



**The Charibond Charities**  
**Fixed Interest Common Investment Fund**  
Interim Long Report and unaudited Financial Statements  
for the six months ended 30 April 2019

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# Manager's Report

The Manager of The Charibond Charities Fixed Interest Common Investment Fund presents its Interim Long Report and unaudited Financial Statements for the six months ended 30 April 2019.

## Fund information

The Charibond Charities Fixed Interest Common Investment Fund (Charibond) was established in 1976 by the Charity Commissioners under Section 22 of the Charities Act 1960, as a common investment fund. The Charities Act 1960 has now been superseded by the Charities Act 2011.

Any charity in the United Kingdom which is not precluded from investing in common investment funds can invest in Charibond under the provisions of the Charities Act 2011. Charibond is a companion fund to Charifund – The Equities Investment Fund for Charities – which was launched in 1960 and which is a vehicle for the equity portion of charities' investment portfolios.

Charibond qualifies as an alternative investment fund under the Alternative Investment Fund Managers Directive (2011/61/EU).

M&G Securities Limited (the Manager) is the Alternative Investment Fund Manager and a charity trustee of the fund while M&G Investment Management Limited is the investment manager.

Charibond - Registered with the Charity Commission for England and Wales No. 271815

### Fund manager

Jamie Hamilton

Jamie Hamilton is employed by M&G Limited which is an associate of M&G Securities Limited.

### Manager

M&G Securities Limited

10 Fenchurch Avenue, London EC3M 5AG

Telephone: 020 7626 4588

(Authorised and regulated by the Financial Conduct Authority)

### Directors of the Manager

M Ammon, G N Cotton, C Dobson (non executive director),  
N M Donnelly, P R Jelfs, M McGrade (non executive director),  
L J Mumford

### Board

D S S Chichester (Chairman), A W Behrens, B S Bostrom,  
S M Corbett LVO, A F Gibbs, G A Prescott BA FCA,  
N C Talbot Rice

### Investment manager

M&G Investment Management Limited

10 Fenchurch Avenue, London EC3M 5AG

(Authorised and regulated by the Financial Conduct Authority)

### Registrar

DST Financial Services Europe Ltd,

DST House, St. Nicholas Lane, Basildon, Essex SS15 5FS

(Authorised and regulated by the Financial Conduct Authority)

DST Financial Services Europe Ltd act as the administrators for Charibond.

The Register of Shareholders can be inspected during business hours at: DST House, St Nicholas Lane, Basildon, Essex SS15 5FS

### Corporate Trustee

NatWest Trustee & Depositary Services Limited, Drummond House,  
1 Redheughs Avenue, Edinburgh EH12 9RH, UK

(Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority)

### Independent auditor

Ernst & Young LLP

Atria One, 144 Morrison Street, Edinburgh EH3 8EX

## Investor information

The Scheme Particulars and Trust Deed as well as the latest Annual or Interim Long Report and Financial Statements are available free of charge on request from the following address. The Instrument of Incorporation can also be inspected at our offices or at the office of the Trustee.

### Customer services and administration

M&G Charity Team, PO Box 9038, Chelmsford CM99 2XF

**Telephone: 0800 917 4472**

If you need more information about investing, please contact us direct. Alternatively, if you wish to obtain advice as to whether this investment is suitable for your needs, you should consult a financial adviser.

If you would like a list of financial advisers in your area, please visit [www.unbiased.co.uk](http://www.unbiased.co.uk).

We can answer your questions and take your instructions between 9.00am and 5.00pm Monday to Friday. For security purposes, and to improve the quality of our service, we may record and randomly monitor telephone calls.

If you already invest with us, please quote your M&G holding reference number (shown on your income vouchers or statements) when you contact the M&G Charity Team. Please note that M&G Securities Limited does not offer investment advice or make any recommendations regarding investments.

## Directors' statement

The report is signed in accordance with the requirements of the Financial Conduct Authority's Investment Funds sourcebook, as issued and amended by the Financial Conduct Authority.

G N Cotton

L J Mumford

20 May 2019

} Directors of M&G Securities Limited

# Manager's Report

## Investment objective and policy

Charibond provides a managed investment for the fixed interest portion of charities' investment portfolios. The fund provides charities with an actively managed portfolio of gilt-edged and other fixed interest stocks and deposits designed to produce a high income while preserving capital value.

## Investment approach

The Charibond Charities Fixed Interest Common Investment Fund (Charibond) is designed to provide an investment for the fixed interest portion of charities' portfolios. As a common investment fund, any charity registered in the UK can invest in Charibond, unless prohibited by its trust deed, under the provisions of the Charities Act 2006.

Charibond has an independent Board while M&G Securities Limited are the fund managers. The aim of Charibond is to provide charities with an actively managed fixed interest fund that invests in deposits, UK government bonds (gilts) and other sterling-denominated fixed interest securities, designed to produce a high income while preserving capital values.

## Risk profile

The fund invests mainly in sterling-denominated fixed income securities, or bonds, issued by the UK government and companies. It is primarily subject to the interest rate volatility of the UK bond market as well as the performance of individual issuers. The fund's focus is on government bonds and high-quality corporate bonds, securities that are normally traded with relative ease. 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.

## Investment review

**As at 1 May 2019, for the six months ended 30 April 2019**

### Distribution summary

A distribution of 1.40p gross per Income share was paid for the six months under review, consisting of two quarterly interim payments of 0.70p each. The distribution yield of the fund was 2.27% on 1 May 2019.

The fund's gross redemption yield after expenses was 1.56% as at 1 May 2019, compared with the gross redemption yield of 1.20% on 10-year UK government bonds (gilts). Gross redemption yield is an estimate of the total return achieved by holding a fixed interest security to its final payment date. Yields are not fixed and will vary.

