



## **M&G Pan European Select Smaller Companies Fund**

a sub-fund of M&G Investment Funds (1)

Interim Short Report February 2020

For the six months ended 29 February 2020

## Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (1) presents its Interim Short Report for M&G Pan European Select Smaller Companies Fund which contains a review of the fund's investment activities and investment performance during the period. The ACD's Interim Long Report and unaudited Financial Statements for M&G Investment Funds (1), 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](http://www.mandg.co.uk/reports) or by calling M&G Customer Relations on 0800 390 390.

### ACD

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

### Important information

Between 29 February 2020 and 9 April 2020 the net asset values (NAV) per share have fallen. The fall in NAV stems from a fall in the value of investments driven by fears of the negative impact on global growth from COVID-19. For further details on the share class movements please refer to the Interim Long Report and unaudited Financial Statements for M&G Investment Funds (1) from our website at <https://www.mandg.co.uk/investor/forms-and-literature>

### Investment objective

The fund aims to provide a higher total return (the combination of capital growth and income) than that of the EMIX Smaller European Companies Index, net of the ongoing charges figure, over any five-year period.

### Investment policy

The fund will invest at least 80% in the equities of European smaller companies, from the bottom third (by total market capitalisation) of all publicly listed equities in Europe including the UK.

The fund has a concentrated portfolio and usually holds fewer than 45 stocks.

The fund uses an investment process that is based on the fundamental analysis of competitively advantaged companies with sustainable business models.

Sustainability considerations play an important role in determining the investment universe and assessing business models. Companies that are assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment and anti-corruption are excluded from the investment universe. Companies involved in the production of tobacco and controversial weapons are also excluded.

The fund may also invest in collective investment schemes, including funds managed by M&G, other transferable securities and warrants.

Cash and near cash may be held for ancillary purposes and derivatives may be used for efficient portfolio management and hedging purposes.

### Investment approach

The fund makes long-term investments in smaller companies with sustainable business models and competitively advantageous characteristics to protect their profitability. Importantly, the fund manager invests in businesses where short-term issues have provided a clear valuation opportunity.

Sustainability considerations are fully integrated into the investment process.

The fund manager believes that this approach offers a powerful combination, providing the long-term compounded value of quality businesses, as well as the potential boost to a company's share price when a short-term issue has been resolved.

### Benchmark

Benchmark: EMIX Smaller European Companies Index.

The fund is actively managed. The benchmark is a target which the fund seeks to outperform. The index has been chosen as the fund's target benchmark as it best reflects the scope of the fund's investment policy. The target benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction.

### Risk profile

The fund invests in the shares of smaller Europe-listed companies and is, therefore, subject to the price volatility of the European stockmarket and the performance of individual companies. The fund may also be subject to fluctuations in currency exchange rates.

The fund's focus is on smaller companies where the share price movement can be more unpredictable and the shares more difficult to buy and sell compared to those of larger companies. Diversification across countries, industries and market capitalisation is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



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.

As at 2 March 2020, for the six months ended 29 February 2020

### Performance against objective

Between 2 September 2019 (the start of the review period) and 2 March 2020, the fund delivered a negative total return (the combination of income and growth of capital) across all of its share classes. All share classes lagged the fund's benchmark, the EMIX Smaller European Companies Index, which returned -1.1%, 3.0% and 4.5% in sterling, euros and US dollars respectively over the six months. However, the shortfall was exacerbated by market timing differences. The fund is priced at midday in London, and therefore did not capture the gains from a strong market rally on the last day of the review period.

Over five years, the fund has delivered positive total returns, however, it has not finished ahead of the benchmark for the period. The benchmark returned 8.9% p.a., 5.0% p.a. and 4.9% p.a in sterling, euros and US dollars, respectively over five years.\* Therefore, the fund's performance has not met its current objective over its specified timeframe of five years, but this is a reflection of the market timing difference mentioned above.

\* For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Fund performance' section of the Interim Long Report and unaudited Financial Statements for M&G Investment Funds (1).

