M&G Property Portfolio

Interim Short Report March 2019
For the six months ended 31 March 2019

Fund information

The Authorised Corporate Director (ACD) of M&G Property Portfolio presents its Interim Short Report 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 Property Portfolio, incorporating a Glossary of terms is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations on 0800 390 390.

ACD

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(Authorised and regulated by the Financial Conduct Authority. M&G Securities Limited is a member of the Investment Association and of the Tax Incentivised Savings Association.)

Investment objective

The investment objective of the fund is to carry on Property Investment Business and to manage cash raised from investors for investment in the Property Investment Business. In so doing, the fund aims to maximise long term total return (the combination of income and growth of capital) through investment mainly in commercial property.

Investment policy

The fund invests in a diversified portfolio of commercial property mainly in the UK, seeking to add value through strategic asset allocation, stock selection and asset management. The fund may also invest in other property related assets, including collective investment schemes, transferable securities, derivatives and debt instruments, as well as government debt, money market instruments and cash. Derivatives may be used for investment purposes as well as for efficient portfolio management.

Investment approach

The M&G Property Portfolio aims to maximise long-term total return through direct investment in commercial property. The fund is diversified across different property sectors (such as retail, offices and industrial). This is done by reviewing the structural and portfolio risk implications of holding various assets within the fund and when acquiring new assets for the fund. In researching properties and therefore the associated risk, the manager considers location, property type, rent review and lease expiry pattern, tenant, industry sector, tenure, lease covenants and physical and environmental factors.

Risk profile

The fund invests in a diversified portfolio of commercial property mainly in the UK. It is therefore subject to the price volatility of the UK commercial property markets as well as the performance of individual properties.

The fund is valued daily on both an ‘offer’ basis (how much its assets would cost to buy) and a ‘bid’ basis (how much the fund would receive if assets were sold). The difference between the two, known as the ‘spread’, is currently around 7.25%. The published dealing prices are based on either the offer or bid valuation, depending on whether investors are generally buying fund shares (the fund is in ‘net inflow’) or selling shares (the fund is in ‘net outflow’). Should fund flows move from net inflow to net outflow, the dealing prices may ‘swing’ from an offer basis to a bid basis and fall by the extent of the spread. On the other hand, the dealing prices may rise by the same extent should fund flows move from net outflow to net inflow.

For large deals, the dealing price investors receive may be different from the published price. If investors are buying shares, they may receive a price that is higher than the quoted offer price. If investors are selling Shares, they may receive a price that is lower than the quoted bid price.

In difficult market conditions, or if significant numbers of investors withdraw their investments from the fund at the same time, the manager may be forced to dispose of property investments, and the value of certain property investments may therefore be less predictable than usual. Under these circumstances, it may be harder to sell assets at the last valuation or quoted market price, or at a price considered to be fair. Such conditions could result in unpredictable changes in the value of the fund’s holdings. In general, property investments are harder to buy and sell compared to investments in fixed income securities and company shares.

There is the possibility that a portion of the portfolio will be held in cash if the supply of new investment opportunities is limited which, if the situation persists, may restrict the performance of the fund.

In addition, there is a risk that an occupational tenant on a property held in the fund’s portfolio could default on its rental payments. Furthermore, the fund manager will place transactions, hold positions and place cash on deposit with a range of eligible persons or institutions, also known as counterparties. There is a risk that a counterparty may default on its obligations or become insolvent, which could have a negative impact on the value of the fund.

Portfolio diversification is key in managing liquidity and default risks as well as reducing market risk. The fund’s risks are measured and managed as an integral part of the investment process.

As at 1 April 2019, for the six months ended 31 March 2019

Performance against objective

Between 1 October 2018 (the start of the review period) and 1 April 2019, the M&G Property Portfolio produced a negative total return (the combination of income and growth of capital) across all share classes.*

Over the longer term (since the fund became a PAIF in January 2013 to 1 April 2019), the fund has achieved its objective of delivering income and capital growth through direct investment in commercial property.

* 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 Property Portfolio.

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 bid to bid basis with income reinvested.

