M&G UK Select Fund

a sub-fund of M&G Investment Funds (2)

Interim Short Report November 2018
For the six months ended 30 November 2018

Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (2) presents its Interim Short Report for M&G UK Select 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 (2), 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 and Depositary Services Limited.

Investment objective and policy

The fund invests principally in the equities of UK companies with high growth potential with the sole objective of capital growth. The Fund may at any time be concentrated in a limited number of equities. Income considerations are ignored.

Investment approach

The fund manager employs a bottom-up stockpicking approach, driven by the fundamental analysis of individual companies. He seeks to invest in companies with sustainable competitive advantages that have the opportunity to reinvest their capital at high rates of return. A company's strategy around capital allocation is central to the investment process. The fund manager focuses on companies which recognise the importance of dividends, which in turn instils capital discipline and ensures that the highest-returning growth projects are prioritised. Rising free cashflow is expected to result in dividend growth of the fund's holdings being higher than that of a broad index of UK equities over the long term. This premium dividend growth is expected to drive the fund's long-term capital growth and growth in the fund's income distributions. The fund will hold less than 50 stocks, with a long-term investment view and a typical holding period of three to five years.

Fund information

Risk profile

The fund invests in the shares of UK-listed companies and is, therefore, subject to the price volatility of the UK stockmarket and the performance of individual companies. The fund typically holds around 50 stocks and this relatively concentrated profile requires the fund manager to have strong conviction in each and every holding. However, the fund is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease.

Diversification 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.

Low risk — High risk

Typically lower rewards — Typically higher rewards

1	2	3	4	**5**	6	7

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.

Investment review

As at 3 December 2018, for the six months ended 30 November 2018

Performance against objective

Between 1 June 2018 (the start of the review period) and 3 December 2018, the fund delivered a negative return across all share classes* as the UK market registered a negative performance over the period. The fund therefore did not meet its objective of capital growth over the six-month period. The fund's total return (the combination of income and capital growth) lagged the FTSE All-Share Index, a comparative index, which declined by 7.1% in sterling over the same period.

Over five years, the fund has generated capital growth across all its share classes and delivered on its objective to grow capital.

* 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 (2).

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 01.06.18 % [a]	Three years 03.12.15 % p.a.	Five years 03.12.13 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	-8.9	+3.5	+3.7	+9.5 [c]
Class 'I'	-8.6	+4.2	+4.5	+7.6 [d]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 17 December 1968, 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 review

Investment performance

Our last report discussed the uncertainties facing the UK following the outcome of the Brexit referendum which has cast an enduring shadow over the UK market and sterling. Six months on, the uncertainty has perhaps even intensified as the timeframe to find or engineer a positive solution is shrinking rapidly. Without a clear framework, it is challenging for domestic companies to make informed long-term investment decisions. As a consequence, it is an even more complex task for investors to assess how companies will be affected. This has led to increasing scepticism towards investing in the UK market. Additional market concerns have been linked to what we feel should be a transient issue in the ongoing tariffs conflict between the US and China which could have implications on profits for the international operations of UK companies.

Both the FTSE 100 and FTSE All-Share indices have reflected these concerns with sharp falls over the six-month period in review.

Against this backdrop, the fund lagged the FTSE All-Share Index due to the negative impact of stock selection over the period, while positive sector allocation had a mitigating effect.

Packaging company DS Smith was our main detractor. The shares fell on concerns about incoming capacity on the US container board market and concern associated with the debt required to fund the $2bn acquisition of a major European competitor in Europac. Although we believe that fears of overcapacity in the US may be overdone with this capacity likely to be absorbed by Chinese demand growth, we continue to monitor and engage with management on the debt levels that exist within the company. As an aside, we find ourselves increasingly concerned by the growing appetite for leverage in UK corporates and we continue to prefer investment in companies which can demonstrate growth and high returns on investment without the need for debt.

Not owning GlaxoSmithKline also detracted from performance over the period as the market retreated towards its more defensive standard bearers.

GVC Holdings, the online gaming company, was negatively affected as the government brought forward previously announced plans to increase the level of regulation in the UK. We continue to see significant potential in the US market after the Supreme Court freed individual states to legalize gambling on sporting events. Furthermore, we believe that GVC will benefit from an investment lead in the company's technology platform and from the breakthrough deal it has recently struck with casino group MGM Resorts.