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          |                        |                         |                        |                     |
|--------------------------------|------------------------|-------------------------|------------------------|---------------------|
|                                | Six months<br>02.09.19 | Three years<br>02.03.17 | Five years<br>02.03.15 | Since launch        |
|                                | % <sup>[a]</sup>       | % p.a.                  | % p.a.                 | % p.a.              |
| <b>Sterling <sup>[b]</sup></b> |                        |                         |                        |                     |
| Class 'A'                      | -5.9                   | -3.9                    | +5.0                   | +8.9 <sup>[c]</sup> |

<sup>[a]</sup> Absolute basis.

<sup>[b]</sup> Price to price with income reinvested.

<sup>[c]</sup> 30 September 1996, the end of the initial offer period of the predecessor unit 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 fund price to fall as well as rise and you may not get back the original amount you invested.

## Investment performance

Broad European stockmarkets delivered negative returns for the six months under review, with the end of the period witnessing levels of volatility, or market turbulence, not seen since the financial crisis in 2008. However, smaller European companies proved more resilient than the wider market, and while declining to a lesser degree in sterling terms for the period, they delivered a positive return in both euro and US dollar terms.

For much of the period, market sentiment had been dominated by a number of repeat themes, one of the most destabilising of which was the ongoing 'trade war' between the US and China. Concerns about on-again / off-again trade negotiations drove waves of both euphoria and risk aversion, depending on how those negotiations were perceived to be progressing. Other sources of disillusionment included an apparent slowdown in China and signs of weakness in the US economy, political difficulties in Europe, exacerbated by the looming presence of Brexit, geopolitical tensions in the Middle East and weakness in the oil price, amid potential declining demand in the face of reduced economic activity.

Despite these difficulties, markets maintained a generally upward trajectory, and as we entered the new year investors appeared upbeat. The Brexit situation had relatively stabilised, following a majority conservative government win in the UK's December general election, trade tensions between the US and China appeared to be cooling, and concerns over declining global economic activity were being ameliorated by central bank intervention in both Europe and China.

This positive sentiment, however, was to prove short-lived. The mood darkened as news of the new coronavirus – COVID-19 – outbreak spreading from China took a detrimental toll. As we moved through the end of the period under review, initial hopes that the virus might be contained faded as new outbreaks were reported beyond China, notably in Iran, Italy and South Korea. Fearful of the emergence of a global pandemic and its potential negative effects on the global economy, stocks sold off in dramatic fashion at the end of February, resulting in the largest weekly stockmarket fall since 2008. Oil prices also tumbled, amid fears that a global economic slowdown would reduce demand for crude.

Against this background, within the smaller companies space, utilities (a so-called 'defensive' sector, favoured by risk-averse investors) delivered the strongest returns for the period under review, while the technology, financial, telecoms and healthcare sectors all finished the

period in positive territory. Far and away the worst performing sector was oil & gas, in light of turbulence in the oil price, while basic materials and consumer companies also fared badly. For the fund, underperformance was driven by stock selection, particularly within the industrial, financial and utilities sectors, while the below-index position in the financial sector (which performed well) and above-index position in consumer services (which did not) also weighed on relative returns.

At an individual stock level, the fund's largest detractor was Irish agribusiness Origin Enterprises, whose shares fell sharply after the company issued a profit warning following a decline in sales volumes. While the group generates some 90% of its profit in the second half of the financial year, it was still a slower start than usual to trading in the seasonally quiet first quarter. This was the result of prolonged unseasonal weather conditions leading to a lower planted area for autumn and winter crops relative to a normal year, impacting the company's agronomy services, seed, and crop protection, principally in the UK and Romania.

Danish global services provider ISS dragged on returns as well. The company's shares fell sharply after it cut its earnings and cashflow guidance for the year, while warning that it might not reach its ambitious medium-term targets until 2022, a year later than previously forecast, with lower profits partly resulting from problems in France, Denmark and Hong Kong. ISS also suffered a major malware attack in February that disrupted its global operations.

Other detractors included Irish diversified business services and distribution firm DCC, whose shares fell despite reporting solid growth in profit for the first half of 2019, and Georgian investment and development company Georgia Capital. Georgia Capital saw its shares weaken amid soured sentiment in Georgia, on the back of a new wave of mass protests against the government in Georgia's capital Tbilisi over what are believed to be failed promises on electoral system reform.