Long-term performance

	Six months 01.10.18 % [a]	Three years 01.04.16 % p.a.	Five years 01.04.14 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	-0.9	-0.2	+3.8	+4.5 [c]
Class 'I'	-0.6	+0.4	+4.4	+5.1 [c]

[a] Absolute basis.

[b] Bid to bid with income reinvested.

[c] 18 January 2013, the launch date of the fund.

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.

Market background

Over the six-month review period, the UK commercial property market recorded a total return of 1.1%, according to property consultant CBRE. This positive return was due to tenant income, as capital values, as well as rental values, fell. This outcome was driven by falling capital and rental values in Retail, as Industrials and Offices saw increases in both.

It is well-documented that many traditional retailers are struggling, hit by a combination of business rate hikes and an increasing share of sales moving to online retailers. Consequently, capital values in the sector declined throughout the six months and ended the review period more than 7% lower. Rental values also declined – by nearly 3% - and the total return for the sector was -4.4%. Secondary assets have performed particularly poorly, especially those in unattractive locations on the High Street and Shopping Centres.

The strongest performance over the six months came from Industrials. The sector recorded a total return of 6%, with capital values increasing by over 3% and rental values growing by nearly 2%. Industrials in the South East reported the strongest capital growth over the period.

Offices also performed robustly, albeit slightly lagging Industrials and generated a total return of 4%; capital values grew by 1.5% and rental values increased by nearly 1%. As with Industrials, Offices recorded consecutive monthly increases in capital values throughout the six months.

The volume of property transactions in the first quarter of this year was £8.7 billion, below that seen in the same period a year earlier. In 2018, transactions totalled £62 billion. Transactions have slowed, in our opinion, because of the uncertainty surrounding 'Brexit' negotiations. However, we believe many investors, both domestic and overseas, will be keen to re-enter the market once the UK's future relationship with the European Union becomes clearer. UK commercial property is widely considered fair value and generates an attractive income when compared to many other assets.

Against this background the fund produced a negative total return for the reporting period, with performance hurt by the fund's exposure to Retail. Conversely, the fund's exposure to Industrial and Office assets aided performance.

Portfolio structure

The portfolio is predominantly invested in what we consider as either prime or good secondary property – the higher quality end of the spectrum. In terms of strategy, we aim to balance the elements of income and growth within the portfolio while, importantly, managing the fund's assets actively to optimise performance.

We maintained the fund's exposure towards prime, higher-quality properties during the review period, at a time when we have seen a performance divergence in the traditional sectors, with quality outperforming. The value of, and crucially, the income from prime assets, tends to be more resilient in times of market stress. As at the end of March 2019, the split between prime and good secondary was 70/30 respectively.

Furthermore, according to an independent report by IPD (a company that provides analysis of the UK real estate market), the fund is above-average relative to its peer group, in terms of quality of income.

The fund is a well-diversified portfolio designed to generate rental income across the UK by region and sector with prospective returns guiding asset allocation decisions. Across all sectors, the strength of rental growth in the next 12 to 18 months may have a material bearing on property valuations going forward; however, the somewhat muted development in recent years (except for Central London offices) and low historical vacancies should be supportive of rents at current levels.

In terms of positioning, the fund's weighting in Offices is slightly above that of the broader market (as measured by MSCI IPD) as the underweight in Central London (-7.5%) is offset by overweight positions in South East Offices and Rest of UK Offices, where we forecast healthier returns.

In Retail, we have continued to observe an ongoing polarisation in performance between prime and secondary assets. As the internet continues to alter the way consumers spend, those towns and centres that draw the greatest level of footfall and dwell time consistently attract retailers prepared to pay a premium rent. We therefore retain our material underweight position in the High Street (-6.9%) and overweight exposure to dominant regional sites, including Shopping Centres. We also favour out-of-town retail parks, which benefit from the steady rise in online shopping, particularly the increasing demand for 'click & collect' shopping.

The fund's position to supermarkets is in line. Supermarkets provide a steady income stream that is generally linked to movements in the Retail Prices Index or is subject to predefined increases. This should help protect, to a degree, the real income generated by the portfolio if inflation rises further.

