M&G Global Select 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 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 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

The fund aims to provide a total return (the combination of capital growth and income).

Investment policy

At least 80% of the fund is invested in companies globally across a wide range of geographies, sectors and market capitalisations. The fund has a concentrated portfolio and usually holds fewer than 40 stocks.

The fund is based on an investment process that uses fundamental analysis to identify competitively advantaged companies with sustainable business models.

Sustainability considerations play an important role in determining the investment universe and assessing business models. Companies that are assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment and anti-corruption are excluded from the investment universe. Industries such as tobacco and controversial weapons are also excluded.

The fund may also invest in other transferable securities, directly or via collective investment schemes, and may hold cash for liquidity purposes. Collective investment schemes may include funds managed by M&G.

Derivatives may be used for efficient portfolio management.

Investment approach

The fund is a focused core global equity fund, making long-term investments in companies with sustainable business models and competitively advantageous characteristics to protect their profitability. Importantly, the fund manager invests in these businesses where short-term issues have provided a clear valuation opportunity.

Sustainability considerations are fully integrated into the investment process.

The fund manager believes that this approach offers a powerful combination, providing the long-term compounded value of quality businesses, as well as the potential boost to a company's share price when a short-term issue has been resolved.

Fund information

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.

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 Global Select Fund delivered positive total returns (the combination of income and growth of capital) across all of its share classes.* All share classes finished ahead of a comparable index, the MSCI World Index. Over the six months, returns from the index were 1.5%, 4.7% and 7.3% 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.

* 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'	+2.4	+10.8	+8.9	+10.6 [c]
Class 'I'	+2.8	+11.7	+9.8	+13.1 [d]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 19 December 1967, 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

Stockmarkets in developed countries delivered positive returns for the six months under review, but the journey was far from smooth, with particularly tumultuous conditions as we neared the end of the period. Markets were shaky as we began the review period as well, 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 some of these concerns dissipated and the mood improved, various markets went on to reach record highs. Investor sentiment was supported 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 moved 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 market reaction was extreme, giving back those euphoric gains from January.

Among larger markets, Japan saw the best overall returns for the period, with investors enlivened by Prime Minister Shinzo Abe's re-election, as well as a weaker yen supporting international companies. This benefited the fund's one Japanese holding, insurer Tokio Marine, but overall the fund's below-index position in that market weighed on relative returns. The US also outpaced the wider global market, driven by technology stocks, where a solid reporting season reaffirmed investor confidence in the sector. US financials likely to benefit in a rising interest rate environment also performed well. In light of this, fund performance was aided by positive US stock selection, with most of the top performers for the period being US-listed companies. Conversely, the UK was among the weaker markets, as Brexit concerns continued to weigh on sentiment. Here the fund's above-index position dragged on returns to a degree, as was also the case for Denmark, another laggard for the period.

Against this background, the information technology, consumer discretionary and financial sectors all outperformed the wider market, while some of the more defensive sectors (that is, those that have relatively predictable and stable earnings regardless of the state of the overall economy) lagged – these included utilities, telecoms and consumer staples. The real estate sector also underperformed for the period. For the fund, stockpicking within healthcare was particularly supportive – this included the holdings in diversified managed healthcare company UnitedHealth and medical equipment manufacturer Becton Dickinson, both US companies, as well as pharmaceutical companies Teva and Novo Nordisk – all of these gained in a sector that declined for the period. The fund also benefited from not holding any utilities, real estate or telecoms companies.

On the downside, the fund's overall positions in industrials and consumer staples represented the largest drag on relative performance.

At an individual stock level, the fund's largest contributor was direct banking and payments company Discover Financial Services, whose shares rose throughout much of the review period. Investor sentiment in the company remained buoyant, as the company stands to benefit from a rising interest rate environment in the US. Other positive financial holdings included US regional lender M&T Bank, and the aforementioned Tokio Marine.

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 tech giant Microsoft and retailer operator L Brands, both US companies. Microsoft has experienced ongoing operational success, which includes strengthening its cloud and services offerings. This means that the company is now much less reliant on the sale of PCs, and hence its Windows operating system, to drive revenues. Meanwhile, the shares in L Brands, which owns Victoria's Secret and Bath & Body Works, among others, had been under pressure for some time amid a difficult retail environment in the US, squeezed margins and reduced sales after shedding its apparel and swimwear businesses. In November the company reported good results while boosting its performance expectations for the year, and later announced a solid start to the holiday shopping season – subsequent improved sentiment in the company saw its shares rise strongly.

On the downside, as mentioned above, stockpicking within the consumer staples sector weighed on relative performance, reflected in the three largest detractors for the period – consumer goods giants Unilever and Reckitt Benckiser, as well as global food and beverage company Nestlé.

