced legal challenges around patents on its branded multiple sclerosis treatment Copaxone, as well as additional issues affecting its generics division; its share price has been suppressed as a result.

Novo Nordisk, meanwhile, experienced share price weakness for much of the review period. This was in light of pricing pressure in the US for some of its products, exacerbated by comments from President Donald Trump concerning his determination to lower drug prices. We took advantage of the more attractive valuations to add to our position in the company, believing in the long-term sustainability of the business, despite the short-term issues affecting its share price.

In the retail space, some US retailers had a difficult time during the period under review, and this was reflected in the shares of US retailer operator L Brands (the company owns Victoria's Secret and Bath & Body Works, among others). L Brands' share price declined after the company reported a drop in same-store sales following a difficult holiday period, which continued into February. Underperformance was primarily driven by Victoria's Secret, which has felt pressure on sales on the back of the weaker store traffic seen throughout US retail, as well as reduced profit margins in light of discounting.

Within industrials, German food processing technology and component maker GEA detracted as well. GEA's shares suffered after the company reduced its guidance for the year, reflecting a 'lumpier'-than-expected order book in the dairy industry; investors were particularly unnerved by poor communication, as the company had previously confirmed a positive outlook.

Swiss global food and beverage company Nestlé and British consumer goods company Reckitt Benckiser also saw some share price weakness, as investors turned away from the perceived safety of consumer staples companies.

On the upside, our holdings in the financial sector added value for the period, with the largest contributor being M&T Bank, a community-based regional lender headquartered in New York. Direct banking and payments company Discover Financial Services, Japanese insurer Tokio Marine, credit card company American Express and financial institution Bank of New York Mellon all delivered strong returns as well.

Elsewhere, luxury jeweller Tiffany was also supportive. During the period under review, the company reached a deal with activist investors to appoint three independent directors to its board, who would help

oversee the search for a new chief executive (CEO Fredric Cumenal left the company at the beginning of February). Investors anticipated that the new board members would help to accelerate Tiffany's modernisation, and its shares rose as a result.

Other notable holdings included fluid handling systems maker Graco, which published strong results during the period, and Time Warner. The multinational media company's share price rose sharply on news that US telecom conglomerate AT&T had agreed to acquire the company for US\$85.4 billion. The deal remained under regulatory scrutiny at the end of the review period.

### Investment activities

We run a concentrated portfolio of between 30 and 40 holdings, maintaining a watchlist of around 300 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, or 'disruptions', to create buying opportunities.

During the review period, two such opportunities presented themselves. The first was Linde, the world's second-largest supplier of industrial gases. Following a series of beneficial acquisitions, we believe Linde possesses some of the best assets in the industry, with the potential to improve the profitability of those assets. The company is engaged in highly visible long-term projects in captive markets, generates a lot of cash and is very profitable. The end of merger talks with competitor Praxair (which subsequently resumed) created our entry point.

Our other new purchase was Unilever, a high-quality producer of household and beauty products as well as food and beverages. Unilever is very long term, making strategic acquisitions over time to grow and diversify its business, and is stakeholder, not just shareholder, focused. Its shares weakened as investors turned from consumer staples companies, in favour of more growth oriented stocks, allowing us to purchase shares at what we believe to be an attractive valuation. The company is now, in light of an attempted (and subsequently called-off) takeover bid by rival Kraft Heinz, looking at shorter term optimisations in the business, and we believe we will see ongoing improvement in cashflows and profitability. We have watched the stock for some time, waiting for the right entry point, and believe that that patience has now paid off.

Conversely, we exited the fund's holdings in automotive seating and interiors business Adient, a small position that had been spun off from Johnson Controls last year, and cigarette maker British American Tobacco. This was in light of tougher regulations, new technologies – including 'vaping' – leading to increased competition and uncertainty, and a belief that tobacco companies were increasingly unlikely to produce the same level returns as they have in the past.

### Outlook

Over the course of the review period we witnessed a shift in investor sentiment. In risk-averse markets, investors had preferred the perceived safety of more defensive parts of the market – most notably within the consumer staples sector – and were seemingly willing to pay any price to invest in these companies.