In the industrial sector, the fund is underweight in London and the South East and marginally overweight the in the Rest of the UK. The fund has been underweight London and the South East for some time as pricing has remained firm, making it challenging for us to find value in the sector.

Within the sector, demand is strong from retailers for smaller warehouses close to towns, as online shoppers demand tighter delivery windows, while larger sheds are still required for regional and national distribution. Over the next three years, we forecast the total return for the sector will exceed the market.

Outside the three core property sectors, capital invested in 'Other' totals 8.2% and covers a wide range of assets including hotels, leisure and the growing student accommodation market. Student accommodation proved resilient in the last downturn and investment here, provides exposure to a sub-sector which is structurally undersupplied. Furthermore, the fund's exposure to student accommodation is accretive to the yield of the portfolio.

The vacancy rate (including developments) of the fund was 7.5% at the end of March, in line with the benchmark, the MSCI Quarterly Universe. Four offices – Bedfont Lakes, Heathrow; 5, The Square, Uxbridge; R+, Reading and Quantum Business Park, Maidenhead, account for around half of the fund's voids. The vacancy level has remained elevated for a protracted period due in part to businesses delaying investment decisions. However, the offices are best-in-class, prime assets, located in dense occupier markets and should be early beneficiaries when tenant activity picks up. Securing tenants will remove the void cost and underpin the assets' value and income generated by the fund.

In normal commercial property market conditions, we aim to keep the amount of cash held in the portfolio between 7.5% and 12.5% of net asset value. For much of the review period, the cash holding was above this range, as a precautionary measure given the uncertain economic climate. However, towards the end of the review period the fund's cash position declined slightly to 11.2% at the end of March 2019.

Holding elevated cash levels for liquidity purposes must be balanced against the fund's core objective of providing property-like investment returns. Nevertheless, as political uncertainty remains, for the time being, we will continue to identify sales to raise cash above the preferred range.

Investment activities [a]

Investment activity during the six-month period was guided by portfolio positioning and with the aim of ensuring that going forward the fund is aligned with those sectors forecast to outperform. Over the period we sold nine properties, bought one asset and invested in two UK-listed real estate investment trusts (REITs).

In Retail, we sold Fountain House, a shop in Belfast, for £13.0 million. Prior to the sale of Fountain House, the tenant had announced a nationwide company voluntary arrangement (CVA). Because of this, we were able to review the existing lease and were presented with the opportunity to sell the asset to an owner-occupier purchaser at an attractive valuation, which was above book value.

We also sold a supermarket in Blandford in the South West of England for £24.8 million to the existing occupier, Tesco, at a price marginally below book value.

Two other small sales in the sector were completed as well: 1-3, Church Street, a shop in Peterborough for £5.0 million and 45, East Street and Castle Square, a shop in Brighton for £6.7 million.

In Industrials, a unit at Bardon Business Park, Coalville was sold for £21.9 million. This was a strategic sale, as the asset had a short lease with the potential for underperformance going forward. The property was sold at a premium to the standing independent valuation.

Plot 3320, Magna Park an Industrial unit in Lutterworth, was also sold. From an asset allocation perspective, the sector is forecast to outperform; however, recent asset management activity at the property (the sole tenant committed to a new five-year lease at current market rents) captured its reversionary potential and this was reflected in the price we received.

We sold two properties in Offices: 2, Kensington Square, London, for £22.5 million and 2 City Park an office in Brighton for £21.8 million. The sale of 2 Kensington Square was a strategic decision, as the asset had a short lease with the potential for underperformance going forward. The property was sold at a premium to the standing independent valuation.

[a] The prices of these transactions exclude related costs.

Outside the main three property sectors, we sold part of our investment at 3, Royal Baths & Harrogate House, Harrogate – the rear of the site, which is leased to Potting Shed, a pub operator. The property is a multi-let block, comprising principally of leisure operators and is held part long leasehold and part freehold. Potting Shed took on a 20-year lease in March 2018, following a comprehensive refurbishment of the property. We marketed the asset in the fourth quarter of 2018 and the sale was completed in January 2019. The price achieved was £9.1 million, representing an uplift of £1.5 million on the carrying value for this portion of the site.

