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M&G Property Portfolio

Interim Long Report and unaudited Financial Statements
for the six months ended 31 March 2019

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Authorised Corporate Director's Report

Company information

Company

M&G Property Portfolio

Registered Office

10 Fenchurch Avenue, London EC3M 5AG, UK

Authorised Corporate Director (ACD)

M&G Securities Limited,
10 Fenchurch Avenue, London EC3M 5AG, UK
Telephone: 0800 390 390 (UK only)

(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.)

Directors of the ACD

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

Investment manager

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Co-fund managers

Fiona Rowley and Justin Upton
(Employees of M&G Limited, which is an associate
of M&G Securities Limited)

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Property manager

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Standing independent valuer

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Customer services and administration

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PO Box 9039, Chelmsford CM99 2XG, UK

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

Telephone: 0800 390 390

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.

The Instrument of Incorporation can be inspected at our offices or at the office of the Depositary.

M&G Property Portfolio

Authorised Corporate Director's Report

Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) presents its interim investment report and unaudited financial statements for the six months ended 31 March 2019.

This Open-Ended Investment Company (OEIC) is an Investment Company with Variable Capital (ICVC) incorporated under the Open-Ended Investment Companies Regulations 2001. It is authorised and regulated by the Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000. The Company is a Non-UCITS (Undertakings for Collective Investment in Transferable Securities) scheme as defined in the Collective Investment Schemes sourcebook, as issued (and amended) by the FCA.

The Company was authorised on 16 October 2012 and the fund was launched on 18 January 2013.

The Company's principal activity is to carry on business as an OEIC.

The interim investment report and unaudited financial statements for the M&G Property Portfolio for the six months ended 31 March 2019 are set out in detail on pages 3 to 15.

G N Cotton
Director of M&G Securities Limited

L J Mumford
Director of M&G Securities Limited

15 May 2019

Directors' statement

This report has been prepared in accordance with the requirements of the Collective Investment Schemes sourcebook, as issued and amended by the Financial Conduct Authority.

G N COTTON
L J MUMFORD

} Directors

15 May 2019

M&G Property Portfolio

Authorised Corporate Director's Report

Investment objective

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

Investment policy

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

Investment approach

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

Risk profile

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

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

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

In difficult market conditions, or if significant numbers of investors withdraw their investments from the fund at the same time, the manager may be forced to dispose of property investments, and the

value of certain property investments may therefore be less predictable than usual. Under these circumstances, it may be harder to sell assets at the last valuation or quoted market price, or at a price considered to be fair. Such conditions could result in unpredictable changes in the value of the fund's holdings. In general, property investments are harder to buy and sell compared to investments in fixed income securities and company shares.

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

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

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

Investment review

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

Performance against objective

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

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

* For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Fund performance' section of this report.

Market background

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

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

M&G Property Portfolio

Authorised Corporate Director's Report

Investment review

Market background (continued)

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

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

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

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

Portfolio structure

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

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

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

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

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

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

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

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

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

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

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

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

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

M&G Property Portfolio

Authorised Corporate Director's Report

Investment review

Investment activities ^[a]

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

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

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

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

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

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

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

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

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

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

Asset management

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

Retail

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

Offices

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

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

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

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

Industrials

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

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

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

M&G Property Portfolio

Authorised Corporate Director's Report

Investment review

Industrials (continued)

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

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

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

Outlook

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

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

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

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

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

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

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

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

Fiona Rowley & Justin Upton

Co-fund managers

Employees of M&G Limited which is an associate of M&G Securities Limited.

Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

M&G Property Portfolio

Authorised Corporate Director's Report

Investments

Portfolio statement

as at Location	31.03.19 £'000	31.03.19 %	30.09.18 ^[a] %
Retail properties	1,169,379	36.37	36.42 ^[b]
Values between £100 million and £200 million	256,681	7.98	10.23
Llanelli Parc Trostre Retail Park			
Bridgend Wales Designer Outlet, The Derwen			
Values between £20 million and £100 million	795,686	24.75	21.50 ^[b]
Maidstone 19-21 Fremlin Walk			
Northampton Riverside Retail Park			
Sutton Coldfield The Gracechurch Centre			
London, N18 Ravenside Retail Park			
Lincoln Linds Retail Park, Tritton Road			
High Wycombe Wycome Retail Park			
Romford The Brewery (25% of Trust for Land)			
Tyne And Wear Newcastle Shopping Park, Fossway, Heaton, Byker			
High Wycombe Tesco Supermarket, London Road, Loudwater			
London, E4 Corktree Retail Park, Hall Lane, Chingford			
Petersfield 1-20 Rams Walk & 11-13 The Square			
Ayr Ayr Central Shopping			
Bolton Bolton Shopping Park, Trinity Street			
Cannock Orbital Retail Park, Voyager Drive			
Croydon Trafalgar Way Retail Park, Purley Way			
Scarborough Brunswick Shopping Centre			
Values between £0 and £20 million	117,012	3.64	4.69 ^[b]
Birmingham The Fort Retail Park (12.5% of Trust for Land)			
Londonderry Lisnagelvin Retail Park			
Sheffield Debenhams, The Mall and Charter Square			
York 3/7 Coney Street			
Newcastle 46/48 Northumberland Street & 1/5 Saville Row			
Southampton 57/61 Above Bar Street			
St Albans Lockey House, St Peters Street			
London, N1 359 Upper Street, The Mall			
Harrow Debenhams, 275 Station Road			
Chester 43 Eastgate Street			
Harrogate Royal Baths and Harrogate House			
Winchester 71/73 St Georges Street & 126 High Street			
Leeds 25-26 Commercial Street			
Leeds 27-28 Commercial Street			
Office properties	850,149	26.45	24.92
Values between £100 million and £200 million	281,395	8.75	7.88
Heathrow 1-8 New Square Bedfont Lakes Office Park			
London, EC2 Alder Castle, 10 Noble Street			

Portfolio statement (continued)

as at Location	31.03.19 £'000	31.03.19 %	30.09.18 ^[a] %
Values between £20 million and £100 million	519,255	16.16	15.68 ^[b]
Glasgow Aurora Building, 120 bothwell Street			
Uxbridge Enterprises House, Bakers Road			
Reading Aldwych House, Blagrave Street			
Birmingham 120 Edmund Street			
London, W1 Portland & Riding Estate			
Bristol 3 Temple Quay			
Maidenhead Quantum Business Park			
Uxbridge Stockley Park, 5 The Square			
Milton Keynes Wavendon Business Park			
Aberdeen The Capitol, 431 Union Street			
London, E14 8 Greenwich View Place			
Staines 20 Kingston Road			
Values between £0 and £20 million	49,499	1.54	1.36
Aberdeen City View, Craigshaw Drive			
Glasgow 23 Cadogan Street			
London, N1 Units 1-4 The Yard, 122 East Road			
Industrial properties	619,880	19.29	17.31 ^[b]
Values between £20 million and £100 million	454,823	14.15	13.01
Belvedere Iron Mountain Distribution Warehouse, Isis Reach, Norman Road			
Hayes Unit 2 & 7a/b/c Millington Road			
Enfield Heritage House, Southbury Road			
Birmingham Units 2-12, 14 & 15, Junction 6 Industrial Estate, Electric Avenue			
Bristol Plot 4000, Western Approach Distribution Park			
Southampton Tesco Distribution Unit, Main Site, Nursling Industrial Estate			
Didcot Booker Unit, Foxhall Road			
Aberdeen Sites A1, A7-A10, A12, A15-A25 & A29, Altens Industrial Estate			
Walsall TK Maxx Distribution Centre, Green Lane			
Aberdeen Sites WT1-WT5 & WT8-WT18 & WT20, West Tullos Industrial Estate			
Warrington Royal Mail Distribution Centre, Orion Boulevard			
Rainham Wincanton Distribution Unit			
Values between £0 and £20 million	165,057	5.14	4.30 ^[b]
Tamworth DSV, Kingsbury Link, Trinity Road			
Thrapston Units HP1 & HP2, Halden's Parkway			
Normanton Royal Mail Distribution Centre, Tuscany Way, Wakefield Europort			
Dartford Orbital One Trading Estate, Green Road			
Northampton Tungsten Business Park, Caswell Road			
Leatherhead Leatherhead Trade Park			
Liverpool Britonwood			
Southampton Norbert Dentressangle Recycling Plant, Site 1b, Nursling Industrial Estate			
Fareham 11 Barnes Wallis Road			
Hartlebury Unit 100, Hartlebury Trading Estate			
Nottingham Unit 10, Blenheim Park			
Tamworth Inalfa Unit Kingsbury Link			
Aberdeen Portfolio of 7 Ground Leases, Murcar Industrial Estate			
Normanton Unit 1000, Normanton Industrial Estate			
Aberdeen Units 1-4 Howe Moss Drive, Kirkhill Industrial Estate			

