



M&G Japan Fund

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

Interim Short Report February 2019

For the six months ended 28 February 2019

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

Following the successful extraordinary resolution at the shareholder meeting held on 4 October 2018, the non-sterling share classes of the M&G Japan Fund merged into the M&G (Lux) Japan Fund (a sub-fund of M&G (Lux) Investment Funds 1) on 26 October 2018.

For further details of the mergers, please refer to www.mandg.com/brexitmergerdocumentation.

The investment objective and policy of the M&G Japan Fund changed on 1 March 2019.

Investment objective and policy up to 28 February 2019

The fund invests in a wide range of securities of Japanese issuers, covering most aspects of the economy. Its sole objective is long term capital growth. Income is not a consideration when investments are selected.

Investment approach up to 28 February 2019

The M&G Japan Fund screens a wide investment universe to form a concentrated portfolio of Japanese companies that are trading on low valuations relative to their history and the market. The fund aims to achieve sound capital growth over the long term.

The fund manager applies disciplined and rigorous fundamental analysis during the selection process to ensure a high level of conviction around the valuation for each of the companies held in the fund. The portfolio maintains diversification by typically holding between 30 and 50 stocks.

The fund holds shares in companies that have attractive valuations relative to the earnings they are likely to generate over the medium to long term. These companies are quite often out of favour with the market for one reason or another. The fund's investment strategy therefore tends to be contrarian in nature.

The fund manager sees investing as a price-sensitive process that takes advantage of the mis-pricing of a company's shares by the market. Whilst recognising that markets are generally efficient, the fund manager believes that market mis-pricings can and often do occur because human characteristics (such as fear and greed) may prevent investors from always assessing investments rationally.

As a result, market prices do not always reflect fundamental values since they may over-shoot and under-shoot. For example, shares in companies become mis-priced when investors are willing to pay a high price for the 'comfort' of strong near-term earnings momentum and to be associated with success, whilst they will sell 'unfashionable' securities regardless of inherent attractiveness, such as healthy balance sheets and the likely level of longer term earnings.

Fund information

Such behavioural biases are evident in Japan's equity markets today and can be systemically exploited. The fund manager aims to take advantage of these biases by adopting a disciplined, long-term investment approach.

Investment objective from 1 March 2019

The fund aims to provide a higher total return (the combination of capital growth and income), net of the ongoing charge figure, than that of the MSCI Japan Index over any five-year period.

Investment policy from 1 March 2019

At least 80% of the fund is invested directly in equity securities and equity related securities of companies across any sectors and market capitalisations that are incorporated, domiciled, or do most of their business in Japan.

The fund usually holds a concentrated portfolio of fewer than 50 companies.

The fund may also invest in other transferable securities directly and via collective investment schemes (including funds managed by M&G).

The fund may also hold cash and near cash for liquidity purposes.

Derivatives may be used for efficient portfolio management and hedging.

Investment approach from 1 March 2019

The fund employs a disciplined approach to investment which concentrates on the analysis and selection of individual companies.

The investment approach aims to exploit price volatility.

The fund manager believes that stockmarket mispricing can often occur because psychological factors (i.e. behavioural biases) prevent investors from always assessing investments rationally. As a result, market prices do not always reflect the fundamental value of companies. The fund seeks to profit from such behavioural biases.

The investment approach filters the fund's investment universe down to a focused list of companies whose shares trade on low valuations relative to their history and the market. These companies are then subject to rigorous fundamental analysis to attain an understanding of a company's sustainable earnings. This fundamental analysis leads to a high level of conviction for each of the companies held in the fund.

The fund manager expects stock selection to be the main driver of performance.

Risk profile

The fund invests in the shares of companies listed in Japan and is, therefore, subject to the price volatility of the Japanese 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 companies that are deemed to be undervalued, and these stocks could potentially experience a degree of illiquidity in times of market distress. However, the fund is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. The fund also invests in the shares of smaller companies, which can be more unpredictable and difficult to buy and sell. Diversification across 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.



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has not changed during this period.

As at 1 March 2019, for the six months ended 28 February 2019

Performance against objective

Between 3 September 2018 (the start of the review period) and 1 March 2019, the sterling share classes of the M&G Japan Fund delivered a negative total return (the combination of income and growth of capital).*

The fund's returns lagged a comparative index, the MSCI Japan Index. Over the six months, returns for the index in sterling terms were -7.8%.

