M&G Corporate Bond Fund
a sub-fund of M&G Investment Funds (3)
Annual Short Report June 2020
For the year ended 30 June 2020
M&G Corporate Bond Fund

The Authorised Corporate Director (ACD) of M&G Investment Funds (3) presents its Annual Short Report for M&G Corporate Bond Fund which contains a review of the fund's investment activities and investment performance during the period. The ACD’s Annual Long Report and audited Financial Statements for M&G Investment Funds (3), incorporating all the sub-funds and a Glossary of terms is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations on 0800 390 390.

An annual assessment report is available which shows value provided to investors in each of M&G's UK-based funds. The assessment report evaluates whether M&G's charges are justified in the context of the overall service delivered to its investors. The report can be found at https://www.mandg.co.uk/valueassessment.

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 Investing and Saving Alliance (formerly Tax Incentivised Savings Association))

Important information
As per the shareholder letter issued 17 June 2019, we have made changes to the way we charge for M&G funds based in the UK, starting on 1 August 2019. The annual charge should be simpler to understand and be easier to compare to other fund charges. We have combined all the charges that make up the current ongoing charge figure (OCF) into a single annual charge. Only exceptional items such as unforeseen legal and tax expenses, also known as extraordinary expenses, will be excluded from the annual charge. To find out the new annual charge and the OCF on the KIID for the share class(es) you are invested in, visit our website www.mandg.co.uk.

On 5 August 2019, M&G Corporate Bond Fund launched Sterling Class 'PP' (Income) shares.

On 23 March 2020 the investment objective and policy were changed for M&G Corporate Bond Fund.

The World Health Organisation declared the COVID-19 outbreak a pandemic on 11 March 2020. Global financial markets have been reacting to the outbreak. All markets have incurred increased volatility and uncertainty since the onset of the pandemic.

The ACD has also noted the operational risks that are posed to the Company and its service providers due to global and local movement restrictions that have been enacted by various governments.

The COVID-19 pandemic is an unprecedented event and the eventual impact on the global economy and markets will largely depend on the scale and duration of the outbreak. The ACD will continue to monitor this situation.

Investment objective up to 22 March 2020
The fund aims to provide income and capital growth.

Investment objective from 23 March 2020
The fund aims to provide a higher total return (the combination of capital growth and income), net of the ongoing charge figure, than the average return of the IA £ Corporate Bond Sector over any five-year period.

Investment policy up to 22 March 2020
At least 70% of the fund is invested in sterling-denominated corporate debt instruments. The fund's exposure to corporate debt may be gained through the use of derivatives. Derivatives may also be used for efficient portfolio management. Any currency exposures within the fund may be managed by currency hedges into sterling. The fund may also invest in collective investment schemes, other transferable securities and other debt instruments (including corporate debt and government and public securities denominated in any currency), cash, near cash, other money market securities, warrants and other derivative instruments.
M&G Corporate Bond Fund

Fund information

Investment policy from 23 March 2020

At least 70% of the fund is invested, directly or indirectly through derivatives, in investment grade corporate debt securities. These securities can be issued by companies from anywhere in the world, including Emerging Markets. These securities are denominated in Sterling or hedged back to Sterling.

Other investments may include:

- debt securities issued or guaranteed by governments and their agencies, public authorities, quasi-sovereigns and supranational bodies and denominated in any currency;
- below investment grade and unrated debt securities;
- Asset-Backed Securities; and
- other transferable securities, cash, and near cash, directly or via collective investment schemes (including funds managed by M&G).

Derivatives may be used for investment purposes, efficient portfolio management and hedging.

Investment approach up to 22 March 2020

The fund’s strategy is based on the principle that corporate bond market returns are driven by a combination of macroeconomic, asset, sector and stock-level factors. As different factors dominate returns at different stages of the economic cycle, the manager applies a dynamic investment approach, changing the blend of duration and credit exposure in the portfolio to weight them appropriately.

