



**M&G North American Dividend 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 North American Dividend 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 North American Dividend Fund merged into the M&G (Lux) North American Dividend Fund (a sub-fund of M&G (Lux) Investment Funds 1) on 9 November 2018.

For further details of the mergers, please refer to [www.mandg.com/brexitmergerdocumentation](http://www.mandg.com/brexitmergerdocumentation).

### Investment objective

The fund aims to maximise total return (the combination of capital growth and income) whilst aiming to grow distributions over the long term.

### Investment policy

The fund will invest mainly in North American equities and may invest across all sectors and market capitalisations. The fund may also invest in transferable securities issued by companies which are listed, registered or trading within North America and in collective investment schemes. Cash and near cash may be held for ancillary purposes and derivatives, including warrants, may be used for efficient portfolio management and hedging purposes.

### Investment approach

The M&G North American Dividend Fund employs a bottom-up stockpicking approach, driven by the fundamental analysis of individual companies. The fund manager seeks to invest in companies with excellent capital discipline and long-term dividend growth potential. The fund manager believes rising dividends create upward pressure on the value of shares. Dividend yield is not the primary consideration for stock selection. The fund manager aims to create a diversified portfolio with exposure to a broad range of sectors. He selects stocks with different drivers of dividend growth to construct a portfolio that has the potential to cope in a variety of market conditions. The fund will usually hold around 40 to 50 stocks, with a long-term investment view and a typical holding period of three to five years.

### Risk profile

The fund invests in the shares of North American companies and is, therefore, subject to the price volatility of the North American 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 shares of companies that have the potential to grow their dividends over the long term. Income distributions from the fund's holdings, however, are not guaranteed and may vary. Diversification across industries and market capitalisation is key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

The following table shows the risk number associated with the fund and is based on Sterling Class 'A' shares.



The above number:

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

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

### Distribution summary

Over the six-month review period, the fund distributed income of 16.0000 pence per Sterling Class 'A' (Income) share, compared to 12.1829 pence in the same period in the previous financial year. This represents an increase of 31.3%, but this rise in dividend is distorted by the fact that in the financial year ended 31 August 2018, US dividends were taxed at 30% rather than the 15% applied previously. (Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.) The fund expects to pay the more favourable tax rate in the current financial year. Compared to two years ago when US dividends were taxed at 15%, the distribution for the six-month period is 8.6% higher.

The fund's US dollar Class 'A' (Income) share, which pays distributions in US dollars, was merged from 9 November 2018 together with all the non-sterling share classes into the M&G (Lux) North American Dividend Fund, a Luxembourg-authorized SICAV, which was launched on that date. Ahead of the migration, the US dollar Class 'A' (Income) share paid a first interim dividend of 7.3526 cents, up 22.5% on the 6.0000 cents distributed last year. Combined with the second interim dividend, the US dollar Class 'A' (Income) share distributed income of 12.0000 cents during the equivalent six-month period last year.

Regardless of the fund's tax status, we are pleased with the level of dividend growth from our holdings. The majority, once again, reported dividend increases in the 5% to 15% range, including many of our largest positions such as Comcast (media) and Anthem (healthcare).

The fund's holdings in the technology sector delivered some of the fastest dividend growth. Broadcom, the semiconductor company, led the pack with a 51% hike, followed by MasterCard and Visa in global payments. Microsoft and FIS reported solid increases in the software industry.

Elsewhere, Yum China, the restaurant chain which is expanding quickly in China with KFC, Pizza Hut and Taco Bell, raised its dividend by 20%, while Union Pacific, the railroads company, announced a 15% uplift for the year ahead. American Express, Blackrock and Intercontinental Exchange delivered double-digit growth in financials.

However, it was not all good news. A handful of holdings including Cognizant Technology Solutions and PrairieSky Royalty (energy) held their dividends flat, but we are hopeful that growth can resume in the future. L Brands was responsible for the only dividend cut during the period under review. The retail stock was subsequently sold.