With the turn in mood, accelerated by the election of Donald Trump, investors have returned to looking at company fundamentals, and a focus on 'value' appears to be coming into favour. In this environment, there could be an expectation that a quality-biased portfolio will struggle, but we do not believe that our quality focus will preclude the fund from taking advantage of the rotation into value. This is because 'quality' is by no means limited to the defensive, stable, 'safe' stocks that previously attracted so much investor attention. We identify quality across sectors, investing in companies with a proven track record of value creation over the business cycle, irrespective of the sector in which they reside.

Given the nature of the businesses in which we invest, and the balanced construction of our portfolio, we believe the fund is well positioned to take advantage of the current shift in investor sentiment. As long-term investors, we remain focused on the long-term value of the businesses in which we invest, and continue to be optimistic about their prospects.

### John William Olsen Fund manager

An employee of M&G Limited which is an associate of M&G Securities Limited.

*[a]* 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).

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		28.02.17	28.02.17	31.08.16
Holding		\$'000	%	%
	<b>Oil equipment, services &amp; distribution</b>	<b>17,877</b>	<b>2.15</b>	<b>1.90</b>
434,953	National Oilwell Varco	17,877	2.15	
	<b>Chemicals</b>	<b>35,270</b>	<b>4.25</b>	<b>2.85</b>
154,239	Bayer	16,981	2.05	
113,418	Linde	18,289	2.20	
	<b>General industrials</b>	<b>45,041</b>	<b>5.42</b>	<b>9.13</b>
328,464	GEA Group	12,855	1.55	
345,897	Graco	32,186	3.87	
	<b>Electronic &amp; electrical equipment</b>	<b>14,682</b>	<b>1.77</b>	<b>1.93</b>
216,492	Schneider Electric	14,682	1.77	
	<b>Food producers</b>	<b>57,907</b>	<b>6.97</b>	<b>4.81</b>
469,195	Nestlé (Regd.)	34,561	4.16	
495,418	Unilever	23,346	2.81	
	<b>Household goods &amp; home construction</b>	<b>17,091</b>	<b>2.06</b>	<b>2.05</b>
188,021	Reckitt Benckiser	17,091	2.06	
	<b>Personal goods</b>	<b>26,923</b>	<b>3.24</b>	<b>2.72</b>
292,772	Tiffany & Co	26,923	3.24	
	<b>Tobacco</b>	<b>0</b>	<b>0.00</b>	<b>2.99</b>
	<b>Healthcare equipment &amp; services</b>	<b>102,779</b>	<b>12.38</b>	<b>12.34</b>
267,058	Becton Dickinson	48,815	5.88	
326,345	UnitedHealth Group	53,964	6.50	
	<b>Pharmaceuticals &amp; biotechnology</b>	<b>78,138</b>	<b>9.41</b>	<b>10.53</b>
5,147,139	Indivior	22,385	2.69	
1,023,012	Novo-Nordisk	36,258	4.37	
545,915	Teva Pharmaceuticals	19,495	2.35	
	<b>General retailers</b>	<b>63,460</b>	<b>7.64</b>	<b>7.69</b>
225,704	L Brands	11,825	1.42	
241,099	Stericycle	20,105	2.42	
1,496,194	WH Smith	31,530	3.80	
	<b>Media</b>	<b>25,822</b>	<b>3.11</b>	<b>2.68</b>
262,955	Time Warner	25,822	3.11	
	<b>Banks</b>	<b>59,891</b>	<b>7.21</b>	<b>6.63</b>
1,342,858	ING Groep	18,386	2.21	
177,599	M&T Bank	29,828	3.59	
1,300,673	Standard Chartered	11,677	1.41	
	<b>Non-life insurance</b>	<b>63,083</b>	<b>7.59</b>	<b>8.37</b>
494,530	American International Group	31,650	3.81	
717,500	Tokio Marine Holding	31,433	3.78	
	<b>Financial services</b>	<b>82,205</b>	<b>9.90</b>	<b>9.01</b>
253,489	American Express	20,325	2.45	
661,055	Bank of New York Mellon	31,136	3.75	
429,388	Discover Financial Services	30,744	3.70	

