



**M&G Japan Smaller Companies Fund**

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

Interim Short Report February 2019

For the six months ended 28 February 2019

## Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (1) presents its Interim Short Report for M&G Japan Smaller Companies Fund which contains a review of the fund's investment activities and investment performance during the period. The ACD's Interim Long Report and unaudited Financial Statements for M&G Investment Funds (1), incorporating all the sub-funds and a Glossary of terms is available free of charge either from our website at [www.mandg.co.uk/reports](http://www.mandg.co.uk/reports) or by calling M&G Customer Relations on 0800 390 390.

### ACD

M&G Securities Limited,  
10 Fenchurch Avenue, London EC3M 5AG  
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

Following the successful extraordinary resolution at the shareholder meeting held on 4 October 2018, the non-sterling share classes of the M&G Japan Smaller Companies Fund merged into the M&G (Lux) Japan Smaller Companies 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](http://www.mandg.com/brexitmergerdocumentation).

The investment objective and policy of the M&G Japan Smaller Companies Fund changed on 24 April 2019.

### Investment objective and policy up to 23 April 2019

The fund invests wholly or predominantly in securities of smaller Japanese companies, the universe for which is the bottom third in terms of total market capitalisation of all publicly listed equity in Japan. When not wholly invested as above, the fund may also invest in medium sized and larger companies in order to enhance its liquidity. Its sole objective is long term capital growth.

### Investment objective from 24 April 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 Russell/Nomura Mid-Small Cap Index over any five-year period.

### Investment policy from 24 April 2019

At least 80% of the fund is invested in equity securities and equity-related securities of smaller companies that are incorporated, domiciled or do most of their business in Japan.

Smaller companies are defined as the bottom half in terms of total market capitalisation of all publicly listed companies in Japan. The fund usually holds a concentrated portfolio of fewer than 50 companies.

The fund may also invest in other transferable securities directly or 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

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

The investment approach aims to take advantage of 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.

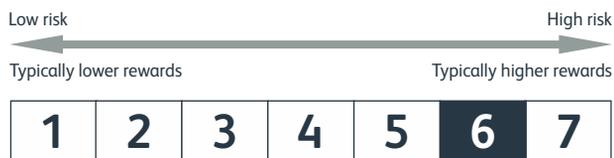
The investment approach filters the fund's investment universe down to a focused list of companies whose shares trade on low valuations relative to their history and the market. These companies are then subject to rigorous fundamental analysis to attain an understanding of a company's sustainable earnings. 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 smaller Japan-listed companies 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 smaller companies where the share price movement can be more unpredictable and the shares more difficult to buy and sell compared to those of larger companies. Diversification 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 Smaller Companies Fund delivered a negative total return (the combination of income and growth of capital).

The fund lagged a comparative index, the Russell/Nomura Mid-Small Index. Over the six months, returns for the index in sterling terms were -8.6%.

Between 3 September 2018 and 26 October 2018, the fund's euro and US dollar share classes delivered negative returns, but were ahead of the Russell/Nomura Mid-Small Index (-5.4% and -7.5% in euros and US dollars, respectively). \* On 26 October 2018, the fund's non-sterling share classes merged into the M&G (Lux) Japan Smaller Companies 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.

Subsequent to the end of the review period, the fund's objective and policy changed.

\* 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	From 01.03.16	From 03.03.14	Since launch
	% <sup>[a]</sup>	% p.a.	% p.a.	% p.a.
<b>Sterling <sup>[b]</sup></b>				
Class 'A'	-12.1	+13.2	+13.0	+7.1 <sup>[c]</sup>
Class 'I'	-11.8	+14.1	+13.8	+15.5 <sup>[d]</sup>

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

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

<sup>[c]</sup> 15 May 1984, 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

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 Russell/Nomura Mid-Small 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 sentiment driven. 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 signalled that interest rates would stay at record lows for longer (the European Central Bank).

Against this background, the fund lagged the Russell/Nomura Mid-Small 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 recognised the company has demonstrated some serious governance issues. As such, we are engaging with the company on these issues.

Another holding that detracted was KYB, a hydraulic machinery maker. Late last year, the company admitted to fabricating data on the quality of its shock absorbers, which are installed in around 1,000 buildings in Japan. After an initial steep setback, KYB's share price has recovered some of its losses. Following extensive fundamental analysis, we have decided the company may struggle with the costs associated with remedying the situation, as the problem is widespread. Given this view, we have gradually sold the fund's position into share price strength.

On a positive note, NTT Urban Development and Dowa Holdings added value. 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. Meanwhile, non-ferrous metal manufacturer Dowa's shares were re-rated upwards on the back of solid quarterly results.