## Performance against objective

Between 3 September 2018 (the start of the review period) and 1 March 2019, the fund's sterling share classes delivered a negative total return (the combination of income and growth of capital). Consequently, the fund did not meet the objective of maximising total return, although the declines were less pronounced than the loss of 5% in sterling on the S&P 500 Index, a comparative index.

Between 3 September 2018 and 9 November 2018, when the non-sterling share classes merged into the Luxembourg-authorized SICAV, the euro share classes delivered mixed returns, while the US dollar share classes generated negative returns\*. Returns on the S&P 500 Index were also negative over this period (-1.5% and -3.8% in euros and US dollars, respectively).

The fund has met its objective to maximise total return (the combination of capital growth and income) since the objective was introduced in April 2015.

The fund also delivered on its objective of growing the distribution during the review period. The fund benefited from a combination of continued dividend growth from its underlying holdings and the significant boost from a lower tax rate on US dividends. Growing distributions has been part of the objective since April 2015; it is therefore not possible to assess this aspect of the fund's performance over five years, which is the timeline implied by the 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				
	From 03.09.18 % [a]	From 01.03.16 % p.a.	From 03.03.14 % p.a.	Since launch % p.a.
<b>Sterling [b]</b>				
Class 'A'	-3.6	+18.7	+14.7	+9.2 [c]
Class 'I'	-3.2	+19.6	+15.5	+16.0 [d]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 18 December 1972, 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 six-month period was characterised by increased volatility (or market turbulence) in the US market, which saw the S&P 500 Index reach a record high in September before falling as much as 20% in December. The index recovered most of its losses in the first two months of 2019, but still ended the review period lower. Fears of an economic slowdown led to cyclical stocks being out of favour, while defensives held up best in a difficult environment. (Cyclicals are companies which tend to be more sensitive to the economic cycle; defensive stocks are companies that tend to have stable earnings and are less affected by peaks and troughs in the economy.) Energy was the worst performing sector against the backdrop of a weaker oil price, while technology was another casualty of the market sell-off. Apple declined more than 20% during the period. By contrast, the utilities sector was one of the few areas which delivered a positive return, as investors sought the comfort of safety.

Against this background, the fund limited the downside through positive stock selection, most notably in technology and consumer discretionary. Sector allocation detracted, however, as the zero exposure to utilities and the relatively large weightings in energy and materials held back returns.

Broadcom in the technology sector was the standout performer during the review period. The stock returned almost 30% after the semiconductor company provided a positive outlook for 2019. We trimmed the holding into strength to manage the stock's weighting in the fund. MasterCard was another top contributor as the leader in digital payments continued to beat expectations. Not owning Apple also helped.

Starbucks and Comcast made the biggest positive contributions in consumer discretionary. Starbucks shares rose more than 30% after the coffee chain surprised the market with its operational progress. Comcast delivered a positive return on the back of a strong showing from its broadband business. We also had zero exposure to Amazon.com, because the online retailer does not pay a dividend and is therefore not a candidate for our dividend growth strategy. The stock price of Amazon dropped 18%.

However, the fund was not immune to the falling market. Methanex, the methanol producer, was the leading detractor in an adverse environment for cyclicals and energy-related stocks. The shares reached an all-time high during the first week of October, but retreated thereafter as sentiment weighed on share price movements. Still, the business remains highly cash generative and the valuation looks out of kilter with its strong fundamentals. We see significant upside and the stock remains a core holding.

PrairieSky Royalty, Keyera and Halliburton were among the top detractors in a weak energy sector, although their underperformance was partly offset by the positive returns from Gibson Energy and Pembina Pipeline.

Constellation Brands was an outlier in a resilient consumer staples sector. The shares drifted lower amid concerns about pressure on the beer business, and investors remain unconvinced about the company's growth strategy. The beverage company has potential to increase the penetration of its most popular products, including the Mexican beer brands Corona, Modelo and Pacifico, and we believe the share price weakness has been unwarranted. We have been adding to the holding.

The weakness of Constellation Brands was compensated by the strong performance of Mondelēz International, which delivered a double-digit return during the period. Mondelēz International, whose brands include Oreo and Cadbury, continues to deliver growth with a robust contribution from emerging markets.