Domino's Pizza Group disappointed the market when its ambitious opening plans for the UK were revised lower, meaning the rate of earnings growth will likely slow in the next few years. Although we anticipate that this issue will prove transitory, we have spent a considerable amount of time over the course of the last few months speaking with both management and the board of directors in order to ensure that the business's growth continues to offer compelling value for customers, whilst being profitable for the group and its franchisees.

On the positive side, many of our defensive companies delivered strong performances for the period, with A.G. Barr, the Scottish drinks company, maker of popular drink IRN-BRU, leading the outperformers. The company delivered solid growth for its first half results following the early reformulation of 90% of its products to reduce sugar content to below the sugar tax threshold. This has been a bold move and has been a decision that many have questioned. We welcome the decisive, strategic action that management has taken thanks to which the business has taken a material market share of the UK soft drinks market in 2018 due to its expansion into England and Wales and its growth with the more price sensitive UK supermarkets.

Micro Focus International rebounded sharply from its lows related to a previous profit warning. We revisited the investment case in extensive detail, having spent time reflecting on our original thesis after the brutal correction experienced on the back of the March profit warning which led to us adding to the investment. We believe that the business disruption was mostly limited to the US market where integration planning had admittedly been insufficient.

Healthcare companies featured strongly within the key contributors, with AstraZeneca, Shire and Smith & Nephew all registering positive performances. Shire continued to benefit from an ongoing discount to its acquisition by Japan-based Takeda. The acquisition has been approved by both Shire and Takeda shareholders and we expect the deal to complete in early January 2019.

The acquisition of NEX Group – one of three companies in the fund that have been subject to agreed takeovers in 2018 – was completed in early November.

Investment activities

We started a holding in online gaming company GVC as referred to earlier in the 'Investment performance' section of this report. Under CEO Kenny Alexander, the company has invested and developed its own technology platform which today processes over 95% of company revenues. We invested after gaining clarity on UK regulation changes which look to favour providers of online games and sports bookmaking. GVC look set to benefit disproportionately given the strength and scale of their online presence. GVC's addressable market has grown by approximately 9% per annum over the last decade and is set to continue to grow as countries continue to regulate gaming activities and online demand grows. The opportunity that could well surprise positively is the opening of the prized US market with several states having already opened up to sports gambling following the repeal of the Gambling Prohibition Act by The US Supreme Court announced last May. GVC have acted decisively in creating a joint venture with MGM which combines an established land-based gaming company with the online muscle of GVC. We expect dividend and earnings to continue to compound over the next few years.

We also recently started a new position in Rotork. We see Rotork as one of the highest quality companies in the global engineering sector as evidenced by its long-term growth and profitability profile. Through its control valve actuator, a device that takes a process signal and controls a valve, the company has established market leadership where brand, service and a reliable reputation have been built up over more than 60 years of product development. Actuators are sold into process industries such as the oil & gas, waste water and power industries.

We had grown concerned in recent years that Rotork had diversified into markets where its leadership was questionable. There are now clear signs this will change under their new CEO, Kevin Hostelier, who brings a strong track record for growth achieved in US conglomerate IDEX where lean operating principles have helped drive high returns to shareholders. With group earnings still 15% below the peak achieved in 2014 and the balance sheet returning to net cash, the group is positioned well to return to growth and to drive margin expansion as the new strategic initiatives take hold at the company.

Finally, we had acquired a small holding in Codemasters, a computer game developer most widely known as the maker of the F1 racing games. Our thesis focused on growth in digital sales driving margin expansion whilst being supported by growth in three key gaming franchises. Our pre-IPO work revealed the company could have as much as 10% of the market cap in cash by its March 2019 year end and would likely commence a dividend at this point. Our experience with IPOs suggests however that it is crucial to meet early investor expectations. The warning signs emerged on this investment when a key new launch for 2019 got off to a very poor start in sales which put a lot of pressure on the key F1 game franchise to deliver. Whilst F1 2018 has been particularly well received, we became concerned that the group would need to refresh its game offering and accelerate the launch process much faster than it has done historically – a new challenge which could cause growth in 2019 and 2020 to disappoint. We felt our thesis had been sufficiently challenged to exit the investment and we did so at a small loss.