Unilever's shares declined after the company published sales figures that fell below expectations. This was in light of natural disasters in Mexico and the Caribbean hitting its business. We see this as a short-term issue, and remain confident in the long-term business case for the company, which we believe is a global leader in sustainability.

Nestlé experienced a degree of share price weakness around potential merger and acquisition – and activist investor – activity. This included questions around the company's stake in beauty company L'Oreal following the death of Liliane Bettencourt, heiress to the business. Meanwhile, Reckitt Benckiser's share price fell following the publication of underwhelming results, with the company having faced a number of headwinds over the previous year. These included a cyber-attack temporarily hitting production and distribution, higher commodity prices and tough price competition weighing on margins, and sales for a new product launch falling below expectations.

Other detractors included US efficiency specialist Johnson Controls, whose shares declined despite publishing results in line with expectations, and US insurer AIG. Like Unilever, AIG was also hit by adverse weather conditions, reporting an operating loss for the third quarter. This stemmed from a US$3.0 billion impact from unprecedented catastrophic events, including hurricanes Harvey, Irma and Maria – this matched the company's previously disclosed preliminary loss estimates.

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 to create buying opportunities.

During the review period, two 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.

Our other new purchase was 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.

To fund these purchases, we closed three positions, starting with multinational media company Time Warner. In 2016 US telecom conglomerate AT&T had agreed to acquire the company, and as the closure of that deal approached, the potential upside did not compensate for the risk of possible interference from the regulator. This was particularly relevant as it was never our intention to hold the stock post transaction.

We sold our shares in German food processing technology and component maker GEA. While the company's valuation had been attractive and there was good growth potential in its end markets, we believed there were better opportunities available for a global, concentrated portfolio. German chemical and pharmaceutical company Bayer also left the portfolio, as we did not believe that its proposed acquisition of US agribusiness Monsanto was a good allocation of capital, and would rather deploy investors' money elsewhere.

Outlook

We look for companies that can generate persistent cashflows, and given the climate for much of the review period, this may be considered boring compared to rapidly growing tech companies or deep value stocks. When the market is in a good mood, though, and wants to take on risk, we have to make up our minds – do we want to ride that momentum and see where it takes us, or take advantage of more attractive valuations to move the portfolio back to the 'dull' end of the market. At the end of 2016, when consumer staples were attracting a lot of attention because of their perceived safety, we scaled back our positions in the sector, selling into the momentum. Those staples are now looking cheaper, and this means we can add some defensiveness back into the fund, and not have to overpay for it – as always, though, we will do this slowly and incrementally.

We believe that it is not worth being too aggressive on risk when everyone else is. It can sometimes feel like you are missing out, when you see investors making massive returns speculating on Bitcoin, or already expensive tech stocks keep going up. However, that is when you need to be the most disciplined. And the good thing about momentum is that you can scale out of it. In some cases, we have scaled back positions by more than our original holding in a company, just through investment gains.

We have recently, of course, bought shares in some special cases – in particular BGEO. We have taken on risk by doing so, but this is not market or momentum-driven; it is idiosyncratic risk, which actually lends itself to diversification – this ties in with keeping the fund balanced.

In terms of the current fund, we remain confident in the quality of the stocks within the portfolio. As long-term investors, our focus is on the ability of our holdings to generate long-term value for the fund and for our investors, and we 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.

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 [a] %
	EQUITIES	**1,042,562**	**97.20**	**96.46**
	Energy equipment & services	**18,272**	**1.70**	**1.50**
504,067	National Oilwell Varco	18,272	1.70	
	Chemicals	**35,658**	**3.32**	**2.72**
158,103	Linde	35,658	3.32	
	Containers & packaging	**41,751**	**3.89**	**3.58**
1,043,504	Ball	41,751	3.89	
	Building products	**26,067**	**2.43**	**2.61**
685,420	Johnson Controls International	26,067	2.43	
	Electrical equipment	**30,400**	**2.83**	**2.73**
348,985	Schneider Electric	30,400	2.83	
	Machinery	**22,442**	**2.09**	**3.40**
499,932	Graco	22,442	2.09	
	Commercial services & supplies	**33,811**	**3.16**	**1.77**
558,774	ISS	20,453	1.91	
213,689	Stericycle	13,358	1.25	
	Media	**0**	**0.00**	**2.60**
	Specialty retail	**108,509**	**10.12**	**8.53**
451,370	L Brands	21,742	2.03	
275,350	Tiffany & Co	28,196	2.63	
2,082,395	WH Smith	58,571	5.46	
	Food products	**38,248**	**3.57**	**4.48**
479,497	Nestlé (Regd.)	38,248	3.57	
	Household products	**20,443**	**1.91**	**1.80**
255,115	Reckitt Benckiser	20,443	1.91	
	Personal products	**30,814**	**2.87**	**3.35**
584,633	Unilever	30,814	2.87	
	Health care equipment & supplies	**62,555**	**5.83**	**5.36**
277,925	Becton Dickinson	62,555	5.83	
	Health care providers & services	**58,434**	**5.45**	**5.32**
251,392	UnitedHealth Group	58,434	5.45	
	Pharmaceuticals	**97,112**	**9.06**	**12.35**
6,630,831	Indivior	35,153	3.28	
949,955	Novo-Nordisk	49,704	4.64	
632,660	Teva Pharmaceutical Industries ADR	12,255	1.14	
	Banks	**71,766**	**6.69**	**4.59**
401,827	BGEO Group	18,711	1.74	
1,556,241	ING Groep	27,759	2.59	
131,598	M&T Bank	25,296	2.36	
	Consumer finance	**66,032**	**6.16**	**5.31**
293,767	American Express	29,253	2.73	
462,276	Discover Financial Services	36,779	3.43	