On the upside, the fund's largest contributor was Swedish private healthcare provider Medicover. The company provides both private healthcare and diagnostic services, focusing primarily on Central and Eastern Europe and Germany. In November, and again in February, the company delivered strong results, showing, in particular, solid growth in Romania, Medicover's third-largest market after Poland and Germany – investors were enlivened and the company's shares rose accordingly.

Other supportive holdings included specialist UK food producer Cranswick, which has delivered ongoing operational success, and Danish allergy immunotherapy specialist ALK-Abelló. ALK's shares rallied on news that it had initiated a new Phase III trial in China for its house dust mite (HDM) allergy programme, with the study designed to secure approval for the therapy several years earlier than previously planned, and at a reduced cost. ALK said it could now launch the product in China as early as 2023, opening up a lucrative new market for its treatments.

## Investment activities

We run a concentrated portfolio of fewer than 50 holdings, maintaining a watchlist of around 200 quality 'moated' companies that we would like to own when the timing and price are right (moated companies are those where we feel the business model is well protected from competition). We monitor our watchlist closely, waiting patiently for short-term issues to create buying opportunities.

During the period under review, seven such opportunities presented themselves. These included Hiscox, a quality insurer that we had been watching for some time, patiently waiting for the right entry point. Last year the company issued a profit warning, after insurance underwriting ended up more costly than had been expected. We believe this to be a short-term issue for a high-quality business where long-term growth prospects remain solid.

As another example, we bought shares in Swedish life sciences business Biotage. This is a global life science company that develops innovative solutions for separation within organic and analytical chemistry, as well as for industrial applications. Its products are used by public authorities, academic institutions, contract research and contract manufacturing organisations, as well as the pharmaceutical and food industries. A new chief executive joined the company in December 2019, and we think there is a lot of opportunity to improve the operations of the business.

As a final example, we invested in game development company Keywords Studios. Keywords acts as an external development partner to major video game studios, working collaboratively with those studios to, among other things, develop individual aspects of games where additional expertise is needed. As all of the major studios are outsourcing more and more work as games become increasingly complex, we see this as a strong potential growth area.

Conversely, we closed six positions during the period under review where we had lost faith in the investment case for these businesses. These included Swedish independent education provider AcadeMedia, Dutch dredging company Boskalis and targeted web advertising specialist Criteo.

## Outlook

Events like the extreme market reaction to the COVID-19 outbreak are difficult to predict, and while, from an investment viewpoint, such events can be painful in the short term, they can also create opportunities for long-term investors. We believe that investing in quality companies when they are being undervalued can help to deliver long-term benefits for our customers, as markets return to more normal levels.

It is unlikely that the market will go up in a straight line from where we find ourselves at the end of the review period, but we see great long-term value at these levels. Companies with less robust business models have seen a very substantial setback, limiting the future downside risk, while stable growth companies have seen a smaller setback, but still look very cheap, in our opinion.

We continue to search for opportunities for the fund in quality, sustainable companies with protected business models, while remaining firm in the face of extreme short-term market volatility. That volatility is what allows us to buy these companies when their valuations become more attractive, as investors abandon fundamentals in the face of extreme risk aversion.

In terms of the current portfolio, while underperformance is frustrating, we remain confident in the quality of our holdings, and firmly believe that they will generate long-term value for the fund. As long-term investors, this is our focus, and we continue to be optimistic about their prospects.