The only purchase of direct property during the six months was an asset housing a Premier Inn and MacDonald's on Southampton Road, Salisbury for £10.5 million. The asset is in a well-located neighbourhood, not far from the historic town centre. The 20-year lease is underwritten by a Whitbread covenant.

We also initiated two small positions in UK-listed REITs – Segro and Hansteen REIT. In 2018, the fund was operationally readied to invest selectively in sector-specific REITs, as an additional tool to enhance the fund's flexibility to manage sector exposure, increase diversification and allow tactical allocation to sectors where there are medium-term barriers to trade directly. These barriers include: availability of stock, challenging valuations and roundtrip transaction costs. Both holdings benefit from the secular trends of increasing digitalisation and urbanisation, which are driving demand for fulfilment centres and urban warehouses.

Asset management

Active asset management continued to enhance the performance of the portfolio during the review period, by maintaining values through securing and strengthening rental income.

Retail

We completed a rent review at Parc Trostre with Subway, which resulted in an increase in rent of more than 10%. We also secured a five-year lease extension, which is effectively a reversionary lease from 13 June 2021 to 12 June 2026. The rent will be reviewed on 13 June 2021 and the lease includes a short rent-free period. (A reversionary lease is one that takes effect when an existing lease has expired.)

Offices

At 3 Temple Quay, Bristol we exchanged on an Agreement for Lease with Brunel Insurance. (An agreement for lease is a binding agreement between a landlord and prospective tenant to grant and/or to accept a lease in the future.) The rent secured represents a record for the office building and we believe is the highest rent in the city for a refurbished space. The lease is for 10 years with a break at seven years.

We also let the retail unit at The Capitol, Aberdeen to Stevensons (school wear outfitters). The rent achieved was 20% above our estimated rental value and resulted in an uplift to the asset's valuation. The 10-year lease commenced on the 27th November 2018 and has a break in year five.

We completed asset management activity at Wavendon in Milton Keynes, where we are undertaking the refurbishment of an office building, Keen House. We have just completed a pre-letting to a new tenant, Unisys, on 50% of the building, representing c19,000 square feet. The rent achieved is a new high for the business park.

We also completed a three-year lease with Forward Partners Management Ltd at The Yard, a collection of office units in Inner London. The new lease represents a substantial increase compared to the previous level.

Industrials

At Magna Park, a distribution warehouse in Lutterworth, East Midlands we completed a 10-year reversionary lease with VWR International Limited, which begins on 10 October 2019.

The tenant has a break option from the fifth anniversary and there is an upward-only open market rent review at the fifth anniversary of the commencement date of the lease. Because of this activity, the asset's valuation has increased from £14.6 million to £17.4 million. This asset has now been sold.

We completed two rent reviews with DSV Solutions (a Danish transport and logistics company) who occupy a large distribution warehouse in Thrapston, Northamptonshire. The review resulted in an increase in rental value and hence an increase in the capital value of the property.

At Beam Reach, Rainham, we went unconditional on a new 20-year lease with tenant Restore, a document management company. The new lease is expected to commence in September 2019, when the tenant completes an extension to the unit. Because of the activity, there has been an uplift in valuation.

We also completed asset management activity at an industrial unit at Lecturers Close, Bolton. The unit is next to Bolton Shopping Park, a primary location for business and trade units, close to the centre of town. The premises comprise c5,000 square feet ground floor space, with some mezzanine accommodation. The rent achieved was a mid-single-digit percentage ahead of the estimated rental value. The 10-year lease has a tenant break after five years.

Outlook

In 2018, UK Commercial Property delivered a total return of 6.3%, according to property consultant CBRE. Performance was mixed across the core sectors, with Industrial property the standout performer with capital growth of more than 12%, in contrast to Retail, which saw capital values fall by more than 7%.

From a portfolio perspective, the benefits of diversification were visible both within property and versus other asset classes. In 2018, there were considerable falls in equity markets and weakness in bonds. Despite those losses, UK commercial property recorded a positive return, demonstrating its low correlation with other traditional asset classes.