Other significant contributors included Hamakyorex and Asahi. Hamakyorex is a trucking company with warehouses and related logistics services. The company has re-rated as the worry over a slowdown in global trade has subsided somewhat. Hamakyorex also announced healthy quarterly figures at the end of January 2019, which were well received by investors.

Asahi is a bicycle manufacturer with good distribution channels in the domestic market. While it has traditionally focused on the mass market, it is leveraging its current stores to place more focus on the high-end market. We believe demand for high-end bikes, such as those manufactured from carbon fibre and electric bikes, should be strong, given the ageing demographic. The firm also has a solid business model for its cheaper range of bikes, where demand is still solid.

## 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.

We also initiated several new positions. One of them is Lawson, one of the largest 24-hour convenience store chains. The company is restructuring its back office operations, as well as investing in its stores, in an attempt to improve profitability. The market is unhappy with the slow progress and we saw an opportunity to gain exposure to a solid business that is a household name and has a nationwide reach.

Other new holdings were Ebara and Cosel. Ebara is a stock we have previously held and the company's share price has de-rated since we took profits, due to concerns about global growth and declining demand for machinery equipment. However, we believe the share price fall has been overdone and we see upside from here, since Ebara is a profitable business that can weather the business cycle.

Cosel is a company which makes switch power supplies used in, amongst other applications, semiconductor equipment. Shares in the company were sold off on pessimism over global capex and a downturn in the semiconductor cycle. However, we believe Cosel's shares have been oversold. Cosel has a solid balance sheet, which we believe will support its core business during the semiconductor down cycle, as well as potentially rewarding its shareholders in general.

In terms of sales, in addition to KYB (as mentioned earlier), 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 that 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 very low unemployment, 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 signs of 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	%	%	
<b>EQUITIES</b>				
	<b>14,130,917</b>	<b>98.97</b>	<b>99.35</b>	
<b>Technology hardware &amp; equipment</b>				
	<b>1,092,315</b>	<b>7.65</b>	<b>6.83</b>	
108,500 Denki Kogyo	317,796	2.22		
391,700 OKI Electric Industry	513,519	3.60		
562,500 Wacom	261,000	1.83		
<b>Pharmaceuticals &amp; biotechnology</b>				
	<b>618,350</b>	<b>4.33</b>	<b>3.03</b>	
207,500 Miraca	618,350	4.33		
<b>Banks</b>				
	<b>292,627</b>	<b>2.05</b>	<b>3.12</b>	
180,300 Tokyo Kiraboshi	292,627	2.05		
<b>Finance &amp; credit services</b>				
	<b>901,268</b>	<b>6.31</b>	<b>7.36</b>	
355,100 Credit Saison	572,776	4.01		
119,800 IBJ Leasing Company	328,492	2.30		
<b>Real estate investment &amp; services</b>				
	<b>336,508</b>	<b>2.36</b>	<b>7.71</b>	
1,396,300 Leoplace21	336,508	2.36		
<b>Real estate investment trusts</b>				
	<b>0</b>	<b>0.00</b>	<b>3.62</b>	
<b>Automobiles &amp; parts</b>				
	<b>1,507,410</b>	<b>10.56</b>	<b>11.74</b> <sup>[a]</sup>	
533,600 Mazda Motor	697,148	4.88		
47,000 Riken	246,280	1.73		
555,100 Sumitomo Riko	563,982	3.95		
<b>Household goods &amp; home construction</b>				
	<b>665,599</b>	<b>4.66</b>	<b>0.88</b>	
251,500 Iida	511,300	3.58		
318,800 Janome Sewing Machine	154,299	1.08		
<b>Leisure goods</b>				
	<b>412,931</b>	<b>2.89</b>	<b>4.06</b>	
245,500 Nikon	412,931	2.89		
<b>Personal goods</b>				
	<b>576,585</b>	<b>4.04</b>	<b>2.80</b>	
689,200 Onward	431,439	3.02		
53,500 Seiko	145,146	1.02		
<b>Media</b>				
	<b>331,208</b>	<b>2.32</b>	<b>1.81</b>	
341,100 Relia	331,208	2.32		
<b>Retailers</b>				
	<b>1,204,163</b>	<b>8.43</b>	<b>9.85</b>	
336,500 Asahi	508,451	3.56		
915,200 Cookpad	263,578	1.85		
41,600 DeNA	71,302	0.50		
16,400 Escrit	10,496	0.07		
95,200 United Arrows	350,336	2.45		
<b>Travel &amp; leisure</b>				
	<b>60,020</b>	<b>0.42</b>	<b>0.00</b>	
27,800 Mars Engineering	60,020	0.42		
<b>Food producers</b>				
	<b>210,024</b>	<b>1.47</b>	<b>0.00</b>	
77,300 Megmilk Snow Brand	210,024	1.47		

