M&G Feeder of Property Portfolio

Annual Short Report September 2019
For the year ended 30 September 2019

Fund information

The Manager of M&G Feeder of Property Portfolio presents its Annual Short Report which contains a review of the trust's investment activities and investment performance during the period. The Manager's Annual Long Report and audited Financial Statements for M&G Feeder of Property Portfolio, incorporating 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.

Manager

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

Important information

As mentioned in the shareholder letter on 17 June 2019, we have made changes to the way we charge for M&G funds based in the UK, starting on Thursday 1 August 2019. The annual charge should be simpler to understand and easier to compare with 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 which are shown in the Key Investor Information Document (KIID) for the share class(es) you are invested in, visit our website www.mandg.co.uk.

Investment objective

The trust aims to maximise long term total return (the combination of income and growth of capital) solely through investment in the M&G Property Portfolio.

Investment policy

The trust will invest solely in the M&G Property Portfolio.

Investment approach

The M&G Feeder of Property Portfolio is directly invested in the M&G Property Portfolio. The underlying 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 underlying fund and when acquiring new assets for the portfolio. In researching properties and therefore the associated risk, the manager of the underlying fund considers location, property type, rent review and lease expiry pattern, tenant, industry sector, tenure, lease covenants and physical and environmental factors.

Benchmark

Benchmark: IA UK Direct Property sector.

The M&G Property Portfolio, in which the trust solely invests, is actively managed. The benchmark is a comparator against which the trust's performance can be measured. The sector has been chosen as the trust's comparator benchmark as it is the M&G Property Portfolio's comparator benchmark. Both the M&G Property Portfolio and the trust are constituents of the sector. The comparator benchmark does not constrain the portfolio construction of the M&G Property Portfolio or the trust.

Risk profile

As the trust invests solely in the M&G Property Portfolio, its risk profile therefore reflects that of the M&G Property Portfolio, the underlying fund. The underlying 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.

In difficult market conditions, or if significant numbers of investors withdraw their investments from the underlying fund at the same time, the manager may be forced to dispose of property investments in the underlying fund, 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 underlying 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 underlying fund will be held in cash if the supply of new investment opportunities is limited which, if the situation persists, may restrict its performance.

In addition, there is a risk that an occupational tenant on a property held in the underlying 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 underlying fund.

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

In addition to the risk outlined above, the price of shares in the underlying fund may be subject to significant 'swings' in value. As the price of units in the trust is largely based on the price of shares in the underlying fund, a swing in the price of shares in the underlying fund will therefore result in a similar swing in the price of units of the trust.

The underlying fund is valued daily on both an 'offer' basis (how much its assets would cost to buy) and a 'bid' basis (how much the underlying 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 shares in the underlying fund (the fund is in 'net inflow') or selling shares (the underlying fund is in 'net outflow'). Should 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 flows move from net outflow to net inflow.

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

As at 1 October 2019, for the year ended 30 September 2019

Performance against objective

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

Over five years and since launch, the trust's unit classes delivered positive returns. The trust aims to maximise long-term total return solely through investment in the M&G Property Portfolio, the underlying fund. Over the review period, the underlying fund has achieved its objective of maximising long-term total return by investing mainly in UK commercial property.

* For the performance of each unit class, please refer to the 'Long-term performance by unit class' table in the 'Trust performance' section of the Annual Long Report and audited Financial Statements for M&G Feeder of Property Portfolio.

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

Long-term performance

	One year 01.10.18 % [a]	Three years 03.10.16 % p.a.	Five years 01.10.14 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	-3.1	+2.7	+1.9	+3.7 [c]

[a] Absolute basis.

[b] Bid to bid with income reinvested.

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

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 trust price to fall as well as rise and you may not get back the original amount you invested.

Market background

Over the 12-month review period, the UK commercial property market recorded a low single-digit positive total return, according to property consultant CBRE. This positive return was entirely due to rental income, as capital values and rental values fell. This outcome was driven solely by falling capital and rental values in Retail, as Industrials and Offices saw increases in both.

The challenges that have beset retailers in recent years have affected the profitability and capacity to remain as going concerns and meet, among other obligations, rental commitments for some of them. The challenges have become increasingly public this year, with some high-profile company voluntary arrangements announced, as various well-known retailers have looked to restructure their liabilities.

Consequently, capital values in the sector declined throughout the 12 months and ended the review period more than 12% lower. Rental values also declined – by nearly 5% – and the total return for the sector fell by more than 7%. Secondary assets have performed particularly poorly, especially those in unattractive locations on the High Street and Shopping Centres.

The strongest performance in the 12 months came from Industrials. The sector recorded a total return of almost 10%, with capital values increasing by nearly 5% and rental values growing by just under 4%.