The fund manager has the investment freedom to take a high-conviction approach when selecting credits for the portfolio. Diversification – across individual issuers as well as industries – is an essential element of the fund’s strategy to limit the potential for losses in the event of default.

The fund’s investment style combines top-down and bottom-up analysis, and the fund manager is assisted in the selection of individual credits by a large team of independent sovereign and public credit analysts.

Investment approach from 23 March 2020

The fund is diversified across a range of investment grade debt securities from a variety of sectors and geographies. The fund’s investment approach is based on the principle that returns from corporate bond markets are driven by a combination of macroeconomic, asset class, sector, geographic and stock-level factors. As different factors dominate returns at different stages of the economic cycle, the fund manager applies a flexible investment approach, changing the blend of duration and credit exposure in the portfolio to weight them appropriately.

Individual credit selection is carried out with the assistance of an in-house team of credit analysts to complement the fund manager’s views.

Benchmark up to 22 March 2020

Benchmark: IA Sterling Corporate Bond sector.

The fund is actively managed. The benchmark is a comparator against which the fund’s performance can be measured. The sector has been chosen as the fund’s comparator benchmark as the fund is a constituent of the sector. The comparator benchmark does not constrain the fund’s portfolio construction.

For unhedged Share Classes, the benchmark is shown in the Share Class currency.

Benchmark from 23 March 2020

Benchmark: IA £ Corporate Bond Sector

The benchmark is a target which the fund seeks to outperform. The sector has been chosen as the fund’s benchmark as the fund is a constituent of the sector. The benchmark is used solely to measure the fund’s performance and does not constrain the fund’s portfolio construction.

The fund is actively managed.

The fund manager has complete freedom in choosing which investments to buy, hold and sell in the fund.

For unhedged Share Classes, the benchmark is shown in the Share Class currency.
Risk profile

The fund invests mainly in sterling-denominated fixed income securities, or bonds, issued by UK companies. It is primarily subject to the price volatility of the UK bond market as well as the performance of individual issuers. It is also influenced by developments in the broader global bond market. In addition, the fund is subject to fluctuations in currency exchange rates.

The fund’s focus is on high-quality corporate bonds, securities that are normally traded with relative ease. Up to 20% of the fund may be invested in other fixed income investments, such as government bonds, which are typically highly liquid assets, or high yield corporate bonds, which are higher risk assets that could potentially experience a degree of illiquidity in times of market distress.

The fund’s exposure to debt securities may be gained through the use of derivatives. In association with the use of derivatives, including those instruments not traded through an exchange, collateral is deposited, in order to mitigate the risk that a counterparty may default on its obligations or become insolvent.

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.

The following table shows the risk number associated with the fund and is based on Sterling Class ‘A’ shares.

<table>
<thead>
<tr>
<th>Low risk</th>
<th>High risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typically lower rewards</td>
<td>Typically higher rewards</td>
</tr>
<tr>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

The above number:
- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has not changed during this period.
M&G Corporate Bond Fund
Investment review

As at 1 July 2020, for the year ended 30 June 2020

Performance against objective
Between 1 July 2019 (the start of the review period) and 1 July 2020, the M&G Corporate Bond Fund delivered a positive total return (the combination of income and growth of capital) across both its sterling and euro share classes. Fund performance was slightly behind the average return from the fund’s benchmark, the IA £ Corporate Bond Sector, which was 5.4% and 4.3% in sterling and euro terms, respectively over the same period.

The fund’s objective changed on 23 March 2020 to include reference to the IA £ Corporate Bond Sector. Over the review period and over five years, the fund did not meet its new objective, which is to provide a combination of capital growth and income, net of the ongoing charge figure, higher than the average return of the IA £ Corporate Bond Sector over any five-year period.* For the five-year period, all of the fund’s share classes recorded positive total returns, although they were either in line with or slightly behind the average return of the fund’s benchmark, which was 4.8% and 0.1% p.a. in sterling and euro terms, respectively.