Portfolio statement (continued)				
as at	28.02.19	28.02.19	31.08.18	
Holding	¥'000	%	%	
<b>Personal care, drug &amp; grocery stores</b>				
	<b>590,424</b>	<b>4.14</b>	<b>0.00</b>	
87,600 Lawson	590,424	4.14		
<b>Construction &amp; materials</b>				
	<b>836,917</b>	<b>5.86</b>	<b>0.00</b>	
190,200 LIXIL	286,822	2.01		
227,500 Sankyo Tateyama	332,150	2.32		
239,500 Sanyo Housing Nagoya	217,945	1.53		
<b>Electronic &amp; electrical equipment</b>				
	<b>297,102</b>	<b>2.08</b>	<b>4.15</b>	
253,500 Cosel	297,102	2.08		
<b>Industrial engineering</b>				
	<b>1,257,985</b>	<b>8.82</b>	<b>9.54</b>	
75,100 Ebara	236,565	1.66		
1,297,200 Hitachi Zosen	446,237	3.13		
181,600 Mitsui Engineering & Shipbuilding	222,460	1.56		
92,700 Sumitomo Heavy Industries	352,723	2.47		
<b>Industrial support services</b>				
	<b>849,943</b>	<b>5.95</b>	<b>5.15</b>	
95,300 Hamakyorex	431,709	3.02		
252,100 Yamatane	418,234	2.93		
<b>Industrial transportation</b>				
	<b>436,077</b>	<b>3.05</b>	<b>3.47</b>	
167,400 Mitsui O.S.K. Lines	436,077	3.05		
<b>Industrial metals &amp; mining</b>				
	<b>638,725</b>	<b>4.47</b>	<b>6.52</b>	
176,200 Dowa	638,725	4.47		
<b>Chemicals</b>				
	<b>1,014,736</b>	<b>7.11</b>	<b>7.71</b>	
146,500 DIC	517,877	3.63		
269,300 JSR	496,859	3.48		
<b>EQUITY DERIVATIVES</b>				
	<b>2,245</b>	<b>0.02</b>	<b>0.00</b>	
<b>Equity futures contracts</b>				
	<b>2,245</b>	<b>0.02</b>	<b>0.00</b>	
9 Topix Index Future March 2019	2,245	0.02		
<b>Portfolio of investments</b>				
	<b>14,133,162</b>	<b>98.99</b>	<b>99.35</b>	
<b>Net other assets / (liabilities)</b>				
	<b>143,662</b>	<b>1.01</b>	<b>0.65</b>	
<b>Net assets attributable to shareholders</b>				
	<b>14,276,824</b>	<b>100.00</b>	<b>100.00</b>	

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

[a] The comparative sector weightings have been re-analysed to reflect changes to the sector classifications.

## Top ten portfolio transactions

for the six months to 28 February 2019

<b>Largest purchases</b>	<b>¥'000</b>
Lawson	1,351,720
LIXIL	913,725
Onward	563,990
Miraca	433,759
Leopalace21	430,612
Hitachi Zosen	401,160
KYB	393,686
Cosel	283,319
Sumitomo Riko	270,263
Yamatane	264,899
Other purchases	2,747,584
<b>Total purchases</b>	<b>8,054,717</b>
<b>Largest sales</b>	<b>¥'000</b>
NTT Urban Development	922,852
Mitsui Engineering & Shipbuilding	562,926
Seiko	357,811
DeNA	313,169
KYB	292,880
Sankyo Tateyama	269,945
Nikon	230,356
IBJ Leasing Company	205,967
Onward	205,159
Hamakyorex	198,988
Other sales	2,269,187
<b>Total sales</b>	<b>5,829,240</b>

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

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

We show performance for these two share classes because:

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

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

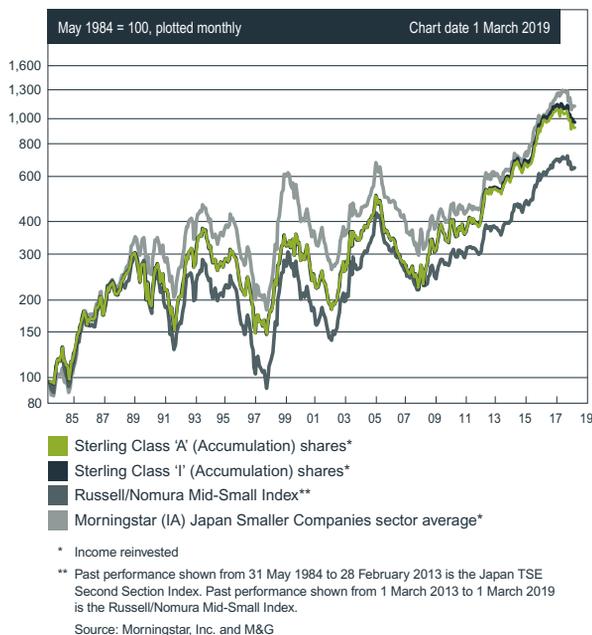
as at	28.02.19 ¥'000	31.08.18 ¥'000	31.08.17 ¥'000
Fund net asset value (NAV)	14,276,824	34,438,426	36,437,340

# Financial highlights

## Fund performance

### Performance since launch

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



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

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 15 May 1984.

	Six months to 28.02.19 UK p	Year to 31.08.18 UK p	Year to 31.08.17 UK p
<b>Change in NAV per share</b>			
Opening NAV	602.18	582.86	449.18
Return before operating charges and after direct portfolio transaction costs	(71.75)	29.43	142.78
Operating charges	(4.65)	(10.11)	(9.10)
Return after operating charges	(76.40)	19.32	133.68
Distributions	n/a	(0.99)	(0.80)
Retained distributions	n/a	0.99	0.80
Closing NAV	525.78	602.18	582.86
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.12	0.28	0.31
Dilution adjustments <sup>[a]</sup>	(0.12)	(0.15)	(0.31)
Total direct portfolio transaction costs	0.00	0.13	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.03	0.00
Operating charges	1.69	1.68	1.68
Return after operating charges	-12.69	+3.31	+29.76
Historic yield	0.20	0.17	0.14
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (¥'000)	1,258,416	1,500,595	1,761,313
Closing NAV percentage of total fund NAV (%)	8.82	4.36	4.83
Number of shares	1,623,880	1,729,898	2,122,149
Highest share price (UK p)	615.44	646.78	587.52
Lowest share price (UK p)	497.54	556.19	444.71

# 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
<b>Change in NAV per share</b>			
Opening NAV	2,949.28	2,833.31	2,167.19
Return before operating charges and after direct portfolio transaction costs	(351.95)	143.28	690.98
Operating charges	(12.69)	(27.31)	(24.86)
Return after operating charges	(364.64)	115.97	666.12
Distributions	n/a	(27.60)	(23.11)
Retained distributions	n/a	27.60	23.11
Closing NAV	2,584.64	2,949.28	2,833.31

<b>Direct portfolio transaction costs</b>	UK p	UK p	UK p
Costs before dilution adjustments	0.61	1.38	1.54
Dilution adjustments <sup>[a]</sup>	(0.61)	(0.73)	(1.54)
Total direct portfolio transaction costs	0.00	0.65	0.00

<b>Performance and charges</b>	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.03	0.00
Operating charges	0.94	0.93	0.93
Return after operating charges	-12.36	+4.09	+30.74
Historic yield	1.11	0.94	0.83
Effect on yield of charges offset against capital	0.00	0.00	0.00

#### Other information

Closing NAV (€'000)	6,993,309	9,187,415	10,906,843
Closing NAV percentage of total fund NAV (%)	48.98	26.68	29.94
Number of shares	1,835,747	2,162,527	2,703,387
Highest share price (UK p)	3,016.20	3,152.66	2,855.86
Lowest share price (UK p)	2,442.58	2,705.55	2,146.32

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

<sup>[b]</sup> 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.

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.

# Financial highlights

## Operating charges and portfolio transaction costs

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 28.02.19	Year to 31.08.18	Year to 31.08.17	Average <sup>[a]</sup>
<b>Direct portfolio transaction costs <sup>[b]</sup></b>	%	%	%	%
Broker commission	0.03	0.05	0.06	0.05
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.03	0.05	0.06	0.05
Dilution adjustments <sup>[c]</sup>	(0.03)	(0.02)	(0.06)	(0.04)
Total direct portfolio transaction costs	0.00	0.03	0.00	0.01
<b>as at</b>	<b>28.02.19</b>	<b>31.08.18</b>	<b>31.08.17</b>	<b>Average <sup>[a]</sup></b>
<b>Indirect portfolio transaction costs</b>	%	%	%	%
Average portfolio dealing spread	0.27	0.25	0.22	0.25

<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. Please see the section above this table for an explanation of dilution adjustments.

# 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)

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