## Performance against objective

Charibond recorded a total return of 1.8% (the combination of income and growth of capital) over the six months from 1 November 2018 to 1 May 2019. Charibond offers a managed investment for the fixed income portion of charities' investment portfolios. The fund provides charities with an actively managed portfolio of gilt-edged and other fixed income stocks and deposits designed to produce a high income while preserving capital value.

## Investment performance

Several themes dampened investors' sentiment in global financial markets as the six-month period got underway. These included signs that economic growth was slowing, while international trade tensions also remained a concern, especially between the US and China.

In the UK, much uncertainty persisted about the terms and timing of the country's departure from the European Union (EU). While a withdrawal deal was agreed between Prime Minister Theresa May's government and the EU, the agreement failed to win approval in the UK parliament. The way forward on Brexit was still unclear as the period ended, as an extension to the country's exit deadline date was moved back to 31 October.

UK government bonds (also known as gilts), helped by their perceived 'safe-haven' status among investors in times of uncertainty, found support in this environment. (Bonds are loans in the form of a security, usually issued by a government (government bonds) or company (corporate bonds) which normally pay a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.)

The performance of government bonds is also influenced by expected, or actual, changes in interest rates by central banks. Rising interest rates can reduce the returns of government bonds, while falling rates tend to be helpful. In the important US market, the recent trend of the Federal Reserve (Fed) was to raise interest rates as the economy strengthened. In contrast, going into 2019, the Fed softened its rhetoric on making further rate increases for now, largely in response to the more moderate economic forecasts. This outlook also contributed to decisions by the Bank of England and European Central Bank to hold interest rates unchanged at low levels.

As the review period ended, however, economic growth signals appeared to firm up again, which renewed investors' attention on the potential for rises in inflation and interest rates.

During the period, government bond prices generally increased in mainstream markets such as the US, UK, and eurozone. In the UK, shorter-dated gilts delivered modest gains, while longer dated gilts produced better results.

Investors were less supportive towards corporate bonds at the start of the review period. This partly reflected how demand for these assets can weaken as economic activity slows down. Also relevantly, the implications of Brexit for UK companies with international interests were still unknown. In turn, corporate bonds declined towards the end of 2018, although this area of the market subsequently rallied well in the new year.

In our view, the price declines experienced by UK corporate bonds were often overdone, which led to attractive buying opportunities for the fund. Consequently, we sought to take advantage of lower

# Manager's Report

## Investment review

### Investment performance (continued)

valuation levels to add to corporate holdings on a selective basis. Our rationale was supported as we assessed that the creditworthiness of many UK companies was solid, and should remain intact regardless of what format Brexit eventually takes. We also felt that the higher yields offered by these assets relative to government bonds provided adequate compensation for taking on degrees of credit risk.

The rally among corporate bonds during the opening months of 2019 reversed their earlier declines in the review period. This also contributed to the fund's delivery of a positive return.

In terms of the fund's overall positioning, our preference remained to hold a mix of high-quality corporate bonds and gilts. While both of these areas recorded gains, the fund's performance was held back to an extent as we maintained a bias towards holding shorter dated gilts, which underperformed other segments of the government bond market. This defensive positioning reflected our view that it was the best strategy to support the portfolio against the possibility of interest rates rising, as shorter dated government bonds are typically less sensitive to interest rate movements than their longer dated counterparts.

### Investment activities

Actively managing the fund's allocations between gilts and corporate bonds is a key driver of the fund's long-term performance. Within this approach, our buying activity in the corporate bond market after its weak performance towards the end of 2018 was partly funded by sales of gilts.

We continued to favour holding corporate bonds from a range of issuers across industry sectors. Among additional purchases, we increased exposure to the financial industry, where we favoured banks and insurance companies. We bought bonds from international banking groups HSBC, Barclays, and BNP Paribas, as well as smaller UK financial service providers such as Skipton Building Society. In the insurance sector, we added holdings in Legal & General and specialist industry provider Hiscox, whose business includes operations in the Lloyd's of London insurance market.

While maintaining a selective approach, our constructive view of the financial sector was based on factors such as relative valuation levels, as well as the improved creditworthiness of financial issuers following tighter regulatory controls in the industry. Elsewhere, we selected bonds issued by the UK's housing association sector, an industry that we have favoured for some time given considerations such as land and property demand remaining firm. The asset values of housing associations in good locations can therefore be sizeable, and we bought bonds from Notting Hill Genesis, a large provider of homes in the London area.

As well as selected sales of gilts to switch money into corporate bonds, we also sold some corporate holdings that we felt offered less upside potential. These sales included Verizon Communications and water company Severn Trent.

At the end of April 2019, the fund's allocations to gilts and corporate bonds were 53.5% and 46.2%, respectively, compared to respective positions of 58.2% and 39.8% at the start of the review period.

## Outlook

The mixed economic outlook continued to influence sentiment in financial markets as the review period ended while, in the UK, the implications of Brexit remained a focal point. Despite this backdrop, the performance of some relevant areas of the UK economy appear resilient. Employment levels are high, for example, and stronger wage inflation is evident. In the US, the labour market also remains robust and wage levels have risen. In April, the overall US economy was confirmed as producing better-than-expected growth during the first quarter of 2019.

Against factors such as tight labour markets and wage inflation, central banks often consider raising interest rates to limit the risk of wider inflationary pressures. While the Fed has softened its stance on further monetary tightening for now, we believe the strength of the US economy suggests the potential for further rises in interest rates cannot be ruled out. We would also note that, given the size and importance of the US market in a global context, the effects of higher US interest rates can be felt internationally.