* For the performance of each share class, please refer to the ‘Long-term performance by share class’ table in the ‘Financial highlights’ section of the Annual Long Report and audited Financial Statements for M&G Investment Funds (3).

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

Long-term performance

<table>
<thead>
<tr>
<th></th>
<th>One year</th>
<th>Three years</th>
<th>Five years</th>
<th>Since launch</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>01.07.19</td>
<td>03.07.17</td>
<td>01.07.15</td>
<td></td>
</tr>
<tr>
<td>Sterling</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class ‘A’</td>
<td>+4.2</td>
<td>+3.3</td>
<td>+4.4</td>
<td>+6.0[c]</td>
</tr>
</tbody>
</table>

[a] Absolute basis.
[b] Price to price with income reinvested.
[c] 15th April 1994. All performance data prior to 11 March 2002 (the launch date of the share class) has been calculated by reference to a conversion factor due to a change of the nominated share class.

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

Investment performance
The start of the period under review saw a series of interest rate decisions from central banks in response to mounting uncertainties about the path of global economic growth. Both the Federal Reserve (Fed) and the European Central Bank (ECB) cut interest rates, while the Bank of England held rates (at 0.75%) although it did include ‘lower for longer’ language, due to the rising risk of a ‘no deal’ Brexit. Volatility continued too, driven by the prospect of the latter and, more significantly, concerns about the US economy. The US manufacturing sector showed signs of increasing weakness despite continued accommodative policy from the Fed. Oil prices spiked on rising tensions in the Middle East, which added to investor unease at the beginning of the period.

The final few months of 2019 were generally positive for investors more inclined to take positions in developing market equities (which are shares of ownership in a company, which have the potential to participate in profits but also the risk of losing the entire investment in case of bankruptcy) and bonds, and also in lower-rated bonds issued by US companies. (A bond is a loan in the form of a security, usually issued by a government or company. It normally pays a fixed rate of interest, also known as a coupon, over a given time period at the end of which the initial amount borrowed is repaid.) During the last quarter of 2019, investor appetite received a boost from strong signs of a resolution to US-China trade wars, Brexit on the cusp of clearing the final hurdle following a resounding victory for the pro-Brexit Conservative Party in December’s UK general election, and the Fed easing interest rates while announcing it would resume securities purchases to grow its balance sheet. The ECB resuming its own purchases of bonds from the markets (in November) was an additional source of support for European corporate bonds.

Throughout the final quarter of last year, as risk-taking appetite returned, government bond yields trended higher, while corporate bond prices, especially those of US companies’ bonds, rose. The yield 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...
M&G Corporate Bond Fund

Investment review

Investment performance

value or its face value. Bond yields move inversely to bond prices. It was a more mixed period for European corporate bonds, although emerging market bonds fared better, particularly in a strong October and December.

December was partly dominated by the UK general election, and most opinion polls indicated a comfortable win for the ruling Conservative Party and its pro-Brexit stance.

A promising start to 2020, with risky assets tracking strong growth and jobs data, had fallen away by the middle of January as investors retreated on the news of the coronavirus outbreak in China. By the end of January, traditional ‘risk-off’ favourites like government bonds, gold and the US dollar – the dollar index being one of the few assets in the currency space to deliver positive returns in the month – were seeing heavy inflows.

Expectations of a reduction in international travel and activity as a result of the virus outbreak resulted in oil prices suffering after they surged at the end of 2019 following increased tensions in the Middle East.

February began on a mildly positive note, as credit spreads – the difference between corporate bond yields and government bond yields – tightened. As the risk premium – the additional return investors require to hold assets considered to be riskier than traditionally safe ones like government bonds - attached to holding corporate bonds over government bonds was reduced, the market for bond issuance remained fairly active. But as the number of coronavirus cases increased across Europe, ‘risk-off’ sentiment returned to markets with a vengeance. With a significant widening in credit spreads, the last week of February was the worst for many markets since the global financial crisis.

Certain safe-haven assets rallied, such as the Japanese yen, US Treasuries, UK gilts and German bunds. Italian government bonds lost money, with Italy at the centre of the European outbreak.