M&G Property Portfolio

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at	31.03.19	31.03.19	30.09.18 ^[a]
Location	£'000	%	%
Leisure properties	162,847	5.06	4.23
Values between £20 million and £100 million	92,724	2.88	2.59
Rochester Medway Valley Leisure Park			
Telford Southwater Square			
Blackburn Peel Retail & Leisure Centre, Lower Audley Street			
Values between £0 and £20 million	70,123	2.18	1.64
Swansea Premier Inn Hotel, The Waterfront Development			
Salisbury Premier Inn & McDonald's			
Birmingham Travelodge - 2225 Coventry Road			
Milton Keynes Travelodge - Burchard Crescent			
Slough Travelodge - 399 London Road, Langley			
Northampton Travelodge - London Road			
Walton on Thames Travelodge - Ashley Park Road			
Redhill Travelodge - 2 Redstone Hill			
Woodford Green Travelodge - 735 Chigwell Road			
Borehamwood Travelodge - Studio Way			
London, E11 Travelodge - 73 Hollybush Hill, Snaresbrook			
Arundel Travelodge - Fontwell Avenue			
Northolt Travelodge - Mandeville Road			
Eastbourne Travelodge - Highfield Park, Willingdon Drove			
London, N14 Travelodge - The Green, Southgate			
Portsmouth Travelodge - 1 Whichers Gate Road, Rowland's Castle			
Other properties	34,800	1.08	0.96
Values between £20 million and £50 million	34,800	1.08	0.96
Birmingham Selly Oak Student Quarter			
Total direct properties	2,837,055	88.25	83.84
Indirect properties	31,373	0.98	0.87
Kames Target Healthcare I LP	17,993	0.56	
Octopus Healthcare Fund	13,380	0.42	
Real estate investment trusts	4,627	0.14	0.00
689,505 Segro	4,626	0.14	
1,000 Hansteen	1	0.00	
Portfolio of investments	2,873,055	89.37	84.71
'AA' credit rated bonds ^[c]	99,985	3.11	8.29
\$100,000,000 Treasury 0% (8 April 2019)	99,985	3.11	
Total portfolio	2,973,040	92.48	93.00
Net other assets / (liabilities)	241,730	7.52	7.00
Net assets attributable to shareholders	3,214,770	100.00	100.00

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

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

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

^[c] Cash equivalents.

Portfolio transactions

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

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

M&G Property Portfolio

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

We show performance for these two share classes because:

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

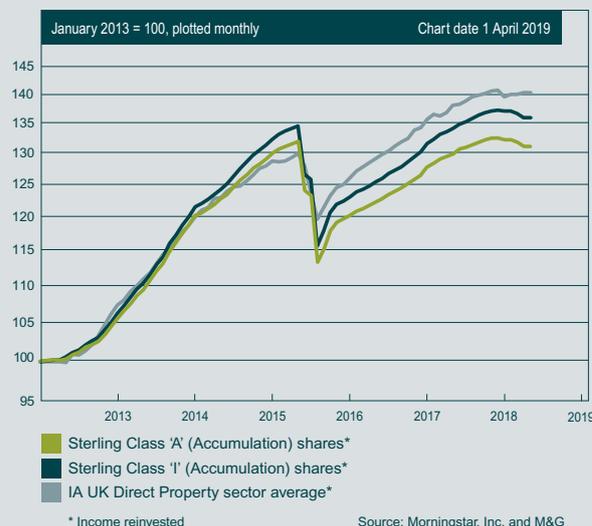
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Property Portfolio, which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at	31.03.19 £'000	30.09.18 £'000	30.09.17 £'000
Fund net asset value (NAV)	3,214,770	3,614,786	3,701,686

Performance since launch

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



To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period. Calculated on a bid to bid basis with income reinvested.

Long-term performance by share class

	Six months 01.10.18 % [a]	Three years 01.04.16 % p.a.	Five years 01.04.14 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	-0.9	-0.2	+3.8	+4.5 [c]
Class 'D'	-0.5	+0.6	+4.5	+5.2 [c]
Class 'F'	-0.3	+1.1	+5.0	+5.6 [c]
Class 'I'	-0.6	+0.4	+4.4	+5.1 [c]
Class 'R'	-0.7	+0.2	+4.2	+4.9 [c]
Class 'X'	-0.9	-0.1	+3.8	+4.4 [c]

[a] Absolute basis.

[b] Bid to bid with income reinvested.

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

M&G Property Portfolio

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

The operating charges paid by each share class 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). The charging structures of share classes may differ, and therefore the operating charges may differ.

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

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

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

^[a] Average of first three columns.