Completed sales

McCarthy & Stone is currently the UK's largest retirement home builder. Our original investment thesis on McCarthy had centred on a growth strategy aimed at providing the UK's ageing population with homes which offer them independence whilst retaining access to the community and to onsite care. The company is suffering amidst the uncertainty of Brexit as the secondary market remains slow to recover precisely at a time when McCarthy's sales should be accelerating sharply as new developments become ready to sell. Although we saw no immediate threat to the dividend, we were concerned that growth prospects would be significantly lower than we had originally anticipated and decided to sell on reflection of this.

Our shares in ZPG (Zoopla Property Group) were returned to us as cash in August after the company was acquired by Silver Lake, the giant US private equity firm.

We had maintained and increased an inherited position in CRH, the housebuilder, due to the company's scale advantages in US aggregates alongside relentless management focus on attractive return on invested capital with regard to the portfolio management of the company's assets. We lost confidence in the investment case for two reasons. Primarily, we felt the growth of the dividend was of secondary importance to growth through acquisition, in spite of an outstanding long-term dividend record. Secondly, we became uncomfortable with the number of large acquisitions the company seemed to be pursuing which we felt likely to depress medium term return on investment.

Outlook

Against the ongoing uncertainty of the Brexit negotiations we take comfort from our investment philosophy and process as we focus on investing in companies that are able to sustain and grow their competitive advantages while exhibiting sustained financial discipline through a firm commitment to dividends.

We will continue to spend our time focusing on the analysis of companies' fundamentals, including spending time meeting our businesses on their own premises, attempting to understand threats to their products and services or meeting competitors and customers.

We have conviction in our approach, which is focused on long-term earnings and dividend growth on a low turnover portfolio whereby our clients can benefit from the long-term compounding of growing earnings and dividends.

Sam Ford
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 Holding		30.11.18 £'000	30.11.18 %	31.05.18 %
	EQUITIES	**499,855**	**95.59**	**98.39**
	Oil & gas producers	**43,697**	**8.36**	**6.88**
7,300,000	BP	37,967	7.26	
550,000	PrairieSky Royalty	5,730	1.10	
	Oil equipment, services & distribution	**0**	**0.00**	**0.71**
	Chemicals	**14,354**	**2.74**	**2.86**
328,643	Methanex	14,354	2.74	
	Mining	**11,087**	**2.12**	**1.58**
310,000	Rio Tinto	11,087	2.12	
	Construction & materials	**0**	**0.00**	**1.27**
	General industrials	**26,230**	**5.02**	**5.84**
3,815,212	DS Smith	12,911	2.47	
950,000	Smiths Group	13,319	2.55	
	Industrial engineering	**24,792**	**4.74**	**1.81**
270,000	Kone	10,562	2.02	
5,450,000	Rotork	14,230	2.72	

Portfolio statement (continued)

as at Holding		30.11.18 £'000	30.11.18 %	31.05.18 %
	Support services	**11,823**	**2.26**	**1.89**
3,100,000	Essentra	11,823	2.26	
	Beverages	**4,788**	**0.92**	**2.47**
600,000	A.G. Barr	4,788	0.92	
	Food producers	**14,914**	**2.85**	**1.26**
530,000	Cranswick	14,914	2.85	
	Household goods & home construction	**27,114**	**5.18**	**5.21**
4,000,000	Countryside Properties	11,632	2.22	
235,000	Reckitt Benckiser	15,482	2.96	
	Leisure goods	**0**	**0.00**	**0.46**
	Personal goods	**35,639**	**6.82**	**7.32**
545,000	Burberry Group	9,739	1.86	
605,000	Unilever	25,900	4.96	
	Tobacco	**28,460**	**5.44**	**5.34**
640,000	British American Tobacco	17,475	3.34	
460,000	Imperial Brands	10,985	2.10	
	Health care equipment & services	**18,683**	**3.58**	**4.28**
3,400,000	ConvaTec	5,160	0.99	
950,000	Smith & Nephew	13,523	2.59	
	Pharmaceuticals & biotechnology	**45,215**	**8.65**	**9.09**
430,000	AstraZeneca	26,445	5.06	
475,000	Dechra Pharmaceuticals	10,241	1.96	
190,000	Shire	8,529	1.63	
	General retailers	**21,460**	**4.10**	**4.07**
750,000	Pets at Home	953	0.18	
1,050,000	WH Smith	20,507	3.92	
	Media	**4,610**	**0.88**	**3.43**
911,000	Next Fifteen Communications	4,610	0.88	
	Travel & leisure	**25,690**	**4.91**	**3.70**
2,300,000	Domino's Pizza Group	5,925	1.13	
1,375,000	GVC Holdings	10,106	1.93	
2,350,000	On the Beach Group	9,659	1.85	
	Mobile telecommunications	**6,469**	**1.24**	**1.35**
3,850,000	Vodafone Group	6,469	1.24	
	Banks	**36,339**	**6.95**	**7.39**
1,700,000	AIB Group	5,744	1.10	
30,000,000	Lloyds Banking Group	16,479	3.15	
2,350,000	Standard Chartered	14,116	2.70	
	Non-life insurance	**10,002**	**1.91**	**2.39**
595,000	Hiscox	10,002	1.91	