Offices also performed robustly, albeit slightly lagging Industrials and generated a total return of over 7%; capital values grew by 2.6% and rental values increased by just over 2%.

The volume of property transactions in the first half of 2019 was £19.9 billion, according to analytical firm Property Data. This is 33% below the five-year first half average from 2014 to 2018.

Transactions have slowed, in our opinion, as investors are increasingly adopting a 'wait-and-see' approach 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 trust produced a negative total return for the reporting period, which was due mainly to falls in the value of some of the underlying fund's Retail properties and assets with vacancy risk. Assets with vacancy risk have seen an increase in the risk premium associated with them, which has led to a fall in their value. However, the fall in value of Retail assets and assets with vacancy risk was partly offset by the stronger performance of the Office and Industrial sectors during the 12-month period.

The underlying fund is valued monthly by independent valuer Knight Frank. By reflecting current market values, the trust reflects the fair value of the underlying assets. Since the trust is daily dealt, this ensures that those investors redeeming their units do not do so at an elevated price, thus disadvantaging investors who remain in the trust.

Where there is clear evidence of softer pricing, we have highlighted this to Knight Frank – who collect data from across the UK – and who apply comparable market evidence to the underlying fund's valuations. Similarly, we have been adjusting the estimated rental values on some Retail assets, to reflect achievable rents today.

The combination of transactional evidence and weakening investor sentiment (which has resulted in higher yields for Retail properties) together with downward revisions to market rents has adversely affected asset prices. Given the ongoing repricing of retail and vacancy risk, we expect the wider market to reflect the lower valuations for these assets in time.

Portfolio structure

The underlying 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 underlying portfolio while, importantly, managing the underlying fund's assets actively to optimise performance.

We maintained the underlying 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 September 2019, the split between prime and good secondary was approximately 70/30.

Furthermore, according to an independent report by IPD (a company that provides analysis of the UK real estate market), the underlying fund is above-average relative to its peer group, in terms of quality of income (as at 30 June 2019, the latest date for which data is available).

The underlying 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 underlying fund's weighting in Offices is slightly above that of the broader market (as measured by the MSCI IPD Quarterly Universe) as the significant underweight position in Central London is offset by overweight positions in South East Offices and Rest of UK Offices, where we forecast healthier returns.

In Retail, not all assets are facing the same challenges. Prime is outperforming secondary assets, dominant regional retail parks continue to draw customers out of town centres, and supermarkets are more defensive.

We therefore retain our material underweight position in the High Street 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.

In the Industrial sector, the underlying fund is underweight London and the South East and overweight the Rest of the UK. The underlying 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 medium term, we forecast the total return for the sector will exceed the market.

Outside the three core property sectors, capital invested in 'Other' (where the underlying fund is underweight) covers a wide range of assets including hotels, leisure and the growing direct 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 underlying fund's exposure to student accommodation is accretive to the yield of the portfolio.

The vacancy rate (excluding developments) of the underlying fund was 6.5% at the end of September, below that of the MSCI IPD Quarterly Universe, which was 7.3% at the end of June 2019, the latest date for which data is available. Importantly, the underlying fund's Retail vacancy rate was also below that of the Retail component of the MSCI IPD Quarterly Universe, which is indicative of the attractiveness of the underlying fund's assets.

Three offices – Bedfont Lakes, Heathrow; R+, Reading; and Quantum Business Park, Maidenhead – and The Gracechurch Centre, Sutton Coldfield account for just under half of the underlying fund's voids. The offices are best-in-class, prime assets, located in dense occupier markets and continue to generate interest from prospective occupiers who, on becoming tenants, should underpin the assets' value and income generated by the underlying fund.

At the end of September, the underlying fund's cash position was 7.5%, at the lower end of the underlying fund's target cash range of 7.5% - 12.5%. The underlying fund has a target range for cash to help manage client flows. Holding elevated cash levels for liquidity purposes must be balanced against the underlying fund's policy of investing mainly in UK commercial property.

Investment activities

Investment activity during the 12-month period was guided by portfolio positioning and with the aim of ensuring that going forward the underlying fund is aligned with those sectors forecast to outperform.

Over the period, the underlying fund remained in outflow and most of the transactions were disposals. Assets are identified for sale based on our long-term strategic asset allocation objectives combined with an individual investment case for each property and its future return potential. Given the current environment, we are focused on selling areas of the market that we feel are likely to contribute negatively to performance, due to either their sector dynamics or the property-specific risk – shortening lease lengths and vacancy, for example.

We also bought one asset and invested in two UK-listed real estate investment trusts (REITs). The most notable transactions are highlighted below.