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

^[c] In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

M&G Property Portfolio

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Specific share class performance

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

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

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

Sterling Class 'A' Income share performance

The share class was launched on 18 January 2013.

	Six months to 31.03.19 UK p	Year to 30.09.18 UK p	Year to 30.09.17 UK p
Change in NAV per share			
Opening NAV	118.45	115.34	111.46
Return before operating charges and after direct portfolio transaction costs	0.55	9.54	9.34
Operating charges	(1.26)	(2.43)	(2.70)
Return after operating charges	(0.71)	7.11	6.64
Distributions	(2.47)	(4.00)	(2.76)
Closing NAV	115.27	118.45	115.34
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.12	0.29	0.22
Dilution adjustments ^[a]	(0.12)	(0.10)	(0.15)
Total direct portfolio transaction costs	0.00	0.19	0.07
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.17	0.06
Operating charges excluding property expenses	1.70	1.69	1.70
Property expenses	0.44	0.37	0.69
Operating charges	2.14	2.06	2.39
Return after operating charges	-0.60	+6.16	+5.96
Historic yield ^[c]	4.25	4.05	2.38
Effect on yield of charges offset against capital	1.65	1.65	0.00
Other information			
Closing NAV (£'000)	108,954	128,120	134,878
Closing NAV percentage of total fund NAV (%)	3.39	3.54	3.64
Number of shares	94,518,298	108,167,298	116,936,298
Highest share price (UK p)	125.17	125.64	124.77
Lowest share price (UK p)	122.70	121.12	118.35

Sterling Class 'A' Accumulation share performance

The share class was launched on 18 January 2013.

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

Sterling Class 'D' Income share performance

The share class was launched on 18 January 2013.

	Six months to 31.03.19 UK p	Year to 30.09.18 UK p	Year to 30.09.17 UK p
Change in NAV per share			
Opening NAV	1,190.14	1,153.68	1,114.79
Return before operating charges and after direct portfolio transaction costs	5.56	95.38	93.60
Operating charges	(7.33)	(13.64)	(16.84)
Return after operating charges	(1.77)	81.74	76.76
Distributions	(24.87)	(45.28)	(37.87)
Closing NAV	1,163.50	1,190.14	1,153.68
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.24	2.92	2.17
Dilution adjustments ^[a]	(1.24)	(1.01)	(1.52)
Total direct portfolio transaction costs	0.00	1.91	0.65
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.17	0.06
Operating charges excluding property expenses	0.80	0.79	0.79
Property expenses	0.44	0.37	0.69
Operating charges	1.24	1.16	1.48
Return after operating charges	-0.15	+7.09	+6.89
Historic yield ^[c]	4.23	4.03	3.26
Effect on yield of charges offset against capital	0.75	0.75	0.00
Other information			
Closing NAV (£'000)	41,649	45,376	60,210
Closing NAV percentage of total fund NAV (%)	1.31	1.25	1.63
Number of shares	3,579,637	3,812,637	5,218,937
Highest share price (UK p)	1,259.31	1,261.80	1,217.32
Lowest share price (UK p)	1,237.94	1,211.55	1,183.87

M&G Property Portfolio

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Specific share class performance

Sterling Class 'D' Accumulation share performance

The share class was launched on 18 January 2013.

	Six months to 31.03.19 UK p	Year to 30.09.18 UK p	Year to 30.09.17 UK p
Change in NAV per share			
Opening NAV	1,451.09	1,362.53	1,281.24
Return before operating charges and after direct portfolio transaction costs	6.47	113.72	108.38
Operating charges	(8.71)	(16.44)	(19.20)
Return after operating charges	(2.24)	97.28	89.18
Distributions	(25.00)	(48.68)	(43.94)
Retained distributions	20.53	39.96	36.05
Closing NAV	1,444.38	1,451.09	1,362.53
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.52	3.51	2.54
Dilution adjustments ^[a]	(1.52)	(1.21)	(1.78)
Total direct portfolio transaction costs	0.00	2.30	0.76
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.17	0.06
Operating charges excluding property expenses	0.81	0.79	0.79
Property expenses	0.39	0.37	0.66
Operating charges	1.20	1.16	1.45
Return after operating charges	-0.15	+7.14	+6.96
Historic yield	3.35	3.21	3.21
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	5,451	3,139	1,290
Closing NAV percentage of total fund NAV (%)	0.17	0.09	0.03
Number of shares	377,400	216,300	94,700
Highest share price (UK p)	1,538.91	1,525.51	1,430.03
Lowest share price (UK p)	1,521.98	1,430.72	1,364.55

Sterling Class 'F' Income share performance

The share class was launched on 18 January 2013.