In the fund, these considerations largely contributed to our maintenance of broadly stable investment themes around the portfolio's positioning. Our preference remains to hold a bias in the government bond market towards shorter dated securities, as we continue to view this stance as the best way to support the fund if interest rates rise.

In the corporate bond market, we recently took advantage of declines in price levels to add holdings. Our strategy was not to adjust the fund's corporate positioning based on any specific Brexit-related scenarios, as the outcome of this theme remained, and is still, very difficult to predict.

As always, we maintained a focus on seeking the best relative value for the fund given our long-term investment outlook. We also closely monitored our corporate bond holdings to assess that their creditworthiness should remain solid regardless of the UK's departure from the EU. Overall, we will continue to select the fund's investments in government and corporate bonds based on where we assess the best relative value can be found amid the prevailing economic conditions.

### Jamie Hamilton

Fund manager

The fund's investment portfolio is set out on pages 4 and 5.

Jamie Hamilton is 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 as to how Charibond or any holding mentioned is likely to perform. If a charity wishes to obtain financial advice as to whether an investment is suitable for its needs, it should consult a financial adviser.

# Manager's Report

## Investments

### Portfolio statement

as at Holding	30.04.19 £'000	30.04.19 %	31.10.18 %
<b>FIXED INCOME</b>	<b>123,415</b>	<b>99.35</b>	<b>98.56</b>
<b>Debt securities</b>	<b>123,415</b>	<b>99.35</b>	<b>98.56</b>
<b>'AAA' credit rated bonds</b>	<b>829</b>	<b>0.67</b>	<b>0.63</b>
£772,000 Santander 5.125% 14/04/2021	829	0.67	
<b>'AA' credit rated bonds</b>	<b>70,955</b>	<b>57.12</b>	<b>61.96</b>
£385,000 Metropolitan Life Global Funding I 2.625% 05/12/2022	399	0.32	
£306,000 Metropolitan Life Global Funding I 3.5% 30/09/2026	339	0.27	
£777,000 Osterreichische Kontrollbank 5.75% 07/12/2028	1,050	0.85	
£1,425,000 SLM Student Loan Trust 1.39263% 15/12/2039	1,345	1.08	
£57,343,456 UK Treasury 0.5% 22/07/2022	56,818	45.74	
£9,963,246 UK Treasury 1.75% 22/07/2019	9,985	8.04	
£1,000,000 Westpac Securities 2.5% 13/01/2021	1,019	0.82	
<b>'A' credit rated bonds</b>	<b>21,975</b>	<b>17.69</b>	<b>16.70</b>
£374,000 América Móvil 5% 27/10/2026	448	0.36	
£1,300,000 América Móvil 5.75% 28/06/2030	1,704	1.37	
£320,000 BNP Paribas 3.375% 23/01/2026	333	0.27	
£210,178 Canary Wharf Finance 6.455% 22/07/2030	262	0.21	
£587,000 Comcast 5.5% 23/11/2029	765	0.62	
£1,047,000 Eastern Power Networks 4.75% 30/09/2021	1,128	0.91	
£1,100,000 EDF 6.875% 12/12/2022	1,309	1.05	
£950,000 ELM Var. Rate Perp. 6.3024%	952	0.77	
£1,500,000 Heathrow Funding Var. Rate 9.2% 29/03/2021	1,716	1.38	
£347,000 Housing Finance 8.625% 13/11/2023	439	0.35	
£548,000 HSBC 2.256% 13/11/2026	539	0.43	
£293,000 HSBC Bank Var. Rate 5.375% 04/11/2030	337	0.27	
£460,310 Income Contingent Student Loans 2.5% 24/07/2056	442	0.36	
£1,300,000 Münchener Rückversicherungs-Gesellschaft Var. Rate 6.625% 26/05/2042	1,474	1.19	
£800,000 National Westminster Bank 5.125% 13/01/2024	931	0.75	
£567,000 Northern Powergrid (Yorkshire) 2.5% 01/04/2025	583	0.47	
£175,000 Notting Hill Genesis 2.875% 31/01/2029	176	0.14	
£925,000 Notting Hill Housing Trust 3.75% 20/12/2032	999	0.80	
£750,000 Places for People Homes 5.875% 23/05/2031	923	0.74	
£1,000,000 Santander 3.875% 15/10/2029	1,146	0.92	
£890,000 South Eastern Power Networks 5.625% 30/09/2030	1,153	0.93	
£640,000 Wales & West Utilities 5% 07/03/2028	775	0.62	
£1,100,000 Wells Fargo & Company 2.125% 22/04/2022	1,111	0.90	
£1,118,000 Western Power Distribution West Midlands 3.875% 17/10/2024	1,218	0.98	
£1,000,000 Zurich Finance (UK) Var. Rate Perp. 6.625%	1,112	0.90	