March and April saw further confirmation that the coronavirus pandemic would lead to a severe stalling in economic activity worldwide, as governments imposed lockdowns to try to slow down the outbreak. Central banks cut interest rates and purchased debt issued by companies in order to support the market. Many governments resorted to paying the wages of employees no longer able to work because of the lockdown, and to extending loans to businesses to bridge cashflow.

There was a sharp recovery in risky assets in the months that followed and to the end of the period under review. Investors generally took their cue from the fiscal and monetary stimulus of governments and central banks in trying to kickstart economic activity, and the full range of assets rose as a result.

The biggest contribution to the fund’s performance came from its holdings in corporate bonds issued by telecom and technology companies like Vodafone, AT&T, and Microsoft. Companies operating in sectors that can typically weather uncertain economic conditions, such as beermaker Anheuser-Busch and tobacco group, BAT (British American Tobacco), were also supportive of performance in the period. We also found holding bonds issued by UK insurers and UK banks was helpful during the latter stages of 2019, although less of a positive as the domestic economy began to weaken following the lockdown at the end of March 2020.

One of the key drivers of a bond fund’s performance is its ability to adjust the portfolio’s sensitivity to changes in interest rates, known as ‘duration’. Being shorter duration means that a fund is relatively less sensitive to changes in interest rates than longer duration funds. The fund has a shorter duration position compared to the benchmark, and so suffered losses as the price of major government bonds rose (and yields fell) from around February onwards.

During the course of the reporting period, we moved the fund’s duration slightly between 6.5 years and 6.7 years, keeping it roughly the same amount short (around 1.5 years short) of the iBoxx £ Corporate Index, a corporate bond index comprising liquid bonds developed by financial information provider Markit.

Investment activities

During the period under review, we focused on reducing some exposure to mainstream European financials, while broadly maintaining credit risk (corporate bonds are seen as having credit risk while government bonds are generally considered risk-free) by rotating into new issues in long-dated telecom bonds from Vodafone, and defensive favourites like BAT and Nationwide. We took profits on some of the better performing US dollar bonds from telecom companies and banks.

While we have rotated into some financials in the period, on valuations, we continued to believe the sector more generally is overvalued and we have sold bonds from HSBC, JP Morgan, and Société Générale.
M&G Corporate Bond Fund
Investment review

Investment activities

In January and February, in what began as a strong period for new issues but fell away, portfolio activity focused on selling US dollar and sterling-denominated financials following good performance. We took profits on some strong-performing financial names, including HSBC, Wells Fargo, and Goldman Sachs.

In addition, we took profits on John Lewis and General Motors debt, and rotated into some residential mortgage-backed bonds (RMBS) on the recommendation of our credit experts here at M&G. We also trimmed Orange and Vodafone, using the money to buy Apple Inc’s long-dated (2046) US dollar-denominated bonds.

We were increasingly active in trades during the final few months of the period under review, taking advantage of some attractive prices for bonds issued in the aftermath of March’s sharp correction, then consolidating through relative value trades and the secondary market. Companies added include defensive favourites Philip Morris, Exxon, Tesco, Thames Water and Experian. In April, for the first time in a long time, we bought a few utility companies’ bonds with maturity dates of around 5-7 years. Valuations within this sector were fairly compelling given the lockdown – and sudden halt in economic activity – that we all endured.

By the end of the period, we had removed some risk outright by selling some of the shorter dated sterling bonds that had performed well in April/May, like Severn Trent Water, Aviva, Land Security, Oxford University and Wellcome Trust. Strongly performing US dollar credits including IBM were also sold. We used the proceeds to shore up longer dated sterling exposures in firms like SSE Power and Bupa. The healthcare names add to the defensive part of our portfolio, given the uncertain situation we currently face.