Keen interest from domestic and overseas investors has been driving the healthy performance of property over recent years. Despite the political challenges facing the UK, transaction volumes reached £62 billion (of which overseas investors represented 44%) in 2018, ahead of the 15-year average (£47 billion).

Investors are drawn by, among others, an attractive yield both in absolute terms and relative to other income-generating assets. Furthermore, with global investors collectively looking to allocate a larger portion of their capital to real estate, the support for UK commercial property is expected to remain, in our view.

Of the three core property sectors, Retail is undergoing the greatest amount of change. Structural shifts in the way we shop are forcing retailers to appraise whether their stores are in the right location and fit for purpose. Profitability is being squeezed and even well-known brands have started to suffer, resulting in some having to employ CVAs to manage their rental commitments. Capital values have fallen in response to rental declines; the impact is being felt across all retail sub-sectors, with the greatest effect on secondary stores in compromised locations.

While we expect Retail capital values to fall further from here, the magnitude is unlikely to be uniform across the sector, in our view, and the impact may not be as severe as some others anticipate. While online sales are still growing, sometimes at the expense of high street sales, the complementary nature of web-based consumer activity and physical stores is apparent. Companies once synonymous with pure-play online retailing are recognising this and are building out their physical presence.

Demand for space in strongly performing locations is therefore likely to continue. Furthermore, the economic conditions that have given rise to the stellar performance of the Industrials sector are also relevant for traditional retailers. The UK unemployment rate is at a multi-decade low and is supporting real wage growth. This is against a backdrop of moderate economic growth that is forecast to improve in the medium term. Retailers that thoughtfully broaden their sales channels, thereby widening their appeal to changing consumer behaviour, should survive.

Nevertheless, we expect softer returns in the years ahead as property moves through its cycle. Over the next five years, M&G Real Estate forecasts low single-digit annualised total returns for UK commercial property. Income is likely to be the greatest driver of returns for the market and, as was the case for Retail in 2018, will offset some of the impact from weakness in capital values.

Fiona Rowley & **Justin Upton**
Co-fund managers

Employees 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 Location		31.03.19 £'000	31.03.19 %	30.09.18 [a] %
	Retail properties	**1,169,379**	**36.37**	**36.42** [b]
	Values between £100 million and £200 million	**256,681**	**7.98**	**10.23**
Llanelli	Parc Trostre Retail Park			
Bridgend	Wales Designer Outlet, The Derwen			
	Values between £20 million and £100 million	**795,686**	**24.75**	**21.50** [b]
Maidstone	19-21 Fremlin Walk			
Northampton	Riverside Retail Park			
Sutton Coldfield	The Gracechurch Centre			
London, N18	Ravenside Retail Park			
Lincoln	Lindis Retail Park, Tritton Road			
High Wycombe	Wycome Retail Park			
Romford	The Brewery (25% of Trust for Land)			
Tyne And Wear	Newcastle Shopping Park, Fossway, Heaton, Byker			
High Wycombe	Tesco Supermarket, London Road, Loudwater			
London, E4	Corktree Retail Park, Hall Lane, Chingford			
Petersfield	1-20 Rams Walk & 11-13 The Square			
Ayr	Ayr Central Shopping			
Bolton	Bolton Shopping Park, Trinity Street			
Cannock	Orbital Retail Park, Voyager Drive			
Croydon	Trafalgar Way Retail Park, Purley Way			
Scarborough	Brunswick Shopping Centre			
	Values between £0 and £20 million	**117,012**	**3.64**	**4.69** [b]
Birmingham	The Fort Retail Park (12.5% of Trust for Land)			
Londonderry	Lisnagelvin Retail Park			
Sheffield	Debenhams, The Mall and Charter Square			
York	3/7 Coney Street			
Newcastle	46/48 Northumberland Street & 1/5 Saville Row			
Southampton	57/61 Above Bar Street			
St Albans	Lockey House, St Peters Street			
London, N1	359 Upper Street, The Mall			
Harrow	Debenhams, 275 Station Road			
Chester	43 Eastgate Street			
Harrogate	Royal Baths and Harrogate House			
Winchester	71/73 St Georges Street & 126 High Street			
Leeds	25-26 Commercial Street			
Leeds	27-28 Commercial Street			