### Investment activities

There were five new purchases and six complete sales during the review period, a level of turnover consistent with our long-term investment horizon of three to five years. The number of holdings reduced to 44.

The energy sector saw the most activity with two new holdings and two disposals. We bought EOG Resources, an exploration company, and ONEOK, an infrastructure business, at the expense of service providers Helmerich & Payne and Halliburton. We also added to PrairieSky Royalty on weakness and took profits in Pembina Pipeline.

We started a new holding in Air Products & Chemicals in December following a timely visit to the company's premises in Allentown, Pennsylvania. The meeting cemented our conviction in the industrial gas company's long-term growth prospects. With net cash on the balance sheet, we are excited about the strategy that Air Products & Chemicals is embarked upon and we are pleased that the market downturn provided a buying opportunity.

S&P Global in financials was the fund's first new purchase in 2019 and another instance where market movements prompted action. The company has leading market positions with high barriers to entry, high recurring revenue and zero debt, and there are growth opportunities for each business unit. S&P Global has increased its dividend for 41 consecutive years and is therefore an ideal candidate for the fund's dividend growth strategy. The market's gloom provided an attractive entry point.

Broadridge Financial Solutions, a software company which serves the financial services industry, was the final purchase during the review period. Analog Devices, a semiconductor business, was sold as a source of cash, but the technology weighting was higher at the end of the six-month period.

Elsewhere, the healthcare exposure declined following the sale of Allergan and Medtronic. L Brands was sold after the retail stock outperformed in the wake of its dividend cut.

### Outlook

The return of volatility to stockmarkets has caused much discomfort among onlookers and the shifting sands of market leadership have left many investors seeking direction. It is our strong belief that short-term swings in sentiment can present excellent opportunities for long-term investors, and the downturns in October and December did little to change our conviction.

Looking at fundamentals, we see many attractive opportunities across different sectors for companies with robust cashflows and solid growth prospects. With fortuitous timing, we spent much of December on the east coast of the USA meeting corporates from a variety of industries. Meetings with Comcast, the media group based in Philadelphia, and FIS, the software company based in Jacksonville, Florida – both existing holdings in the fund – reinforced our view that whilst their share prices may have changed, their long-term potential has not. Air Products & Chemicals, another company we visited, was a new holding for the fund soon after.

The importance of being selective cannot be emphasised enough. There are many areas of the market where we see a wide disparity between valuations and fundamentals, and we strongly believe that a valuation discipline is essential to generate excellent returns over the long term.

We are pleased with the progress of our holdings in the current reporting season and we are encouraged by their robust operating performance, which is manifested in continued dividend growth. Dividends should not be taken for granted. As the recent dividend cut from Kraft Heinz demonstrated, there are pitfalls to be avoided. The shock announcement from a company considered as defensive by many investors was strongly influenced by high levels of debt that needed servicing ahead of cash returns to shareholders. The burden of debt was equally influential in the dividend cuts from General Electric, Kinder Morgan and PG&E that preceded it. Balance sheet strength is a key area of focus in our fundamental analysis, especially at a time when rising interest rates will increase the cost of debt as companies refinance their debt in two- to five-year cycles. This is a crucial exercise to ensure that dividend growth is sustainable.

Dividends are the ultimate sign of management confidence. The dividend increases we are seeing from the fund's holdings reflect well on the long-term potential and the financial health of the companies we are invested in. We continue to believe that the combination of strong dividend growth and attractive valuation stands us in good stead to generate competitive returns over the long term.

