



M&G Smaller Companies Fund

a sub-fund of M&G Investment Funds (3)

Interim Short Report December 2018
For the six months ended 31 December 2018

Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (3) presents its Interim Short Report for M&G 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 (3), incorporating all the sub-funds and a Glossary of terms is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations on 0800 390 390.

ACD

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

Important information

On 28 September 2018, the Depositary changed from National Westminster Bank Plc, to NatWest Trustee & Depositary Services Limited.

Investment objective

The fund aims to deliver a higher total return (the combination of capital growth and income) than the Numis Smaller Companies Index (excluding Investment Companies), net of the ongoing charge figure, over any five year period.

Investment policy

At least 80% of the fund is invested in UK smaller companies. These are UK listed companies which, at the initial time of purchase, are:

- in the bottom 10% (by market capitalisation) of the FTSE All-Share index, or
- in the Numis Smaller Companies Index (excluding Investment Companies), or
- listed on the Alternative Investment Market.

The fund may also invest in collective investment schemes and other transferable securities. 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

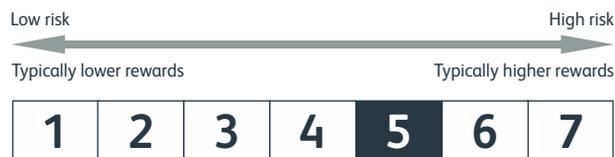
The fund manager takes a bottom-up approach to stockpicking and aims to construct a well-diversified portfolio. A long-term perspective is adopted with particular focus placed on 'growth drivers', competitive advantage, change, quality of management and valuation.

When a company held by the fund grows such that it no longer has the characteristics of a smaller company, the fund manager will reduce the holding in a manner and timescale best suited to meeting the fund's objective.

Risk profile

The fund invests in the shares of smaller UK-listed companies and is, therefore, subject to the price volatility of the UK stockmarket and the performance of individual companies. The fund's focus is on smaller companies and it can also invest in the shares of AIM-listed companies. Shares in both types of company can be more unpredictable and 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 2 January 2019, for the six months ended 31 December 2018

Performance against objective

Between 2 July 2018 (the start of the review period) and 2 January 2019, the M&G Smaller Companies Fund delivered a negative total return (the combination of income and growth of capital) across all of its share classes*. The fund finished the period behind a comparative index, the Numis Smaller Companies ex IT Index, which returned -13.7%.

The fund met its investment objective of delivering a higher total return than the Numis Smaller Companies Index (excluding Investment Companies) over any five year period for the Class 'C' shares, but not for all other share classes. The index returned 4.2% in the five years to 2 January 2019.

* 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 (3).

To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period for Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares. Calculated on a price to price basis with income reinvested.

| Long-term performance | | | | |
|--------------------------------|------------------------|-------------------------|------------------------|----------------------|
| | Six months 02.07.18 | Three years 04.01.16 | Five years 02.01.14 | Since launch |
| | % ^[a] | % p.a. | % p.a. | % p.a. |
| Sterling ^[b] | | | | |
| Class 'A' | -15.5 | +3.5 | +3.1 | +12.0 ^[c] |
| Class 'I' | -15.2 | +4.3 | +3.8 | +10.6 ^[d] |

^[a] Absolute basis.

^[b] Price to price with income reinvested.

^[c] 27 September 1967, the end of the initial offer period of the predecessor unit trust.

^[d] 3 August 2012, the launch date of the share class.

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

Investment performance

Like other major markets, the UK stockmarket was volatile in the six months under review due to concerns about rising US interest rates and expectations of further moves towards the normalisation of monetary policy. Persistent unease about international trade wars, slower global economic growth and the looming Brexit deadline of March 2019 also dampened investor sentiment. In particular, global stockmarkets saw significant volatility during October 2018 due to a sharper-than-expected increase in borrowing costs, driven by the US fixed income (bond) market. Bonds are loans in the form of a security, usually issued by a government or company, which normally pay a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid. Investors worried that the US may raise interest rates more quickly in 2019 in response to inflationary pressures stemming from a strong US economy. Some disappointing earnings guidance and concerns that tightening by the US Federal Reserve may dampen the US economy also weighed on investors' appetite for risk.