Portfolio statement (continued)

as at Holding		30.11.18 £'000	30.11.18 %	31.05.18 %
	Life insurance	**27,838**	**5.32**	**7.35**
850,000	Prudential [a]	13,022	2.49	
1,475,000	St. James's Place	14,816	2.83	
	Real estate investment trusts	**2,954**	**0.56**	**1.25**
350,000	Workspace Group	2,954	0.56	
	Financial services	**35,717**	**6.84**	**5.94**
1,608,574	IntegraFin Holdings	4,707	0.90	
550,000	Intermediate Capital Group	5,577	1.07	
950,000	Liontrust Asset Management	5,738	1.10	
485,000	London Stock Exchange	19,695	3.77	
	Software & computer services	**21,980**	**4.20**	**3.25**
810,000	Micro Focus International	12,543	2.40	
1,585,000	Sage Group	9,437	1.80	
	Unquoted / unlisted	**0**	**0.00**	**0.00**
770,825	Izodia [b]	0	0.00	
Portfolio of investments		**499,855**	**95.59**	**98.39**
	CASH EQUIVALENTS	**24,488**	**4.68**	**1.99**
	'AAA' rated money market funds [c]	**24,488**	**4.68**	**1.99**
24,488,168	Northern Trust Global Fund - Sterling	24,488	4.68	
Total portfolio		**524,343**	**100.27**	**100.38**
Net other assets / (liabilities)		**(1,402)**	**(0.27)**	**(0.38)**
Net assets attributable to shareholders		**522,941**	**100.00**	**100.00**

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

[a] Related party to the fund.

[b] Suspended.

[c] 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 30 November 2018

Largest purchases	£'000
London Stock Exchange	20,810
Rotork	17,447
GVC Holdings	14,604
British American Tobacco	10,057
Cranswick	9,901
BP	8,164
Dechra Pharmaceuticals	6,541
IntegraFin Holdings	4,618
Next Fifteen Communications	4,354
Standard Chartered	3,866
Other purchases	36,960
Total purchases	**137,322**

Largest sales	£'000
ZPG	20,670
NEX Group	18,761
Shire	15,517
A.G. Barr	12,335
Prudential [a]	11,918
CRH	7,434
Burberry Group	7,428
Intermediate Capital Group	7,067
Imperial Brands	6,009
Hiscox	5,951
Other sales	53,869
Total sales	**166,959**

[a] Related party to the fund.

Purchases and sales exclude the cost and proceeds of 'AAA' 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 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 (2), 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 (2), which is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations.

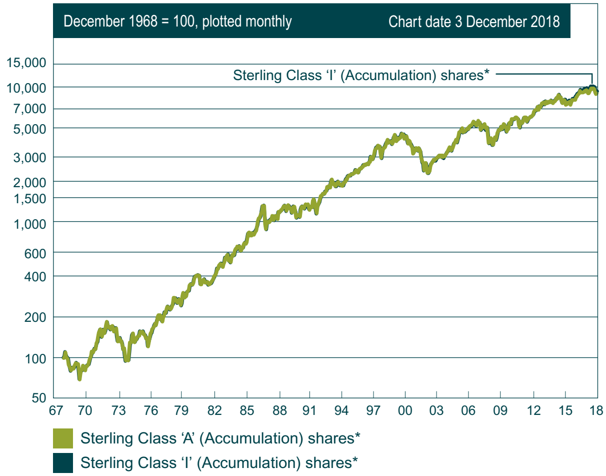
Fund level performance

Fund net asset value

as at	30.11.18 £'000	31.05.18 £'000	31.05.17 £'000
Fund net asset value (NAV)	522,941	601,265	624,276

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.