## John Weavers

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>647,194</b>	<b>97.33</b>	<b>99.43</b>
<b>Energy equipment &amp; services</b>	<b>0</b>	<b>0.00</b>	<b>1.81</b>
<b>Oil, gas &amp; consumable fuels</b>	<b>57,257</b>	<b>8.61</b>	<b>7.66</b>
77,510 EOG Resources	7,366	1.11	
536,140 Gibson Energy	8,661	1.30	
140,917 Keyera	3,441	0.52	
214,836 ONEOK	13,994	2.10	
291,773 Pembina Pipeline	10,686	1.61	
898,133 PrairieSky Royalty	13,109	1.97	
<b>Chemicals</b>	<b>53,299</b>	<b>8.02</b>	<b>8.60</b>
83,412 Air Products & Chemicals	15,145	2.28	
632,949 Methanex	36,148	5.44	
30,877 Sensient Technologies	2,006	0.30	
<b>Electrical equipment</b>	<b>8,209</b>	<b>1.23</b>	<b>1.41</b>
119,773 Emerson Electric	8,209	1.23	
<b>Road &amp; rail</b>	<b>19,094</b>	<b>2.87</b>	<b>3.07</b>
112,967 Union Pacific	19,094	2.87	
<b>Hotels, restaurants &amp; leisure</b>	<b>40,898</b>	<b>6.15</b>	<b>6.30</b>
282,488 Las Vegas Sands	17,350	2.61	
154,588 Six Flags Entertainment	8,804	1.32	
108,653 Starbucks	7,621	1.15	
171,423 Yum China	7,123	1.07	
<b>Specialty retail</b>	<b>17,100</b>	<b>2.57</b>	<b>1.25</b>
158,892 Lowe's	17,100	2.57	
<b>Beverages</b>	<b>27,420</b>	<b>4.12</b>	<b>2.65</b>
162,083 Constellation Brands	27,420	4.12	
<b>Food products</b>	<b>23,331</b>	<b>3.51</b>	<b>3.68</b>
495,243 Mondelēz International	23,331	3.51	
<b>Tobacco</b>	<b>6,681</b>	<b>1.00</b>	<b>1.49</b>
127,722 Altria	6,681	1.00	
<b>Health care equipment &amp; supplies</b>	<b>6,963</b>	<b>1.05</b>	<b>2.68</b>
27,823 Becton Dickinson	6,963	1.05	
<b>Health care providers &amp; services</b>	<b>58,613</b>	<b>8.81</b>	<b>10.08</b>
93,800 Anthem	28,712	4.32	
119,543 UnitedHealth	29,901	4.49	
<b>Pharmaceuticals</b>	<b>10,103</b>	<b>1.52</b>	<b>2.63</b>
74,353 Johnson & Johnson	10,103	1.52	

Portfolio statement (continued)				
as at	28.02.19	28.02.19	31.08.18	
Holding	\$'000	%	%	
<b>Banks</b>	<b>44,121</b>	<b>6.64</b>	<b>7.28</b>	
126,639 First Republic Bank	13,287	2.00		
112,386 JPMorgan Chase	11,817	1.78		
17,038 M&T Bank	2,939	0.44		
322,330 Wells Fargo	16,078	2.42		
<b>Consumer finance</b>	<b>16,622</b>	<b>2.50</b>	<b>2.52</b>	
154,740 American Express	16,622	2.50		
<b>Capital markets</b>	<b>30,696</b>	<b>4.62</b>	<b>4.17</b>	
19,095 Blackrock	8,440	1.27		
246,763 Intercontinental Exchange	18,808	2.83		
17,090 S&P Global	3,448	0.52		
<b>Insurance</b>	<b>16,628</b>	<b>2.50</b>	<b>2.04</b>	
49,670 Arthur J. Gallagher & Co.	3,998	0.60		
136,094 Marsh & McLennan	12,630	1.90		
<b>IT services</b>	<b>83,162</b>	<b>12.51</b>	<b>10.51</b>	
98,895 Broadridge Financial Solutions	10,095	1.52		
196,263 Cognizant Technology Solutions	13,993	2.10		
213,998 FIS	22,943	3.45		
98,812 MasterCard	22,188	3.34		
94,699 Visa	13,943	2.10		
<b>Software</b>	<b>39,106</b>	<b>5.88</b>	<b>5.91</b>	
348,603 Microsoft	39,106	5.88		
<b>Semiconductors &amp; semiconductor equipment</b>	<b>31,134</b>	<b>4.68</b>	<b>6.26</b>	
86,266 Broadcom	23,421	3.52		
43,528 Lam Research	7,713	1.16		
<b>Media</b>	<b>27,335</b>	<b>4.11</b>	<b>2.81</b>	
709,449 Comcast	27,335	4.11		
<b>Equity real estate investment trusts (REITs)</b>	<b>29,422</b>	<b>4.43</b>	<b>4.62</b>	
105,395 Crown Castle International	12,469	1.88		
40,542 Equinix	16,953	2.55		
<b>Portfolio of investments</b>	<b>647,194</b>	<b>97.33</b>	<b>99.43</b>	
<b>CASH EQUIVALENTS</b>	<b>18,085</b>	<b>2.72</b>	<b>1.51</b>	
<b>'AAA' rated money market funds [a]</b>	<b>18,085</b>	<b>2.72</b>	<b>1.51</b>	
18,085,255 Northern Trust Global Fund - US dollar	18,085	2.72		