Between 3 September 2018 and 26 October 2018, the fund's euro and US dollar share classes delivered negative returns that were ahead of the MSCI Japan Index. On 26 October 2018, the fund's non-sterling share classes merged into the M&G (Lux) Japan Fund, a Luxembourg-listed SICAV that launched on that date.

Over five years and since launch, the fund has achieved its objective of long-term capital growth.

* 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				
	From 03.09.18 % [a]	From 01.03.16 % p.a.	From 03.03.14 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	-10.6	+12.8	+10.5	+7.0 [c]
Class 'I'	-10.3	+13.7	+11.3	+13.4 [d]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 6 April 1971, 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

The Japanese stockmarket made a solid start to the period under review; however, in common with stockmarkets globally, Japanese company shares suffered from sharp falls in the final quarter of 2018. Encouragingly, the stockmarket has begun 2019 in an upbeat fashion, but for the six months as whole, the MSCI Japan Index recorded a negative return.

Throughout the review period, investor sentiment was swayed by the potential impact of a trade war between the US and China, and the timing of US interest rate increases.

In our view, the market fall in the final quarter of 2018 was a clear sign that investors had become too optimistic about the growth prospects of some companies. Once investors began to assess the fundamentals of these companies more rationally, their share prices fell. Japanese corporate profitability in aggregate is still robust, and this was demonstrated by the quarterly results companies posted for the period ending September 2018. Whilst some recent company results (for the quarter ending December 2018) have come in below forecast, investors seem to be largely unconcerned, as a softening in the business environment was expected.

While many stocks recovered from oversold positions in January and February, the rally is increasingly more sentiment driven, as hopes of a positive outcome to trade talks between the US and China increased and leading central banks became either less inclined to increase interest rates further (the US Federal Reserve) or signal that interest rates would stay at record lows for longer (the European Central Bank).

Against this background, the fund lagged the MSCI Japan Index, with Leopalace21 its biggest detractor. Leopalace21 is a real estate developer. Although the company has had problems with the installation of defective partition walls at some of its properties, we believed it was making progress remedying the situation. However, towards the end of the review period, Leopalace21 announced the discovery of further serious issues with some of its buildings and its shares sold off heavily. We believe in the short term this is an emotionally driven overreaction, however, we recognise the company has demonstrated some serious governance issues. As such, we are engaging with the company on these issues.

Other holdings that held back returns included LIXIL and Mitsui Engineering and Shipbuilding (Mitsui E&S). LIXIL has seen a damaging boardroom battle, whereby the founding family who has a

controlling stake has ousted the chief executive who had been brought in to implement changes at the company. We are engaging with the company to reassess the implications for future earnings depending on the outcome of the management struggle.

Mitsui E&S's share price fell sharply after the company announced significant and costly problems with one of its construction contracts. This was despite the fact management has been saying the project was going smoothly. In view of the impact this will have on its balance sheet, we now see less opportunity for earnings growth for the firm and have scaled back our position.

Elsewhere, the fund's holding in Nikon detracted, following news that one of its customers had announced a delay in building a factory, which is expected to lead to a drop in orders. However, the announcement is not completely unexpected, given where we are in the technology cycle. Furthermore, there is no indication that the plan to build a factory has been permanently shelved. Given Nikon's unique products and market positioning, we believe the company is still an attractive investment.

On a positive note, technology company NEC reported better-than-expected earnings and sales, and was the fund's top contributor. This performance reflects the changes the company has made in the recent years and the market has rewarded the stock with a re-rating.

Another of the fund's top contributors was NTT Urban Development. During the review period, NTT Corp (the parent company of NTT Urban) announced a tender offer for the shares of NTT Urban. Accordingly, the latter's shares rose sharply. This event was one of the possible outcomes we envisaged when we originally invested in NTT Urban.

Mitsubishi Heavy Industries and Bridgestone also added value. Mitsubishi Heavy Industries is a multinational engineering, electrical equipment and electronics company. Investors reacted positively to news that the restructuring of the company's power business had been completed. When we first invested in Mitsubishi, we believed investors had become too aggressive in their assumptions about a decline in revenues. In our view, the company had the flexibility to offset the impact from lower sales through sensible reductions in fixed costs. As the restructuring of the power business demonstrates, this has indeed been the case.