## Michael Oliveros

Fund manager

An employee 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  | 29.02.20 | 29.02.20 | 31.08.19 |       |
| Holding  | €'000    | %        | %        | %     |
| <b>EQUITIES</b>                                    |          |          |          |       |
| <b>Software &amp; computer services</b>            |          |          |          |       |
| 180,625 AlzChem                                    | 3,251    | 1.83     |          |       |
| 438,725 EMIS                                       | 5,769    | 3.25     |          |       |
| 32,395 SimCorp                                     | 2,859    | 1.61     |          |       |
| 12,900 Sopra Steria                                | 1,855    | 1.04     |          |       |
| 160,588 Vitec Software                             | 2,722    | 1.54     |          |       |
| <b>Health care providers</b>                       |          |          |          |       |
| 480,108 Medicover                                  | 5,126    | 2.89     | 2.52     |       |
| <b>Pharmaceuticals &amp; biotechnology</b>         |          |          |          |       |
| 26,941 ALK-Abelló                                  | 6,223    | 3.51     |          |       |
| 258,031 Biotage                                    | 2,760    | 1.55     |          |       |
| 190,304 Laboratorios Farmaceuticos Rovi            | 4,700    | 2.65     |          |       |
| 800,120 MagForce                                   | 2,820    | 1.59     |          |       |
| <b>Banks</b>                                       |          |          |          |       |
| 504,979 Avanza Bank                                | 4,511    | 2.54     |          | 6.02  |
| 119,523 KBC Ancora                                 | 4,664    | 2.63     |          |       |
| <b>Investment banking &amp; brokerage services</b> |          |          |          |       |
| 178,188 Flatex                                     | 4,802    | 2.70     |          | 4.92  |
| 405,911 Georgia Capital                            | 3,183    | 1.79     |          |       |
| 67,994 MyBucks                                     | 48       | 0.03     |          |       |
| <b>Non-life insurance</b>                          |          |          |          |       |
| 278,187 Hiscox                                     | 4,049    | 2.28     |          | 0.00  |
| <b>Automobiles &amp; parts</b>                     |          |          |          |       |
| 58,741 PIERER Mobility                             | 2,567    | 1.45     |          | 1.61  |
| <b>Consumer services</b>                           |          |          |          |       |
| 1,352,108 Karnov                                   | 6,648    | 3.74     |          | 2.09  |
| <b>Household goods &amp; home construction</b>     |          |          |          |       |
| 2,533,460 Cairn Homes                              | 3,045    | 1.71     |          | 2.98  |
| <b>Leisure goods</b>                               |          |          |          |       |
| 173,863 Thule                                      | 3,416    | 1.92     |          | 1.81  |
| <b>Media</b>                                       |          |          |          |       |
| 173,474 CTS Eventim                                | 8,129    | 4.58     |          | 5.29  |
| 555,392 HolidayCheck                               | 1,091    | 0.61     |          |       |
| <b>Retailers</b>                                   |          |          |          |       |
| 236,136 Dignity                                    | 1,572    | 0.89     |          | 11.01 |
| 1,306,407 Pets at Home                             | 3,941    | 2.22     |          |       |
| 444,662 WH Smith                                   | 10,194   | 5.74     |          |       |
| <b>Travel &amp; leisure</b>                        |          |          |          |       |
| 886,407 On the Beach                               | 3,266    | 1.84     |          | 1.66  |

| Portfolio statement (continued)                |          |          |          |        |
|--|----------|----------|----------|--------|
| as at  | 29.02.20 | 29.02.20 | 31.08.19 |        |
| Holding  | €'000    | %        | %        | %      |
| <b>Beverages</b>                               |          |          |          |        |
| 50,028 Remy Cointreau                          | 4,643    | 2.61     |          | 0.00   |
| <b>Food producers</b>                          |          |          |          |        |
| 145,687 Cranswick                              | 5,741    | 3.23     |          | 4.43   |
| 759,828 Origin Enterprises                     | 2,131    | 1.20     |          |        |
| <b>Construction &amp; materials</b>            |          |          |          |        |
| 296,257 Arbonia                                | 2,940    | 1.66     |          | 3.99   |
| 6,546,313 SigmaRoc                             | 3,146    | 1.77     |          |        |
| <b>General industrials</b>                     |          |          |          |        |
| 963,145 DS Smith                               | 3,560    | 2.00     |          | 1.98   |
| <b>Industrial engineering</b>                  |          |          |          |        |
| 134,816 Aalberts                               | 4,518    | 2.55     |          | 10.97  |
| 366,103 Deutz                                  | 1,544    | 0.87     |          |        |
| 117,864 Konecranes                             | 3,130    | 1.76     |          |        |
| 342,254 OC Oerlikon                            | 2,867    | 1.61     |          |        |
| 39,828 VAT                                     | 4,900    | 2.76     |          |        |
| <b>Industrial support services</b>             |          |          |          |        |
| 108,211 DCC                                    | 7,031    | 3.96     |          | 14.21  |
| 1,212,761 Equiniti                             | 2,786    | 1.57     |          |        |
| 251,530 ISS                                    | 3,960    | 2.23     |          |        |
| 222,047 Keywords Studios                       | 3,961    | 2.23     |          |        |
| 140,258 Loomis                                 | 4,364    | 2.46     |          |        |
| <b>Industrial transportation</b>               |          |          |          |        |
| 29,192 ID Logistics                            | 4,694    | 2.64     |          | 4.82   |
| 271,172 Logista                                | 4,963    | 2.80     |          |        |
| <b>Chemicals</b>                               |          |          |          |        |
|  | 0        | 0.00     |          | 1.53   |
| <b>Non-renewable energy</b>                    |          |          |          |        |
| 145,729 Lundin Petroleum                       | 3,630    | 2.04     |          | 1.41   |
| 42,917 Schoeller-Bleckmann Oilfield Equipment  | 1,545    | 0.87     |          |        |
| <b>Gas, water &amp; multi-utilities</b>        |          |          |          |        |
| 112,430 Rubis                                  | 5,529    | 3.11     |          | 2.91   |
| <b>Portfolio of investments</b>                |          |          |          |        |
|  | 184,794  | 104.06   |          | 98.73  |
| <b>CASH EQUIVALENTS</b>                        |          |          |          |        |
| <b>'AAA' rated money market funds [a]</b>      |          |          |          |        |
|  | 0        | 0.00     |          | 1.44   |
|  | 0        | 0.00     |          | 1.44   |
| <b>Total portfolio</b>                         |          |          |          |        |
|  | 184,794  | 104.06   |          | 100.17 |
| <b>Net other assets / (liabilities)</b>        |          |          |          |        |
|  | (7,204)  | (4.06)   |          | (0.17) |
| <b>Net assets attributable to shareholders</b> |          |          |          |        |
|  | 177,590  | 100.00   |          | 100.00 |