In the UK, the Bank of England raised the base interest rate by a quarter of a percentage point to 0.75% in August 2018, despite only moderate inflationary pressure and weak economic data at the start of the year. Economic growth subsequently picked up a little, but more recent data suggests Brexit-related uncertainty and weaker global growth is weighing on activity.

The first half of 2018 saw modest declines for small and medium-sized companies, but the pronounced weakness later in the year held back returns for 2018 as a whole, with the stock prices of companies of all sizes declining sharply. For the period under review, small caps were slightly ahead of the wider market. Medium-sized companies were the weakest size grouping over the six months and the largest UK companies held up the best, having seen the smallest decline.

Within the smaller company universe, non-life insurers and telecommunications stocks were among the strongest performers over the period. Certain defensive stocks, such as utilities and beverages, also performed well. Defensive stocks tend to hold up relatively well regardless of economic cycles, compared to their more growth-oriented counterparts. In contrast, oil & gas and construction & materials were among the weakest sectors, while technology and healthcare also lagged the broader market.

Against this background, the M&G Smaller Companies Fund finished the six-month period behind the Numis Smaller Companies ex IT Index. Performance was held back by stock selection and, to a lesser extent, asset allocation. Performance was hurt by a below-index weighting in mining and a lack of presence in telecommunications, while an above-index allocation to construction also cost some performance. In contrast, value was added by a below-index position in oil and gas, as well as an above-index exposure to general industrials.

At the stock selection level, stocks in the basic materials, consumer goods and consumer services sectors, particularly travel & leisure, cost some performance. However, performance was supported by stocks in the industrial and technology sectors.

Contributors to performance included a number of stocks that rallied following previous weakness. For example, EMIS, a healthcare software developer, had a difficult start to the year due to some service-level issues with the NHS, its main customer. These have now been contained and the stock staged a recovery.

Specialist motor insurer Sabre Insurance Group added value over the six months. Sabre provides specialist insurance for niche markets, such as the young and old-age groups and those driving older cars. The company has a defensive business model and performed well during the market sell-off towards the end of the year.

Alpha FX, a corporate foreign exchange specialist, produced some strong trading results, driven in particular by investments beyond its traditional small- and medium-sized enterprise customer base into new service lines.

Other holdings held up relatively well. For example, infrastructure provider Hill & Smith recovered from a summer slowdown as a number of delayed road improvement projects eventually commenced. Fund management consultancy Alpha Financial Markets and Kin and Carta, a digital marketing company, also outperformed. Alpha Financial Markets has traded ahead of expectations, while Kin and Carta has disposed of some non-core units, leaving it solely focused on digital marketing. The company has largely recovered from a challenging year in 2017.

The main individual detractors included branded clothing retailer Superdry, office services provider Restore, specialty chemicals manufacturer Synthomer, and Spire Healthcare Group, a private hospital operator. Superdry issued a disappointing trading update, citing unseasonal weather and general weakness in the retail industry. Restore was caught up in the pronounced weakness in the AIM market towards the end of the year, rather than being affected by any stock-specific news. Investors shunned Synthomer due to concerns about global growth, while Spire Healthcare issued a disappointing trading update.

Investment activities

New positions during the period included Elementis, a specialist chemicals business, building products firm Marshalls, and advanced biopharmaceuticals firm PureTech Health. Elementis supplies high-value additives to the personal care, coatings and energy markets, as well as chemicals that make products more durable in a range of industrial applications. Shares in Elementis were weak in connection with a badly handled takeover approach and we bought the stock at an attractive price. The company eventually completed the takeover of Amsterdam-based Mondo Minerals in October. Marshalls is focused on the UK market and manufactures paving stones for the residential and infrastructure / commercial markets. PureTech Health is focused on developing innovative medicines that may have a better risk-benefit profile than existing treatment options. The company has a broad product pipeline and, in our opinion, has considerable potential should some of its projects prove successful.

Other new entrants to the portfolio included Essentra, a global supplier of industrial products manufactured from plastic and fibre, Staffline, a UK blue collar temporary recruitment business, and 4Imprint, a US firm supplying branded goods to corporate customers. Shares in Essentra had declined as investors lost confidence in its multi-year turnaround strategy, even though we feel it is progressing in the right direction. This weakness provided a good opportunity for us to initiate a holding at attractive valuations. Similarly, Staffline's shares declined because of concerns about Brexit and we started a holding at a good price. The company has a new management team, which is expected to drive strong operational performance and carry out merger and acquisition activity. 4Imprint has a high-growth business model and looks attractively valued given its growth prospects.