Shares in Bridgestone outperformed, despite some investors' fears that the company would not be able to pass on higher raw material costs to its customers. We disagree with this thesis, as most of Bridgestone's revenues come from the sale of speciality tyres, where the company has significant market share and pricing power.

Investment activities

Investment activity during the review period focused on the recycling of cash out of holdings where we believed share prices better reflected fundamentals. We also added to holdings where an 'episode' was still apparent. We define 'episode' as an occasion when investors allow emotions to drive their investment decisions, so that a company's share price moves away from its underlying value over the short term.

New positions were initiated in Ajinomoto and Shimamura. Ajinomoto is one of Japan's major packaged food producers. The company's shares have been de-rated because of market concerns over weakness in its overseas businesses. However, we anticipate a positive outcome from the restructuring of its production base. At the current share price, we see this as a good opportunity to gain exposure to a quality business that diversifies the portfolio.

We also identified domestic apparel retailer, Shimamura, which is out of favour with the market due to temporary weakness in its profitability. However, we believe investors are displaying the tell-tale signs of excessive pessimism.

At the same time, we took profits and closed the position in steel manufacturer JFE and exited the holding in Fuji Media, a terrestrial television broadcaster. Fuji Media's earnings are heavily dependent on advertising revenue, which is under pressure as companies shift their advertising effort from traditional to digital media.

NTT Urban also left the portfolio following a tender offer for its shares by NTT Corp, the parent company of NTT Urban.

Outlook

After the shock of the global financial crisis, corporate Japan has been quietly spending the past decade restructuring its still very inefficient businesses and improving corporate governance.

We have seen many policies implemented which address some of the long-term structural problems Japan has been facing. Encouragingly, these are now bearing fruit: improved economic growth, increasing

real wages (wages growing faster than inflation), and consumers are finally abandoning their long-held deflationary mindset (the view that the prices of goods will continue to fall).

Many of these positive developments have been overlooked by investors because of Japan's long history of economic malaise. We believe this is short-sighted and now Japan's fortunes have reached an inflection point.

2018 was a turbulent year for the Japanese stockmarket, with shares bearing the brunt of US-China trade war concerns and worries over prospects for global growth. While the 'risk-off' environment was a headwind for the Japanese equity market, corporate Japan continued to report largely positive quarterly numbers.

On a macro level, we are seeing a continuous flow of data that points to a healthy economy, with sustained growth in gross domestic product (GDP) and rising wages. We are also finally seeing inflation taking hold after decades of falling prices. There has also been a record amount of capital expenditure by corporate Japan, which should give a further boost to economic growth.

Japanese equity valuations are now looking very attractive in our view. It is one of the cheapest markets globally, when measured on a real earnings yield basis. Return on equity is back to levels seen in 2007 and profit margins (which are approaching 10%) are at an all-time high. Dividends payments have become more generous too and, share buy backs are still increasing. It is also worth noting that going into 2019, Japan has one of the most stable political environments, out of all the major economies and has a healthy economy, with the unemployment rate at an all time low.