Portfolio statement (continued)

as at Location		31.03.19 £'000	31.03.19 %	30.09.18 [a] %
	Office properties	**850,149**	**26.45**	**24.92**
	Values between £100 million and £200 million	**281,395**	**8.75**	**7.88**
Heathrow	1-8 New Square Bedfont Lakes Office Park			
London, EC2	Alder Castle, 10 Noble Street			
	Values between £20 million and £100 million	**519,255**	**16.16**	**15.68 [b]**
Glasgow	Aurora Building, 120 bothwell Street			
Uxbridge	Enterprises House, Bakers Road			
Reading	Aldwych House, Blagrave Street			
Birmingham	120 Edmund Street			
London, W1	Portland & Riding Estate			
Bristol	3 Temple Quay			
Maidenhead	Quantum Business Park			
Uxbridge	Stockley Park, 5 The Square			
Milton Keynes	Wavendon Business Park			
Aberdeen	The Capitol, 431 Union Street			
London, E14	8 Greenwich View Place			
Staines	20 Kingston Road			
	Values between £0 and £20 million	**49,499**	**1.54**	**1.36**
Aberdeen	City View, Craigshaw Drive			
Glasgow	23 Cadogan Street			
London, N1	Units 1-4 The Yard, 122 East Road			
	Industrial properties	**619,880**	**19.29**	**17.31 [b]**
	Values between £20 million and £100 million	**454,823**	**14.15**	**13.01**
Belvedere	Iron Mountain Distribution Warehouse, Isis Reach, Norman Road			
Hayes	Unit 2 & 7a/b/c Millington Road			
Enfield	Heritage House, Southbury Road			
Birmingham	Units 2-12, 14 & 15, Junction 6 Industrial Estate, Electric Avenue			
Bristol	Plot 4000, Western Approach Distribution Park			
Southampton	Tesco Distribution Unit, Main Site, Nursling Industrial Estate			
Didcot	Booker Unit, Foxhall Road			
Aberdeen	Sites A1, A7-A10, A12, A15-A25 & A29, Altens Industrial Estate			
Walsall	TK Maxx Distribution Centre, Green Lane			
Aberdeen	Sites WT1-WT5 & WT8-WT18 & WT20, West Tullos Industrial Estate			
Warrington	Royal Mail Distribution Centre, Orion Boulevard			
Rainham	Wincanton Distribution Unit			

Portfolio statement (continued)

as at Location		31.03.19 £'000	31.03.19 %	30.09.18 [a] %
	Industrial properties (continued)			
	Values between £0 and £20 million	**165,057**	**5.14**	**4.30 [b]**
Tamworth	DSV, Kingsbury Link, Trinity Road			
Thrapston	Units HP1 & HP2, Halden's Parkway			
Normanton	Royal Mail Distribution Centre, Tuscany Way, Wakefield Europort			
Dartford	Orbital One Trading Estate, Green Road			
Northampton	Tungsten Business Park, Caswell Road			
Leatherhead	Leatherhead Trade Park			
Liverpool	Britonwood			
Southampton	Norbert Dentressangle Recycling Plant, Site 1b, Nursling Industrial Estate			
Fareham	11 Barnes Wallis Road			
Hartlebury	Unit 100, Hartlebury Trading Estate			
Nottingham	Unit 10, Blenheim Park			
Tamworth	Inalfa Unit Kingsbury Link			
Aberdeen	Portfolio of 7 Ground Leases, Murcar Industrial Estate			
Normanton	Unit 1000, Normanton Industrial Estate			
Aberdeen	Units 1-4 Howe Moss Drive, Kirkhill Industrial Estate			
	Leisure properties	**162,847**	**5.06**	**4.23**
	Values between £20 million and £100 million	**92,724**	**2.88**	**2.59**
Rochester	Medway Valley Leisure Park			
Telford	Southwater Square			
Blackburn	Peel Retail & Leisure Centre, Lower Audley Street			
	Values between £0 and £20 million	**70,123**	**2.18**	**1.64**
Swansea	Premier Inn Hotel, The Waterfront Development			
Salisbury	Premier Inn & McDonald's			
Birmingham	Travelodge - 2225 Coventry Road			
Milton Keynes	Travelodge - Burchard Crescent			
Slough	Travelodge - 399 London Road, Langley			
Northampton	Travelodge - London Road			
Walton on Thames	Travelodge - Ashley Park Road			
Redhill	Travelodge - 2 Redstone Hill			
Woodford Green	Travelodge - 735 Chigwell Road			
Borehamwood	Travelodge - Studio Way			
London, E11	Travelodge - 73 Hollybush Hill, Snaresbrook			