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

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

## Top ten portfolio transactions

for the six months to 29 February 2020

| Largest purchases      | €'000         |
|------------------------|---------------|
| Remy Cointreau         | 5,336         |
| Hiscox                 | 4,433         |
| Keywords Studios       | 4,225         |
| Lundin Petroleum       | 3,786         |
| Vitec Software         | 3,214         |
| Biotage                | 3,012         |
| SimCorp                | 2,898         |
| Karnov                 | 2,289         |
| ISS                    | 1,126         |
| SigmaRoc               | 1,095         |
| Other purchases        | 7,983         |
| <b>Total purchases</b> | <b>39,397</b> |

| Largest sales        | €'000         |
|----------------------|---------------|
| Sopra Steria         | 5,151         |
| Pets at Home         | 4,541         |
| Bank of Ireland      | 4,509         |
| Société BIC          | 3,346         |
| WH Smith             | 3,325         |
| TAKKT                | 3,139         |
| AcadeMedia           | 2,898         |
| Boskalis Westminster | 2,699         |
| Equiniti             | 2,542         |
| Loomis               | 2,350         |
| Other sales          | 30,778        |
| <b>Total sales</b>   | <b>65,278</b> |

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

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

The following 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 (1), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

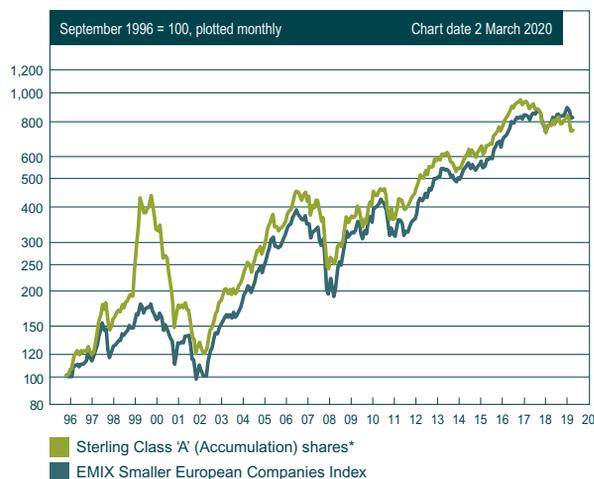
## Fund level performance

### Fund net asset value

| as at                      | 29.02.20<br>€'000 | 31.08.19<br>€'000 | 31.08.18<br>€'000 |
|----------------------------|-------------------|-------------------|-------------------|
| Fund net asset value (NAV) | 177,590           | 209,245           | 195,641           |

## 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.



\* Income reinvested

Source: Morningstar, Inc. and M&G

## Financial highlights

### Fund performance

To give an indication of how the fund has performed during the period the table below shows the performance 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.