### Portfolio statement (continued)

as at Holding	30.04.19 £'000	30.04.19 %	31.10.18 %
<b>'BBB' credit rated bonds</b>	<b>21,766</b>	<b>17.52</b>	<b>13.72</b>
£537,000 3i 5.75% 03/12/2032	668	0.54	
£1,142,000 Annington Funding 2.646% 12/07/2025	1,135	0.91	
£950,000 AT&T 5.5% 15/03/2027	1,138	0.92	
£1,050,000 Aviva Var. Rate Perp. 6.125%	1,134	0.91	
£1,000,000 Bank of America 5.5% 22/11/2021	1,091	0.88	
£1,124,000 Bank of Scotland 6.375% 16/08/2019	1,139	0.92	
£1,000,000 Barclays 3.125% 17/01/2024	1,023	0.82	
£300,000 Chorus 6.75% 06/04/2020	313	0.25	
£210,000 Citigroup 2.75% 24/01/2024	215	0.17	
£785,000 Clydesdale Bank 4.625% 08/06/2026	940	0.76	
£1,190,000 Credit Suisse Group Var. Rate 2.125% 12/09/2025	1,160	0.93	
£1,135,000 FCE Bank 2.727% 03/06/2022	1,130	0.91	
£1,083,000 Gatwick Funding 5.25% 23/01/2024	1,236	1.00	
£500,000 GE Capital UK Funding Unlimited 5.125% 24/05/2023	549	0.44	
£750,000 Hiscox 2% 14/12/2022	746	0.60	
£1,080,000 KPN 5% 18/11/2026	1,190	0.96	
£800,000 Legal & General 5.375% 27/10/2045	876	0.71	
£100,000 Liberty Living 2.625% 28/11/2024	99	0.08	
£1,010,000 Scottish Widows 5.5% 16/06/2023	1,116	0.90	
£1,132,000 Severn Trent Utilities Finance 1.625% 04/12/2022	1,134	0.91	
£512,000 SP Manweb 4.875% 20/09/2027	612	0.49	
£720,000 SPD Finance UK 5.875% 17/07/2026	886	0.71	
£618,000 UBS Jersey Var. Rate 2024 6.375% 19/11/2024	634	0.51	
£965,000 Verizon Communications 4.75% 17/02/2034	1,192	0.96	
£400,000 Volkswagen International Finance 3.375% 16/11/2026	410	0.33	
<b>'BB' credit rated bonds</b>	<b>709</b>	<b>0.57</b>	<b>0.51</b>
£502,775 Tesco Property Finance 1 7.6227% 13/07/2039	709	0.57	
<b>Bonds with no credit rating</b>	<b>7,181</b>	<b>5.78</b>	<b>5.04</b>
£235,000 British Land 5.357% 31/03/2028	284	0.23	
£465,000 British Land 5.357% 31/03/2028 (Bearer)	563	0.45	
£1,000,000 Coventry Building Society 1.875% 24/10/2023	1,001	0.80	
£1,003,000 Eversholt Funding 6.359% 02/12/2025	1,216	0.98	
£500,000 Hastings Group Finance 3% 24/05/2025	482	0.39	
£1,250,000 Segro 2.375% 11/10/2029	1,230	0.99	
£542,000 Skipton Building Society 1.75% 30/06/2022	533	0.43	
£750,000 TSB Bank Var. Rate 2026 5.75% 06/05/2026	766	0.62	
£1,146,000 Yorkshire Building Society Var. Rate 3.375% 13/09/2028	1,106	0.89	
<b>Portfolio of investments</b>	<b>123,415</b>	<b>99.35</b>	<b>98.56</b>

# Manager's Report

## Investments

### Portfolio statement (continued)

as at	30.04.19	30.04.19	31.10.18
Holding	£'000	%	%
<b>CASH EQUIVALENTS</b>	<b>834</b>	<b>0.67</b>	<b>0.00</b>
'AAA' rated money market funds <sup>[a]</sup>	834	0.67	0.00
834,000 Northern Trust Global Fund - Sterling	834	0.67	
<b>Total portfolio</b>	<b>124,249</b>	<b>100.02</b>	<b>98.56</b>
<b>Net other assets / (liabilities)</b>	<b>(21)</b>	<b>(0.02)</b>	<b>1.44</b>
<b>Net assets attributable to shareholders</b>	<b>124,228</b>	<b>100.00</b>	<b>100.00</b>

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

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

### Portfolio transactions

for the six months to 30 April	2019	2018
Portfolio transactions	£'000	£'000
Total purchases	6,492	65,640
Total sales	16,382	70,765

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 a charity may not get back the original amount it invested.

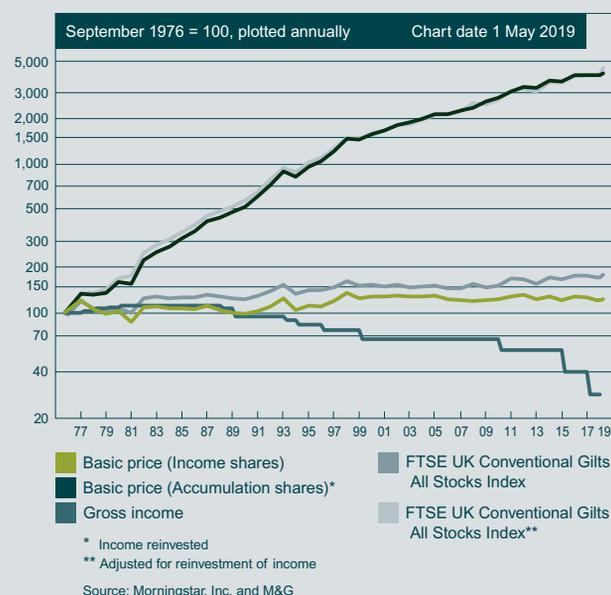
## Fund level performance

### Fund net asset value

	30.04.19	31.10.18	31.10.17
as at	£'000	£'000	£'000
Fund net asset value (NAV)	124,228	134,465	163,705

### Performance since launch

To give an indication of how the fund has performed since launch, the graph below shows the return of Income shares and Accumulation shares. For a more detailed view of how Income shares and Accumulation shares have performed since launch please see the Appendix section at the back of this report.



To give an indication of the performance of the fund, the following table shows the absolute return, over the period. Calculated on a price to price basis.