Portfolio statement (continued)

as at Location		31.03.19 £'000	31.03.19 %	30.09.18 [a] %
	Leisure properties (continued)			
	Values between £0 and £20 million (continued)			
Arundel	Travelodge - Fontwell Avenue			
Northolt	Travelodge - Mandeville Road			
Eastbourne	Travelodge - Highfield Park, Willingdon Drove			
London, N14	Travelodge - The Green, Southgate			
Portsmouth	Travelodge - 1 Whichers Gate Road, Rowland's Castle			
	Other properties	**34,800**	**1.08**	**0.96**
	Values between £20 million and £50 million	**34,800**	**1.08**	**0.96**
Birmingham	Selly Oak Student Quarter			
Total direct properties		**2,837,055**	**88.25**	**83.84**
	Indirect properties	**31,373**	**0.98**	**0.87**
	Kames Target Healthcare I LP	17,993	0.56	
	Octupus Healthcare Fund	13,380	0.42	
	Real estate investment trusts	**4,627**	**0.14**	**0.00**
689,505	Segro	4,626	0.14	
1,000	Hansteen	1	0.00	
Portfolio of investments		**2,873,055**	**89.37**	**84.71**
	'AA' credit rated bonds [c]	**99,985**	**3.11**	**8.29**
$100,000,000	Treasury 0% (8 April 2019)	99,985	3.11	
Total portfolio		**2,973,040**	**92.48**	**93.00**
Net other assets / (liabilities)		**241,730**	**7.52**	**7.00**
Net assets attributable to shareholders		**3,214,770**	**100.00**	**100.00**

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

[a] The comparatives reflect the properties in the bands based on the value and ownership as at 30 September 2018.

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

[c] Cash equivalents.

Portfolio transactions

for the six months to 31 March Portfolio transactions	2019 £'000	2018 £'000
Total purchases	513,476	554,829
Total sales	838,967	782,772

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

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 share classes. Performance is shown after deduction of this charge. All investors in the fund therefore received this performance or better.

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

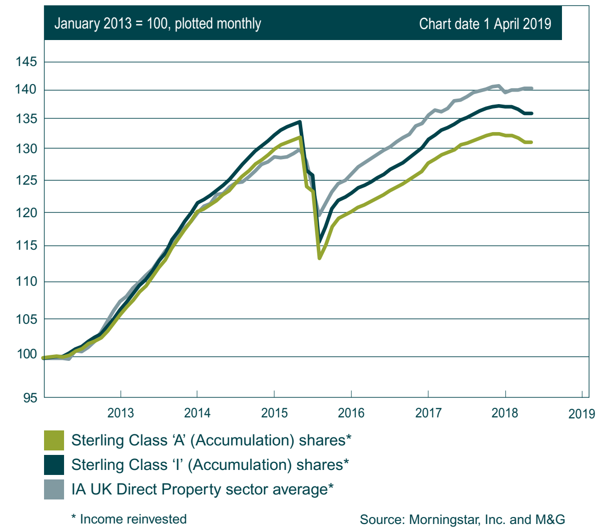
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Property Portfolio, which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations. For the specific performance tables of all share classes, please refer to the Interim Long Report and unaudited Financial Statements for M&G Property Portfolio, 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	31.03.19 £'000	30.09.18 £'000	30.09.17 £'000
Fund net asset value (NAV)	3,214,770	3,614,786	3,701,686

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

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.

Interest distributions payable to holders of sterling Income shares are shown gross, including any income tax. Retained interest distributions in respect of sterling Accumulation shares are shown net of income tax, with the income tax payable shown as distributions.