We sold some positions on valuation grounds following good performance. Such disposals included veterinary products manufacturer Dechra Pharmaceuticals and Victrex, a hi-tech plastics manufacturer. Trading software firm Fidessa left the portfolio in connection with its takeover by Irish rival Ion, while we sold computer game developer Codemasters following a disappointing launch of the firm's Onrush driving game, as we had lost confidence in the investment case. Finally, against a backdrop of market weakness and heightened uncertainty, we closed holdings in a number of companies that we felt had less robust balance sheets, namely self-storage provider Safestore, European waste management firm Renewi and Spire Healthcare.

Outlook

Despite considerable Brexit-related uncertainty, the UK economy has held up relatively well. Unemployment is at record lows, wage growth is improving and inflation remains contained for now. However, the longer term momentum appears to be weak, held back by global trade tensions and a lack of clarity over the nature of the UK's departure from the European Union and the eventual economic framework of the relationship between the two. Aside from domestic events, market observers will be watching developments relating to US-Chinese trade relations and the health of the global economy, which is likely to affect the UK.

Regardless of the potential for further volatility in the near term, the UK stockmarket has trailed behind major markets over the past two and a half years and, in our opinion, UK company share valuations are more attractive now than they have been for some time. Nevertheless, we feel there is a heightened degree of risk regarding corporate earnings, given the ongoing trade issues and the possibility of a 'no-deal' Brexit. We remain broadly optimistic about prospects for smaller companies, but we are taking a relatively cautious approach in the early stages of the year and waiting to see how events evolve.

Garfield Kiff

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 | 31.12.18 | 31.12.18 | 30.06.18 |
| Holding | £'000 | % | % |
| EQUITIES | | | |
| | 355,049 | 96.61 | 96.00 |
| Oil & gas producers | | | |
| | 5,304 | 1.44 | 1.85 |
| 3,522,202 Cairn Energy | 5,304 | 1.44 | |
| Chemicals | | | |
| | 13,651 | 3.71 | 4.80 |
| 3,025,000 Elementis | 5,493 | 1.49 | |
| 2,282,706 Synthomer | 8,158 | 2.22 | |
| Construction & materials | | | |
| | 29,619 | 8.06 | 7.70 |
| 3,385,076 Forterra | 7,583 | 2.06 | |
| 600,101 Kier Group | 2,442 | 0.66 | |
| 1,292,963 Marshalls | 6,025 | 1.64 | |
| 2,185,040 Polypipe | 7,189 | 1.96 | |
| 2,720,545 Tyman | 6,380 | 1.74 | |
| Aerospace & defence | | | |
| | 11,088 | 3.02 | 1.90 |
| 2,358,188 Senior | 4,403 | 1.20 | |
| 513,445 Ultra Electronics Holdings | 6,685 | 1.82 | |
| General industrials | | | |
| | 15,442 | 4.20 | 2.81 |
| 10,600,000 Coats Group | 8,650 | 2.35 | |
| 1,330,488 Vesuvius | 6,792 | 1.85 | |
| Electronic & electrical equipment | | | |
| | 4,976 | 1.35 | 1.05 |
| 2,597,041 TT electronics | 4,976 | 1.35 | |
| Industrial engineering | | | |
| | 19,504 | 5.31 | 4.08 |
| 960,625 Hill & Smith Holdings | 11,489 | 3.13 | |
| 685,000 Vitec Group | 8,015 | 2.18 | |
| Industrial transportation | | | |
| | 8,853 | 2.41 | 2.02 |
| 520,753 James Fisher & Sons | 8,853 | 2.41 | |
| Support services | | | |
| | 48,690 | 13.25 | 11.64 |
| 3,697,971 Alpha Financial Markets ^[a] | 8,135 | 2.21 | |
| 4,155,211 Boku ^[a] | 2,784 | 0.76 | |
| 3,327,523 Equiniti | 7,221 | 1.97 | |
| 1,925,000 Essentra | 6,603 | 1.80 | |
| 8,358,639 Kin & Carta (formerly St. Ives) | 8,024 | 2.18 | |
| 1,825,423 Restore ^[a] | 5,860 | 1.59 | |
| 729,045 Sanne | 4,192 | 1.14 | |
| 482,058 Staffline ^[a] | 5,871 | 1.60 | |
| Beverages | | | |
| | 6,874 | 1.87 | 1.30 |
| 3,146,091 Stock Spirits Group | 6,874 | 1.87 | |
| Food producers | | | |
| | 6,271 | 1.71 | 1.33 |
| 3,497,796 Greencore | 6,271 | 1.71 | |