### Long-term performance

	Six months 01.11.18	Three years 03.05.16	Five years 01.05.14	Since launch 07.09.76
as at 1 May 2019	%	%	%	%
Charibond Income shares	+0.6	-1.9	+0.1	+22.7
FTSE UK Conventional Gilts All Stocks Index	+1.7	+1.3	+10.1	+74.8
Charibond Accumulation shares <sup>[a]</sup>	+1.8	+7.5	+20.8	+3,955.1
FTSE UK Conventional Gilts All Stocks Index <sup>[a]</sup>	+3.1	+10.1	+27.8	+3,982.1

<sup>[a]</sup> Income reinvested.

### Single year performance (5 years ending April)

From To	01.05.18 30.04.19	01.05.17 30.04.18	01.05.16 30.04.17	01.05.15 30.04.16	01.05.14 30.04.15
	%	%	%	%	%
Charibond <sup>[a]</sup>	+2.1	-1.2	+6.9	+3.3	+8.5

<sup>[a]</sup> Price of Income shares with income reinvested.

Source: Morningstar, Inc.

Past performance is not a guide to future performance.

The value of fixed interest investments, and the yield from them, will fluctuate. This will cause the fund share price to fall as well as rise and a charity may not receive back the amount it originally invested.

## 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).
- **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.

The operating charges paid by each share type of the fund are shown in the following performance tables. Operating charges do not include portfolio transaction costs or any entry and exit charges (also known as initial and redemption charges).

### 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. As the fund invests wholly in fixed interest securities no direct portfolio transaction costs are applicable. To give an indication of the indirect portfolio dealing costs the table below shows the average portfolio dealing spread.

# Financial highlights

## Fund performance

### Operating charges and portfolio transaction costs

#### Portfolio transaction costs (continued)

Further information on this process is in the Scheme Particulars, which is available free of charge on request either from our website at [www.mandg.co.uk/charities/forms-and-literature/](http://www.mandg.co.uk/charities/forms-and-literature/) or by calling the M&G Charity Team on 0800 917 4472.

Portfolio transaction costs				
as at	30.04.19	31.10.18	31.10.17	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.26	0.22	0.37	0.28

<sup>[a]</sup> Average of first three columns.

## Specific share type performance

The following tables show the performance of each share type. 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.

### Income share performance

The share type was launched on 7 September 1976.

	Six months to 30.04.19 UK p	Year to 31.10.18 UK p	Year to 31.10.17 UK p
<b>Change in NAV per share</b>			
Opening NAV	122.09	125.41	127.77
Return before operating charges and after direct portfolio transaction costs	2.12	0.38	2.71
Operating charges	(0.22)	(0.45)	(0.47)
Return after operating charges	1.90	(0.07)	2.24
Distributions	(1.40)	(3.25)	(4.60)
Closing NAV	122.59	122.09	125.41
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.36	0.36	0.36
Return after operating charges	+1.56	-0.06	+1.75
Distribution yield	2.27	2.28	3.63
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	113,548	118,845	146,388
Closing NAV percentage of total fund NAV (%)	91.40	88.38	89.42
Number of shares	92,625,334	97,343,534	116,730,475
Highest share price (UK p)	123.57	127.45	130.20
Lowest share price (UK p)	121.61	121.67	125.49

### Accumulation share performance

The share type was launched on 7 September 1976.

	Six months to 30.04.19 UK p	Year to 31.10.18 UK p	Year to 31.10.17 UK p
<b>Change in NAV per share</b>			
Opening NAV	3,988.81	3,990.75	3,921.81
Return before operating charges and after direct portfolio transaction costs	69.51	12.48	83.44
Operating charges	(7.25)	(14.42)	(14.50)
Return after operating charges	62.26	(1.94)	68.94
Distributions	(45.87)	(104.43)	(143.12)
Retained distributions	45.87	104.43	143.12
Closing NAV	4,051.07	3,988.81	3,990.75
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.36	0.36	0.36
Return after operating charges	+1.56	-0.05	+1.76
Distribution yield	2.27	2.28	3.63
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	10,680	15,620	17,317
Closing NAV percentage of total fund NAV (%)	8.60	11.62	10.58
Number of shares	263,650	391,600	433,946
Highest share price (UK p)	4,060.44	4,055.84	4,088.90
Lowest share price (UK p)	3,973.24	3,919.01	3,851.58

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

<sup>[b]</sup> As a percentage of average net asset value.

# Financial statements and notes

## Financial statements

### Statement of total return

for the six months to 30 April	2019		2018	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		830		(2,900)
Revenue	1,365		2,261	
Expenses	(232)		(288)	
Net revenue / (expense) before taxation	1,133		1,973	
Taxation	0		0	
Net revenue / (expense) after taxation		1,133		1,973
<b>Total return before distributions</b>		<b>1,963</b>		<b>(927)</b>
Distributions		(1,606)		(2,483)
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>357</b>		<b>(3,410)</b>

### Statement of change in net assets attributable to shareholders

for the six months to 30 April	2019		2018	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>134,465</b>		<b>163,705</b>
Amounts received on issue of shares	659		1,254	
Amounts paid on cancellation of shares	(11,391)		(8,504)	
		(10,732)		(7,250)
Dilution adjustments		15		17
Change in net assets attributable to shareholders from investment activities (see above)		357		(3,410)
Retained distributions on Accumulation shares		123		253
<b>Closing net assets attributable to shareholders</b>		<b>124,228</b>		<b>153,315</b>

The opening net assets attributable to shareholders for 2019 differs to the closing position in 2018 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

### Balance sheet

as at	30 April 2019	31 October 2018
	£'000	£'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	123,415	132,533
<b>Current assets</b>		
Debtors	1,449	1,348
Cash and bank balances	0	1,706
Cash equivalents	834	0
<b>Total assets</b>	<b>125,698</b>	<b>135,587</b>
<b>Liabilities</b>		
<b>Creditors</b>		
Bank overdrafts	(479)	0
Distribution payable	(648)	(681)
Other creditors	(343)	(441)
<b>Total liabilities</b>	<b>(1,470)</b>	<b>(1,122)</b>
<b>Net assets attributable to shareholders</b>	<b>124,228</b>	<b>134,465</b>

## Notes to the financial statements

### Accounting policies

The interim financial statements have been prepared on the same basis as the audited annual financial statements for the year ended 31 October 2018. They are prepared in accordance with both the Charities (Accounts and Reports) Regulations 2008 and the Statement of Recommended Practice (SORP) for Authorised Funds issued by the Investment Association in May 2014.