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.

We disposed of two Tesco supermarkets: one at Blandford in the South West of England for £24.8 million and another at Loudwater, High Wycombe for £44.8 million.

We also sold Rams Walk Shopping Centre, an attractive pedestrianised arcade offering 20 quality shops and good facilities in the heart of Petersfield, Hampshire for £29.4 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.

Plot 3320, Magna Park an Industrial unit in Lutterworth, was also sold for £18.3 million. 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.

Two other industrial units were sold: one at Thrapston, Kettering for £17.4 million and the other at Didcot for £32.75 million.

We sold four offices over the 12-month period. The largest, was Alder Castle, at 10 Noble Street in the City of London. Alder Castle was sold at an attractive valuation for £103.1 million. As the property had some voids, selling it reduced the vacancy rate on the underlying fund.

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 for £22.5 million, at a premium to the standing independent valuation.

Away from London, we sold 120, Edmund Street, in Birmingham for £48.75 million and 2 City Park, in Brighton for £21.8 million.

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 12 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 Warehouse REIT. In 2018, the underlying fund was operationally readied to invest selectively in sector-specific REITs, as an additional tool to enhance the underlying 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 underlying 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).

At Ravenside Retail Park, a retail warehouse in Edmonton, London, we completed a back-to-back letting with Wren Kitchens for a term of 10 years. The new rent represents an increase on the previous passing rent and includes a 12-month rent-free period. The previous tenant was Next Home Store.

We completed a lease renewal with Edmundson Electrical Limited at Bolton Shopping Park. The five-year FRI lease is on a storage unit and is at the same level as before, but well above the Estimated Rental Value. (An FRI lease imposes full repairing and insuring obligations on the tenant, relieving the landlord from all liability for the cost of insurance and repairs.)

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 27 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 new lettings of a floor at Bedfont Lakes Office Park, Heathrow, and two floors at 5 The Square, Uxbridge, reducing the vacancy rate at both properties.

Industrial

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.

We completed 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. This asset has now been sold.

At Beam Reach, Rainham, we went unconditional on a new 20-year lease with tenant Restore, a document management company. 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 sq ft 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

At the time of writing there is still no clarity regarding the UK's future relationship with the EU. While there has been considerable investment by domestic and foreign investors in UK commercial property so far this year, the amount is below that for the comparable periods in 2017 and 2018.

Investors are increasingly adopting a 'wait-and-see' approach, which is evident in the reduced speed with which transactions are completed and the reluctance of investment committees to approve deals.

Immediately after the UK's EU Referendum vote in 2016, there was a marked drop in investor sentiment surrounding UK commercial property. The implications for the UK leaving the EU were unknown, but the expectation of a more strained relationship with our largest trading partner resulted in market expectations for UK commercial property returns being revised down sharply. This was perhaps unsurprising, as the global financial crisis (GFC) was still fresh in investors' minds.

However, conditions at the time of the GFC and Brexit were very different. In the run-up to the GFC, there was considerable exuberance combined with substantial financial leverage. Both factors had driven valuations upwards and speculative development with it. At one point, the equivalent yield on UK commercial property was lower than the yield on 10-year UK Treasuries, indicating a mispricing of risk. With the oversupply of properties, unsustainably high rents and high gearing, the fundamentals underpinning valuations were severely compromised.

Conversely, property fundamentals at the time of the 'Leave' vote in 2016 were supportive. While the vote brought with it a great deal of uncertainty, a reduction in the base rate coupled with a fall in the pound and a desire by investors for income saw capital return to UK commercial property quickly. Initial investor pessimism in the wake of the referendum turned out to be unfounded. It is possible a similar sequence of events could unfold even if a 'hard Brexit' occurs.

At present, the M&G Property Research team is forecasting low single-digit returns in the next five years. Income is expected to be the main driver of total returns, with capital values in Retail contributing negatively to performance. However, not all Retail is facing the same challenges. Prime is outperforming secondary assets, dominant regional retail parks continue to draw customers out of town centres, and supermarkets are more defensive. This highlights the importance of having a property portfolio that is diversified within sectors and across sectors, with the aim of delivering an attractive yield and total return over the long term.

Fiona Rowley & Justin Upton
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.

Portfolio statement

as at 30 September Holding		2019 £'000	2019 %	2018 %
	Collective investment schemes	**1,695,721**	**99.08**	**99.26**
1,517,495,561	M&G Property Portfolio Sterling Class 'F' (Income)	1,695,721	99.08	
Portfolio of investments		**1,695,721**	**99.08**	**99.26**
Net other assets / (liabilities)		**15,698**	**0.92**	**0.74**
Net assets attributable to unitholders		**1,711,419**	**100.00**	**100.00**

Financial highlights

Trust 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 unit class, Sterling Class 'A' (Accumulation) units. As different unit 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 unit classes in this fund please refer to the Prospectus for M&G Feeder of 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.