Portfolio statement (continued)

as at Holding		28.02.18 $'000	28.02.18 %	31.08.17 [a] %
	Capital markets	**41,515**	**3.87**	**3.91**
716,154	Bank of New York Mellon	41,515	3.87	
	Insurance	**71,897**	**6.70**	**6.58**
573,110	American International Group	33,361	3.11	
831,300	Tokio Marine Holding	38,536	3.59	
	Internet software & services	**42,909**	**4.00**	**3.53**
38,409	Alphabet A	42,909	4.00	
	IT services	**21,135**	**1.97**	**1.88**
135,022	International Business Machines	21,135	1.97	
	Software	**102,792**	**9.58**	**8.56**
144,419	Ansys	23,301	2.17	
587,652	Manhattan Associates	24,863	2.32	
579,854	Microsoft	54,628	5.09	
Portfolio of investments		**1,042,562**	**97.20**	**96.46**
	CASH EQUIVALENTS	**23,009**	**2.15**	**4.02**
	'AAA' rated money market funds [b]	**23,009**	**2.15**	**4.02**
23,009,000	Northern Trust Global Fund - US dollar	23,009	2.15	
Total portfolio		**1,065,571**	**99.35**	**100.48**
Net other assets / (liabilities)		**6,982**	**0.65**	**(0.48)**
Net assets attributable to shareholders		**1,072,553**	**100.00**	**100.00**

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

[a] The portfolio has been reclassified to more appropriately reflect how the fund is managed. 31.08.17 comparatives have been restated to reflect this.

[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 2018

Purchases	$'000
ISS	22,435
BGEO Group	19,066
L Brands	7,793
Reckitt Benckiser	5,627
Manhattan Associates	4,921
Ball	4,730
Linde	2,670
Novo-Nordisk	2,663
Unilever	206
Indivior	161
Total purchases	**70,272**

Largest sales	$'000
Time Warner	26,595
Novo-Nordisk	20,706
Bayer	20,290
GEA Group	17,607
Ansys	8,033
Nestlé (Regd.)	5,520
UnitedHealth Group	5,267
Bank of New York Mellon	2,793
Tiffany & Co	2,763
Discover Financial Services	2,747
Other sales	5,227
Total sales	**117,548**

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

Financial highlights

Fund performance

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

The following charts and tables show the performance for two of the fund's share classes – Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

We show performance for these two share classes because:

- The performance of the Sterling Class 'A' (Accumulation) share is what most individuals investing directly with M&G have received. It has the highest ongoing charge of all the sterling share classes. Performance is shown after deduction of this charge. All UK investors in the fund therefore received this performance or better.
- The performance of the Sterling Class 'I' (Accumulation) share is the most appropriate to compare with the average performance of the fund's comparative sector. It is the share class used by the Investment Association in the calculation of the comparative sector's average performance. This share class is available for direct investment with M&G subject to minimum investment criteria, or via third parties who may charge additional fees. The performance shown takes the deduction of the ongoing charge for this share class into account but it does not take account of charges applied by any other party through which you may have invested.

The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (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.