# Other regulatory disclosures

## Liquidity

The Board's policy is that the fund should normally be close to fully invested (i.e. with liquidity of 5% or less) but this is subject to the need to retain liquidity for the purpose of effecting the redemption of shares and the efficient management of the Scheme in accordance with its objective. There may, therefore, be occasions when there will be higher levels of liquidity, for example following the issue of shares or the realisation of investments. Higher liquidity levels may also arise when the fund's asset allocation policy is changed or when the Manager believes that market conditions warrant it.

# Appendix

## Income and prices

Calendar year	Distributed p	Reinvested p	Income shares		Accumulation shares	
			Highest p	Lowest p	Highest p	Lowest p
1976	1.500 <sup>[a]</sup>	1.500	103.5	98.3	104.8	98.3
1977	11.730 <sup>[a]</sup>	12.287	122.1	104.1	133.8	105.4
1978	11.800	13.613	120.7	104.9	135.5	127.9
1979	12.300	15.646	116.1	96.1	150.4	127.6
1980	12.500	18.118	107.4	98.1	164.3	136.5
1981	12.800	20.726	103.3	85.3	164.0	149.8
1982	12.800	24.283	117.6	86.2	236.7	155.4
1983	12.800	27.387	111.4	101.9	254.9	215.2
1984	12.800	30.929	110.8	101.5	283.6	250.0
1985	12.800	34.857	110.1	101.9	316.1	271.5
1986	12.800	39.355	121.3	101.3	369.0	306.7
1987	12.800	44.383	117.2	106.0	422.2	357.4
1988	12.800	49.425	113.7	103.3	446.1	405.2
1989	12.300	54.081	107.7	97.8	473.1	438.3
1990	10.800	53.216	100.1	87.5	525.7	437.9
1991	10.800	59.598	104.8	97.9	613.9	519.0
1992	10.800	66.257	111.4	101.2	720.9	612.8
1993	10.800	73.171	125.2	108.3	899.7	712.8
1994	10.200	75.917	125.4	101.6	901.1	768.8
1995	9.600	78.578	112.0	102.6	968.1	820.6
1996	9.600	85.307	113.3	103.8	1,044.3	926.3
1997	8.800	85.254	121.1	108.7	1,223.2	1,022.9
1998	8.800	91.824	136.7	119.6	1,484.0	1,217.5
1999	8.800	98.203	139.4	123.7	1,516.7	1,414.5
2000	7.600	90.539	129.6	122.8	1,602.4	1,435.0
2001	7.600	96.128	132.9	125.8	1,741.6	1,594.4
2002	7.600	102.005	131.6	124.6	1,825.0	1,673.3
2003	7.600	108.222	134.8	124.7	1,931.6	1,815.5
2004	7.600	114.884	129.7	123.0	2,027.2	1,872.9
2005	7.600	121.984	130.7	125.5	2,167.5	1,997.8
2006	7.600	129.453	132.1	122.7	2,203.8	2,122.7
2007	7.600	137.674	123.3	116.8	2,288.2	2,130.8
2008	7.600	146.752	122.6	109.4	2,396.7	2,191.1
2009	7.600	156.887	125.9	111.7	2,667.1	2,279.3
2010	7.600	167.167	127.8	120.4	2,875.9	2,627.7
2011	6.480	150.9710	128.2	119.1	3,088.5	2,758.9
2012	6.480	159.2200	133.2	125.8	3,343.1	3,071.7
2013	6.480	167.4865	133.3	122.4	3,428.3	3,237.3
2014	6.480	176.4080	129.13	122.34	3,631.58	3,269.30
2015	6.480	185.7200	133.02	121.23	3,751.41	3,536.50
2016	4.600	137.8900	136.17	121.23	4,142.25	3,589.15
2017	4.600	143.1200	130.20	125.49	4,088.90	3,851.58
<b>Financial year</b>						
2018	3.250	104.4300	127.45	121.67	4055.84	3919.01
2019 <sup>[b]</sup>	1.400	45.870	123.57	121.61	4060.44	3973.24

<sup>[a]</sup> Based on an initial period of 420 days for which four interims and a final distribution were paid.

<sup>[b]</sup> To 30 April 2019.

Please note that with effect from 29 September 2014 the fund adopted a fully swinging single price model.

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 a charity may not receive back the original amount it invested.

# Glossary

**Accumulation shares:** A type of share where distributions are automatically reinvested and reflected in the value of the shares.

**Accumulation units:** A type of unit where distributions are automatically reinvested and reflected in the value of the units.

**Asset:** Anything having commercial or exchange value that is owned by a business, institution or individual.

**Asset allocation:** Apportioning a portfolio's assets according to risk tolerance and investment goals.

**Asset class:** Category of assets, such as cash, company shares, fixed income securities and their sub-categories, as well as tangible assets such as real estate.

**Bond:** A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

**Bond issue:** A set of fixed income securities offered for sale to the public by a company or government. If the bonds are sold for the first time, it is called a 'new issue'.