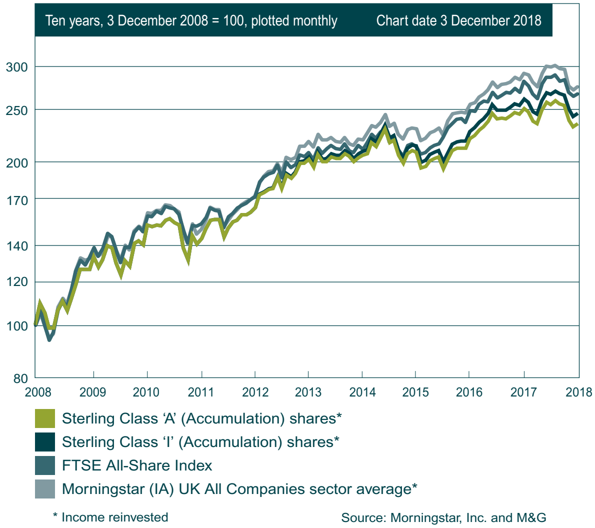


* Income reinvested

Source: Morningstar, Inc. and M&G

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 14 December 2018.

Sterling Class 'A' Accumulation share performance

The share class was launched on 17 December 1968.

Change in NAV per share	Six months to 30.11.18 UK p	Year to 31.05.18 UK p	Year to 31.05.17 UK p
Opening NAV	4,809.42	4,598.26	3,819.83
Return before operating charges and after direct portfolio transaction costs	(436.32)	286.79	845.98
Operating charges	(39.02)	(75.63)	(67.55)
Return after operating charges	(475.34)	211.16	778.43
Distributions	(13.40)	(52.09)	(45.73)
Retained distributions	13.40	52.09	45.73
Closing NAV	4,334.08	4,809.42	4,598.26
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	5.48	7.84	14.75
Dilution adjustments [a]	(0.25)	(0.26)	(0.63)
Total direct portfolio transaction costs	5.23	7.58	14.12
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.22	0.16	0.34
Operating charges	1.66	1.66	1.66
Return after operating charges	-9.88	+4.59	+20.38
Historic yield	1.29	1.08	1.02
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	176,791	203,795	221,522
Closing NAV percentage of total fund NAV (%)	33.81	33.89	35.48
Number of shares	4,079,099	4,237,421	4,817,512
Highest share price (UK p)	4,884.05	4,872.93	4,596.70
Lowest share price (UK p)	4,299.21	4,306.59	3,446.72

Financial highlights
Fund performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

Change in NAV per share	Six months to 30.11.18 UK p	Year to 31.05.18 UK p	Year to 31.05.17 UK p
Opening NAV	1,733.34	1,644.85	1,356.20
Return before operating charges and after direct portfolio transaction costs	(157.69)	103.40	301.43
Operating charges	(7.74)	(14.91)	(12.78)
Return after operating charges	(165.43)	88.49	288.65
Distributions	(8.55)	(30.98)	(27.14)
Retained distributions	8.55	30.98	27.14
Closing NAV	1,567.91	1,733.34	1,644.85
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	1.98	2.82	5.09
Dilution adjustments [a]	(0.09)	(0.09)	(0.22)
Total direct portfolio transaction costs	1.89	2.73	4.87
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.22	0.16	0.34
Operating charges	0.91	0.91	0.91
Return after operating charges	-9.54	+5.38	+21.28
Historic yield	2.10	1.79	1.68
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	44,873	50,251	45,357
Closing NAV percentage of total fund NAV (%)	8.58	8.36	7.27
Number of shares	2,861,952	2,899,075	2,757,523
Highest share price (UK p)	1,762.73	1,755.90	1,644.30
Lowest share price (UK p)	1,554.18	1,549.92	1,224.41

[a] In respect of direct portfolio transaction costs.

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

Financial highlights
Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

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

Direct portfolio transaction costs [b]	Six months to 30.11.18 %	Year to 31.05.18 %	Year to 31.05.17 %	Average [a] %
Broker commission	0.04	0.03	0.09	0.05
Taxes	0.19	0.14	0.27	0.20
Costs before dilution adjustments	0.23	0.17	0.36	0.25
Dilution adjustments [c]	(0.01)	(0.01)	(0.02)	(0.01)
Total direct portfolio transaction costs	0.22	0.16	0.34	0.24
as at **Indirect portfolio transaction costs**	**30.11.18** %	**31.05.18** %	**31.05.17** %	**Average [a]** %
Average portfolio dealing spread	0.11	0.09	0.06	0.09

[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.

Notes

Contact

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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.

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