Portfolio statement (continued)				
as at	28.02.19	28.02.19	31.08.18	
Holding	\$'000	%	%	
<b>SHARE CLASS HEDGING</b>	<b>0</b>	<b>0.00</b>	<b>0.08</b>	
<b>Forward currency contracts for share class hedging</b>	<b>0</b>	<b>0.00</b>	<b>0.08</b>	
<b>Total portfolio</b>	<b>665,279</b>	<b>100.05</b>	<b>101.02</b>	
<b>Net other assets / (liabilities)</b>	<b>(346)</b>	<b>(0.05)</b>	<b>(1.02)</b>	
<b>Net assets attributable to shareholders</b>	<b>664,933</b>	<b>100.00</b>	<b>100.00</b>	

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

[a] Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.

Top ten portfolio transactions	
for the six months to 28 February 2019	
Largest purchases	\$'000
ONEOK	16,374
Constellation Brands	14,277
Air Products & Chemicals	13,357
Lowe's	10,507
Comcast	10,236
Broadridge Financial Solutions	9,962
EOG Resources	9,568
Las Vegas Sands	7,787
Visa	6,694
PrairieSky Royalty	3,816
Other purchases	30,939
<b>Total purchases</b>	<b>133,517</b>
Largest sales	\$'000
Pembina Pipeline	11,920
Medtronic	11,826
Broadcom	11,818
Analog Devices	10,428
UnitedHealth	10,254
Allergan	8,290
Starbucks	7,041
Keyera	6,009
Halliburton	5,694
Mondeléz International	5,596
Other sales	72,780
<b>Total sales</b>	<b>161,656</b>

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

# Financial highlights

## Fund performance

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

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

We show performance for these two share classes because:

- The performance of the Sterling Class 'A' (Accumulation) share is what most individuals investing directly with M&G have received. It has the highest ongoing charge of all the 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.

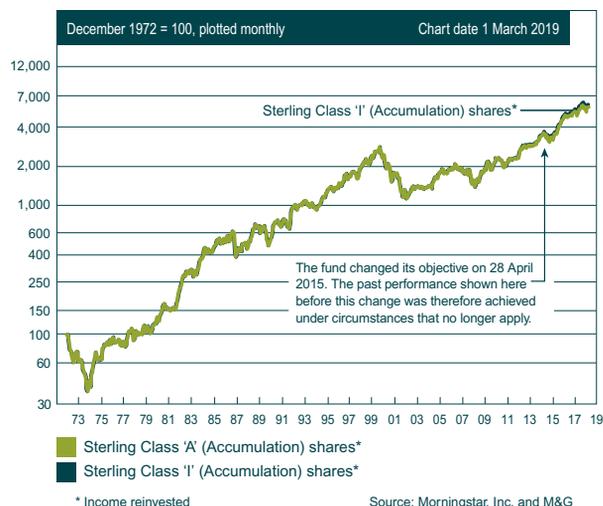
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) 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			
	28.02.19	31.08.18	31.08.17
as at	\$'000	\$'000	\$'000
Fund net asset value (NAV)	664,933	827,633	748,191