**Bottom-up selection:** Selecting stocks based on the attractiveness of a company.

**Bunds:** Fixed income securities issued by the German government.

**Capital:** Refers to the financial assets, or resources, that a company has to fund its business operations.

**Capital at risk:** The risk an investor faces that he or she may lose all or part of the assets invested.

**Capital growth:** Occurs when the current value of an investment is greater than the initial amount invested.

**Capital return:** The term for the gain or loss derived from an investment over a particular period. Capital return includes capital gain or loss only and excludes income (in the form of interest or dividend payments).

**Capital structure:** The composition of a firm's liabilities - refers to the way a firm finances its assets through a combination of equity, which refers to raising funds by selling shares, and debt. Often when capital structure is referred to, the focus is on the firm's debt-to-equity ratio, which is an indicator of how risky a company is.

**Capitalisation:** The total market value of all of a company's outstanding shares.

**Cash equivalents:** Deposits or investments with similar characteristics to cash.

**Consumer Prices Index (CPI):** An index used to measure inflation, which is the rate of change in prices for a basket of goods and services. The contents of the basket are meant to be representative of products and services we typically spend our money on.

**Corporate bonds:** Fixed income securities issued by a company. They are also known as bonds and can offer higher interest payments than bonds issued by governments as they are often considered more risky.

**Coupon:** The interest paid by the government or company that has raised a loan by selling bonds.

**Credit:** The borrowing capacity of an individual, company or government. More narrowly, the term is often used as a synonym for fixed income securities issued by companies.

**Credit rating:** An independent assessment of a borrower's ability to repay its debts. A high rating indicates that the credit rating agency considers the issuer to be at low risk of default; likewise, a low rating indicates high risk of default. Standard & Poor's, Fitch and Moody's are the three most prominent credit rating agencies. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**Credit rating agency:** A company that analyses the financial strength of issuers of fixed income securities and attaches a rating to their debt. Examples include Standard & Poor's and Moody's.

**Credit risk:** Risk that a financial obligation will not be paid and a loss will result for the lender.

**Credit selection:** The process of evaluating a fixed income security, also called a bond, in order to ascertain the ability of the borrower to meet its debt obligations. This research seeks to identify the appropriate level of default risk associated with investing in that particular bond.

**Credit spread:** The difference between the yield of a corporate bond, a fixed income security issued by a company, and a government bond of the same life span. Yield refers to the income received from an investment and is expressed as a percentage of the investment's current market value.

**Default:** When a borrower does not maintain interest payments or repay the amount borrowed when due.

**Default risk:** Risk that a debtholder will not receive interest and full repayment of the loan when due.

**Developed economy/market:** Well-established economies with a high degree of industrialisation, standard of living and security.

**Dilution adjustments:** The dilution adjustment is used to protect ongoing investors against the transaction charges incurred in investing or divesting in respect of creations and cancellations. The dilution adjustment is made up of the direct and indirect transaction charges. In the financial statements the direct transaction charges as a percentage of average NAV will be disclosed. This percentage will take account of those direct transaction charges that have been recovered through the dilution adjustment leaving a percentage that just represents the costs incurred in portfolio management.

**Distribution:** Distributions represent a share in the net income of the fund and are paid out to income shareholders or reinvested for accumulation shareholders at set times of the year (monthly, quarterly, half-yearly or annually). They may either be in the form of interest distributions or dividend distributions.

**Distribution yield:** Expresses the amount that is expected to be distributed by the fund over the next 12 months as a percentage of the share price as at a certain date. It is based on the expected gross income less the ongoing charges.

**Diversification:** The practice of investing in a variety of assets. This is a risk management technique where, in a well-diversified portfolio, any loss from an individual holding should be offset by gains in other holdings, thereby lessening the impact on the overall portfolio.

**Dividend:** Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.

# Glossary

**Duration:** A measure of the sensitivity of a fixed income security, also called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

**Duration risk:** The longer a fixed income security, also called a bond, or bond fund's duration, the more sensitive and therefore at risk it is to changes in interest rates.

**Emerging economy or market:** Economies in the process of rapid growth and increasing industrialisation. Investments in emerging markets are generally considered to be riskier than those in developed markets.

**Equities:** Shares of ownership in a company.

**Ex-dividend date:** The date on which declared distributions officially belong to underlying investors, rather than the fund, usually the first business day of the month.

**Exposure:** The proportion of a fund invested in a particular share/ fixed income security, sector/region, usually expressed as a percentage of the overall portfolio.

**Fiscal policy:** Government policy on taxation, spending and borrowing.

**Fixed income security:** A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid. Also referred to as a bond.

**Foreign exchange:** The exchange of one currency for another, or the conversion of one currency into another currency. Foreign exchange also refers to the global market where currencies are traded virtually around the clock. The term foreign exchange is usually abbreviated as 'forex' and occasionally as 'FX'.

**Fundamentals (company):** A basic principle, rule, law, or the like, that serves as the groundwork of a system. A company's fundamentals pertain specifically to that company, and are factors such as its business model, earnings, balance sheet and debt.

**Fundamentals (economic):** A basic principle, rule, law, or the like, that serves as the groundwork of a system. Economic fundamentals are factors such as inflation, employment, economic growth.

**Gilts:** Fixed income securities issued by the UK government.

**Government bonds:** Fixed income securities issued by governments, that normally pay a fixed rate of interest over a given time period, at the end of which the initial investment is repaid.

**High yield bonds:** Fixed income securities issued by companies with a low credit rating from a recognised credit rating agency. They are considered to be at higher risk of default than better quality, ie higher-rated fixed income securities but have the potential for higher rewards. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**Income share:** A type of share where distributions are paid out as cash on the payment date.