Portfolio statement (continued)				
as at		28.02.17	28.02.17	31.08.16
Holding		\$'000	%	%
	<b>Software &amp; computer services</b>	<b>108,771</b>	<b>13.10</b>	<b>14.23</b>
34,639	Alphabet	29,424	3.54	
195,029	Ansys	20,917	2.52	
146,573	International Business Machines	26,298	3.17	
500,349	Microsoft	32,132	3.87	
	<b>Technology hardware &amp; equipment</b>	<b>24,971</b>	<b>3.01</b>	<b>0.00</b>
591,440	Johnson Controls	24,971	3.01	
	<b>Portfolio of investments</b>	<b>823,911</b>	<b>99.21</b>	<b>99.86</b>
	<b>'AAA' rated money market funds [a]</b>	<b>3,758</b>	<b>0.45</b>	<b>0.13</b>
3,758,000	Northern Trust Global Fund - US dollar	3,758	0.45	
	<b>Total portfolio</b>	<b>827,669</b>	<b>99.66</b>	<b>99.99</b>
	<b>Net other assets / (liabilities)</b>	<b>2,811</b>	<b>0.34</b>	<b>0.01</b>
	<b>Net assets attributable to shareholders</b>	<b>830,480</b>	<b>100.00</b>	<b>100.00</b>

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 portfolio transactions	
for the six months to 28 February 2017	
<b>Purchases</b>	<b>\$'000</b>
Unilever	20,182
Linde	18,332
Novo-Nordisk	17,922
Stericycle	4,053
Reckitt Benckiser	2,036
WH Smith	1,616
<b>Total purchases</b>	<b>64,141</b>
<b>Largest sales</b>	<b>\$'000</b>
British American Tobacco	24,350
Shire	9,753
Tokio Marine Holding	9,680
UnitedHealth Group	6,864
Bayer	6,527
Microsoft	5,918
M&T Bank	5,399
Ansys	5,044
Alphabet	4,470
Adient	3,707
Other sales	27,920
<b>Total sales</b>	<b>109,632</b>

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 share classes. Performance is shown after deduction of this charge. All 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.

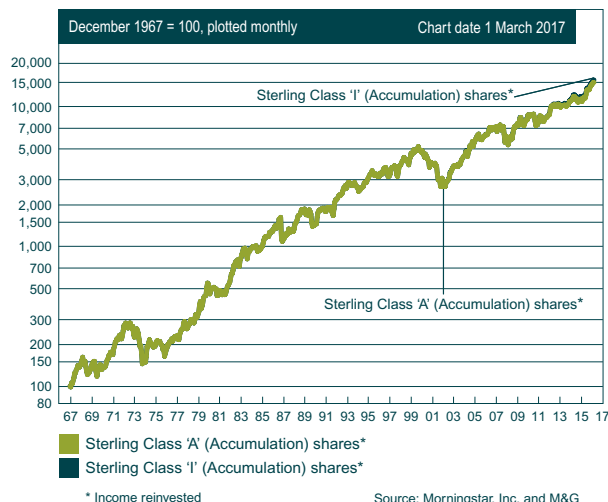
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) 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](http://www.mandg.co.uk/reports) or by calling M&G Customer Relations.

## Fund level performance

Fund net asset value			
	28.02.17	31.08.16	31.08.15
as at	\$'000	\$'000	\$'000
Fund net asset value (NAV)	830,480	820,854	990,484

## Performance since launch

To give an indication of how the fund has performed since launch, the chart below shows total return of Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.



# Financial highlights

## Fund performance

### Ten-year performance

Please note that comparative data is not available from fund launch. Therefore a ten-year comparable performance chart is shown below.



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

To give an indication of how the fund has performed during the period the tables below show the performance of Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

All 'Performance and charges' percentages represent an annual rate except for the 'Return after operating charges' which is calculated as a percentage of the opening net asset value per share (NAV). 'Dilution adjustments' are only in respect of direct portfolio transaction costs.