	Six months to 31.03.19 UK p	Year to 30.09.18 UK p	Year to 30.09.17 UK p
Change in NAV per share			
Opening NAV	119.44	115.38	111.49
Return before operating charges and after direct portfolio transaction costs	0.56	9.61	9.36
Operating charges	(0.38)	(0.67)	(1.00)
Return after operating charges	0.18	8.94	8.36
Distributions	(2.50)	(4.88)	(4.47)
Closing NAV	117.12	119.44	115.38
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.13	0.29	0.22
Dilution adjustments ^[a]	(0.13)	(0.10)	(0.15)
Total direct portfolio transaction costs	0.00	0.19	0.07
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.17	0.06
Operating charges excluding property expenses	0.20	0.20	0.20
Property expenses	0.44	0.37	0.68
Operating charges	0.64	0.57	0.88
Return after operating charges	+0.15	+7.75	+7.50
Historic yield ^[c]	4.22	4.01	3.86
Effect on yield of charges offset against capital	0.15	0.15	0.00
Other information			
Closing NAV (£'000)	2,019,999	2,262,467	2,374,784
Closing NAV percentage of total fund NAV (%)	62.83	62.59	64.15
Number of shares	1,724,784,261	1,894,270,913	2,058,143,808
Highest share price (UK p)	126.50	126.59	121.89
Lowest share price (UK p)	124.57	121.18	116.85

Sterling Class 'I' Income share performance

The share class was launched on 18 January 2013.

	Six months to 31.03.19 UK p	Year to 30.09.18 UK p	Year to 30.09.17 UK p
Change in NAV per share			
Opening NAV	1,189.16	1,153.68	1,114.73
Return before operating charges and after direct portfolio transaction costs	5.58	95.36	93.56
Operating charges	(8.23)	(15.50)	(18.45)
Return after operating charges	(2.65)	79.86	75.11
Distributions	(24.84)	(44.38)	(36.16)
Closing NAV	1,161.67	1,189.16	1,153.68
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.24	2.92	2.17
Dilution adjustments ^[a]	(1.24)	(1.00)	(1.52)
Total direct portfolio transaction costs	0.00	1.92	0.65
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.17	0.06
Operating charges excluding property expenses	0.95	0.94	0.95
Property expenses	0.44	0.38	0.68
Operating charges	1.39	1.32	1.63
Return after operating charges	-0.22	+6.92	+6.74
Historic yield ^[c]	4.24	4.03	3.12
Effect on yield of charges offset against capital	0.90	0.90	0.00
Other information			
Closing NAV (£'000)	726,890	850,949	803,243
Closing NAV percentage of total fund NAV (%)	22.61	23.54	21.70
Number of shares	62,572,927	71,558,627	69,624,227
Highest share price (UK p)	1,258.02	1,260.86	1,216.89
Lowest share price (UK p)	1,236.09	1,211.47	1,183.79

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Financial highlights

Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 18 January 2013.

	Six months to 31.03.19 UK p	Year to 30.09.18 UK p	Year to 30.09.17 UK p
Change in NAV per share			
Opening NAV	1,441.40	1,354.88	1,275.54
Return before operating charges and after direct portfolio transaction costs	6.65	113.15	108.11
Operating charges	(9.94)	(18.43)	(21.30)
Return after operating charges	(3.39)	94.72	86.81
Distributions	(23.75)	(46.31)	(41.77)
Retained distributions	19.52	38.11	34.30
Closing NAV	1,433.88	1,441.40	1,354.88
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.51	3.46	2.51
Dilution adjustments ^[a]	(1.51)	(1.19)	(1.76)
Total direct portfolio transaction costs	0.00	2.27	0.75
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.17	0.06
Operating charges excluding property expenses	0.95	0.94	0.95
Property expenses	0.43	0.38	0.68
Operating charges	1.38	1.32	1.63
Return after operating charges	-0.23	+6.99	+6.81
Historic yield	3.20	3.07	3.07
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	245,998	250,575	234,627
Closing NAV percentage of total fund NAV (%)	7.65	6.93	6.34
Number of shares	17,156,064	17,384,104	17,317,204
Highest share price (UK p)	1,527.89	1,515.33	1,422.00
Lowest share price (UK p)	1,510.92	1,422.67	1,358.18

Sterling Class 'R' Income share performance

The share class was launched on 18 January 2013.