## Performance since launch

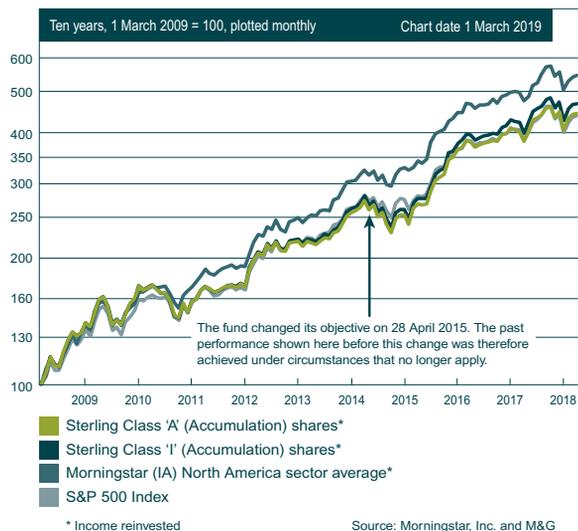
To give an indication of how the fund has performed since launch, the chart below shows total return of Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.



# Financial highlights

## Fund performance

### Ten-year performance



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 18 December 1972.

	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	2,842.81	2,397.74	1,985.92
Return before operating charges and after direct portfolio transaction costs	(61.63)	487.50	449.53
Operating charges	(22.64)	(42.43)	(37.71)
Return after operating charges	(84.27)	445.07	411.82
Distributions	(4.17)	(1.13)	(12.94)
Retained distributions	4.17	1.13	12.94
Closing NAV	2,758.54	2,842.81	2,397.74
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.41	0.50	1.01
Dilution adjustments <sup>[a]</sup>	(0.39)	(0.50)	(0.64)
Total direct portfolio transaction costs	0.02	0.00	0.37
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.00	0.01
Operating charges	1.66	1.66	1.66
Return after operating charges	-2.96	+18.56	+20.74
Historic yield	0.19	0.04	0.54
Effect on yield of charges offset against capital	0.01	0.01	0.01
<b>Other information</b>			
Closing NAV (\$'000)	103,778	109,569	110,756
Closing NAV percentage of total fund NAV (%)	15.61	13.23	14.80
Number of shares	2,827,987	2,963,566	3,587,428
Highest share price (UK p)	2,901.68	2,870.80	2,456.41
Lowest share price (UK p)	2,494.58	2,334.63	1,924.53

# 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	2,716.56	2,274.15	1,869.47
Return before operating charges and after direct portfolio transaction costs	(58.79)	464.65	424.33
Operating charges	(11.92)	(22.24)	(19.65)
Return after operating charges	(70.71)	442.41	404.68
Distributions	(11.78)	(19.49)	(28.34)
Retained distributions	11.78	19.49	28.34
Closing NAV	2,645.85	2,716.56	2,274.15

<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.39	0.48	0.96
Dilution adjustments <sup>[a]</sup>	(0.38)	(0.48)	(0.61)
Total direct portfolio transaction costs	0.01	0.00	0.35

<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.00	0.01
Operating charges	0.91	0.91	0.91
Return after operating charges	-2.60	+19.45	+21.65
Historic yield	0.92	0.70	1.24
Effect on yield of charges offset against capital	0.01	0.01	0.01

#### Other information

Closing NAV (\$'000)	251,502	206,692	169,127
Closing NAV percentage of total fund NAV (%)	37.82	24.96	22.60
Number of shares	7,145,432	5,850,298	5,775,827
Highest share price (UK p)	2,774.63	2,743.19	2,321.68
Lowest share price (UK p)	2,389.45	2,214.98	1,812.26

<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.
- **Share class hedging:** Charge paid to M&G for currency hedging services to minimise exchange rate risk for the share class.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depository, 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](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>
Direct portfolio transaction costs <sup>[b]</sup>	%	%	%	%
Broker commission	0.03	0.02	0.04	0.03
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.03	0.02	0.04	0.03
Dilution adjustments <sup>[c]</sup>	(0.02)	(0.02)	(0.03)	(0.02)
Total direct portfolio transaction costs	0.01	0.00	0.01	0.01
as at	28.02.19	31.08.18	31.08.17	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.03	0.03	0.05	0.04

<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)

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

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