Johan du Preez

Fund manager

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

Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

Portfolio statement

as at	28.02.19	28.02.19	31.08.18
Holding	¥'000	%	%
EQUITIES	45,120,667	98.41	100.53
Chemicals	3,248,374	7.09	7.32
462,600 DIC	1,635,291	3.57	
874,300 JSR	1,613,083	3.52	
Metals & mining	0	0.00	1.94
Building products	1,312,714	2.86	3.77
870,500 LIXIL	1,312,714	2.86	
Machinery	4,864,237	10.61	11.84
4,026,500 Hitachi Zosen	1,385,116	3.02	
349,100 Mitsubishi Heavy Industries	1,580,725	3.45	
615,700 Mitsui Engineering & Shipbuilding	754,233	1.64	
300,700 Sumitomo Heavy Industries	1,144,163	2.50	
Marine	1,478,859	3.23	3.34
567,700 Mitsui O.S.K. Lines	1,478,859	3.23	
Auto components	1,982,524	4.33	3.19
451,600 Bridgestone	1,982,524	4.33	
Automobiles	4,454,382	9.72	8.60
809,300 Honda Motor	2,547,676	5.56	
1,459,400 Mazda Motor	1,906,706	4.16	
Household durables	2,821,048	6.15	6.63
755,100 Nikon	1,270,078	2.77	
1,516,100 Panasonic	1,550,970	3.38	
Textiles, apparel & luxury goods	1,265,359	2.76	3.90
1,155,000 Onward	723,030	1.58	
199,900 Seiko	542,329	1.18	
Internet & direct marketing retail	487,804	1.06	2.04
284,600 DeNA	487,804	1.06	
Specialty retail	1,743,290	3.80	1.67
109,000 Shimamura	1,025,690	2.24	
195,000 United Arrows	717,600	1.56	
Food & staples retailing	1,775,316	3.87	3.09
263,400 Lawson	1,775,316	3.87	
Food products	1,270,751	2.77	0.00
755,500 Ajinomoto	1,270,751	2.77	
Health care providers & services	1,880,082	4.10	3.07
630,900 Miraca	1,880,082	4.10	
Banks	5,809,711	12.67	12.56
4,433,100 Mitsubishi UFJ Financial	2,554,796	5.57	
530,800 Sumitomo Mitsui Financial	2,091,883	4.56	
276,058 Sumitomo Mitsui Trust	1,163,032	2.54	

Portfolio statement (continued)

as at Holding	28.02.19 ¥'000	28.02.19 %	31.08.18 %
Capital markets	1,608,987	3.51	3.74
3,742,700 Nomura	1,608,987	3.51	
Insurance	1,079,081	2.35	2.50
808,300 T&D	1,079,081	2.35	
Technology hardware, storage & peripherals	4,059,557	8.85	9.08
637,400 NEC	2,358,380	5.14	
1,506,800 Ricoh	1,701,177	3.71	
Electronic equipment, instruments & components	1,836,816	4.01	3.99
551,100 Hitachi	1,836,816	4.01	
Media	0	0.00	1.54
Real estate management & development	2,141,775	4.67	6.72
3,991,400 Leoplace21	961,927	2.10	
559,700 Nomura Real Estate	1,179,848	2.57	
EQUITY DERIVATIVES	409	0.00	0.00
Equity futures contracts	409	0.00	0.00
31 Topix Index Future March 2019	409	0.00	
Portfolio of investments	45,121,076	98.41	100.53
Net other assets / (liabilities)	726,884	1.59	(0.53)
Net assets attributable to shareholders	45,847,960	100.00	100.00

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

Top ten portfolio transactions

for the six months to 28 February 2019

	¥'000
Largest purchases	
Ajinomoto	1,394,289
Shimamura	1,013,254
Hitachi Zosen	884,543
Leopalace21	670,023
Panasonic	658,704
Miraca	472,127
Bridgestone	340,222
Nomura Real Estate	250,704
Lawson	229,898
T&D	177,324
Other purchases	1,009,108
Total purchases	7,100,196
Largest sales	
JFE	1,344,975
NTT Urban Development	1,315,084
Mitsui Engineering & Shipbuilding	998,781
Ricoh	696,847
Mitsubishi Heavy Industries	692,322
Fuji Media	692,186
Nikon	561,304
DeNA	480,335
NEC	455,044
Seiko	346,650
Other sales	2,133,603
Total sales	9,717,131

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	28.02.19 ¥'000	31.08.18 ¥'000	31.08.17 ¥'000
Fund net asset value (NAV)	45,847,960	69,230,521	74,245,713

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.

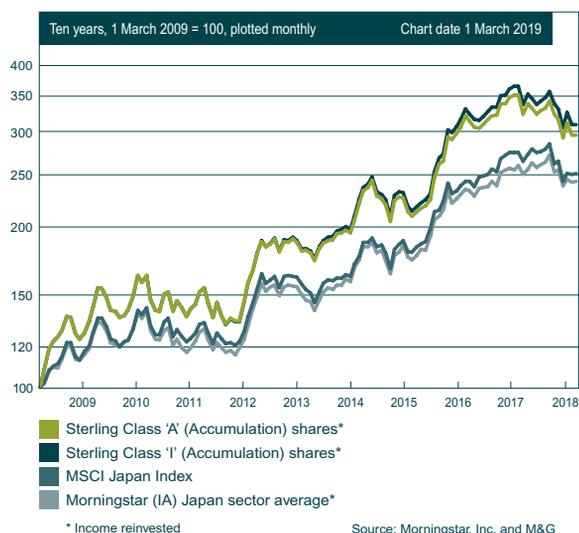


Financial highlights

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.