**Income unit:** A type of unit where distributions are paid out as cash on the payment date.

**Index:** An index represents a particular market or a portion of it, serving as a performance indicator for that market.

**Index-linked bonds:** Fixed income securities where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also referred to as inflation-linked bonds.

**Inflation:** The rate of increase in the cost of living. Inflation is usually quoted as an annual percentage, comparing the average price this month with the same month a year earlier.

**Inflation-linked bonds:** Fixed income securities where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also referred to as index-linked bonds.

**Initial public offering (IPO):** The first sale of shares by a private company to the public.

**Interest rate risk:** The risk that a fixed income investment will lose value if interest rates rise.

**Investment grade bonds:** Fixed income securities issued by a company with a medium or high credit rating from a recognised credit rating agency. They are considered to be at lower risk from default than those issued by companies with lower credit ratings. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**Issuer:** An entity that sells securities, such as fixed income securities and company shares.

**Liquidity:** A company is considered highly liquid if it has plenty of cash at its disposal. A company's shares are considered highly liquid if they can be easily bought or sold since large amounts are regularly traded.

**Macroeconomic:** Refers to the performance and behaviour of an economy at the regional or national level. Macroeconomic factors such as economic output, unemployment, inflation and investment are key indicators of economic performance. Sometimes abbreviated to 'macro'.

**Maturity:** The length of time until the initial investment amount of a fixed income security is due to be repaid to the holder of the security.

**Monetary easing:** When central banks lower interest rates or buy securities on the open market to increase the money in circulation.

**Monetary policy:** A central bank's regulation of money in circulation and interest rates.

**Monetary tightening:** When central banks raise interest rates or sell securities on the open market to decrease the money in circulation.

**Near cash:** Deposits or investments with similar characteristics to cash.

**Net asset value (NAV):** A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.

**Open-ended investment company (OEIC):** A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

**Overweight:** If a fund is 'overweight' a stock, it holds a larger proportion of that stock than the comparable index or sector.

**Payment date:** The date on which distributions will be paid by the fund to investors, usually the last business day of the month.

# Glossary

**Portfolio transaction cost:** The cost of trading, such as brokerage, clearing, exchange fees and bid offer spread as well as taxes such as stamp duty.

**Principal:** The face value of a fixed income security, which is the amount due back to the investor by the borrower when the security reaches the end of its life.

**Private placement:** An offer of sale of securities to a relatively small number of investors selected by the company, generally investment banks, mutual funds, insurance companies or pension funds.

**Real return:** The return on an investment, adjusted for changes in prices in an economy.

**Real yield:** The return of an investment, adjusted for changes in prices in an economy.

**Retail Prices Index (RPI):** A UK inflation index that measures the rate of change of prices for a basket of goods and services in the UK, including mortgage payments and council tax.

**Risk management:** The term used to describe the activities the fund manager undertakes to limit the risk of a loss in a fund.

**Risk premium:** The difference between the return from a risk-free asset, such as a high-quality government bond or cash, and the return from an investment in any other asset. The risk premium can be considered the 'price' or 'pay-off' for taking on increased risk. A higher risk premium implies higher risk.

**Risk/reward ratio:** A ratio comparing the expected returns of an investment with the amount of risk undertaken.

**Risk-free asset:** An asset that notionally carries no risk of non-payment by the borrower such as a high-quality fixed income security issued by a government or cash.

**Safe-haven assets:** Refers to assets that investors perceive to be relatively safe from suffering a loss in times of market turmoil.

**Security:** Financial term for a paper asset – usually a share in a company or a fixed income security also known as a bond.

**Share class:** Type of fund shares held by investors in a fund (share classes differ by levels of charge and/or by other features such as currency or share class hedging).

**Short-dated corporate bonds:** Fixed income securities issued by companies and repaid over relatively short periods.

**Short-dated government bonds:** Fixed income securities issued by governments and repaid over relatively short periods.

**Sovereign debt:** Debt of a government. Also referred to as government bonds.

**Total return:** The term for the gain or loss derived from an investment over a particular period. Total return includes income (in the form of interest or dividend payments) and capital gains.

**Transaction cost:** The cost of trading, such as brokerage, clearing and exchange fees as well as taxes such as stamp duty.

**Treasuries:** Fixed income securities issued by the US government

**Triple A or AAA rated:** The highest possible rating a fixed income security, also called a bond, can be assigned by credit rating agencies. Bonds that are rated AAA are perceived to have the lowest risk of default. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**UCITS:** Stands for Undertakings for Collective Investment in Transferable Securities. This is the European regulatory framework for an investment vehicle that can be marketed across the European Union and is designed to enhance the single market in financial assets while maintaining high levels of investor protection.

**Underlying value:** The fundamental value of a company, reflecting both tangible and intangible assets, rather than the current market value.

**Underweight:** If a portfolio is 'underweight' a stock, it holds a smaller proportion of that stock than the comparable index or sector.

**Unit trust:** A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

**Unit/share type:** Type of units/shares held by investors in a trust or fund (unit/share types differ by features such as whether income is to be paid out as cash or reinvested on the payment date).

**Valuation:** The worth of an asset or company based on its current price.

**Volatile:** When the value of a particular share, market or sector swings up and down fairly frequently and/or significantly, it is considered volatile.

**Volatility:** The degree to which a given security, fund, or index rapidly changes. It is calculated as the degree of deviation from the norm for that type of investment over a given time period. The higher the volatility, the riskier the security tends to be.

**Yield (equity):** Refers to the dividends received by a holder of company shares and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value. Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.

**Yield (bonds):** This refers to the interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

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