Historic yields for the current period are calculated as at 12 April 2019.

Sterling Class 'A' Accumulation share performance

The share class was launched on 18 January 2013.

Change in NAV per share	Six months to 31.03.19 UK p	Year to 30.09.18 UK p	Year to 30.09.17 UK p
Opening NAV	139.30	131.74	124.77
Return before operating charges and after direct portfolio transaction costs	0.66	10.96	10.53
Operating charges	(1.49)	(2.80)	(3.02)
Return after operating charges	(0.83)	8.16	7.51
Distributions	(1.77)	(3.47)	(3.12)
Retained distributions	1.46	2.87	2.58
Closing NAV	138.16	139.30	131.74
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.15	0.34	0.24
Dilution adjustments [a]	(0.15)	(0.12)	(0.17)
Total direct portfolio transaction costs	0.00	0.22	0.07
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.17	0.06
Operating charges excluding property expenses	1.70	1.69	1.70
Property expenses	0.44	0.37	0.67
Operating charges	2.14	2.06	2.37
Return after operating charges	-0.60	+6.19	+6.02
Historic yield	2.46	2.35	2.35
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	49,935	56,327	74,592
Closing NAV percentage of total fund NAV (%)	1.55	1.56	2.02
Number of shares	36,142,668	40,434,668	56,620,668
Highest share price (UK p)	147.29	146.44	139.66
Lowest share price (UK p)	145.58	138.32	131.07

Sterling Class 'I' Accumulation share performance

The share class was launched on 18 January 2013.

Change in NAV per share	Six months to 31.03.19 UK p	Year to 30.09.18 UK p	Year to 30.09.17 UK p
Opening NAV	1,441.40	1,354.88	1,275.54
Return before operating charges and after direct portfolio transaction costs	6.65	113.15	108.11
Operating charges	(9.94)	(18.43)	(21.30)
Return after operating charges	(3.39)	94.72	86.81
Distributions	(23.75)	(46.31)	(41.77)
Retained distributions	19.52	38.11	34.30
Closing NAV	1,433.88	1,441.40	1,354.88
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	1.51	3.46	2.51
Dilution adjustments [a]	(1.51)	(1.19)	(1.76)
Total direct portfolio transaction costs	0.00	2.27	0.75
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.17	0.06
Operating charges excluding property expenses	0.95	0.94	0.95
Property expenses	0.43	0.38	0.68
Operating charges	1.38	1.32	1.63
Return after operating charges	-0.23	+6.99	+6.81
Historic yield	3.20	3.07	3.07
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	245,998	250,575	234,627
Closing NAV percentage of total fund NAV (%)	7.65	6.93	6.34
Number of shares	17,156,064	17,384,104	17,317,204
Highest share price (UK p)	1,527.89	1,515.33	1,422.00
Lowest share price (UK p)	1,510.92	1,422.67	1,358.18

[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, comprised of operating charges and portfolio transaction costs.

Operating charges

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

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.
- **Property expenses:** Costs associated with the management and operation of the property portfolio itself, including day-to-day property management and rent collection.

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.

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.

Portfolio transaction costs include the costs of acquiring or disposing of, as the case may be, all the assets forming the scheme property, being agents' commissions, legal, fiscal and financial advisory fees and additionally in the case of acquisitions, surveyors' fees and taxes, including Stamp Duty Land Tax (SDLT).

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.

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

Portfolio transaction costs

Direct portfolio transaction costs [b]	Six months to 31.03.19 %	Year to 30.09.18 %	Year to 30.09.17 %	Average [a] %
Agents' fees	0.02	0.01	0.01	0.01
Legal fees	0.07	0.07	0.18	0.11
Stamp Duty Land Tax	0.01	0.16	0.00	0.06
Survey fees	0.00	0.01	0.00	0.00
Costs before dilution adjustments	0.10	0.25	0.19	0.18
Dilution adjustments [c]	(0.10)	(0.08)	(0.13)	(0.10)
Total direct portfolio transaction costs	0.00	0.17	0.06	0.08

[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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