| Portfolio statement (continued) | | | |
|--|---------------|--------------|-------------|
| as at | 31.12.18 | 31.12.18 | 30.06.18 |
| Holding | £'000 | % | % |
| Household goods & home construction | | | |
| | 13,836 | 3.76 | 5.79 |
| 1,850,387 Countryside Properties | 5,633 | 1.53 | |
| 681,296 Galliford Try | 4,231 | 1.15 | |
| 812,035 Redrow | 3,972 | 1.08 | |
| Leisure goods | | | |
| | 0 | 0.00 | 0.79 |
| Personal goods | | | |
| | 4,356 | 1.19 | 1.53 |
| 945,727 Superdry | 4,356 | 1.19 | |
| Healthcare equipment & services | | | |
| | 14,545 | 3.96 | 4.74 |
| 822,577 Consort Medical | 7,576 | 2.06 | |
| 5,797,585 Medica Group | 6,969 | 1.90 | |
| Pharmaceuticals & biotechnology | | | |
| | 0 | 0.00 | 1.51 |
| General retailers | | | |
| | 3,435 | 0.93 | 2.03 |
| 1,646,807 Pets at Home | 1,922 | 0.52 | |
| 4,322,666 Vertu Motors ^[a] | 1,513 | 0.41 | |
| Media | | | |
| | 27,126 | 7.38 | 5.25 |
| 382,121 4imprint Group | 7,012 | 1.91 | |
| 1,630,995 Ascential | 6,119 | 1.66 | |
| 2,738,842 Tarsus Group | 7,258 | 1.98 | |
| 3,849,554 Wilmington | 6,737 | 1.83 | |
| Travel & leisure | | | |
| | 6,177 | 1.68 | 1.31 |
| 1,835,578 On the Beach Group | 6,177 | 1.68 | |
| Non-life insurance | | | |
| | 11,142 | 3.03 | 3.48 |
| 348,440 Lancashire Holdings | 2,117 | 0.58 | |
| 3,294,020 Sabre Insurance Group | 9,025 | 2.45 | |
| Real estate investment & services | | | |
| | 7,646 | 2.08 | 1.65 |
| 2,396,759 Helical | 7,646 | 2.08 | |
| Real estate investment trusts | | | |
| | 17,844 | 4.86 | 5.82 |
| 6,252,166 Hansteen Holdings | 5,724 | 1.56 | |
| 3,781,627 LondonMetric Property | 6,580 | 1.79 | |
| 700,000 Workspace Group | 5,540 | 1.51 | |
| Financial services | | | |
| | 44,290 | 12.05 | 9.80 |
| 1,561,877 Alpha FX ^[a] | 8,590 | 2.34 | |
| 748,810 Amigo Holdings | 2,101 | 0.57 | |
| 3,364,860 Arrow Global Group | 5,942 | 1.62 | |
| 2,105,500 Brewin Dolphin Holdings | 6,818 | 1.85 | |
| 2,538,704 Charter Court Financial Services | 6,321 | 1.72 | |
| 1,942,485 OneSavings Bank | 6,760 | 1.84 | |
| 1,800,000 PureTech Health | 3,033 | 0.82 | |
| 199,868 Rathbone Brothers | 4,725 | 1.29 | |

Portfolio statement (continued)

| as at | 31.12.18 | 31.12.18 | 30.06.18 |
|--|----------------|---------------|---------------|
| Holding | £'000 | % | % |
| Software & computer services | 34,380 | 9.36 | 11.82 |
| 1,055,744 EMIS Group ^[a] | 9,523 | 2.59 | |
| 690,725 FDM Group | 5,153 | 1.40 | |
| 1,179,102 GB Group ^[a] | 4,999 | 1.36 | |
| 1,701,161 SDL | 7,927 | 2.16 | |
| 1,168,545 Softcat | 6,778 | 1.85 | |
| Portfolio of investments | 355,049 | 96.61 | 96.00 |
| CASH EQUIVALENTS | 16,286 | 4.43 | 4.05 |
| 'AAA' rated money market funds ^[b] | 16,286 | 4.43 | 4.05 |
| 16,285,858 Northern Trust Global Fund - Sterling | 16,286 | 4.43 | |
| Total portfolio | 371,335 | 101.04 | 100.05 |
| Net other assets / (liabilities) | (3,817) | (1.04) | (0.05) |
| Net assets attributable to shareholders | 367,518 | 100.00 | 100.00 |

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

^[a] AIM quoted.