Outlook

We continue to back the valuation signal offered by the debt issued by companies with straightforward business models and fairly steady cashflows – a relatively uncomplicated portfolio of plain vanilla bonds issued by companies at the higher end of the BBB rated universe. With the tilt to reflationary sectors – those we consider likely to benefit the most from potential economic expansion following governments’ stimulus efforts – we hope the fund will be in a good position to benefit once we come out of the crisis, even if the UK ends up in a deeper recession than forecast.

We will also continue to use our strong in-house expertise in corporate bonds and consider names on a case-by-case basis, based on the long-held assumption that inefficient markets create attractive valuations over time and in all types of economic cycles.

Richard Woolnough & Ben Lord
Co-fund managers

Employees of M&G FA Limited (formerly 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.
Classification of investments

The table below shows the percentage holding per sector.

<table>
<thead>
<tr>
<th>Sector</th>
<th>% of fund as at 30 June 2020</th>
<th>% of fund as at 30 June 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FIXED INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>'AAA' credit rated bonds</td>
<td>6.77</td>
<td>7.13</td>
</tr>
<tr>
<td>'AA' credit rated bonds</td>
<td>10.34</td>
<td>5.65</td>
</tr>
<tr>
<td>'A' credit rated bonds</td>
<td>18.78</td>
<td>21.79</td>
</tr>
<tr>
<td>'BBB' credit rated bonds</td>
<td>49.88</td>
<td>49.72</td>
</tr>
<tr>
<td>'BB' credit rated bonds</td>
<td>3.20</td>
<td>3.68</td>
</tr>
<tr>
<td>Bonds with no credit rating</td>
<td>6.14</td>
<td>6.75</td>
</tr>
<tr>
<td><strong>Debt derivatives</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit default swaps</td>
<td>0.01</td>
<td>0.00</td>
</tr>
<tr>
<td>Interest rate futures</td>
<td>(0.10)</td>
<td>(0.30)</td>
</tr>
<tr>
<td><strong>CURRENCY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forward currency contracts</td>
<td>(0.19)</td>
<td>(0.32)</td>
</tr>
<tr>
<td><strong>CASH EQUIVALENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>'AAA' rated money market funds</td>
<td>3.22</td>
<td>4.56</td>
</tr>
</tbody>
</table>

[a] Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.
M&G Corporate Bond Fund

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 reflect the key financial information of a representative share class, Sterling Class ‘A’ (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. For more information on the different share classes in this fund please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value

<table>
<thead>
<tr>
<th>as at 30 June</th>
<th>2020 £'000</th>
<th>2019 £'000</th>
<th>2018 £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund net asset value (NAV)</td>
<td>3,129,444</td>
<td>3,505,536</td>
<td>3,696,143</td>
</tr>
</tbody>
</table>

To give an indication of how the fund has performed during the period the table on the following page shows the performance of Sterling Class ‘A’ (Accumulation) shares.

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.
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.

Class ‘A’ Accumulation share performance

The share class was launched on 15 April 1994.

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening NAV</td>
<td>73.04</td>
<td>69.17</td>
<td>69.24</td>
</tr>
<tr>
<td>Change in NAV per share</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return before operating charges and after direct portfolio transaction costs</td>
<td>4.18</td>
<td>4.68</td>
<td>0.74</td>
</tr>
<tr>
<td>Operating charges</td>
<td>(0.83)</td>
<td>(0.81)</td>
<td>(0.81)</td>
</tr>
<tr>
<td>Return after operating charges</td>
<td>3.35</td>
<td>3.87</td>
<td>(0.07)</td>
</tr>
<tr>
<td>Distributions</td>
<td>(1.64)</td>
<td>(1.76)</td>
<td>(1.72)</td>
</tr>
<tr>
<td>Retained distributions</td>
<td>1.64</td>
<td>1.76</td>
<td>1.72</td>
</tr>
<tr>
<td>Closing NAV</td>
<td>76.39</td>
<td>73.04</td>
<td>69.17</td>
</tr>
</tbody>
</table>

Direct portfolio transaction costs

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs before dilution adjustments</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Dilution adjustments</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total direct portfolio transaction costs</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Performance and charges