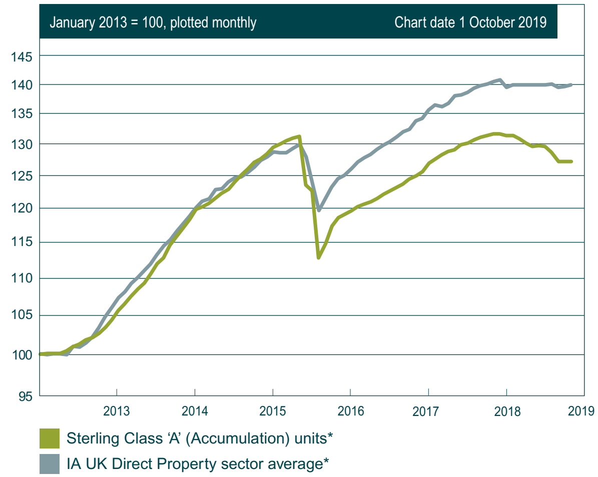
Trust level performance

Trust net asset value

as at 30 September	2019 £'000	2018 £'000	2017 £'000
Trust net asset value (NAV)	1,711,419	2,257,001	2,370,115

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) units.



* Income reinvested

Source: Morningstar, Inc. and M&G

To give an indication of how the trust has performed during the period the table below shows the performance of Sterling Class 'A' (Accumulation) units.

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 unit (NAV). 'Dilution adjustments' are only in respect of direct portfolio transaction costs.

Historic yields for the current year are calculated as at 11 October 2019.

Sterling Class 'A' Accumulation unit performance

The unit class was launched on 18 January 2013.

for the year to 30 September Change in NAV per unit	2019 UK p	2018 UK p	2017 UK p
Opening NAV	105.48	99.80	94.19
Return before operating charges and after direct portfolio transaction costs	(1.20)	7.86	7.85
Operating charges	(2.13)	(2.18)	(2.24)
Return after operating charges	(3.33)	5.68	5.61
Distributions	(2.35)	(2.15)	(1.83)
Retained distributions	2.35	2.15	1.83
Closing NAV	102.15	105.48	99.80
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	2.11	2.07	2.37
Return after operating charges	-3.16	+5.69	+5.96
Historic yield	2.28	1.83	1.78
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	157,193	201,996	219,137
Closing NAV percentage of total trust NAV (%)	9.19	8.95	9.25
Number of units	153,886,094	191,507,594	219,575,594
Highest unit price (UK p)	112.53	111.95	106.85
Lowest unit price (UK p)	109.13	105.74	101.51

[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.

Financial highlights

Operating charges and portfolio transaction costs

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

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 trust and the costs of third parties providing services to the trust. 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 trust's net asset value, a discount of 0.02% will be applied to that trust'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 trust, generally they can deliver longer term benefits for investors.

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

- **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 unit 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 trusts when buying and selling investments.

The trust does not incur direct portfolio transaction costs. The trust will incur indirect costs through its underlying investment in the M&G Property Portfolio as described below.

The dealing prices of the M&G Property Portfolio, in which the M&G Feeder of Property Portfolio is invested, may 'swing' to the extent of the 'spread' reflecting the costs of buying and selling properties, currently around 7.25%. Each day we value the assets of the M&G Property Portfolio on both an 'offer' basis (how much they would cost to buy) and a 'bid' basis (how much the underlying fund would receive if they were sold). The difference between the two, known as the 'spread', is currently around 7.25%. This reflects the costs of buying and selling properties, in particular Stamp Duty Land Tax paid on purchases which can account for up to 5% of the property value. The dealing prices we publish are on either the offer basis or bid basis, depending on whether people are generally buying underlying fund shares (the underlying fund is in 'net inflow') or selling shares (the underlying fund is in 'net outflow'). Should underlying 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, should flows move from net outflow to net inflow, the dealing prices may rise by the same extent. For large deals (regarded as deals in excess of £50,000) the dealing price may be different from the published price. Unit purchases may receive a price that is higher than the quoted offer price. Unit sales may receive a price that is lower than the quoted bid price.

Portfolio transaction costs

as at 30 September Indirect portfolio transaction costs	2019 %	2018 %	2017 %	Average [a] %
Average portfolio dealing spread	6.42	5.80	5.61	5.94

[a] Average of first three columns.

Contact

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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. You will require your M&G client reference. Failure to provide this will affect your ability to transact with us.

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

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