	Six months to 31.03.19 UK p	Year to 30.09.18 UK p	Year to 30.09.17 UK p
Change in NAV per share			
Opening NAV	118.79	115.39	111.50
Return before operating charges and after direct portfolio transaction costs	0.57	9.53	9.30
Operating charges	(0.98)	(1.84)	(2.08)
Return after operating charges	(0.41)	7.69	7.22
Distributions	(2.48)	(4.29)	(3.33)
Closing NAV	115.90	118.79	115.39
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.12	0.29	0.22
Dilution adjustments ^[a]	(0.12)	(0.10)	(0.15)
Total direct portfolio transaction costs	0.00	0.19	0.07
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.17	0.06
Operating charges excluding property expenses	1.20	1.20	1.20
Property expenses	0.44	0.37	0.64
Operating charges	1.64	1.57	1.84
Return after operating charges	-0.35	+6.66	+6.48
Historic yield ^[c]	4.24	4.04	2.87
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (£'000)	2,268	3,119	2,457
Closing NAV percentage of total fund NAV (%)	0.07	0.09	0.07
Number of shares	1,957,058	2,626,058	2,129,058
Highest share price (UK p)	125.62	125.96	121.65
Lowest share price (UK p)	123.33	121.17	118.40

Sterling Class 'R' Accumulation share performance

The share class was launched on 18 January 2013.

	Six months to 31.03.19 UK p	Year to 30.09.18 UK p	Year to 30.09.17 UK p
Change in NAV per share			
Opening NAV	142.54	134.25	126.64
Return before operating charges and after direct portfolio transaction costs	0.66	11.20	10.76
Operating charges	(1.16)	(2.18)	(2.47)
Return after operating charges	(0.50)	9.02	8.29
Distributions	(2.17)	(4.23)	(3.82)
Retained distributions	1.79	3.50	3.14
Closing NAV	141.66	142.54	134.25
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.15	0.34	0.25
Dilution adjustments ^[a]	(0.15)	(0.12)	(0.17)
Total direct portfolio transaction costs	0.00	0.22	0.08
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.17	0.06
Operating charges excluding property expenses	1.20	1.20	1.20
Property expenses	0.43	0.38	0.70
Operating charges	1.63	1.58	1.90
Return after operating charges	-0.35	+6.72	+6.55
Historic yield	2.95	2.84	2.83
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	3,038	3,100	829
Closing NAV percentage of total fund NAV (%)	0.09	0.09	0.02
Number of shares	2,144,648	2,174,648	617,648
Highest share price (UK p)	150.97	149.85	140.89
Lowest share price (UK p)	149.27	140.96	134.78

M&G Property Portfolio

Financial highlights

Specific share class performance

Sterling Class 'X' Income share performance

The share class was launched on 18 January 2013.

	Six months to 31.03.19 UK p	Year to 30.09.18 UK p	Year to 30.09.17 UK p
Change in NAV per share			
Opening NAV	118.44	115.34	111.46
Return before operating charges and after direct portfolio transaction costs	0.56	9.52	9.33
Operating charges	(1.26)	(2.43)	(2.69)
Return after operating charges	(0.70)	7.09	6.64
Distributions	(2.47)	(3.99)	(2.76)
Closing NAV	115.27	118.44	115.34
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.12	0.29	0.22
Dilution adjustments ^[a]	(0.12)	(0.10)	(0.15)
Total direct portfolio transaction costs	0.00	0.19	0.07
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.17	0.06
Operating charges excluding property expenses	1.70	1.69	1.70
Property expenses	0.43	0.37	0.68
Operating charges	2.13	2.06	2.38
Return after operating charges	-0.59	+6.15	+5.96
Historic yield ^[c]	4.25	4.04	2.38
Effect on yield of charges offset against capital	1.65	1.65	0.00
Other information			
Closing NAV (£'000)	10,588	11,614	14,776
Closing NAV percentage of total fund NAV (%)	0.33	0.32	0.40
Number of shares	9,185,210	9,805,210	12,810,210
Highest share price (UK p)	125.17	125.64	121.48
Lowest share price (UK p)	122.70	121.12	116.74

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

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

^[c] Following the change in charging structure, you may see variances between the comparative and current year figures.