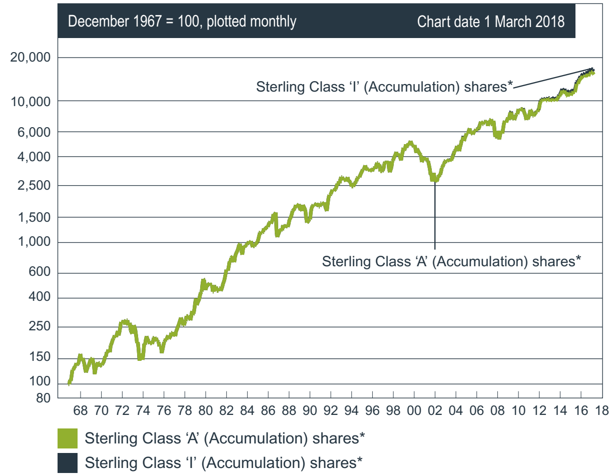
Fund level performance

Fund net asset value

as at	28.02.18 $'000	31.08.17 $'000	31.08.16 $'000
Fund net asset value (NAV)	1,072,553	1,025,973	820,854

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.

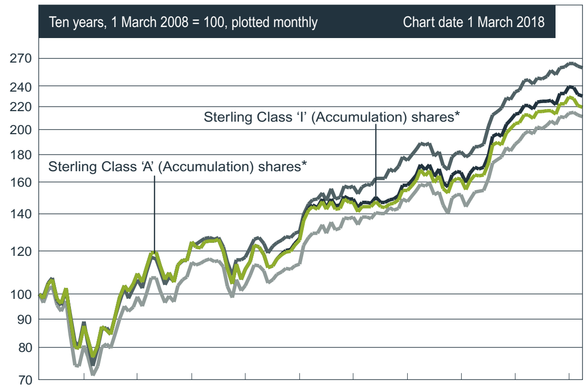


* Income reinvested

Source: Morningstar, Inc. and M&G

Ten-year performance

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



* Income reinvested

** Past performance shown from 1 March 2008 to 29 September 2008 is the FTSE World Ex UK Index. Past performance shown from 30 September 2008 to 31 December 2011 is the FTSE World Index. Past performance shown from 1 January 2012 to 31 December 2015 is the MSCI ACWI Index. Past performance shown from 1 January 2016 to 1 March 2018 is the MSCI World Index.

Source: Morningstar, Inc. and M&G

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.

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 19 December 1967.

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	748.20	654.86	538.55
Return before operating charges and after direct portfolio transaction costs	21.85	105.22	125.80
Operating charges	(6.30)	(11.88)	(9.49)
Return after operating charges	15.55	93.34	116.31
Distributions	n/a	(1.43)	(3.20)
Retained distributions	n/a	1.43	3.20
Closing NAV	763.75	748.20	654.86
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.15	0.37	0.39
Dilution adjustments [a]	(0.05)	(0.17)	(0.11)
Total direct portfolio transaction costs	0.10	0.20	0.28
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.03	0.03	0.05
Operating charges	1.66	1.66	1.67
Return after operating charges	+2.08	+14.25	+21.60
Historic yield	0.19	0.19	0.49
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	117,868	159,000	132,082
Closing NAV percentage of total fund NAV (%)	10.99	15.50	16.09
Number of shares	11,149,308	16,504,330	15,353,780
Highest share price (UK p)	805.39	769.64	665.09
Lowest share price (UK p)	716.52	634.88	501.57

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	1,949.35	1,693.41	1,382.15
Return before operating charges and after direct portfolio transaction costs	56.80	272.91	324.74
Operating charges	(9.11)	(16.97)	(13.48)
Return after operating charges	47.69	255.94	311.26
Distributions	n/a	(17.41)	(20.40)
Retained distributions	n/a	17.41	20.40
Closing NAV	1,997.04	1,949.35	1,693.41
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.40	0.97	1.01
Dilution adjustments [a]	(0.12)	(0.45)	(0.28)
Total direct portfolio transaction costs	0.28	0.52	0.73
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.03	0.03	0.05
Operating charges	0.91	0.91	0.92
Return after operating charges	+2.45	+15.11	+22.52
Historic yield	0.87	0.90	1.21
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	98,294	92,385	79,279
Closing NAV percentage of total fund NAV (%)	9.16	9.00	9.66
Number of shares	3,555,828	3,680,718	3,563,837
Highest share price (UK p)	2,104.05	2,002.25	1,719.29
Lowest share price (UK p)	1,867.39	1,642.16	1,291.65

[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	0.02	0.03	0.06	0.03
Taxes	0.02	0.02	0.01	0.02
Costs before dilution adjustments	0.04	0.05	0.07	0.05
Dilution adjustments [c]	(0.01)	(0.02)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.03	0.03	0.05	0.03

as at Indirect portfolio transaction costs	28.02.18 %	31.08.17 %	31.08.16 %	Average [a] %
Average portfolio dealing spread	0.03	0.03	0.03	0.03

[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.

Notes

Contact

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

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

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