<table>
<thead>
<tr>
<th></th>
<th>%</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct portfolio transaction costs</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Operating charges</td>
<td>1.10</td>
<td>1.16</td>
<td>1.16</td>
</tr>
<tr>
<td>Return after operating charges</td>
<td>4.59</td>
<td>5.59</td>
<td>-0.10</td>
</tr>
<tr>
<td>Distribution yield</td>
<td>2.05</td>
<td>2.39</td>
<td>2.44</td>
</tr>
<tr>
<td>Effect on yield of charges offset against capital</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Other information

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing NAV (£’000)</td>
<td>273,644</td>
<td>309,130</td>
<td>367,913</td>
</tr>
<tr>
<td>Closing NAV percentage of total fund NAV (%)</td>
<td>8.74</td>
<td>8.82</td>
<td>9.95</td>
</tr>
<tr>
<td>Number of shares</td>
<td>358,218,656</td>
<td>423,211,540</td>
<td>531,917,115</td>
</tr>
<tr>
<td>Highest share price UK p</td>
<td>77.15</td>
<td>73.11</td>
<td>70.75</td>
</tr>
<tr>
<td>Lowest share price UK p</td>
<td>67.11</td>
<td>68.16</td>
<td>68.85</td>
</tr>
</tbody>
</table>

[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.

Operating charges

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

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge. For every £1 billion of a fund’s net asset value, a discount of 0.02% will be applied to that fund’s annual charge (up to a maximum of 0.12%).

- **Extraordinary legal and tax expenses:** Costs that specifically relate to legal or tax claims that are both exceptional and unforeseeable. Such expenses are uncommon, and would not be expected in most years. Although they result in a short-term cost to the fund, generally they can deliver longer term benefits for investors.

- **Investment management:** Charge paid to M&G for investment management of the fund. From 1 August 2019 this charge forms part of the annual charge.

- **Administration:** Charge paid for administration services in addition to investment management – any surplus from this charge will be retained by M&G. From 1 August 2019 this charge is rolled into the annual charge.

- **Share class hedging:** Charge paid to M&G for currency hedging services to minimise exchange rate risk for the share class. From 1 August 2019 this charge is rolled into the annual charge.

- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit. From 1 August 2019 these charges will be paid by M&G and rolled into the annual charge.
Operating charges

- **Ongoing charges from underlying funds**: Ongoing charges on holdings in underlying funds that are not rebated. From 1 August 2019 charges from underlying funds (excluding Investment Trust Companies and Real Estate Investment Trusts) will be rebated.

These 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.

Once the annual charge has been operational for twelve months, operating charges will be in line with the ongoing charges shown in the Key Investor Information Document, other than where there have been extraordinary legal or tax expenses, or 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.

Portfolio transaction costs

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

- **Direct portfolio transaction costs**: Broker execution commission and taxes.

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

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

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a ‘dilution adjustment’ to the price they pay or receive.

The table below shows direct portfolio transaction costs paid by the fund before and after that part of the dilution adjustment relating to direct portfolio transaction costs. To give an indication of the indirect portfolio dealing costs the table shows the average portfolio dealing spread.

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

<table>
<thead>
<tr>
<th>Portfolio transaction costs</th>
<th>2020 %</th>
<th>2019 %</th>
<th>2018 %</th>
<th>Average [a] %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect portfolio transaction costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average portfolio dealing spread</td>
<td>1.06</td>
<td>0.80</td>
<td>0.72</td>
<td>0.86</td>
</tr>
</tbody>
</table>

[a] Average of first three columns.
Contact

Customer Relations*
0800 390 390

Write to us at:**
M&G Securities Limited
PO Box 9039
Chelmsford
CM99 2XG

Our website:
www.mandg.co.uk

Email us with queries:†
info@mandg.co.uk

* For security purposes and to improve the quality of our service, we may record and monitor telephone calls. Please have your M&G client reference to hand.

** Please remember to quote your name and M&G client reference and sign any written communication to M&G.

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