Historic yields for the sterling share classes for the current period are calculated as at 8 March 2019.

Sterling Class 'A' Accumulation share performance

The share class was launched on 6 April 1971.

	Six months to 28.02.19 UK p	Year to 31.08.18 UK p	Year to 31.08.17 UK p
Change in NAV per share			
Opening NAV	67.65	65.24	53.05
Return before operating charges and after direct portfolio transaction costs	(7.12)	3.50	13.23
Operating charges	(0.53)	(1.09)	(1.04)
Return after operating charges	(7.65)	2.41	12.19
Distributions	n/a	(0.25)	(0.24)
Retained distributions	n/a	0.25	0.24
Closing NAV	60.00	67.65	65.24
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.03	0.02
Dilution adjustments ^[a]	0.00	(0.02)	(0.02)
Total direct portfolio transaction costs	0.01	0.01	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.02	0.00
Operating charges	1.67	1.68	1.67
Return after operating charges	-11.31	+3.69	+22.98
Historic yield	0.44	0.37	0.38
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥'000)	1,135,625	1,290,198	14,268,486
Closing NAV percentage of total fund NAV (%)	2.48	1.86	19.22
Number of shares	12,842,451	13,238,470	153,581,430
Highest share price (UK p)	70.07	74.82	67.16
Lowest share price (UK p)	58.55	62.80	50.99

Financial highlights

Fund performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.19 UK p	Year to 31.08.18 UK p	Year to 31.08.17 UK p
Change in NAV per share			
Opening NAV	2,558.57	2,448.49	1,976.12
Return before operating charges and after direct portfolio transaction costs	(270.23)	133.67	494.13
Operating charges	(10.92)	(23.59)	(21.76)
Return after operating charges	(281.15)	110.08	472.37
Distributions	n/a	(29.31)	(26.05)
Retained distributions	n/a	29.31	26.05
Closing NAV	2,277.42	2,558.57	2,448.49

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.40	1.29	0.79
Dilution adjustments ^[a]	(0.16)	(0.76)	(0.79)
Total direct portfolio transaction costs	0.24	0.53	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.02	0.00
Operating charges	0.92	0.92	0.92
Return after operating charges	-10.99	+4.50	+23.90
Historic yield	1.33	1.14	1.09
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (¥'000)	14,506,471	5,749,878	4,277,828
Closing NAV percentage of total fund NAV (%)	31.64	8.30	5.76
Number of shares	4,321,646	1,560,025	1,226,954
Highest share price (UK p)	2,651.62	2,816.03	2,511.43
Lowest share price (UK p)	2,219.72	2,357.39	1,899.79

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

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

Financial highlights

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Financial highlights

Operating charges and portfolio transaction costs

Portfolio transaction costs

Portfolio transaction costs are incurred by funds when buying and selling investments. These costs vary depending on the types of investment, their market capitalisation, country of exchange and method of execution. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission and taxes.
- **Indirect portfolio transaction costs:** 'Dealing spread' – the difference between the buying and selling prices of the fund's investments; some types of investment, such as fixed interest securities, have no direct transaction costs and only the dealing spread is paid.

Investments are bought or sold by a fund when changes are made to the investment portfolio and in response to net flows of money into or out of the fund from investors buying and selling shares in the fund.

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. The table below shows direct portfolio transaction costs paid by the fund before and after that part of the dilution adjustment relating to direct portfolio transaction costs. To give an indication of the indirect portfolio dealing costs the table also shows the average portfolio dealing spread.

Further information on this process is in the Prospectus, which is available free of charge on request either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Portfolio transaction costs

	Six months to 28.02.19	Year to 31.08.18	Year to 31.08.17	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.03	0.05	0.03	0.04
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.03	0.05	0.03	0.04
Dilution adjustments ^[c]	(0.01)	(0.03)	(0.03)	(0.02)
Total direct portfolio transaction costs	0.02	0.02	0.00	0.02
as at	28.02.19	31.08.18	31.08.17	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.22	0.18	0.17	0.19

^[a] Average of first three columns.

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

^[c] In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

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