M&G Property Portfolio

Financial statements and notes

Financial statements

Statement of total return

for the six months to 31 March	2019		2018	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		(67,877)		87,187
Revenue	81,380		84,466	
Expenses	(16,527)		(15,245)	
Net revenue / (expense) before taxation	64,853		69,221	
Taxation	(133)		(89)	
Net revenue / (expense) after taxation		64,720		69,132
Total return before distributions		(3,157)		156,319
Distributions		(71,235)		(69,364)
Change in net assets attributable to shareholders from investment activities		(74,392)		86,955

Statement of change in net assets attributable to shareholders

for the six months to 31 March	2019		2018	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		3,614,786		3,701,686
Amounts received on issue of shares	56,472		46,803	
Amounts paid on cancellation of shares	(390,989)		(234,531)	
		(334,517)		(187,728)
Dilution adjustments		4,882		1,733
Change in net assets attributable to shareholders from investment activities (see above)		(74,392)		86,955
Retained distributions on Accumulation shares		4,009		3,966
Unclaimed distributions		2		1
Closing net assets attributable to shareholders		3,214,770		3,606,613

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	31 March 2019	30 September 2018
	£'000	£'000
Assets		
Fixed assets		
Tangible assets		
Land and buildings	2,837,055	3,030,748
Investments	36,000	31,218
Current assets		
Debtors	61,274	61,893
Cash and bank balances	276,087	276,173
Cash equivalents	99,985	299,749
Total assets	3,310,401	3,699,781
Creditors		
Distribution payable	(38,845)	(38,541)
Other creditors	(56,786)	(46,454)
Total liabilities	(95,631)	(84,995)
Net assets attributable to shareholders	3,214,770	3,614,786

Cash flow statement

for the six months to 31 March	2019		2018	
	£'000	£'000	£'000	£'000
Operating activities				
Net revenue / (expense) before taxation	64,853		69,221	
Adjustments for:				
Amortised income	(754)		(405)	
Movement in debtors	5,806		8,027	
Movement in creditors	4,578		548	
Net cash generated from operating activities		74,483		77,391
Investing activities				
Capital expenditure	(3,902)		(5,042)	
Debt security purchases	(489,145)		(549,404)	
Debt security sales	489,900		549,809	
Investment purchases	(4,378)		0	
Investment sales	102		0	
Tangible assets: acquisitions	(18,771)		(56,093)	
Tangible assets: disposals	141,363		189,559	
Transaction charges	(3)		(4)	
Net cash from investing activities		115,166		128,825
Financing activities				
Amounts received on issue of shares	54,567		40,587	
Amounts paid on cancellation of shares	(383,451)		(226,722)	
Dilution adjustments	4,882		1,733	
Distributions paid	(53,600)		(45,369)	
Taxation	(11,899)		(12,489)	
Unclaimed distributions received	2		1	
Net cash used in financing activities		(389,499)		(242,259)
Net increase / (decrease) in cash and cash equivalents		(199,850)		(36,043)
Cash and cash equivalents at the beginning of the period		575,922		689,889
Net increase / (decrease) in cash for the period		(199,850)		(36,043)
Cash and cash equivalents at the end of the period		376,072		653,846

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 30 September 2018. They are prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice (SORP) for Authorised Funds issued by the Investment Association in May 2014.

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 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).

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

Comparative sector: A group of funds with similar investment objectives and/or types of investment, as classified by bodies such as the Investment Association (IA) or Morningstar™. Sector definitions are mostly based on the main assets a fund should invest in, and may also have a geographic focus. Sectors can be the basis for comparing the different characteristics of similar funds, such as their performance or charging structure.

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.

Convertible bonds: Fixed income securities that can be exchanged for predetermined amounts of company shares at certain times during their life.

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 default swaps (CDS): Are a type of derivative, namely financial instruments whose value, and price, are dependent on one or more underlying assets. CDS are insurance-like contracts that allow investors to transfer the risk of a fixed income security defaulting to another investor.

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.

Derivatives: Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded over the counter.

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 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.

Glossary

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.

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.

Exchange traded: Usually refers to investments traded on an exchange, such as company shares on a stock exchange.

Ex-dividend, ex-distribution or XD date: The date on which declared distributions officially belong to underlying investors.

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.

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.

Floating rate notes (FRNs): Securities whose interest (income) payments are periodically adjusted depending on the change in a reference interest rate.

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'.

Foreign exchange (FX) strategy: Currencies can be an asset class in its own right, along with company shares, fixed income securities, property and cash. Foreign exchange strategy can therefore be a source of investment returns.

Forward contract: A contract between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Examples include forward currency contracts.

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.

Futures: A futures contract is a contract between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Futures are traded on a regulated exchange.

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.

Hedging: A method of reducing unnecessary or unintended risk.

High water mark (HWM): The highest level that a fund's NAV (net asset value) has reached at the end of any 12-month accounting period.