Historic yields for the current period are calculated as at 13 March 2020.

#### Sterling Class 'A' Accumulation share performance

The share class was launched on 30 September 1996.

| Change in NAV per share  | Six months to | Year to     | Year to     |
|--|---------------|-------------|-------------|
|  | 29.02.20      | 31.08.19    | 31.08.18    |
|  | UK p          | UK p        | UK p        |
| Opening NAV  | 374.73        | 416.18      | 443.04      |
| Return before operating charges and after direct portfolio transaction costs | (21.24)       | (35.24)     | (19.53)     |
| Operating charges  | (1.30)        | (6.21)      | (7.33)      |
| Return after operating charges   | (22.54)       | (41.45)     | (26.86)     |
| Distributions  | n/a           | (2.31)      | (0.31)      |
| Retained distributions   | n/a           | 2.31        | 0.31        |
| Closing NAV  | 352.19        | 374.73      | 416.18      |
| <b>Direct portfolio transaction costs</b>                                    | <b>UK p</b>   | <b>UK p</b> | <b>UK p</b> |
| Costs before dilution adjustments  | 0.12          | 0.44        | 0.57        |
| Dilution adjustments <sup>[a]</sup>  | (0.06)        | (0.16)      | (0.16)      |
| Total direct portfolio transaction costs                                     | 0.06          | 0.28        | 0.41        |
| <b>Performance and charges</b>   | <b>%</b>      | <b>%</b>    | <b>%</b>    |
| Direct portfolio transaction costs <sup>[b]</sup>                            | 0.03          | 0.08        | 0.09        |
| Operating charges <sup>[c]</sup>   | 1.35          | 1.66        | 1.68        |
| Return after operating charges   | -6.01         | -9.96       | -6.06       |
| Historic yield   | 0.79          | 0.08        | 0.07        |
| Effect on yield of charges offset against capital                            | 0.00          | 0.00        | 0.00        |
| <b>Other information</b>   |               |             |             |
| Closing NAV (€'000)  | 16,504        | 16,936      | 21,118      |
| Closing NAV percentage of total fund NAV (%)                                 | 9.29          | 8.09        | 10.79       |
| Number of shares   | 3,998,539     | 4,097,725   | 4,552,703   |
| Highest share price (UK p)   | 407.20        | 420.32      | 461.41      |
| Lowest share price (UK p)  | 351.93        | 336.53      | 413.34      |

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

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

<sup>[c]</sup> 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 fund, comprising operating charges and portfolio transaction costs.

#### Operating charges

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

- 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.
- 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.
- 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.
- 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.

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%).

# Financial highlights

## Operating charges and portfolio transaction costs

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 also shows the average portfolio dealing spread.

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

| Portfolio transaction costs                       |                           |                     |                     |                        |
|---|---------------------------|---------------------|---------------------|------------------------|
|   | Six months to<br>29.02.20 | Year to<br>31.08.19 | Year to<br>31.08.18 | Average <sup>[a]</sup> |
| Direct portfolio transaction costs <sup>[b]</sup> | %                         | %                   | %                   | %                      |
| Broker commission                                 | 0.03                      | 0.03                | 0.04                | 0.03                   |
| Taxes   | 0.03                      | 0.09                | 0.09                | 0.07                   |
| Costs before dilution adjustments                 | 0.06                      | 0.12                | 0.13                | 0.10                   |
| Dilution adjustments <sup>[c]</sup>               | (0.03)                    | (0.04)              | (0.04)              | (0.03)                 |
| Total direct portfolio transaction costs          | 0.03                      | 0.08                | 0.09                | 0.07                   |
| as at   | 29.02.20                  | 31.08.19            | 31.08.18            | Average <sup>[a]</sup> |
| Indirect portfolio transaction costs              | %                         | %                   | %                   | %                      |
| Average portfolio dealing spread                  | 0.35                      | 0.31                | 0.31                | 0.32                   |

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

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

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

# Contact



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- \* 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.

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