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

Top ten portfolio transactions

for the six months to 31 December 2018

| Largest purchases | £'000 |
|--------------------------|---------------|
| Essentra | 8,007 |
| 4imprint Group | 7,597 |
| Elementis | 7,268 |
| Marshalls | 5,806 |
| Amigo Holdings | 5,621 |
| Staffline ^[a] | 5,550 |
| Senior | 5,549 |
| TT electronics | 5,443 |
| Hill & Smith Holdings | 3,923 |
| PureTech Health | 3,200 |
| Other purchases | 32,891 |
| Total purchases | 90,855 |
| Largest sales | £'000 |
| Victrex | 7,792 |
| Fidessa Group | 7,170 |
| Dechra Pharmaceuticals | 7,111 |
| Safestore | 6,448 |
| Lancashire Holdings | 5,791 |
| Renewi | 4,909 |
| Kier Group | 3,897 |
| Spire Healthcare | 3,595 |
| Galliford Try | 3,589 |
| Softcat | 3,495 |
| Other sales | 39,508 |
| Total sales | 93,305 |

^[a] AIM quoted.

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 (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations. For the specific performance tables of all share classes, please refer to the Interim Long Report and unaudited Financial Statements for M&G Investment Funds (3), 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 | | | |
|----------------------------|----------|----------|----------|
| | 31.12.18 | 30.06.18 | 30.06.17 |
| as at | £'000 | £'000 | £'000 |
| Fund net asset value (NAV) | 367,518 | 449,970 | 432,033 |

Performance since launch

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

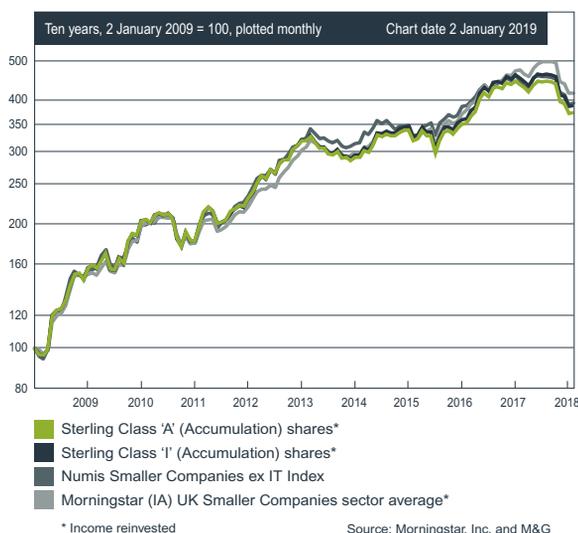


Financial highlights

Fund performance

Ten-year performance

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



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

To give an indication of how the fund has performed during the period the tables below show the performance of Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

All 'Performance and charges' percentages represent an annual rate except for the 'Return after operating charges' which is calculated as a percentage of the opening net asset value per share (NAV). 'Dilution adjustments' are only in respect of direct portfolio transaction costs.

Historic yields for the current period are calculated as at 11 January 2019.

Sterling Class 'A' Accumulation share performance

The share class was launched on 27 September 1967.

| Change in NAV per share | Six months to | Year to | Year to |
|--|---------------|----------|----------|
| | 31.12.18 | 30.06.18 | 30.06.17 |
| | UK p | UK p | UK p |
| Opening NAV | 949.64 | 875.06 | 628.59 |
| Return before operating charges and after direct portfolio transaction costs | (146.38) | 89.97 | 259.15 |
| Operating charges | (7.61) | (15.39) | (12.68) |
| Return after operating charges | (153.99) | 74.58 | 246.47 |
| Distributions | (4.18) | (6.76) | (7.74) |
| Retained distributions | 4.18 | 6.76 | 7.74 |
| Closing NAV | 795.65 | 949.64 | 875.06 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|--------|--------|--------|
| Costs before dilution adjustments | 0.99 | 1.24 | 1.11 |
| Dilution adjustments ^[a] | (0.02) | (0.04) | (0.06) |
| Total direct portfolio transaction costs | 0.97 | 1.20 | 1.05 |

| Performance and charges | % | % | % |
|---|--------|-------|--------|
| Direct portfolio transaction costs ^[b] | 0.21 | 0.14 | 0.14 |
| Operating charges | 1.66 | 1.66 | 1.66 |
| Return after operating charges | -16.22 | +8.52 | +39.21 |
| Historic yield | 1.11 | 0.71 | 0.88 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |

Other information

| | | | |
|--|-----------|-----------|-----------|
| Closing NAV (£'000) | 30,920 | 38,151 | 40,706 |
| Closing NAV percentage of total fund NAV (%) | 8.41 | 8.48 | 9.42 |
| Number of shares | 3,886,197 | 4,017,459 | 4,651,811 |
| Highest share price (UK p) | 965.67 | 977.55 | 900.46 |
| Lowest share price (UK p) | 784.06 | 870.78 | 606.86 |

Financial highlights

Fund performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

| | Six months to 31.12.18 UK p | Year to 30.06.18 UK p | Year to 30.06.17 UK p |
|--|-----------------------------------|-----------------------------|-----------------------------|
| Change in NAV per share | | | |
| Opening NAV | 2,260.31 | 2,067.30 | 1,473.92 |
| Return before operating charges and after direct portfolio transaction costs | (349.32) | 213.08 | 609.77 |
| Operating charges | (9.97) | (20.07) | (16.39) |
| Return after operating charges | (359.29) | 193.01 | 593.38 |
| Distributions | (17.94) | (32.55) | (31.73) |
| Retained distributions | 17.94 | 32.55 | 31.73 |
| Closing NAV | 1,901.02 | 2,260.31 | 2,067.30 |

| | UK p | UK p | UK p |
|---|--------|--------|--------|
| Direct portfolio transaction costs | | | |
| Costs before dilution adjustments | 2.36 | 2.95 | 2.61 |
| Dilution adjustments ^[a] | (0.05) | (0.10) | (0.14) |
| Total direct portfolio transaction costs | 2.31 | 2.85 | 2.47 |

| | % | % | % |
|---|--------|-------|--------|
| Performance and charges | | | |
| Direct portfolio transaction costs ^[b] | 0.21 | 0.14 | 0.14 |
| Operating charges | 0.91 | 0.91 | 0.91 |
| Return after operating charges | -15.90 | +9.34 | +40.26 |
| Historic yield | 1.92 | 1.44 | 1.53 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |

Other information

| | | | |
|--|-----------|-----------|-----------|
| Closing NAV (£'000) | 20,945 | 26,197 | 21,077 |
| Closing NAV percentage of total fund NAV (%) | 5.70 | 5.82 | 4.88 |
| Number of shares | 1,101,803 | 1,158,983 | 1,019,549 |
| Highest share price (UK p) | 2,302.40 | 2,325.89 | 2,126.07 |
| Lowest share price (UK p) | 1,873.18 | 2,057.36 | 1,423.15 |

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

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

Financial highlights

Operating charges and portfolio transaction costs

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

Operating charges

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

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include 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.

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

| | Six months to 31.12.18 | Year to 30.06.18 | Year to 30.06.17 | Average ^[a] |
|---|---------------------------|---------------------|---------------------|------------------------|
| Direct portfolio transaction costs ^[b] | % | % | % | % |
| Broker commission | 0.04 | 0.03 | 0.04 | 0.04 |
| Taxes | 0.18 | 0.11 | 0.11 | 0.13 |
| Costs before dilution adjustments | 0.22 | 0.14 | 0.15 | 0.17 |
| Dilution adjustments ^[c] | (0.01) | 0.00 | (0.01) | (0.01) |
| Total direct portfolio transaction costs | 0.21 | 0.14 | 0.14 | 0.16 |
| as at | 31.12.18 | 30.06.18 | 30.06.17 | Average ^[a] |
| Indirect portfolio transaction costs | % | % | % | % |
| Average portfolio dealing spread | 1.01 | 0.67 | 0.50 | 0.73 |

^[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.

Contact



Customer Relations*

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

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

† Please note that information contained within an email cannot be guaranteed as secure. We advise that you do not include any sensitive information when corresponding with M&G in this way.

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