### Sterling Class 'A' Accumulation share performance

The share class was launched on 19 December 1967.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
<b>Change in NAV per share</b>			
Opening NAV	654.86	538.55	504.41
Return before operating charges and after direct portfolio transaction costs	85.56	125.80	43.19
Operating charges	(5.68)	(9.49)	(9.05)
Return after operating charges	79.88	116.31	34.14
Distributions	n/a	(3.20)	(1.36)
Retained distributions	n/a	3.20	1.36
Closing NAV	734.74	654.86	538.55
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.19	0.39	0.22
Dilution adjustments <sup>[b]</sup>	(0.02)	(0.11)	(0.05)
Total direct portfolio transaction costs	0.17	0.28	0.17
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	1.66	1.67	1.66
Return after operating charges	+12.20	+21.60	+6.77
Historic yield	0.43	0.49	0.25
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	132,379	132,082	227,053
Closing NAV percentage of total fund NAV (%)	15.94	16.09	22.92
Number of shares	14,483,260	15,353,780	27,398,188
Highest share price (UK p)	735.52	665.09	597.42
Lowest share price (UK p)	634.88	501.57	472.61



# Financial highlights

## Fund performance

### Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

Change in NAV per share	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Opening NAV	1,693.41	1,382.15	1,284.81
Return before operating charges and after direct portfolio transaction costs	221.73	324.74	110.13
Operating charges	(8.08)	(13.48)	(12.79)
Return after operating charges	213.65	311.26	97.34
Distributions	n/a	(20.40)	(14.26)
Retained distributions	n/a	20.40	14.26
Closing NAV	1,907.06	1,693.41	1,382.15

Direct portfolio transaction costs <sup>[a]</sup>	UK p	UK p	UK p
Costs before dilution adjustments	0.49	1.01	0.57
Dilution adjustments <sup>[b]</sup>	(0.05)	(0.28)	(0.14)
Total direct portfolio transaction costs	0.44	0.73	0.43

Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	0.91	0.92	0.91
Return after operating charges	+12.62	+22.52	+7.58
Historic yield	1.06	1.21	1.03
Effect on yield of charges offset against capital	0.00	0.00	0.00

#### Other information

Closing NAV (\$'000)	83,077	79,279	53,096
Closing NAV percentage of total fund NAV (%)	10.00	9.66	5.36
Number of shares	3,501,874	3,563,837	2,496,472
Highest share price (UK p)	1,909.08	1,719.29	1,528.83
Lowest share price (UK p)	1,642.16	1,291.65	1,204.97

<sup>[a]</sup> As a percentage of average net asset value.

<sup>[b]</sup> In respect of direct portfolio transaction costs.

# 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, comprised of 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.

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, method of execution and the quality of research provided. 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](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

### Portfolio transaction costs

	Six months to 28.02.17 %	Year to 31.08.16 %	Year to 31.08.15 %	Average <sup>[a]</sup> %
<b>Direct portfolio transaction costs <sup>[b]</sup></b>				
Broker commission	0.05	0.06	0.03	0.05
Taxes	0.01	0.01	0.01	0.01
Costs before dilution adjustments	0.06	0.07	0.04	0.06
Dilution adjustments <sup>[c]</sup>	(0.01)	(0.02)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.05	0.05	0.03	0.05
<b>as at</b>	<b>28.02.17</b>	<b>31.08.16</b>	<b>31.08.15</b>	<b>Average <sup>[a]</sup></b>
<b>Indirect portfolio transaction costs</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Average portfolio dealing spread	0.03	0.03	0.10	0.05

<sup>[a]</sup> Average of first three columns.

<sup>[b]</sup> As a percentage of average net asset value.

<sup>[c]</sup> In respect of direct portfolio transaction costs.

# Contact



**Customer Relations\***

0800 390 390



**Write to us at:\*\***

M&G Securities Limited

PO Box 9039

Chelmsford

CM99 2XG



**Our website:**

[www.mandg.co.uk](http://www.mandg.co.uk)



**Email us with queries:†**

[info@mandg.co.uk](mailto:info@mandg.co.uk)

\* 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.

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