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, i.e. 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.

Historic yield: The historic yield reflects distributions declared over the past 12 months as a percentage of the share price, as at the date shown.

Income yield: Refers to the income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

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

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

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

Index tracking: A fund management strategy that aims to match the returns from a particular index.

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 risk: The risk that inflation will reduce the return of an investment in real terms.

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.

Interest rate swap: An agreement between two parties to swap a fixed interest payment with a variable interest payment over a specified period of time.

Investment Association (IA): The UK trade body that represents fund managers. It works with investment managers, liaising with government on matters of taxation and regulation, and also aims to help investors understand the industry and the investment options available to them.

Glossary

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

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.

Leverage: When referring to a company, leverage is the level of a company's debt in relation to its assets. A company with significantly more debt than capital is considered to be leveraged. It can also refer to a fund that borrows money or uses derivatives to magnify an investment position.

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.

Long position: Refers to ownership of a security held in the expectation that the security will rise in value.

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.

Modified duration: A measure of the sensitivity of a fixed income security, 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.

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.

Morningstar™: A provider of independent investment research, including performance statistics and independent fund ratings.

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.

Ongoing Charge Figure: The Ongoing Charge Figure includes charges for the following items: management of the fund (also known as Annual Management Charge), administration services, services provided by external parties which include depository, custody and audit, as well as incorporating the ongoing charge figure from funds held in the portfolio (taking into account any rebates).

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

Options: Financial contracts that offer the right, but not the obligation, to buy or sell an asset at a given price on or before a given date in the future.

Over-the-counter (OTC): Whereby financial assets are traded directly between two parties. This is in contrast to exchange trading, which is carried out through exchanges set up specifically for the purpose of trading. OTC is also known as off-exchange trading.

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.

Physical assets: An item of value that has tangible existence, for example, cash, equipment, inventory or real estate. Physical assets can also refer to securities, such as company shares or fixed income securities.

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.

Preference shares: Preference shares are a loan to a company that may be traded in the same way as ordinary shares, but generally have a higher yield and pay dividends on fixed dates. Preference shares have varying characteristics as to the treatment of the principal and the dividend payment, which includes ranking them above ordinary shares when it comes to dividend payments.

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.

Property Expense Ratio (PER): Property expenses are the operating expenses that relate to the management of the property assets in the portfolio. These include: insurance and rates, rent review and lease renewal costs and maintenance and repairs, but not improvements. They depend on the level of activity taking place within the fund. The Property Expense Ratio is the ratio of property expenses to the fund's net asset value.

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 in prices for a basket of goods and services in the UK, including mortgage payments and council tax.

Risk: The chance that an investment's return will be different to what is expected. Risk includes the possibility of losing some or all of the original investment.

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-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.

Glossary

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

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: Each M&G fund has different share classes, such as A, R and I. Each has a different level of charges and minimum investment. Details on charges and minimum investments can be found in the Key Investor Information Documents.

Share class hedging: Activities undertaken in respect of hedged shares to mitigate the impact on performance of exchange rate movements between the fund's currency exposure and the investor's chosen currency.

Short position: A way for a fund manager to express his or her view that the market might fall in value.

Short selling: This often refers to the practice whereby an investor sells an asset they do not own. The investor borrows the asset from someone who does own it and pays a fee. The investor must eventually return the borrowed asset by buying it in the open market. If the asset has fallen in price, the investor buys it for less than they sold it for, thus making a profit. The contrary may also occur.

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.

Sub-investment grade bonds: Fixed income securities issued by a company with a low rating from a recognised credit rating agency. They are considered to be at higher risk from default than those issued by companies with higher 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.

Top-down investing: An investment approach that analyses economic factors, i.e. surveys the 'big picture', before selecting which companies to invest in. The top-down investor will look at which industries are likely to generate the best returns in certain economic conditions and limit the search to that area.

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.

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.

Unconstrained: The term used to describe the mandate of a fund whereby the manager has the freedom to invest according to his or her own strategy, not being obliged to allocate capital according to the weightings of any index, for example.

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

Underlying yield: Refers to the income received by a managed fund, and is usually expressed annually as a percentage based on the fund's current 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.

Warrant: A security issued by a company that gives the holder the right to buy shares in that company at a specified price and within a certain timeframe.

Yield: This refers to either the interest received from a fixed income security or to the dividends received from a share. It is usually expressed as a percentage based on the investment's costs, its current market value or its face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

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 the company and are paid out to a 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.

Yield (income): Refers to the income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

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